

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17**  
**OF THE SECURITIES REGULATION CODE AND SECTION 141**  
**OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended  
Dec 31, 2019
2. SEC Identification Number  
184044
3. BIR Tax Identification No.  
000-775-860
4. Exact name of issuer as specified in its charter  
JG SUMMIT HOLDINGS, INC
5. Province, country or other jurisdiction of incorporation or organization  
PASIG CITY, PHILIPPINES
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
43RD FLOOR ROBINSONS EQUITABLE TOWER, ADB AVE. CORNER POVEDA  
ROAD, PASIG CITY  
Postal Code  
1600
8. Issuer's telephone number, including area code  
(632) 86337631
9. Former name or former address, and former fiscal year, if changed since last report  
NOT APPLICABLE
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON STOCK	7,162,841,657
LONG-TERM DEBT	30,000,000,000

11. Are any or all of registrant's securities listed on a Stock Exchange?  
Yes          No  
If yes, state the name of such stock exchange and the classes of securities listed therein:  
PHILIPPINE STOCK EXCHANGE; COMMON STOCK;
12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes            No

(b) has been subject to such filing requirements for the past ninety (90) days

Yes            No

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form

307,554,011,524

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes            No

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders

NOT APPLICABLE

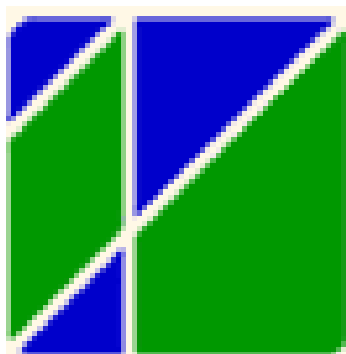
(b) Any information statement filed pursuant to SRC Rule 20

NOT APPLICABLE

(c) Any prospectus filed pursuant to SRC Rule 8.1

NOT APPLICABLE

and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



## JG Summit Holdings, Inc. JGS

**PSE Disclosure Form 17-1 - Annual Report**  
*References: SRC Rule 17 and  
Section 17.2 and 17.8 of the Revised Disclosure Rules*

<b>For the fiscal year ended</b>	Dec 31, 2019
<b>Currency</b>	PHILIPPINE PESO

### Balance Sheet

	Year Ending	Previous Year Ending
	Dec 31, 2019	Dec 31, 2018
<b>Current Assets</b>	234,155,679,283	214,304,937,650
<b>Total Assets</b>	928,309,518,677	819,287,015,834
<b>Current Liabilities</b>	245,138,941,375	229,419,177,455
<b>Total Liabilities</b>	519,662,375,810	451,809,155,295
<b>Retained Earnings/(Deficit)</b>	267,972,795,556	239,101,689,440
<b>Stockholders' Equity</b>	408,647,142,867	367,477,860,539
<b>Stockholders' Equity - Parent</b>	304,811,642,519	276,585,870,830
<b>Book Value Per Share</b>	42.55	38.61

### Income Statement

	Year Ending	Previous Year Ending
	Dec 31, 2019	Dec 31, 2018
<b>Gross Revenue</b>	301,822,569,171	291,916,017,664
<b>Gross Expense</b>	247,764,602,108	246,651,205,704
<b>Non-Operating Income</b>	5,773,724,209	1,745,547,717
<b>Non-Operating Expense</b>	11,793,864,913	13,969,068,528
<b>Income/(Loss) Before Tax</b>	48,037,826,359	33,041,291,149
<b>Income Tax Expense</b>	5,372,314,510	5,143,793,706

Net Income/(Loss) After Tax	42,665,511,849	27,897,497,443
Net Income/(Loss) Attributable to Parent Equity Holder	31,285,246,332	19,186,040,273
Earnings/(Loss) Per Share (Basic)	4.37	2.68
Earnings/(Loss) Per Share (Diluted)	4.37	2.68

#### Financial Ratios

	Formula	Fiscal Year Ended	Previous Fiscal Year
		Dec 31, 2019	Dec 31, 2018
<b>Liquidity Analysis Ratios:</b>			
; ; Current Ratio or Working Capital Ratio	Current Assets / Current Liabilities	0.96	0.93
; ; Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	0.67	0.65
; ; Solvency Ratio	Total Assets / Total Liabilities	1.79	1.81
<b>Financial Leverage Ratios</b>			
; ; Debt Ratio	Total Debt/Total Assets	0.23	0.24
; ; Debt-to-Equity Ratio	Total Debt/Total Stockholders' Equity	0.52	0.53
; ; Interest Coverage	Earnings Before Interest and Taxes (EBIT) / Interest Charges	5.13	4.7
; ; Asset to Equity Ratio	Total Assets / Total Stockholders' Equity	2.27	2.23
<b>Profitability Ratios</b>			
; ; Gross Profit Margin	Sales - Cost of Goods Sold or Cost of Service / Sales	0.37	0.34
; ; Net Profit Margin	Net Profit / Sales	0.1	0.07
; ; Return on Assets	Net Income / Total Assets	0.03	0.04
; ; Return on Equity	Net Income / Total Stockholders' Equity	0.11	0.07
Price/Earnings Ratio	Price Per Share / Earnings Per Common Share	18.49	20.78

#### Other Relevant Information

none

#### Filed on behalf by:

Name	Michele Abellanos
Designation	Vice President - Corporate Controller



JG SUMMIT HOLDINGS, INC.

April 14, 2020

**DECLARATION OF AUTHENTICITY**

Securities and Exchange Commission  
Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City

I, **FRANCISCO M. DEL MUNDO**, designated as Senior Vice President – Chief Financial Officer of **JG Summit Holdings, Inc. and subsidiaries**, with contact number (632) 8633-7631 and office address at 43<sup>rd</sup> floor Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City, do hereby certify the authenticity of the attached SEC 17-A Annual Report with attached audited consolidated financial statements for the years ended December 31, 2019, 2018 and 2017. We declare our commitment to submit physical versions of the exact same submitted documents to the Securities and Exchange Commission once the state of public health emergency is lifted.



**Francisco M. Del Mundo**  
Authorized Representative

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

J	G	S	U	M	M	I	T	H	O	L	D	I	N	G	S	,	I	N	C	.	A	N	D		
S	U	B	S	I	D	I	A	R	I	E	S														

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

4	3	r	d	F	l	o	o	r	,	R	o	b	i	n	s	o	n	s	-	E	q	u	i	t	a	b	l
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e	d	a	R	o	a	d	,	P	a	s	i	g	C	i	t	y											

Form Type

1	7	-	A
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Department requiring the report

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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address <b>www.jgsummit.com.ph</b>	Company's Telephone Number <b>8633-7631</b>	Mobile Number <b>-</b>
No. of Stockholders <b>1,002</b>	Annual Meeting (Month / Day) <b>2nd Thursday of June</b>	Fiscal Year (Month / Day) <b>12/31</b>

**CONTACT PERSON INFORMATION**

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

Name of Contact Person <b>Francisco M. Del Mundo</b>	Email Address <b>Pancho.DelMundo@urc.net.ph</b>	Telephone Number/s <b>8633-7631</b>	Mobile Number <b></b>
---------------------------------------------------------	----------------------------------------------------	----------------------------------------	--------------------------

**CONTACT PERSON'S ADDRESS**

<b>41st Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City</b>
-----------------------------------------------------------------------------------------

**NOTE 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the year ended **December 31, 2019**
2. SEC Identification Number **184044**
3. BIR Tax Identification No. **000-775-860**
4. **JG Summit Holdings, Inc.**  
Exact name of registrant as specified in its charter
5. **Pasig City, Philippines**  
Province, Country or other jurisdiction of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. **43<sup>rd</sup> Floor, Robinsons-Equitable Tower, ADB Ave. corner Poveda Road, Pasig City 1600**  
Address of principal office Postal Code
8. **(632) 633-7631**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the RSC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Stock</b>	<b>7,162,841,657</b>
<b>Long-term Debt</b>	<b>30,000,000,000</b>

11. Are any or all of these securities listed on the Philippine Stock Exchange.

Yes [ / ]      No [ ]

12. Check whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ / ]

No [ ]

- (b) has been subject to such filing requirements for the past 90 days.

Yes [ / ]

No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

The aggregate market value of stocks held by non-affiliates is ₱307,554,011,524.



## TABLE OF CONTENTS

	<u>Page No.</u>
<b>PART I - BUSINESS AND GENERAL INFORMATION</b>	
Item 1 Business.....	4
Item 2 Properties.....	44
Item 3 Legal Proceedings.....	48
Item 4 Submission of Matters to a Vote of Security Holders.....	48
<b>PART II - OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5 Market for Registrant’s Common Equity and Related Stockholder Matters.....	48
Item 6 Management’s Discussion and Analysis or Plan of Operation.....	51
Item 7 Financial Statements.....	75
Item 8 Information on Independent Accountant and other Related Matters.....	76
<b>PART III - CONTROL AND COMPENSATION INFORMATION</b>	
Item 9 Directors and Executive Officers of Registrant.....	77
Item 10 Executive Compensation.....	85
Item 11 Security Ownership of Certain Record and Beneficial Owners and Management.....	86
Item 12 Certain Relationships and Related Transactions.....	88
<b>PART IV - CORPORATE GOVERNANCE AND SUSTAINABILITY REPORT</b>	
Item 13 Corporate Governance.....	88
Item 14 Sustainability Report.....	88
<b>PART V - EXHIBITS AND SCHEDULES</b>	
Item 15 Exhibits and Reports on SEC Form 17-C.....	89
<b>SIGNATURES</b> .....	90
<b>INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES</b>	

## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1. Description of Business**

#### **(A) Business Development**

JG Summit Holdings, Inc. (JG Summit / the Company), which is controlled by the Gokongwei Family, was incorporated in November 1990 as the holding company for a group of companies with substantial business interests in foods, agro-industrial and commodities, real estate and hotel, air transportation, banking and petrochemicals. The Company also has core investments in telecommunications and power generation and distribution.

The Company is one of the largest and most diversified conglomerates within the Philippines. The Company was listed on the PSE in 1993.

The Company and its subsidiaries (the Group), conduct businesses throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Luzon, Visayas and Mindanao.

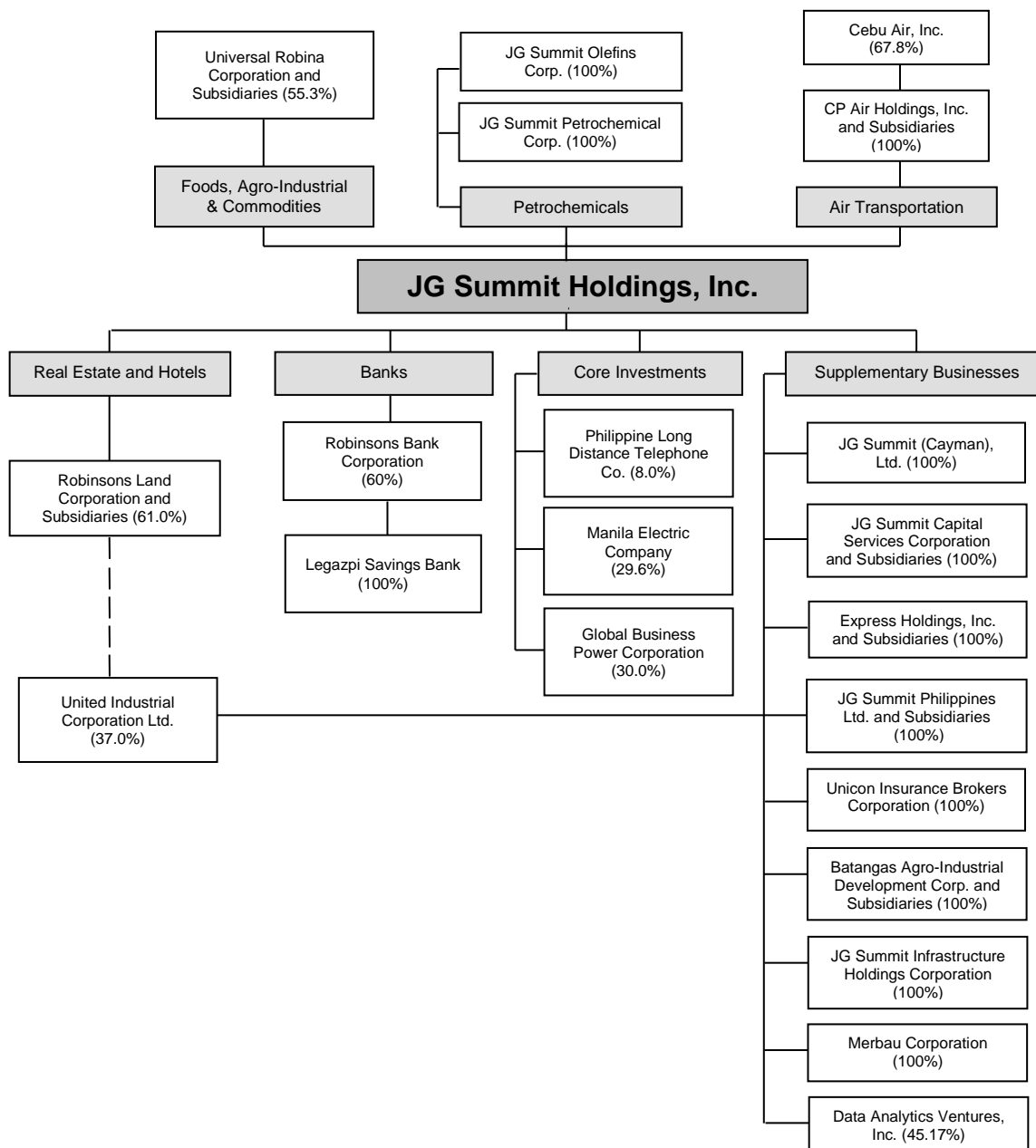
The Group also has a branded consumer foods business in the People's Republic of China (PRC), ASEAN and Oceania (New Zealand and Australia) regions, and a core investment in a property development company in Singapore.

The Company has not been into any bankruptcy, receivership or similar proceedings for the past two years.

The Gokongwei Family beneficially owns approximately 17.4% of the outstanding share capital of the Company. In addition, certain members of the Gokongwei Family are trustees of the Gokongwei Brothers Foundation, which holds interest in approximately 27.9% of the existing outstanding share capital of the Company.

**(B) Business of Issuer**

The industry segments where the Company and its subsidiaries and affiliates operate are summarized below:



The following table shows the breakdown of the Company's revenues and net profits from continuing operations by business areas (in millions except % amounts):

	REVENUES						Net Income attributable to Parent Co.					
	2019		2018		2017		2019		2018		2017	
	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%	Peso	%
Food, Agro-Industrial and Commodity Food Products	<b>134,032</b>	<b>44</b>	127,670	44	124,740	47	<b>5,399</b>	<b>17</b>	6,016	66	7,172	66
Air Transportation	<b>84,874</b>	<b>28</b>	74,250	25	68,169	26	<b>6,185</b>	<b>20</b>	5,317	60	6,558	60
Petrochemicals	<b>30,075</b>	<b>10</b>	43,776	15	42,597	12	<b>971</b>	<b>3</b>	5,991	47	5,126	47
Real estate and hotels	<b>36,690</b>	<b>12</b>	32,758	11	26,269	11	<b>11,334</b>	<b>36</b>	7,338	58	6,295	58
Banks	<b>8,132</b>	<b>3</b>	6,144	2	4,489	1	<b>432</b>	<b>1</b>	184	1	154	1
Other Supplementary Businesses	<b>9,364</b>	<b>3</b>	8,827	3	8,455	3	<b>6,902</b>	<b>22</b>	4,582	(131)	(14,321)	(131)
Adjustments/eliminations	<b>(1,344)</b>	<b>-</b>	(1,509)	-	(1,274)	-	<b>62</b>	<b>-</b>	(58)	(1)	(66)	(1)
Total from Continuing Operations	<b>301,823</b>	<b>100</b>	291,916	100	273,445	100	<b>31,285</b>	<b>100</b>	29,370	100	10,918	100

Information as to domestic and foreign revenues, including foreign currency denominated revenues and dollar linked revenues, and their contributions to total revenues follow (in millions except % amounts):

	2019		2018		2017	
	Amount	%	Amount	%	Amount	%
Domestic	<b>205,285</b>	<b>68</b>	191,174	65	177,184	65
Foreign	<b>96,538</b>	<b>32</b>	100,742	35	96,261	35
	<b>301,823</b>	<b>100</b>	291,916	100	273,445	100

#### **a) FOODS, AGRO-INDUSTRIAL AND COMMODITIES**

##### ***Business Development***

The Company operates its food business through Universal Robina Corporation (URC), which is one of the largest branded food product companies in the Philippines, with the distinction of being called the country's first "Philippine Multinational." It has established a strong presence in ASEAN and has further expanded its reach to the Oceania region. URC was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. URC is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and poultry, manufacture of animal feeds and veterinary products, flour milling, and sugar milling and refining. It has also ventured into the renewables business for sustainability through Distillery and Cogeneration divisions. In the Philippines, URC is a dominant player with leading market shares in snacks, candies and chocolates and is a significant player in biscuits. It is also the largest player in the Ready-to-Drink (RTD) tea market and cup noodles, and is a competitive 3rd player in coffee business. With six mills operating as of December 31, 2019, URC Sugar division remains to be the largest producer in the country based on capacity.

### ***Principal Products or Services***

URC operates its food business through operating divisions and wholly owned or majority-owned subsidiaries that are organized into three business segments: branded consumer foods, agro-industrial products and commodity food products.

Branded consumer foods (BCF) segment, including packaging division, is URC's largest segment contributing about 78.9% of revenues for the year ended December 31, 2019. Established in the 1960s, branded consumer foods segment manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, packaged cakes, beverages and instant noodles. The manufacturing, distribution, sales, and marketing activities of URC's BCF segment are carried out mainly through branded consumer foods division consisting of snack foods, beverage, and noodles, although URC conducts some of its branded consumer foods operations through its majority-owned subsidiaries and joint venture companies. URC established the BOPP Packaging and Flexible Packaging divisions to engage in the manufacture of bi-axially oriented polypropylene (BOPP) films for packaging companies and flexible packaging materials to cater various URC branded products. Both manufacturing facilities are located in Simlong, Batangas and are ISO 9001:2008 certified for Quality Management Systems.

Majority of URC's consumer foods business is conducted in the Philippines but has expanded more aggressively into other ASEAN markets, primarily through its wholly-owned subsidiary, URC International. In 2014, URC has expanded its reach to the Oceania region through the acquisition of Griffin's Foods Limited, a leading snacks player in New Zealand, which owns many established brands such as Griffin's, Cookie Bear, Eta, Huntley & Palmer's, and Nice & Natural. In 2016, URC acquired Consolidated Snacks Pty Ltd., which trades under Snack Brands Australia (SBA), the second largest salty snacks player in Australia with a wide range of chips including the iconic brands like Kettle, Thins, CC's and Cheezels. The international operations contributed about 31.4% of URC's sale of goods and services for the year ended December 31, 2019.

URC's agro-industrial products segment operates four divisions: (1) Robina Farm-Hogs, (2) Robina Farm-Poultry, (3) the manufacturing and distribution of animal feeds (URC Feeds), and (4) the production and distribution of animal health products (URC Veterinary Drugs). This segment contributed approximately 9.8% of URC's sales of goods and services in 2019.

URC's commodity food products segment operates three divisions: (1) sugar milling and refining through Sugar division, (2) flour milling and pasta manufacturing through Flour division, and (3) renewable energy development through Distillery and Cogeneration divisions. This segment contributed approximately 11.3% of URC's sale of goods and services in 2019.

The percentage contribution to URC's sales of goods and services for the three years ended December 31, 2019, 2018 and 2017 by each of URC's principal business segments is as follows:

	For the years ended December 31		
	2019	2018	2017
Branded Consumer Foods Group	<b>78.9%</b>	80.2%	82.5%
Agro-Industrial Group	<b>9.8%</b>	9.2%	8.1%
Commodity Foods Group	<b>11.3%</b>	10.6%	9.4%
	<b>100.0%</b>	100.0%	100.0%

The geographic percentage distribution of URC’s revenues for three years ended December 31, 2019, 2018 and 2017 is as follows:

	For the years ended December 31		
	2019	2018	2017
Philippines	<b>68.6%</b>	66.2%	65.7%
International	<b>31.4%</b>	33.8%	34.3%
	<b>100.0%</b>	100.0%	100.0%

***Customers***

None of the URC’s businesses is dependent upon a single customer or a few customers that a loss of anyone of them would have a material adverse effect on URC. URC has no single customer that, based upon existing orders, will account for 20.0% or more of its total sale of goods and services.

***Distribution, Sales and Marketing***

URC has developed an effective nationwide distribution chain and sales network that it believes provide its competitive advantage. URC sells its branded food products primarily to supermarkets, as well as directly to top wholesalers, large convenience stores, large scale trading companies and regional distributors, which in turn sell its products to other small retailers and down line markets. URC’s branded consumer food products are distributed to approximately 120,000 outlets in the Philippines and sold through its direct sales force and regional distributors. URC intends to enlarge its distribution network coverage in the Philippines by increasing the number of retail outlets that its sales force and distributors directly service.

The branded consumer food products are generally sold by URC from salesmen to wholesalers or supermarkets, and regional distributors to small retail outlets. 15 to 30-day credit terms are extended to wholesalers, supermarkets and regional distributors.

URC believes that its emphasis on marketing, product innovation and quality, and strong brand equity has played a key role in its success in achieving leading market shares in the different categories where it competes. In particular, URC launched “Jack ‘n Jill” as a master umbrella brand for all its snack food products in order to enhance customer recognition. URC devotes significant expenditures to support advertising and branding to differentiate its products and further expand market share both in the Philippines and in its overseas markets, including funding for advertising campaigns, such as television commercials and radio and print advertisements, as well as trade and consumer promotions.

For URC’s agro-industrial group (AIG), both piggery and poultry farms have been accredited as GAHP (Good Animal Husbandry Practice), 100% compliant to Good Manufacturing Practices (GMP) and its meats and eggs have been certified as No Hormone, and Antibiotic residue free. This has allowed AIG to aggressively capture the quality conscious meat segment of the country as embodied by the Robina Farms brand with its key positioning of Robina raised, Family safe products. Similarly, the Feeds business headed by their brand champions such as Uno+, Supremo Gamefowl and Top Breed Dog meals increased its distribution network supported by the Kabalikat Farm Program covering Hog and Gamefowl raisers.

### ***Competition***

The BCF business is highly competitive and competition varies by country and product category. URC believes that the principal competitive factors include price, taste, quality, convenience, brand recognition and awareness, advertising and marketing, availability of products and ability to get its products widely distributed. Generally, URC faces competition from both local and multinational companies in all of its markets. In the Philippines, major competitors in the market segments in which it competes include Liwayway Marketing Corporation, Monde M.Y. San Corporation, Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company Inc. and Kraft Foods Inc. Internationally, major competitors include Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, Apollo Food, Frito-Lay, Nestlé S.A., PepsiCo, Inc., Cadbury Schweppes PLC and Kraft Foods International.

URC AIG has four major segments namely: Commercial Feeds, Commercial Drugs, Robina Farm-Hogs, and Robina Farm-Poultry. The market for AIG is highly fragmented, very competitive, cyclical and principally domestic. URC is focused and known in providing Total Agri-Solution and farm management expertise including state of the art diagnostic capability.

URC's commercial feeds segment principal competitive factors are quality, brand equity, credit term and price. It faces competition from local, multinational companies, and even foreign companies in all of its markets. Since the business is highly fragmented, it also faces increasing speed of change in the market particularly customer preferences and lifestyle. URC's principal competitors are San Miguel Corporation (B-Meg and Integra), UNAHCO (Sarimanok, Thunderbird, GMP and Pigrolac), and Aboitiz Inc. (Pilmico). The market for commercial drugs is composed of both local and multinational companies. Furthermore, URC AIG is one of the only few Philippine companies in this market. URC's principal competitors are UNAHCO (Univet), Novartis, and Excellence Poultry and Livestock Specialist.

URC believes that the principal competitive factors for hogs are quality, reliability of supply, price, and proximity to market. Its principal competitors are San Miguel Corp. (Monterey), Aboitiz Inc. (Pilmico) and Foremost Farms, Inc. URC considers quality, price, egg productivity, and disease resistance as the principal competitive factors of its poultry business. Its principal competitors are Bounty Farms, Inc., Foremost Farms, Inc., Brookdale Farms, and Heritage Vet Corp. for layer chicks.

### ***Enhancement and Development of New Products***

URC intends to continuously introduce innovative new products, product variants and line extensions in the snackfoods (snacks, biscuits, candies, chocolates and bakery), beverage and grocery (instant noodles and tomato-based) products. This year alone, URC's BCF Philippines has introduced 29 new products, which contributed 6.51% to its total sales.

URC supports the rapid growth of the business through line expansion, construction and acquisition of plants.

### ***Raw Materials***

A wide variety of raw materials are required in the manufacture of URC's food products, including corn, wheat, flour, sugar, robusta coffee beans, palm oil and cocoa powder. Some of which are purchased domestically and some of which are imported. URC also

obtains a major portion of its raw materials from its commodity food products segments, such as flour and sugar, and flexible packaging materials from its packaging segment. A portion of flexible packaging material requirements is also purchased both locally and from abroad (Vietnam and Indonesia), while aseptic packaging is purchased entirely from China.

For its feeds segment, URC requires a variety of raw materials, including corn grains, soya beans and meals, feed-wheat grains, wheat bran, wheat pollard, soya seeds, rice bran, copra meal and fish meal. URC purchases corn locally from corn traders and imports feed-wheat from suppliers in North America, Europe, and China. Likewise, soya seeds are imported from the USA. For its animal health products, URC requires a variety of antibiotics and vitamins, which it acquires from suppliers in Europe and Asia. URC maintains approximately two months physical inventory and one month in-transit inventory for its imported raw materials.

For its hogs business, URC requires a variety of raw materials, primarily close-herd breeding stocks. For its poultry business, URC purchases the parent stock for its layer chicks from Dekalb from Europe. Robina Farms obtains all of the feeds it requires from its Commercial Feeds segment and substantially all of the minerals and antibiotics from its Commercial Drugs division as part of its vertical integration. URC purchases vaccines, medications and nutritional products from a variety of suppliers based on the values of their products.

URC obtains sugar cane from local farmers. Competition for sugar cane supply is very intense and is a critical success factor for its sugar business. Additional material requirements for the sugar cane milling process are either purchased locally or imported. URC generally purchases wheat, the principal raw material for its flour milling and pasta business, from suppliers in the United States, Canada and Australia.

URC's policy is to maintain a number of suppliers for its raw and packaging materials to ensure a steady supply of quality materials at competitive prices. However, the prices paid for raw materials generally reflect external factors such as weather conditions, commodity market fluctuations, currency fluctuations and the effects of government agricultural programs. URC believes that alternative sources of supply of the raw materials that it uses are readily available. Its policy is to maintain approximately 30 to 90 days of inventory.

***Patents, Trademarks, Licenses, Franchises, Concessions or Labor Contract***

URC owns a substantial number of trademarks registered with the Bureau of Trademarks subject to the provisions of Republic Act (RA) 8293 also known as the Intellectual Property Code of the Philippines (IP Code) and recorded with the Intellectual Property Office of the Philippines (IPPHL). In addition, certain trademarks have been strategically registered in other countries in which it operates. These trademarks are important in the aggregate because brand name recognition is a key factor in the success of many of its product lines. Trademark registration is a means to protect these brand names from counterfeiting and infringement.

Trademarks registered under RA 166, also known as the Trademark Law, are registered for twenty (20) years. Upon renewal, these trademarks become subject to the IP Code having a registration period of ten (10) years and renewable thereafter. In general, trademarks in other countries have a ten-year registration which are renewable as well, allowing relatively a lifetime of territorial and limited trademark registration.



URC also uses brand names under licenses from third parties. These licensing arrangements are generally renewable based on mutual agreement. Its licensed brands include Nissin Cup Noodles, Nissin Yakisoba Instant Noodles and Nissin Pasta Express, Vitasoy, Calbee and B'lue, among others. Licensing Agreements are voluntarily registered with the Documentation, Information and Technology Transfer Bureau of the IPPHL.

### ***Regulatory Overview***

As manufacturer of consumer food and commodity food products, URC is required to guarantee that the products are pure and safe for human consumption, and that it conforms to standards and quality measures prescribed by the Bureau of Food and Drugs (BFAD).

URC's sugar mills are licensed to operate by the Sugar Regulatory Administration (SRA) and renew its sugar milling licenses at the start of every crop year. URC is also registered with the Department of Energy as a manufacturer of bio-ethanol and as a renewable energy developer.

All of URC's livestock and feed products have been registered with and approved by the Bureau of Animal Industry, an agency of the Department of Agriculture which prescribes standards, conducts quality control test of feed samples, and provides technical assistance to farmers and feed millers.

Some of URC's projects, such as the sugar mill and refinery, bioethanol production, biomass power cogeneration and hog and poultry farm operations are registered with the Board of Investments (BOI) which allows URC certain fiscal and non-fiscal incentives.

### ***Effects of Existing or Probable Governmental Regulations on the Business***

URC operates its businesses in a highly regulated environment. These businesses depend upon licenses issued by government authorities or agencies for their operations. The suspension or revocation of such licenses could materially and adversely affect the operation of these businesses.

### ***Research and Development***

URC develops new products and variants of existing product lines, researches new processes and tests new equipment on a regular basis in order to maintain and improve the quality of its food products. In Philippine operations alone, about ₱144 million was spent for research and development activities in 2019 and approximately ₱52 million and ₱91 million in 2018 and 2017, respectively.

URC has research and development staff for its branded consumer foods and packaging divisions located in its research and development facility in Metro Manila and in each of its manufacturing facilities. In addition, URC hires experts from all over the world to assist its research and development staff. It conducts extensive research and development for new products, line extensions for existing products and for improved production, quality control and packaging as well as customizing products to meet the local needs and tastes in the international markets. URC's commodity foods segment also utilizes this research and development facility to improve their production and quality control. It also strives to capitalize on its existing joint ventures to effect technology transfers.

URC has a dedicated research and development team for its agro-industrial business that continually explores advancements in feeds, breeding and farming technology. It

regularly conducts market research and farm-test for all of its products. As a policy, no commercial product is released if it was not tested and used in Robina Farms.

***Transactions with Related Parties***

The largest shareholder, JG Summit Holdings, Inc., is one of the largest and most diversified conglomerates listed on the Philippine Stock Exchange. JG Summit provides URC with certain corporate center services including finance, strategy and development, government affairs, governance and management systems, internal audit, procurement, human resources, general counsel, information technology, digital transformation office, and advertising and public relations. JG Summit also provides URC with valuable market expertise in the Philippines as well as intra-group synergies.

***Costs and Effects of Compliance with Environmental Laws***

The operations of URC are subject to various laws and regulations enacted for the protection of the environment, including Philippine Clean Water Act (R.A. No. 9275), Clean Air Act (R.A. No. 8749), Ecological Solid Waste Management Act (R.A. No. 9003), Toxic Substances and Hazardous and Nuclear Wastes Control Act (R.A. No. 6969), Pollution Control Law (R.A. No. 3931, as amended by P.D. 984), the Environmental Impact Statement System (P.D. 1586), Laguna Lake Development Authority (LLDA) Act of 1966 (R.A. No. 4850), Renewable Energy Act (R.A. No. 9513), Electric Power Industry Reform Act (R.A. No. 9136) and Environmental Compliance Certificates (ECCs) requirements of P.D. No. 1586, in accordance with Department of Energy and Natural Resources (DENR) Administrative Order No. 2003-30. URC believes that it has complied with all applicable environmental laws and regulations, an example of which is the installation of wastewater treatment systems in its various facilities. Compliance with such laws does not have, and in URC's opinion, is not expected to have, a material effect upon its capital expenditures, earnings or competitive position. As of December 31, 2019, URC has invested about P333 million in wastewater treatment in its facilities in the Philippines.

**b) REAL ESTATE AND HOTELS**

***Business Development***

The Company operates its real estate business through Robinsons Land Corporation (RLC), which is one of the Philippines' leading real estate developers in terms of revenues, number of projects and total project size. It is engaged in the construction and operation of lifestyle commercial centers, offices, hotels, and warehouse facilities; and the development of mixed-use properties, residential buildings, as well as land and residential housing developments, including socialized housing projects located in key cities and other urban areas nationwide. RLC adopts a diversified business model, with both an 'investment' component, in which it develops, owns and operates commercial real estate projects (principally lifestyle commercial centers, office buildings, hotels and warehouse facilities); and a 'development' component, in which it develops real estate projects for sale (principally residential condominiums, service lots, house and lot packages and commercial lots).

RLC was incorporated on June 4, 1980 and its shares were offered to the public in an initial public offering and were subsequently listed in the Manila Stock Exchange and Makati Stock Exchange (predecessors of the Philippine Stock Exchange) on October 16, 1989.

On November 13, 2017, the BOD of RLC approved in principle the stock rights offering (SRO) of up to P20 billion composed of 1.1 billion common shares, with a par value of

₱1.00 per share, to all stockholders as of record date January 31, 2018. RLC intends to use the proceeds from the Offer to finance the acquisition of land located in various parts of the country for all its business segments.

RLC has obtained the approval of the BOD of the Philippine Stock Exchange, Inc. (PSE) for the listing and trading of the rights shares on January 10, 2018, while the PSE's confirmation of exempt transaction covering the offer was obtained on December 14, 2017. The following are the key dates of the SRO:

- Pricing date – January 24, 2018
- Ex-date – January 26, 2018
- Record date – January 31, 2018
- Offer period – February 2 to 8, 2018
- Listing date – February 15, 2018

RLC has successfully completed its ₱20 billion SRO of common shares following the close of the offer period on February 8, 2018. A total of 1.1 billion common shares from the SRO were issued at a price of ₱18.20 each. The listing of the shares occurred on February 15, 2018.

On July 31, 2019, the BOD of RLC approved the declaration of property dividend, of up to One Hundred Million (100,000,000) common shares of Altus Property Ventures, Inc. (APVI) (formerly Altus San Nicolas Corp.) in favor of the registered shareholders (the Receiving Shareholders) as of August 15, 2019. The SEC approved the property dividend declaration on November 15, 2019 and the Certificate Authorizing Registration was issued by the Bureau of Internal Revenue on December 6, 2019.

The Receiving Shareholders received a ratio of one (1) share of APVI for every fifty-one and 9384/10000 (51.9384) shares of RLC, net of applicable final withholding tax on December 20, 2019. No fractional shares were issued and no shareholder was entitled to any fractional shares.

RLC's remaining interest in APVI after the dividend distribution is 6.11%.

#### ***Principal Products or Services***

RLC has five business divisions: a) Commercial Centers, b) Residential, c) Office Buildings, d) Hotels and Resorts, and e) Industrial and Integrated Developments.

#### **a.) Commercial Centers Division**

RLC's Commercial Centers Division develops, leases and manages lifestyle centers throughout the Philippines. As of December 31, 2019, it operates 52 shopping malls, comprising nine (9) malls in Metro Manila and forty-three (43) malls in other urban areas throughout the Philippines, and has another five (5) new malls and two (2) expansion projects in the planning and development stage for completion in the next two years.

The Commercial Centers Division's main revenue stream is derived from the lease of commercial spaces. Revenues from the Commercial Centers Division, which represent recurring lease rentals, comprise significant part of RLC's revenues. Historically, revenues from lease rentals have been a steady source of operating cash flows for RLC. RLC expects that the revenues and operating cash flows generated by the commercial centers business shall continue to be the driver for its growth in the future.

## **b.) Residential Division**

The Residential Division, which focuses on the construction and sale of residential condominium, subdivision projects and other real estate properties, is categorized into four brands. The different brands differ in terms of target market, location, type of development and price ranges to allow clear differentiation among markets. These four brands are.

- **Robinsons Luxuria** - builds its brand on providing a seamless pampered experience via its generous living spaces, distinctive style infrastructure, iconic locations and attention to service and detail. It provides uniquely luxurious living spaces through its projects located in iconic locations such as Cebu, Ortigas Center and Makati. As of December 31, 2019, there are nine (9) residential condominium buildings/towers under the Robinsons Luxuria portfolio, of which eight (8) have been completed and one (1) project is under construction.
- **Robinsons Residences** - offers the perfect urban home for professionals and urbanities, combining prime locations with contemporary designs, comfortably spacious units, stress-busting amenities and lifestyle perks and privileges. As of December 31, 2019, Robinsons Residences segment had a portfolio of thirty three (33) residential condominium buildings/towers, of which twenty-six (26) had been completed and seven (7) projects are under various stages of development.
- **Robinsons Communities** - is the residential brand of RLC which caters to the needs of early nesters, young mobile achievers and families coming from the B to BB segment who wish to live independently and comfortably close to their workplace, schools and leisure centers. As of December 31, 2019, Robinsons Communities had completed twenty six (26) residential condominium buildings/towers and two (2) subdivision projects. It has seven (7) on-going projects in different stages that are scheduled for completion over the next five years. Robinsons Communities is currently focusing on the development of both mid-rise and high-rise residential condominium projects that primarily offer compact units. Its condominium projects are located in Metro Manila and Tagaytay City while the subdivisions are in Quezon City.
- **Robinsons Homes** - offers choice lots in master planned, gated subdivisions with option for house construction to satisfy every Filipino's dream of owning his own home. As of December 31, 2019, Robinsons Homes has thirty nine (39) projects in its portfolio. Eleven (11) of these projects are on-going construction, two (2) of which are awaiting for the receipt of License to Sell (LS) to launch. Among the thirty nine (39) projects, twenty eight (28) have been substantially completed and sold.

## **c.) Office Buildings Division**

Office Buildings division develops office buildings for lease. RLC engages outside architects and engineers for the design of its office developments. Due to the sustained growth from the IT Business Process Management (IT-BPM) sector and increasing office space demands from other multinational and logistic companies, RLC has secured a number of major customers as long-term tenants in its office buildings. It also has continuously improved its developments including building features, office layouts and amenities. RLC is one of the leading providers of office spaces in the Philippines.

RLC continues to expand its own flexible workspace business, 'work.able'. It offers plug and play workspaces to clients who are looking for flexible office options such as private offices, venues for meetings and events and co-working spaces. In November 2019, the second work.able branch in Exxa and Zeta Towers was opened.

As of December 31, 2019, the Office Buildings Division has completed twenty three (23) office developments located in Quezon City, Central Business Districts in Pasig City, Makati City and Taguig City, Mandaluyong City, Cebu City, Ilocos Norte, Tarlac City, Naga City and Davao City. It has a robust pipeline consisting of new offices for completion in the next two years.

**d.) Hotels and Resorts Division**

RLC’s Hotels and Resorts division has a diverse portfolio covering the following brand segments: upscale international deluxe hotels, mid-market boutique city hotels, essential service value hotels, and most recently, the luxury resort category. As of December 31, 2019, RLC operated twenty (20) hotels and resort for a total of 3,129 rooms in strategic metropolitan and urbanized locations consisting of eleven (11) Go Hotels, six (6) Summit Hotels and three (3) international deluxe brands. In 2019, RLC opened two new hotels, namely, Summit Greenhills and Dusit Thani Mactan Cebu Resort, the latter managed by Dusit Thani Company Limited (“Dusit Thani International”). RLC currently has a lineup of developments for the expansion of its portfolio of hotels and resorts.

**e.) Industrial and Integrated Developments Division**

RLC’s Industrial and Integrated Developments Division focuses on mixed-used developments and masterplanned communities. These developments incorporate different property formats such as residences, work places, commercial centers, logistics facilities and other institutional developments into a single setting.

In 2019, this division launched its first 30.6-hectare estate named ‘Bridgetowne’ which connects the cities of Pasig and Quezon. It is also completing the development of its 18-hectare ‘Sierra Valley’ estate in Rizal and ‘Monctclair’, a 204-hectare development in Porac, Pampanga. The division shall continue to embark on strategic land bank acquisitions to add to its growing number of township developments. Another key role of this division is the development of warehouse facilities. As of December 31, 2019, RLC has two (2) operational warehouse facilities with plans to expand in terms of net leasable area and geographic location in the next two years.

The percentage contribution to RLC’s revenues for the three years ended December 31, 2019, 2018 and 2017 by each of its business segment is as follows:

	For the years ended December 31		
	2019	2018	2017
Commercial Centers	43.3%	40.4%	48.0%
Residential Buildings	29.8%	29.4%	29.1%
Office Buildings	17.4%	14.5%	14.5%
Hotels	8.0%	6.7%	8.4%
IID	1.5%	9.0%	—
	<b>100.0%</b>	100.0%	100.0%

**Competition**

**Commercial Centers Division**

RLC has two major competitors in its Commercial Centers Division – SM Prime Holdings, Inc. (SMPHI) and Ayala Land, Inc. (ALI). Each of these companies has certain distinct advantages over RLC, including SMPHI’s considerably larger mall portfolio and ALI’s access to prime real estate in the heart of Metro Manila. There are a number of other players in the shopping mall business in the Philippines, but they are significantly smaller and, because of the high barriers to entry into the business (which include cost,

branding, reputation, scale and access to prime real estate), RLC expects that it will continue to compete principally with these two major companies in this market sector for the foreseeable future. RLC has, however, recently seen an increase in the development of specialty malls by companies that are not traditional players in the industry, and it is unclear whether or how this trend might affect the competitive landscape. Shopping mall operators also face competition from specialty stores, general merchandise stores, discount stores, warehouse outlets, street markets and online stores.

RLC believes its strength is in its mixed-use, retail, commercial and residential developments. RLC operates on the basis of its flexibility in developing malls with different sizes depending on the retail appetite of the market per location. It is focused on balancing its core tenant mix and providing a more distinctive shopping mall experience to its loyal customers, as well as its ability to leverage the brand equity and drawing power of its affiliated companies in the retail trade business.

### **Residential Division**

- **Robinsons Luxuria**

The Robinsons Luxuria brand continues to develop projects that cater to the high-end market. It strives to compete with developers who have already established their names in tapping this slice of the market. RLC aims to increase its share of this elite market segment and steer buyers of competitors such as Ayala Land Premier, Rockwell Land Corporation (ROCK), Century Properties Group, Inc. (CPGI) and Megaworld Corporation (MEG) to its developments.

- **Robinsons Residences**

RLC's competitors (Alveo Land, MEG, Filinvest Land, Inc. (FLI) and Ortigas & Co.) under this segment target the same market and offer similar products. There are also a number of players who try to compete in this segment of the market with one or two projects. Projects under Robinsons Residences remain among the top of mind developments as a result of growing experienced sales and distribution network and our convenient locations. Projects are located within Central Business Districts or RLC's mixed-use development.

- **Robinsons Communities**

RLC Robinsons Communities has numerous competitors in the middle income segment. This is in part a function of the fact that as compared to other business areas, RLC does not enjoy the same "early mover" advantage. Currently, Robinsons Communities' competitors include companies like Avida Land (AL), FLI, SMPHI and DMCI Homes. Based on public records and independent industry reports and its own market knowledge, RLC believes that it is among the top five middle-ranged condominium developers in the Philippines in terms of revenues from sales. RLC believes that it can successfully compete in this market segment on the basis of its brand name, technical expertise, financial standing and track record of successfully completed, quality projects.

- **Robinsons Homes**

Robinsons Homes stands in close competition with ALI, FLI and Vista Land Lifescapes, Inc. (VLL). It competes on the basis of location. It is a nationwide residential subdivision developer with projects in Laoag, Tarlac, Pampanga, Antipolo, Angono, Cavite, Batangas, Puerto Princesa, Bacolod, Cebu, Cagayan de Oro, Davao and General Santos. Robinsons Homes is committed to provide green communities with lifestyle amenities in response to changing needs of the market. RLC believes that its market specific branding, reliability to deliver and consistent quality products at an affordable price has contributed to its ability to generate sales and its overall success. In order to cater to varying market profiles, Robinsons Homes launched its five sub-brands namely: Forbes Estates for

Premier development, Bloomfields for the high-end market, Brighton for mid-cost development, Springdale for the affordable market segment and Happy Homes for socialized housing.

### **Office Buildings Division**

RLC believes that competition for office space is principally on the basis of location, quality and reliability of the project's design and equipment, reputation of the developer, availability of space, and PEZA registration. The biggest competitors of RLC under this segment are ALI, Megaworld and SM. It competes in this market on the basis of the strategic locations of its buildings, including their proximity to the malls and residences as part of its mixed-use developments, and its accessibility to public transportation, building features as the office projects can accommodate all types of tenants including companies in the IT Business Process Management (IT-BPM) sector, corporate headquarters and traditional offices. RLC also believes that its established reputation of good quality, ease of doing business, and completing projects on time makes it one of the most preferred choices of the IT-BPM industry as well as local and multinational companies. RLC is committed in providing an excellent customer experience and satisfaction by developing office projects of high quality and reliability, meeting the evolving needs of its customers.

### **Hotels and Resorts Division**

RLC competes in different markets for its hotels and resorts segments. Across all of its hotel formats, its main competitors in terms of number of rooms are: Ayala Land, Alliance Global Group Inc., SM Hotels and Conventions Corporation, and Filinvest Land Inc. Aside from these large hotel owners and developers, there is a growing number of small independent players and foreign entrants that increases the competitive landscape of hospitality in the country. The influx of foreign arrival and regional travellers in the Philippines stimulates growth and opportunities for many in the hospitality and tourism industry, and is likewise strongly supported by government incentive programs.

RLC believes in its market strength rooted from a deep understanding of the mass Filipino consumer. RLC continues to solidify its position and ability to serve travellers in multiple points of the Philippines through growing its hotel and resorts portfolio while enhancing its overall brand. With its longstanding expertise in developing and managing hotels and resorts, RLC is focused on scaling its business with improving standards leading up to world-class quality.

### **Industrial and Integrated Developments Division**

Though Industrial and Integrated Developments (IID) is a new Division under RLC, RLC is not a newcomer in integrated developments. RLC has developed four major mixed used developments in Metro Manila alone, namely, Robinsons Galleria, Robinsons Forum, Robinsons Manila, and Robinsons Magnolia. These projects are anchored by Robinsons Mall with components of Office and/or Residential and/or Hotel/Leisure. With the formation of the IID Division, RLC can now focus on this new fast growing development format.

All major developers are now into integrated development. Developers have been acquiring big parcels of land and incorporating different real estate components to attract investors and customers. The biggest competitors of RLC in integrated developments are Ayala Land, Inc., Megaworld Corp., Filinvest, Inc., Double Dragon Properties Corp., and SM Prime Holdings.

IID will harness opportunities for synergies with RLC's other business units: Commercial, Residential, Hotel, and Office Division. RLC, having years of experience in these real estate components, will thus have a competitive advantage. With efficient master planning, innovative designs, and quality construction, RLC is committed to sustainable and future-proof communities.

***Raw Materials/Suppliers***

Construction and development of malls, high-rise office and condominium units as well as land and housing construction are awarded to various reputable construction firms subject to a bidding process and management's evaluation of the price and qualifications of and its relationship with the relevant contractor. Most of the materials used for the construction are provided by the contractors themselves in accordance with the underlying agreements, although sometimes RLC will undertake to procure the construction materials when it believes that it has an advantage in doing so. RLC typically will require the contractor to bid for a project on an itemized basis, including separating the costs for project materials that it intends to charge. If RLC believes that it is able to acquire any of these materials (such as cement or steel) at a more competitive cost than is being quoted to it, it may remove these materials from the project bid and enter into a separate purchase order for the materials itself, to reduce project costs.

***Customers***

RLC has a broad market base. The loss of any one customer would not have a materially adverse effect upon RLC.

***Related Party Transactions***

RLC leases significant portions of its commercial centers and office buildings to companies controlled by the Gokongwei Family, including Robinsons Department Store, Robinsons Supermarket and Handyman Do-It-Best. Other affiliates from whom RLC earns rental income include Top Shop, Robinsons Bank and Cebu Pacific. RLC's policy with respect to related party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

In addition, JG Summit also provides RLC with certain corporate services including debt management, corporate finance, corporate planning, procurement, human resources, controller and treasury services, legal and corporate communications.

***Regulatory and Environmental Matters***

**Shopping Malls**

Shopping mall centers are regulated by the local government unit of the city or municipality where the establishment is located. In line with this, mall operators must secure the required mayor's permit or municipal license before operating. In addition, no mall shall be made operational without complying first with the provisions of the fire code and other applicable local ordinances. Furthermore, shopping malls with food establishments must obtain a sanitary permit from the Department of Health. It is also compulsory for shopping malls discharging commercial waste water to apply for a waste water discharge permit from the DENR and to pay the fee incidental to the permit.

As a tourism-related establishment, shopping malls may obtain accreditation from the Department of Tourism. A shopping mall can only be accredited upon conformity with the minimum physical, staff and service requirements promulgated by the Department of Tourism.



### **Residential Condominium and Housing and Land Projects**

Presidential Decree No. 957 (The Subdivision and Condominium Buyers' Protective Decree) as amended, is the principal statute which regulates the development and sale of real property as part of a condominium project or subdivision. The law covers subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes as well as condominium projects for residential or commercial purposes. It also sets out standards for lower density developments.

Republic Act No. 4726 (The Condominium Act), on the other hand, is the primary law governing condominiums. The law covers the legal definition of a condominium, the rights of a unit owner, and the rules governing transfers, conveyances and partitions in condominiums.

The Housing and Land Use Regulatory Board (HLURB) is the administrative agency of the Government which, together with local government units, enforces these laws and has jurisdiction to regulate the real estate trade and business. Subdivision or condominium units may be sold or offered for sale only after a license to sell (LTS) has been issued by the HLURB. The LTS may be issued only against a performance bond posted to guarantee the completion of the construction of the subdivision or condominium project and compliance with applicable laws and regulations.

All subdivision and condominium plans are subject to approval by the relevant unitLocal Government Unit (LGU) in which the project is situated and by the HLURB. The development of subdivision and condominium projects can commence only after the HLURB has issued a development permit.

Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the LGU and HLURB.

Owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of lots or real estate projects. Republic Act No. 9646 (The Real Estate Service Act of the Philippines) provides that real estate consultants, appraisers, assessors and brokers must pass the requisite exams and be duly registered and licensed by the Professional Regulation Commission (PRC), while real estate salespersons, or those who act of a real estate broker to facilitate a real estate transaction, only need to be accredited by the PRC.

Project permits and the LTS may be suspended, cancelled or revoked by the HLURB by itself or upon a verified complaint from an interested party for reasons such as non-delivery of title to fully-paid buyers or deviation from approved plans. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Residential subdivision developments must comply with applicable laws and standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under current regulations, a developer of a residential subdivision is required to reserve at least 30% of the gross land area of such subdivision for open space for common uses, which

include roads and recreational facilities. A developer of a commercial subdivision is required to reserve at least 3.5% of the gross project area for parking and pedestrian malls, but the minimum parking area requirement may be further increased by ordinances promulgated by LGUs.

Republic Act (RA) No. 7279 (Urban Development and Housing Act of 1992), as amended by Republic Act No. 10884 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 15% of the total subdivision area or total subdivision project cost and at least 5% of condominium area or project cost, at the option of the developer, in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. RLC has benefited from providing low-income housing or projects of such types which are financially assisted by the government. These policies and programs may be modified or discontinued in the future.

The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers. Under R.A. No. 10884, income derived by domestic corporations from the development and sale of socialized housing is exempt from project related income taxes, capital gains tax on raw lands used for the project, value-added tax for the project contractor concerned, transfer tax for both raw completed projects, and donor's tax for lands certified by the LGUs to have been donated for socialized housing purposes. Under the current Investment Priorities Plan issued by the Board of Investments, mass housing projects including development and fabrication of housing components, are eligible for government incentives subject to certain policies and guidelines. In the future, since the sale of socialized housing units comprise a portion of homes sold by RLC, any changes in the tax treatment of income derived from the sale of socialized housing units may affect its effective rate of taxation.

### **Hotels**

The Philippine Department of Tourism promulgated the Hotel Code of 1987 (the "Hotel Code") in order to govern the business and operation of all hotels in the Philippines. Investors that wish to operate a hotel must first register and apply for a license with the local government of the city or municipality where the hotel is located. For purposes of registration and licensing, hotels are classified into four groups: De Luxe Class, First Class, Standard Class and Economy Class. The Hotel Code provides minimum standards for the establishment, operation and maintenance of hotels depending on the hotel's classification. The Philippine Department of Tourism is in the process of revising the current classification from Hotel Class System to Hotel Star Rating System.

A certificate of registration and license as a hotel will not be granted unless the relevant establishment has passed all the conditions of the Hotel Code, the Fire and Building Codes, Zoning Regulations and other municipal ordinances. Furthermore, hotels can only be opened for public patronage upon securing of a sanitary permit from the city or municipal health office having jurisdiction over the establishment. The Department of Tourism is the government agency which is tasked with the accreditation of hotels. The Department promulgates the minimum standards and procedures for hotel accreditation. While accreditation is non-compulsory, accredited hotels are given incentives by the Department of Tourism.

### **Zoning and Land Use**

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the Department of Agrarian Reform (DAR), land classified for agricultural purposes as of or after 15 June 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

Land use may be also limited by zoning ordinances enacted by local government units. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant local government unit. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

### **Special Economic Zone**

The Philippine Economic Zone Authority (PEZA) is a government corporation that operates, administers and manages designated special economic zones (Ecozones) around the country. PEZA registered enterprises locating in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty-free importation of equipment, machinery and raw materials. Information technology (IT) enterprises offering IT services (such as call centers and business process outsourcing using electronic commerce) are entitled to fiscal and non-fiscal incentives if they are PEZA-registered locators in a PEZA-registered IT Park, IT Building, or Ecozone. RLC actively seeks PEZA registration of its buildings, as this provides significant benefits to its tenants. As of 2019, a number of RLC malls and office buildings are PEZA-registered.

### **United Industrial Corporation Limited**

In May 1999, the Company, through a subsidiary, acquired a 23.0% stake in a Singapore listed company, United Industrial Corporation Limited (UIC) which is one of the largest property developers in Singapore owning various office buildings that are located in prime locations in Singapore and China. As of December 31, 2019, the Company's indirect interest in the shares of UIC increased to 37.0%.

## **c) AIR TRANSPORTATION**

### ***Business Development***

Cebu Air, Inc. (CEB) was incorporated on August 26, 1988 and was granted a 40-year legislative franchise to operate international and domestic air transport services in 1991. It commenced its scheduled passenger operations in 1996 with its first domestic flight from Manila to Cebu. In 1997, it was granted the status as an official Philippine carrier to operate international services by the Office of the President of the Philippines. International operations began in 2001 with flights from Manila to Hong Kong.

With the liberalization of the airline industry in 1995, JG Summit acquired 49.0% of CEB's outstanding capital stock to undertake domestic and international flights to and from major cities in the Philippines and around the world. In September 2001, the Company, through a subsidiary, acquired the remaining 51.0% of CEB's capital stock, thus making it a wholly owned subsidiary as of year-end 2001. In May 2006, CEB was acquired by CP Air Holdings Inc. (CP Air) through a deed of assignment by the Company, which resulted in the 100% ownership by CP Air of CEB. CP Air is a wholly owned subsidiary of the Company. On October 26, 2010, CEB's common stock was listed with the PSE. As of December 31, 2019, JG Summit has 67.8% effective ownership in CEB.

CEB operates under the trade name “Cebu Pacific Air” and is the leading low-cost carrier in the Philippines. It pioneered the “low fare, great value” strategy in the local aviation industry by providing scheduled air travel services targeted to passengers who are willing to forego extras for fares that are typically lower than those offered by traditional full-service airlines while offering reliable services and providing passengers with a fun travel experience.

In 2005, CEB adopted the low cost carrier (LCC) business model. The core element of the LCC strategy is to offer affordable air services to passengers. This is achieved by having: high-load, high-frequency flights; high aircraft utilization; a young and simple fleet composition; and low distribution costs.

CEB has twelve special purpose entities (SPE) that it controls, namely: Panatag Two Aircraft Leasing Limited (PTALL), Summit C Aircraft Leasing Limited (SCALL), Tikgi Aviation One Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL), CAI Limited (CL), Sampaguita Leasing Co., Ltd. (SLCL), Dia Boracay Ltd. (DBL), Mactan Leasing Co., Ltd. (MLCL), Cebuano Leasing Co., Ltd. (CLCL), Dia El Nido Ltd. (DENL), Tarsier Leasing Co., Ltd. (TLCL), and RAMEN Aircraft Leasing Limited (RALL).

On March 20, 2014, CEB acquired 100% ownership of Tiger Airways Philippines (TAP), including 40% stake in Roar Aviation II Pte. Ltd. (Roar II), a wholly owned subsidiary of Tiger Airways Holdings Limited (TAH). On April 27, 2015, with the approval of the Securities and Exchange Commission (SEC), TAP was rebranded and now operates as CEBGO, Inc.

In May 2017, CEB lost control over Ibon Leasing Limited (ILL) due to loss of power to influence the relevant activities of ILL as the result of sale of aircraft to third party. Accordingly, CEB derecognized its related assets and liabilities in its consolidated financial statements.

In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties.

On March 1, 2018, CEB incorporated 1Aviation Groundhandling Services Corporation (a wholly-owned subsidiary) before the sale of 60% equity ownership to Philippine Airport Ground Support Solutions, Inc. (PAGSS) and Mr. Jefferson G. Cheng. The subsequent sale has resulted to a joint venture between the aforementioned parties.

In October 2018, Panatag Three Aircraft Leasing Limited (PTHALL) was dissolved due to refinancing of the related loans.

In December 2018, Summit A Aircraft Leasing Limited (SAALL) and Summit B Aircraft Leasing Limited (SBALL) were dissolved due to refinancing of the related loans. Vector Aircraft Leasing Limited (VALL) was subsequently dissolved due to sale of three (3) A320 aircraft to third parties that have been leased back by CEB.

In June and August 2019, Boracay Leasing Limited (BLL) and Surigao Leasing Limited (SLL) were dissolved due to full payment of loans and transfer of ownership of related aircraft to the Parent Company and CAI Limited. Panatag One Aircraft Leasing Limited (POALL) was also subsequently dissolved in December 2019 due to the sale of the related three (3) A320CEO aircraft to Allegiant Travel Company.

As of December 31, 2019, CEB operates an extensive route network serving 72 domestic routes and 41 international routes with a total of 3,376 scheduled weekly flights. It operates from seven hubs, including the Ninoy Aquino International Airport (NAIA) Terminal 3 and Terminal 4 both located in Pasay City, Metro Manila; Mactan-Cebu International Airport located in Lapu-Lapu City, part of Metropolitan Cebu; Diosdado Macapagal International Airport (DMIA) located in Clark, Pampanga; Davao International Airport located in Davao City, Davao del Sur; Ilo-ilo International Airport located in Ilo-ilo City, regional center of the western Visayas region; Kalibo International Airport in Kalibo, Aklan and Laguindingan Airport in Misamis Oriental.

As of December 31, 2019, CEB operates a fleet of 75 aircraft which comprises of thirty (30) Airbus A320 CEO, seven (7) Airbus A321 CEO, four (4) Airbus A320 NEO, five (5) Airbus A321 NEO, eight (8) Airbus A330 CEO, eight (8) ATR 72-500, and thirteen (13) ATR 72-600 aircraft. It operates its Airbus aircraft on both domestic and international routes and operates the ATR 72-500 and ATR 72-600 aircraft on domestic routes, including destinations with runway limitations. The average aircraft age of CEB's fleet is approximately 5.0 years as of December 31, 2019.

Aside from passenger service, CEB also provides airport-to-airport cargo services on its domestic and international routes. In addition, it offers ancillary services such as cancellation and rebooking options, in-flight merchandising such as sale of duty-free products on international flights, baggage and travel-related products and services.

The percentage contributions to CEB's revenues of its principal business activities are as follows:

	For the years ended December 31		
	2019	2018	2017
Passenger Services	72.7%	73.2%	73.4%
Cargo Services	6.8%	7.4%	6.8%
Ancillary Services	20.5%	19.4%	19.8%
	<b>100.0%</b>	100.0%	100.0%

On May 16, 2016, CEB and seven other market champions in Asia Pacific, announced the formation of the world's first, pan-regional low cost carrier alliance, the Value Alliance. CEB, together with Jeju Air (Korea), Nok Air (Thailand), NokScoot (Thailand), Scoot (Singapore), Tigerair Singapore, Tigerair Australia and Vanilla Air (Japan) will deliver greater value, connectivity and choice for travel throughout Southeast Asia, North Asia and Australia, as the airlines bring their extensive networks together. The Value Alliance airlines collectively fly to more than 160 destinations from 17 hubs in the region.

On February 23, 2015 and May 12, 2016, CEB signed a forward sale agreement with a subsidiary of Allegiant Travel Company (collectively known as "Allegiant"), covering CEB's sale of 10 Airbus A319 aircraft. The delivery of the aircraft to Allegiant is scheduled to start on various dates in 2015 until 2018.

In May 2017 and November 2017, CEB entered into sale and operating leaseback transactions with Ibon Leasing Limited and JPA No. 78/79/80/81 Co., Ltd. which transferred economic ownership of two (2) and four (4) Airbus A320 aircraft, respectively. In July and August 2018, the Group entered into a sale and operating leaseback transaction with JPA No. 117/118/119 Co., Ltd. covering three (3) Airbus A320 aircraft.

On December 18, 2018, the Parent Company signed another forward sale agreement with Allegiant covering three (3) A320 CEO aircraft. The aircraft were delivered to Allegiant on various dates within 2019.

There are no material reclassifications, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business that was made in the past three years. CEB has not been subjected to any bankruptcy, receivership or similar proceeding in the said period.

#### ***Distribution Methods of Products or Services***

CEB has three principal distribution channels: the internet; direct sales through booking sales offices, call centers and government/corporate client accounts; and third-party sales outlets.

##### Internet

In January 2006, CEB introduced its internet booking system. Through [www.cebupacificair.com](http://www.cebupacificair.com), passengers can book flights and purchase services online. The system also provides passengers with real time access to CEB's flight schedules and fare options. CEBGO, Inc.'s flights can be booked through the Cebu Pacific website and its other booking channels starting in March 2014.

As part of the strategic alliance between CEB and TAH, the two carriers entered into an interline agreement with the first interline flights made available for sale in TAH's website starting July 2014. Interline services were made available in Cebu Pacific's website in September 2014. With this, guests of both airlines now have the ability to cross-book flights on a single itinerary and enjoy seamless connections with an easy one-stop ticketing for connecting flights and baggage check-in. In December 2014, CEB also launched its official mobile application which allows guests to book flights on-the-go through their mobile devices.

CEB's participation in the Value Alliance with other low-cost carriers in the region will increase its distribution reach by enabling its customers to view, select and book the best-available airfares on flights from any of the airlines in a single transaction, directly from each partner's website. This is made possible through the groundbreaking technology developed by Air Black Box (ABB). ABB allows guests to enjoy the full suite of ancillary choices they have come to appreciate from low cost carriers across all partner airline sectors in a single itinerary.

##### Booking Offices and Call Centers

As of December 31, 2019, CEB has a network of seven booking offices located throughout the Philippines and three regional booking offices in Hong Kong, South Korea and Japan. It directly operates these booking offices which also handle customer service issues, such as customer requests for change of itinerary. It also uses a third-party call center outsourcing service to help accommodate heavy call traffic. Its employees who work as reservation agents are also trained to handle customer service inquiries and to convert inbound calls into sales. Purchases made through call centers can be settled through various modes, such as credit cards, payment centers and authorized agents.

##### Government/Corporate Client Accounts

As of December 31, 2019, CEB has government and corporate accounts for passenger sales. It provides these accounts with direct access to its reservation system and seat inventory as well as credit lines and certain incentives. Further, clients may choose to settle their accounts by post-transaction remittance or by using pre-enrolled credit cards.

### Third Party Sales Outlets

As of December 31, 2019, CEB has a network of distributors in the Philippines selling its domestic and international air services within an agreed territory or geographical coverage. Each distributor maintains and grows its own client base and can impose on its clients a service or transaction fee. Typically, a distributor's client base would include agents, travel agents or end customers. CEB also has a network of foreign general sales agents, wholesalers, and preferred sales agents who market, sell and distribute CEB's air services in other countries.

### ***Customers***

CEB's business is not dependent upon a single customer or a few customers that a loss of anyone of which would have a material adverse effect on CEB.

### ***Competition***

The Philippine aviation authorities deregulated the airline industry in 1995 eliminating certain restrictions on domestic routes and frequencies which resulted in fewer regulatory barriers to entry into the Philippine domestic aviation market. On the international market, although the Philippines currently operates under a bilateral framework, whereby foreign carriers are granted landing rights in the Philippines on the basis of reciprocity as set forth in the relevant bilateral agreements between the Philippine government and foreign nations, in March 2011, the Philippine government issued E.O. 29 which authorizes the Civil Aeronautics Board (CAB) and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location.

Currently, CEB faces intense competition on both its domestic and international routes. The level and intensity of competition varies from route to route based on a number of factors. Principally, it competes with other airlines that service the routes it flies. However, on certain domestic routes, CEB also considers alternative modes of transportation, particularly sea and land transport, to be competitors for its services. Substitutes to its services also include video conferencing and other modes of communication.

CEB's major competitors in the Philippines are Philippine Airlines ("PAL"), a full-service Philippine flag carrier; PAL Express (formerly Airphil Express) a low-cost domestic operator and which code shares with PAL on certain domestic routes and leases certain aircraft from PAL; and Philippines Air Asia (a merger between former Air Asia Philippines and Zest Air). Most of CEB's domestic and international destinations are also serviced by these airlines. CEB is the leading domestic airline in the Philippines by passengers carried, with a market share of 53%.

CEB is the leading regional low-cost airline offering services to more destinations and serving more routes with a higher frequency between the Philippines and other ASEAN countries than any other airline in the Philippines. CEB currently competes with the following LCC's and full-service airlines in its international operations: AirAsia, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines, and Thai Airways, among others.

### ***Publicly-Announced New Product or Service***

CEB continues to analyze its route network. It can opt to increase frequencies on existing routes or add new routes/destinations. It can also opt to eliminate unprofitable routes and redeploy capacity.

CEB further enhanced its domestic footprint during the year by launching new flights from Manila to Marinduque, boosting capacity in other key hubs particularly in Clark and Cebu, increasing flight frequencies in existing routes and upgrading to bigger aircraft with more seats. Its Clark route network expanded with the introduction of three new domestic routes to Bacolod, Iloilo and Puerto Princesa and increase in flight capacity to Caticlan by shifting from 78-seat ATR 72-600 aircraft to the Airbus A320. CEB is positioning Cebu as its beach hub, launching direct flights to Busuanga (Coron) and increasing its weekly frequency to and from Manila, Cagayan de Oro, Dumaguete, Siargao, Iloilo, Caticlan (Boracay), Ozamiz and Zamboanga. CEB also continued to ramp up its international flights from non-Manila hubs on the back of increasing demand for more seamless connections. Direct services from Clark to Narita and Guangzhou, Cebu to Shanghai and Puerto Princesa to Hong Kong commenced in 2019 to further expand tourism, trade and investment opportunities between these areas. On top of this, CEB also inaugurated its commercial flights between Manila and Shenzhen last July 2019, mounted additional daily flights between Manila and Bangkok and upgraded aircraft to bigger Airbus A321 NEOs and A330 CEOs for key international routes from Manila such as Narita, Bali, Osaka and Shanghai. CEB, however, suspended its Manila to Siem Reap and Manila to Guam flights last December 2019.

CEB will have sixty-three (63) aircraft deliveries from 2020 to 2026. The additional aircraft will support CEB's plans to increase frequency on current routes and to add new city pairs and destinations. CEB has a firm order for sixteen (16) ATR 72-600 with options to acquire an additional ten (10) ATR 72-600. The new ATR 72-600 will be equipped with the high density Armonia cabin, the widest cabin in the turboprop market. It will be fitted with seventy-eight (78) slim-line seats and wider overhead bins with 30% more stowage space for greater comfort for passengers. Thirteen (13) out of the sixteen (16) ATR 72-600 aircraft were delivered as of December 31, 2019 while the rest are scheduled for delivery from 2021 to 2022. CEB also has an existing order for thirty-two (32) Airbus A321 NEO (New Engine Option) aircraft with options for a further ten Airbus A321 NEO. Airbus A321 NEO will be the first of its type to operate in the Philippines, being a larger and longer-haul version of the familiar Airbus A320. These 236-seater aircraft will have a much longer range which will enable CEB to serve places the A320 cannot reach. Five (5) out of 32 Airbus A321 NEO order were already delivered as of December 31, 2019. The rest will be delivered between 2020 and 2026.

In 2018, CEB received the seven (7) new A321 CEO aircraft it has ordered from Airbus S.A.S on June 7, 2017. In the same year, CEB has entered into lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO, four of which were delivered within 2019. In October and December 2019, CEB has also placed new orders for sixteen (16) Airbus A330 NEO aircraft and fifteen (15) A320 NEO family aircraft which includes up to ten (10) A321XLR, for delivery from 2021 until 2026. These orders allow CEB to meet the increased capacity requirements.

CEB is also set to venture into the dedicated freighter market making it the only passenger airline in the Philippines with dedicated cargo planes. The first converted ATR 72-500 freighter aircraft was received in August 2019 while the second will be delivered within 2020.

### ***Raw Materials***

Fuel is a major cost component for airlines. CEB's fuel requirements are classified by location and sourced from various suppliers.



CEB's fuel suppliers at its international stations include PTT-Hongkong, PTT-Bangkok, Shell-Singapore, Shell-Narita, Shell-Dubai, SK Corp-Korea, Caltex-Australia and World Fuel-China among others. It also purchases fuel from local suppliers like Petron, Chevron Manila and Shell Manila. CEB purchases fuel stocks on a per parcel basis, in such quantities as are sufficient to meet its monthly operational requirements. Most of its contracts with fuel suppliers are on a yearly basis and may be renewed for subsequent one-year periods.

### ***Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements***

#### **Trademarks**

Trademark registrations with the Intellectual Property Office of the Philippines (IPPHL) prior to the effective date of Republic Act (R.A.) No. 8293, or the current Intellectual Property Code of the Philippines, are valid for twenty (20) years from the date of issue of the certificate of registration. Meanwhile, trademark registrations covered by R.A. No. 8293 are valid for ten years from the date of the certificate of registration. Regardless of whether the trademark registration is for 20 years or ten years, the same may be renewed for subsequent ten-year terms.

CEB holds the following valid and subsisting trademark registrations:

- CEBU PACIFIC, the Cebu Pacific feather-like device, CEBU PACIFIC AIR, CEBU PACIFIC AIR.COM;
- The CEB Mascot;
- Various trademarks for CEB's branding campaigns such as WHY EVERYONE FLIES, WHY EVERYJUAN FLIES, A NETWORK MADE WIDER WITH CEBU PACIFIC, SUPER SEAT FEST, TRAVEL SURE, and the logos used for such purposes;
- CEBGO and the Cebgo logo;
- A trademark for the strategic alliance entered into by the Parent Company and TAH;
- GETGO and the GetGo logo for its lifestyle rewards program; and
- 1AV, 1AVIATION, and the 1AV logo with 1AV name and logo combined for its airport ground-handling services, needs, and other requirements.

On June 1, 2015, CEB rolled out its new logo which features shades of the Philippines' land, sea, sky and sun. This new branding also symbolizes the airline's growth and evolution from a low-cost pioneer to its larger operations today. The new logo and new branding have been registered as trademarks of CEB.

Meanwhile, CEB has 26 trademarks registered with the Intellectual Property Office of China and three (3) trademarks with the Intellectual Property Office of Singapore. On 24 October 2017, CEB registered 4 trademarks for CEBU PACIFIC'S wordmark, logo, and stylized wordmark under the Madrid - International Trademark System for Australia, Brunei, Japan, Cambodia, Korea, USA, and Vietnam valid for ten years from the date of the certificate of registration.

CEB has also incorporated the business names "Cebu Pacific" and "Cebu Pacific Air" with its Articles of Incorporation, as required by Memorandum Circular No. 21-2013 issued by the Securities and Exchange Commission (SEC). Registering a business name with the SEC precludes another entity engaged in the same or similar business from using the same business name as one that has been registered.

CEB, together with other airline members, also has trademarks registered for the Value Alliance logo in various jurisdictions.

On November 27, 2019, CEB filed twenty eight (28) new applications for trademark registration with the IPPHL for its branding campaigns. On December 11, 2019, CEB also filed four (4) additional applications for trademark registration to further bolster its marketing strength.

#### Licenses/Permits

CEB operates its business in a highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

#### Franchise

In 1991, pursuant to R.A. No. 7151, CEB was granted a franchise to operate air transportation services, both domestic and international. In accordance with CEB's franchise, this extends up to year 2031:

- a) CEB is subject to franchise tax of five percent of the gross revenue derived from air transportation operations. For revenue earned from activities other than air transportation, CEB is subject to corporate income tax and to real property tax.
- b) In the event that any competing individual, partnership or corporation received and enjoyed tax privileges and other favorable terms which tended to place CEB at any disadvantage, then such privileges shall have been deemed by the fact itself of CEB's tax privileges and shall operate equally in favor of CEB.

In December 2008, pursuant to R.A. No. 9517, CEBGO, Inc. (formerly TAP), CEB's wholly owned subsidiary, was granted a franchise to establish, operate and maintain domestic and international air transport services with Clark Field, Pampanga as its base. This franchise shall be for a term of twenty five (25) years.

#### ***Government Approval of Principal Products or Services***

CEB operates its business in highly regulated environment. The business depends upon the permits and licenses issued by the government authorities or agencies for its operations which include the following:

- Legislative Franchise to Operate a Public Utility
- Certificate of Public Convenience and Necessity
- Letter of Authority
- Air Operator Certificate
- Certificate of Registration
- Certificate of Airworthiness

CEB also has to seek approval from the relevant airport authorities to secure airport slots for its operations.

### ***Effects of Existing or Probable Government Regulations on the Business***

#### Civil Aeronautics Administration and Civil Aviation Authority of the Philippines (CAAP)

Policy-making for the Philippine civil aviation industry started with R.A. 776, known as the Civil Aeronautics Act of the Philippines (the “Act”), passed in 1952. The Act established the policies and laws governing the economic and technical regulation of civil aeronautics in the country. It established the guidelines for the operation of two regulatory organizations, CAB for the regulation of the economic activities of airline industry participants and the Air Transportation Office, which was later transformed into the CAAP, created pursuant to R.A. 9497, otherwise known as the Civil Aviation Authority Act of 2008.

The CAB is authorized to regulate the economic aspects of air transportation, to issue general rules and regulations to carry out the provisions of R.A. 776, and to approve or disapprove the conditions of carriage or tariff which an airline desires to adopt. It has general supervision and regulation over air carriers, general sales agents, cargo sales agents, and airfreight forwarders, as well as their property, property rights, equipment, facilities and franchises.

The CAAP, a government agency under the supervision of the Department of Transportation and Communications (DOTC) for purposes of policy coordination, regulates the technical and operational aspects of air transportation in the Philippines, ensuring safe, economic and efficient air travel. In particular, it establishes the rules and regulations for the inspection and registration of all aircraft and facilities owned and operated in the Philippines, determine the charges and/or rates pertinent to the operation of public air utility facilities and services, and coordinates with the relevant government agencies in relation to airport security. Moreover, CAAP is likewise tasked to operate and maintain domestic airports, air navigation and other similar facilities in compliance with the International Civil Aviation Organization (ICAO), the specialized agency of the United Nations whose mandate is to ensure the safe, efficient and orderly evolution of international civil aviation.

CEB complies with and adheres to existing government regulations.

#### Aviation Safety Ranking and Regulations

In early January 2008, the Federal Aviation Administration (FAA) of the United States (U.S.) downgraded the aviation safety ranking of the Philippines to Category 2 from the previous Category 1 rating. The FAA assesses the civil aviation authorities of all countries with air carriers that operate to the U.S. to determine whether or not foreign civil aviation authorities are meeting the safety standards set by the ICAO. The lower Category 2 rating means a country either lacks laws or regulations necessary to oversee airlines in accordance with minimum international standards, or its civil aviation authority is deficient in one or more areas, such as technical expertise, trained personnel, record-keeping or inspection procedures. Further, it means Philippine carriers can continue flying to the U.S. but only under heightened FAA surveillance or limitations. In addition, the Philippines was included in the “Significant Safety Concerns” posting by the ICAO as a result of an unaddressed safety concern highlighted in the recent ICAO audit. As a

result of this unaddressed safety concern, Air Safety Committee (ASC) of the European Union banned all Philippine commercial air carriers from operating flights to and from Europe. The ASC based its decision on the absence of sufficient oversight by the CAAP.

In February 2013, the ICAO has lifted the significant safety concerns on the ability of CAAP to meet global aviation standards. The ICAO SSC Validation Committee reviewed the corrective actions, evidence and documents submitted by the Philippines to address the concerns and determined that the corrective actions taken have successfully addressed and resolved the audit findings.

On April 10, 2014, the ASC of the European Union lifted its ban on CEB after its evaluation of the airline's capacity and commitment to comply with relevant aviation safety regulations. On the same date, the US FAA also announced that the Philippines has complied with international safety standards set by the ICAO and has been granted a Category 1 rating. The upgrade to Category 1 status is based on a March 2014 FAA review of the CAAP. With this, Philippine air carriers can now add flights and services to the U.S.

In September and December 2014, CEB received CAAP's approval for extended range operations in the form of a certification for Extended Diversion Time Operations (EDTO) of up to 90 and 120 minutes, respectively. EDTO refers to a set of rules introduced by the ICAO for airlines operating twin-engine aircraft on routes beyond 60 minutes flying time from the nearest airport. This certification allows CEB to serve new long haul markets and operate more direct routes between airports resulting to more fuel savings and reduced flight times.

In April 2018, CEB has fully complied with the IATA Operational Safety Audit (IOSA) and now joins a roster of 437 airlines that have met the highest standard for safety in the airline industry. IOSA is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. To secure the accreditation, CEB has invested in technology that would improve its capability to manage safety risks such as on-board Runway Overrun Prevention System (ROPS) cockpit technology for its Airbus fleet for purposes of monitoring runway conditions prior to landing, Area Navigation (RNAV) data for more accurate navigation and approaches to various airports and a Fatigue Risk Management System to ensure that pilots are at adequate levels of alertness.

These developments open the opportunity for CEB to establish new routes to other countries in the U.S. and Europe.

In December 2019, CEB officially joined the International Air Transportation Association (IATA) to gain access to expertise and learnings on best practices and innovations among global airlines, as well as help formulate policies on critical aviation issues. IATA, the trade association for the global airline industry, is comprised of over 290 member-airlines from 117 countries, representing 82% of global air traffic.

#### Executive Order (E.O.) 28 and 29

In March 2011, the Philippine Government issued E.O. 28 which provides for the reconstitution and reorganization of the existing Single Negotiating Panel into the Philippine Air Negotiating Panel (PANP) and Philippine Air Consultation Panel (PACP) (collectively, the Philippine Air Panels). The PANP shall be responsible for the initial negotiations leading to the conclusion of the relevant Air Services Agreements (ASAs)

while the PACP shall be responsible for the succeeding negotiations of such ASAs or similar arrangements.

Also in March 2011, the government issued E.O. 29 which authorizes the CAB and the Philippine Air Panels to pursue more aggressively the international civil aviation liberalization policy to boost the country's competitiveness as a tourism destination and investment location. Among others, E.O. 29 provides the following:

- In the negotiation of the ASAs, the Philippine Air Panels may offer and promote third, fourth and fifth freedom rights to the country's airports other than the NAIA without restriction as to frequency, capacity and type of aircraft, and other arrangements that will serve the national interest as may be determined by the CAB; and
- Notwithstanding the provisions of the relevant ASAs, the CAB may grant any foreign air carriers increases in frequencies and/or capacities in the country's airports other than the NAIA, subject to conditions required by existing laws, rules and regulations. All grants of frequencies and/or capacities which shall be subject to the approval of the President shall operate as a waiver by the Philippines of the restrictions on frequencies and capacities under the relevant ASAs.

The issuance of the foregoing EOs may significantly increase competition.

#### ASEAN Open Skies Agreement

In February 2016, the Philippine government ratified the ASEAN Open Skies agreement which allows designated carriers of ASEAN countries to operate unlimited flights between capitals, leading to better connectivity and more competitive fares and services. Subject to regulatory approvals, this liberalized and equitable air services agreement further allows carriers to upgrade its ASEAN flights to wide-bodied aircraft and increase capacity without the need for air talks thus allowing airlines to focus on expanding its operations, stimulating passenger traffic, and improving customer experience rather than spending valuable resources on negotiating for additional air rights.

#### Air Passenger Bill of Rights

The Air Passenger Bill of Rights (the "Bill"), which was formed under a joint administrative order of the DOTC, the CAB and the Department of Trade and Industry (DTI), was signed and published by the Government on December 11, 2012 and came into effect on December 21, 2012. The Bill sets the guidelines on several airline practices such as overbooking, rebooking, ticket refunds, cancellations, delayed flights, lost luggage and misleading advertisement on fares.

#### Republic Act No. 10378 - Common Carriers Tax (CCT) Act

Republic Act No. 10378, otherwise known as the Common Carriers Tax Act, was signed into law on March 7, 2013. This act recognizes the principle of reciprocity as basis for the grant of income tax exceptions to international carriers and rationalizes other taxes imposed thereon by amending sections 28(A)(3)(a), 109, 108 and 236 of the National Internal Revenue Code, as amended.

Among the relevant provisions of the act follows:

- a.) An international carrier doing business in the Philippines shall pay a tax of two and one-half percent (2 1/2%) on its Gross Philippine Billings, provided, that international carriers doing business in the Philippines may avail of a preferential rate or exemption from the tax herein imposed on their gross revenue derived from the carriage of persons and their excess baggage on the basis of an applicable tax treaty or international agreement to which the Philippines is a signatory or on the basis of reciprocity such that an international carrier, whose home country grants income tax exemption to Philippine carriers, shall likewise be exempt from the tax imposed under this provision;
- b.) International air carriers doing business in the Philippines on their gross receipts derived from transport of cargo from the Philippines to another country shall pay a tax of three percent (3% of their quarterly gross receipts; and
- c.) VAT exemption on the transport of passengers by international carriers.

While the removal of CCT takes away the primary constraint on foreign carrier's capacity growth and places the Philippines on an almost level playing field with that of other countries, this may still be a positive news for the industry as a whole, as it may drive tourism into the Philippines. With CEB's dominant network, it can benefit from the government's utmost support for tourism.

#### ***Research and Development***

CEB incurred minimal amounts for research and development activities, which do not amount to a significant percentage of revenues.

#### ***Costs and Effects of Compliance with Environmental Laws***

The operations of CEB are subject to various laws enacted for the protection of the environment. CEB has complied with the following applicable environmental laws and regulations:

- Presidential Decree No. 1586 (Establishing an Environmental Impact Assessment System) which directs every person, partnership or corporation to obtain an Environmental Compliance Certificate (ECC) before undertaking or operating a project declared as environmentally critical by the President of the Philippines. Petro-chemical industries, including refineries and fuel depots, are considered environmentally critical projects for which an ECC is required. CEB has obtained ECC's for the fuel depots it operates and maintains for the storage and distribution of aviation fuel for its aircraft.
- R.A. 8749 (The Implementing Rules and Regulations of the Philippine Clean Air Act of 1999) requires operators of aviation fuel storage tanks, which are considered as a possible source of air pollution, to obtain a Permit to Operate from the applicable regional office of the Environment Management Bureau (EMB). CEB's aviation fuel storage tanks are subject to and are compliant with this requirement.
- R.A. 9275 (Implementing Rules and Regulations of the Philippine Clean Water Act of 2004) requires owners or operators of facilities that discharge regulated effluents to secure from the Laguna Lake Development Authority (LLDA) (Luzon area) and/or the applicable regional office of the EMB (Visayas and Mindanao areas) a Discharge Permit, which is the legal authorization granted by the DENR for the discharge of waste water. CEB's operations generate waste water and effluents for the disposal of which a Discharge Permit was obtained from the LLDA and the EMB of Region 7 which enables it to discharge and dispose of liquid waste or water effluent generated in the course of its operations

at specifically designated areas. CEB also contracted the services of government-licensed and accredited third parties to transport, handle and dispose its waste materials.

On an annual basis, CEB spends approximately ₱37,300 in connection with its compliance with applicable environmental laws. Compliance with the foregoing laws does not have a material effect to CEB's capital expenditures, earnings and competitive position.

**d) PETROCHEMICALS**

***Business Development***

JG Summit Petrochemical Corporation (JGSPC) was incorporated in the Philippines on February 24, 1994 and is 100% owned by the Company.

Its primary purpose is to engage in, operate, conduct, maintain, manage and carry on the business of manufacturing, dealing and marketing of polyethylene (PE) and polypropylene (PP) and related petrochemical products or by-products, in all their forms, varieties and stages of production and preparation, or of any article or commodity consisting of, or partly consisting of petrochemicals. The plant is the Philippines' first integrated PE and PP complex and is located at Barangay Simlong, Batangas City.

Currently, JGSPC has an annual polymer production capacity of 320,000 metric tons (MT) for PE and 190,000 MT for PP.

***Principal Products or Services***

JGSPC manufactures PE and PP. JGSPC's principal product lines include High Density Polyethylene (HDPE) grades for film, blow molding, monofilament, pipe and injection molding applications. Linear Low Density Polyethylene (LLDPE) grades for film and injection molding applications and PP homopolymer grades for yarn, film, injection molding and thermoforming applications and random copolymer PP grades for blow molding and injection molding applications.

The percentage contribution to JGSPC's revenues for the three years ended December 31, 2019, 2018 and 2017 by each of its principal product categories is as follows:

	For the years ended December 31		
	2019	2018	2017
Polyethylene (PE)	60.8%	57.9%	60.7%
Polypropylene (PP)	39.2%	42.1%	39.3%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

JGSPC products are sold under the EVALENE brand name and are compliant with FDA Philippines food-contact requirements and are also Halal certified. In addition, JGSPC ensures adherence to the highest standards for quality management and environmental performance with its ISO 9001:2008 and ISO 14001:2004 certifications.

***Distribution, Sales and Marketing***

JGSPC sells directly to small, medium and large plastic converters in the Philippines through its in-house sales group. Product distribution to the domestic market is handled directly by JGSPC in coordination with third party trucking services. JGSPC also sells PE and PP for export to international markets, either direct to resin end users or through reputable

### ***Competition***

To be highly competitive, JGSPC is committed to produce consistently good quality products using world-class technology and by employing highly competent plastics processing personnel. Continuous research and development is conducted in-house by the Product Management Group, with the assistance of polymer technology licensors Univation and WR Grace.

JGSPC is the largest polymer resins producer and the only local manufacturer that can produce both PE and PP in an integrated complex. The two other companies that produce polyolefins produce either PE or PP only. These are NPC Alliance Corporation (NPCAC), whose production capacity is 250,000 MT per annum for PE, and Philippine Polypropylene Inc. (PPI), whose production capacity is 160,000 MT per annum for PP. Manufacturing sites of both competitors are located in Bataan province, north of Manila. The balance for the local polyolefins demand is supplied by imported material brought in either directly by local plastic products manufacturers or by international and local traders. Imported PE and PP resin goods are currently JGSPC's primary competition.

JGSPC through its Marketing Department also is able to develop specialty PE and PP grades for specific niche markets, products for which may be difficult to source via the import market.

### ***Raw Materials/Suppliers***

The principal raw materials used by JGSPC in the production of its polyolefin products are polymer-grade propylene and ethylene, commonly known as olefins, which are mainly derived from naphtha produced in the oil refining process. Prior to the completion of JG Summit Olefins Corporation (JGSOC)'s Naphtha Cracker Plant, JGSPC purchased olefins from international sources through suppliers which include Japanese trading companies Marubeni and Mitsui & Co. Ltd.

Since November 2014, JGSOC now directly supplies JGSPC with previously imported raw materials ethylene and propylene. Per design, the olefins output capacity of JGSOC matches the feedstock volume requirements of JGSPC.

### ***Customers***

JGSPC aims to supply the majority of manufacturers of plastic-based products in the Philippines. It also sells its products to internal parties which include the packaging division of URC, and to external parties comprised of more than 300 local manufacturers. Loss of any one customer would not have a materially adverse effect on JGSPC. JGSPC also exports PE and PP worldwide.

### ***Related Party Transactions***

JGSPC, in its regular conduct of business, has engaged in transactions with the Company and its affiliates. These transactions principally consist of sales, advances to and from these affiliated companies.

### ***Regulatory Overview***

The Philippine Government through the DTI's Board of Investments (BOI) implements policies which directly affect the various manufacturing industries including the petrochemical industry. Under the Philippine Investment Priorities Plan, the BOI has the power to grant fiscal incentives to manufacturers establishing new plants or undertaking rehabilitation or expansion programs. Through several dialogues held with the BOI, JGSPC has emphasized the importance of fully developing the petrochemical industry to



help with the sustainable development of the Philippine economy. The BOI has granted JGSPC's capacity expansion project generous fiscal incentives such as income tax holiday (ITH) and duty-free importation of capital equipment, as well as tax credits on locally purchased equipment. JGSPC's ITH incentive on capacity expansion project ended on September 30, 2016.

#### ***Costs and Effects of Compliance with Environmental Laws***

JGSPC takes pride in consistently undertaking projects to help preserve the environment. The safety of employees and the community is foremost and is never compromised. JGSPC complies with all applicable laws on the environment and is committed to be environmentally responsible by having an effective environmental management system based on the requirements of ISO 14001:2004 (EMS). Compliance with such laws has not had, and in JGSPC's opinion, is not expected to have a material effect upon JGSPC's capital expenditures, earnings or competitive position.

#### **e) OLEFINS**

##### ***Business Development***

JG Summit Olefins Corporation (JGSOC) was incorporated in the Philippines on April 22, 2008. JGSOC is wholly owned by the Company and is setup to operate the country's first Naphtha Cracker Plant.

The naphtha cracker is a back integration for the existing PE and PP plants of JGSPC. The cracking facility was constructed adjacent to the existing PE and PP plants of JGSPC. Commercial operations commenced on November 1, 2014.

##### ***Principal Products or Services***

The technology selected for the naphtha cracking facility of JGSOC is licensed by CB&I Lummus (formerly ABB Lummus Global), an experienced licensor and worldwide supplier of ethylene technology with around 40% of worldwide capacity currently licensed. The cracker is the first of its kind in the Philippines.

The plant has the capacity to produce on a per annum basis around 320,000 MT of ethylene, 190,000 MT of propylene, 216,000 MT of pyrolysis gas and 110,000 MT of mixed C4.

##### ***Customers***

JGSOC sells its primary products ethylene and propylene directly to JGSPC, while other products pyrolysis gasoline and mixed C4 are exported to international markets.

##### ***Raw Materials/Suppliers***

The feedstock naphtha is purchased from international sources. JGSOC also imported LPG in November 2015 which was used as cracker feedstock simultaneous with naphtha in November and December 2015 productions. Future importations of LPG and its use as cracker feedstock are performed when economically feasible.

##### ***Registration with the Board of Investments (BOI)***

JGSOC is registered with the BOI under the Omnibus Investments Code of 1987 (E.O. 226) on December 15, 2010 as a new producer of ethylene, propylene, pyrolysis gasoline and other by-products produced by the Naphtha Cracker Project on a Pioneer status. Under its certificate of registration, JGSOC shall be entitled to certain tax and nontax incentives such as: (a) ITH for six (6) years from actual start of commercial operations; only income generated from the registered activity shall be entitled to ITH incentives;

additional deduction from taxable income of fifty percent (50%) of wages corresponding to the increment of direct labor; (c) employment of foreign nationals; (d) tax credit for taxes and duties on raw materials and supplies and semi-manufactured products used on its export products and forming part thereof, among others; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to Customs Bonded Manufacturing Warehouse (CBMW); (g) exemption from wharfage dues, export taxes, duties, imposts and fees on export products; and (h) importation of consigned equipment.

### ***Expansion Projects***

Currently ongoing is JGSPC's and JGSOC's expansion projects for the petrochemical complex, which shall increase existing capacities as well as provide for new production units, as follows:

- Increase in capacity for the existing naphtha cracker plant to 480,000 MTA for ethylene and 240,000 MTA for propylene;
- Increase in capacity for the existing PP plant to 300,000 MTA;
- A new butadiene extraction unit to produce 70,000 MTA butadiene and 89,000 MTA raffinate-1;
- A new aromatics extraction unit to produce 126,000 MTA of benzene, 76,000 MTA of toluene and 46,000 MTA of mixed xylenes; and
- A new bimodal PE plant using Chevron Phillip's MarTECH™ loop slurry polymerization technology.

In 2019, construction is already in full swing for all the new and expanded units, with commercial operations for the expanded complex targeted to commence by 2020.

JGSPC and JGSOC were in technical shutdown during the 4th quarter of 2019 for a complex-wide turnaround maintenance and project tie-ins. Integrated operations resumed in March 2020.

The expansion project, with its additional volumes and new downstream value-added products, is a step towards product diversification of the Philippine petrochemical industry, and aims to strengthen further the industrial value chain for the various domestic manufacturing sectors.

### **f) BANKING SERVICES**

Robinsons Bank Corporation (RBC/the Bank), a commercial bank, is the surviving entity between the merger of Robinsons Savings Bank and Robinsons Bank Corporation (formerly known as The Royal Bank of Scotland (Phils.)) as approved by the Bangko Sentral ng Pilipinas (BSP) in December 2010 and by the SEC in May 2011. 60% of the common stocks are owned by JG Capital Services Corporation (JGCSC), a wholly-owned subsidiary of JG Summit, while Robinsons Holdings Inc. (RRHI) owns the remaining 40%.

Robinsons Savings Bank started its operations in November 1997, and was a wholly-owned subsidiary of JGSCS at that time. In the second quarter of 2010, JGCSC and RRHI then jointly acquired 100% of the shares of The Royal Bank of Scotland (Phils.).

RBC continues to look for attractive mergers and acquisitions to fast track its goal to become a significant player in the banking industry in the next five years. In December 2012, RBC acquired Legazpi Savings Bank (LSB), making it a wholly owned subsidiary

of the Bank. With this venture, RBC intends to utilize the capacity and branch network of LSB as its vehicle to engage in countryside banking and microfinance lending.

On June 27, 2018, the Bank's Board of Directors approved the increase of the Bank's Authorized Capital Stock from ₱15.0 billion to ₱27.0 billion at ₱10.0 par value per share. The 25% of the net increase amounting to ₱3.0 billion was subscribed and paid in full by the major stockholders of the Bank namely JGCSC and RRHI who subscribed and paid the amount of ₱1.8 billion and ₱1.2 billion, respectively. The increase in Bank's Authorized Capital Stock was approved by the BSP on December 12, 2018 and by the SEC last March 18, 2019.

Based on the BSP data, as of December 31, 2019, of the forty-six (46) universal and commercial banks operating in the Philippines, the Bank ranked 18th in terms of Total Assets; 16th in terms of Total Loans (net); 18th in terms of Total Deposits; 30th in terms of Return on Equity (ROE); and 17th in terms of Total Capital.

#### ***Principal Products or Services***

As of December 31, 2019, RBC (on a Parent/Solo basis) has a network of 148 branches; 68 of which are strategically located in Metro Manila and 80 others are situated in Luzon, Visayas and Mindanao. RBC also has 320 ATMs, which are part of the Bancnet consortium, all of which are within reach and available 24 hours a day, 7 days a week. RBC also has two Branch-lite units and one Micro Finance-oriented Branch situated in Lipa City and Pasig City; while its subsidiary, LSB, has 11 branches in the Bicol Region, one branch situated in Calabarzon and one in Central Luzon and has four Branch Lite situated in Bicol Region and Calabarzon. The Bank also offers online banking (<https://www.robinsonsbank.com.ph>); and mobile banking which are made available to and can be accessed by Android and iOS users.

Having a proven track record in the banking industry and as JG Summit Group's major financial service arm, RBC continuously strives to carry on its vision of leading the country to global-competitiveness through quality and innovative banking products and services. It provides a broad range of traditional banking services such as savings, current and time deposits, treasury and trust products, and foreign currency-denominated deposits. It also offers commercial loans, consumer loans such as housing, car and personal loans, motorcycle loans, micro financing, and other products or services such as cash management, trade financing and remittance, among others. In 2017, the Bank unleashed the power of 2 Gives through Robinsons Bank DOS Mastercard. The DOS card is the first and only credit card in the market that automatically splits all transactions into two monthly installments at 0%. The card is 3D Secure, providing the card holders protection from fraud and scheme.

RBC aims to be among the top big banks in the country and continues to be a strategic player in the industry. RBC prides itself with a business portfolio of market leaders, a solid financial position, and a formidable management team which steers the Bank ahead of changing times and through the challenges that come along with it. Thus, RBC is positioned not only to be more responsive in meeting the banking requirements of its retail customers and business partners, but also to fully serve the general banking public.

### ***Status of Publicly Announced New Products and Services***

Robinsons Bank introduced several products and services in 2019:

*IPONsurance*, launched on June 3, 2019, is a passbook-based, interest-earning savings account with free life insurance coverage for as low as ₱20,000 to open and maintain an account. Life insurance coverage applies to account holders with age range of 18-65 years old unlike most plans that only cover up to 60 years old. This feature is beneficial for recent retirees. More so, the product insurance coverage can go as high as four (4) times the account average daily balance (ADB) or up to ₱4 million maximum, with no medical check-ups or clearances required (subject to Terms and Conditions).

The *GO! Salary Online Channel*, launched on June 27, 2019, provides access to an online application to a multipurpose personal loan facility for employees of accredited companies. It is collateral free loan with easy payment terms through salary deduction.

The *Hybrid Branch Format*, launched in September 2019, simplifies the customers' journey through its digital banking facilities and self-service hubs, along with its traditional banking services. Through the digital self-service hub, clients can do banking transactions such as account opening, online payments, and more through digital touchscreen platforms, without the hassle of queuing and hardly any forms that need to be filled in. They hybrid branch also has a Collaborative Hub, which houses conference areas for face-to-face client transactions. Customers can also do Anytime Banking through the 24/7 ATM Cash Withdrawal and the Cash-In Deposit ATM.

*Cash Acceptance Machine*, launched in September 2019, is an enhanced ATM with the added ability of accepting cash deposits anytime. This machine enhances the deposit-making experience of an RBank customer because it takes in cash deposits anytime, beyond banking hours.

*Robinsons Cashback Card*, launched in October 2019, is a credit card variant that offers 3% rebate on any purchase at Robinsons Department Store, Robinsons Supermarket, Handyman, True Value, Toys R Us, Robinsons Appliances, and other Robinsons Brands and affiliated stores; and a 1% rebate on any purchase worth ₱3,500 and above from any merchant. It offers a secure way to pay because SMS notifications are sent for every approved transaction and OTP is required for 3D-Secure merchants.

The Bank also issued Corporate Bonds due 2021 in August and November 2019.

### ***Competition***

The Philippine banking industry is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership restrictions. As of December 31, 2019, according to the BSP, there are 46 universal and commercial (local and foreign) banks in the Philippines. The Bank faces significant levels of competition amid a number of these Philippine banks and the presence of branches of international banks. These include, but not limited to, banks with greater financial and capital resources, bigger market share, and larger brand recognition than the Bank.

### ***Trademarks and Licenses***

Except for software license agreements which it entered into in the ordinary course of business with some information technology companies, the Bank's business and operations are not dependent upon any patents, trademarks, copyrights, licenses, franchises, and royalty agreements.

On October 5, 2018 and as corrected on March 1, 2019, the SEC approved the following business names and styles of the Bank, namely: RBank, RBC, Robinsons Bank, RobinsonsBank, Robinsons Bank Corp., RBank Corp., RBank Corporation, RobinsonsBankCorp, and Robinsons Commercial Bank.

As of December 31, 2019, the Bank was also able to cause the registration of the trade names of its new products before the IPPHL, namely:

Trade Name	Date of Registration	Term
"UNO"	November 30, 2017	Ten years (until November 30, 2027)
"DOS"	November 30, 2017	Ten years (until November 30, 2027)
"Direct2Bank"	September 28, 2018	Ten years (until September 28, 2028)
"Simple Savings"	November 22, 2018	Ten years (until November 22, 2028)
"Businesslinker"	November 1, 2018	Ten years (until November 1, 2028)
"IPONsurance"	April 28, 2019	Data not yet available

In 2019 and early 2020, the Bank filed for registration of the trade names of the following new products before the IPPHL. Processing of registration is still pending with the IPPHL.

Trade Name	Date of Filing
<i>RBank</i>	November 12, 2018
Go! Auto Loan	August 5, 2019
Go! Housing Loan	August 5, 2019
Go! Small Biz Loan	August 5, 2019
Go! Consumer Loans	August 5, 2019
QuickR	March 30, 2020

### ***Strong Investor Base***

RBC is part of the JG Summit Holdings conglomerate. It maintains good patronage of the concessionaires, contractors and suppliers of the JG Group of Companies; exhibiting strong deposit and loan acquisitions. The Bank being owned by JGSCS and RRHI, RBC is in the company of leading and established corporations in the country today.

### ***Regulatory Overview***

As a domestic commercial bank, the Bank is governed by the rules and regulations of the BSP and other government regulators. As such, the Bank ensures that its business operations comply with all applicable government laws, rules and regulations such as BSP mandate on financial inclusions, limits, circulars, Capital Adequacy Ratio, reserves, liquidity, AMLA, and other reportorial requirements.

### **g) CORE INVESTMENTS**

On March 29, 2011, the Company executed a sale and purchase agreement with PLDT, Inc. (PLDT) under which PLDT has agreed to purchase all the rights, title and interest in the assets of Digitel. The acquisition was completed on October 26, 2011 following the issuance by the SEC of its confirmation of the valuation of the enterprise assets and the approval by National Telecommunications Commission of the transfer of 51.6% interest in Digitel. In November 2011, the Company subsequently sold 5.81 million and 4.56 million PLDT shares to an associate company of First Pacific Company Limited and NTT Docomo, Inc., respectively for approximately US\$600 million. The Company is represented in PLDT's board of directors with one board seat. The transaction triggered a

mandatory tender offer for the acquisition of the remaining 48.5% of Digitel shares held by the public. PLDT launched a tender offer for such shares that ended January 16, 2012.

In December 2019, the Company acquired 7,046,979 American Depositary Receipts (ADRs) of PLDT amounting to ₱7.0 billion, which was then converted into common shares in January 2020 and resulted to the Company's additional 3.3% stake in PLDT. The Company has a total of 11.27% interest in PLDT after the transaction. PLDT is one of the largest and most diversified telecommunications provider in the Philippines, which provides a wide range of telecommunications services in the country through its extensive fibre optic backbone and wireless, fixed line, broadband and satellite networks. PLDT's business comprises three divisions: wireless, fixed line and BPO.

On December 11, 2013, the Company completed the purchase of a 27.1% stake in Manila Electric Company (Meralco) for ₱71.9 billion, which was funded by a combination of debt and equity capital. Meralco is the largest electricity distributor in the country, which provides electricity to over 5 million consumers in 34 cities and 77 municipalities. On June 14, 2017, the Company acquired additional 2.44% stake in Meralco for ₱6.9 billion, resulting in the increase in ownership interest in Meralco to 29.56%.

On June 30, 2016, the Company completed the purchase of a 30.0% stake in Global Business Power Corporation (GBPC) for ₱11.82 billion. GBPC is one of the leading independent power producers in the Visayas region and Mindoro island with a combined gross maximum capacity of 704 MW comprising 696.5 MW of power supplied to the Visayas grid and 7.5 MW of power supplied within Mindoro island.

On February 18, 2019, the Company invested in Luzon International Premiere Airport Development Corporation (LIPAD). The shares acquired represented 33% of LIPAD's total outstanding common shares. LIPAD is a corporation organized and incorporated in the Philippines to engage in the operation and maintenance of airports, whether operating as a domestic or international airport or both, including day-to-day administration, functioning, management, manning, upkeep, and repair of all facilities necessary for the use or required for the safe and proper operation of airports.

#### **h) SUPPLEMENTARY BUSINESSES**

The Company has an interest in insurance brokering, securities investments, and business process outsourcing.

#### ***Competition***

Many of the Group's activities are carried on in highly competitive industries. Given the Group's diversity, the Group competes with different companies domestically and internationally, depending on the product, service or geographic area. While the Group is one of the largest conglomerates in the Philippines, its subsidiaries compete in different sectors against a number of companies with greater manufacturing, financial, research and development and market resources than the Group.

The following table sets out the Group's principal competitors in each of the principal industry segments in which it operates:

Industry Segment	Principal Competitors
Branded Consumer Foods, Agro-Industrial and Commodity Food Products	Liwayway Marketing Corporation, Monde M.Y. San Corporation, Columbia Foods International, Republic Biscuit Corporation, Suncrest Foods Inc., Del Monte Phil. Inc., Monde Nissin Corporation, Nestle Philippines Inc., San Miguel Pure Foods Company, Inc., Kraft Foods Inc., Procter & Gamble, Effem Foods/Mars Inc., Lotte Group, Perfetti Van Melle Group, Mayora Inda PT, , Apollo Food, Frito-Lay, Nestle S.A., PepsiCo, Inc., Cadbury Schweppes PLC, Kraft Foods International, San Miguel Corp. (B-Meg and Integra), UNAHCO (Sarimanok, Thunderbird, GMP and Pigrolac), Aboitiz Inc. (Pilmico), UNAHCO (Univet), Novartis, Excellence Poultry and Livestock Specialist, San Miguel Corp (Monterey), Foremost Farms Inc., Bounty Farms Inc., Brookdale Farms, and Heritage Vet Corp.
Real Estate and Hotels	SM Prime Holdings, Inc., Ayala Land, Inc., Ayala Land Premier Rockwell Land Corporation, Century Properties Group, Inc., Megaworld Corporation, Alveo Land, Filinvest Land, Inc., Ortigas & Co., Avida Land, DMCI Homes, Vista Land & Lifescapes, Inc., Alliance Global Group Inc., Double Dragon Properties Corp
Air Transportation	PAL, PAL Express, Philippines Air Asia for domestic flights; AirAsia, Jetstar Airways, PAL, Cathay Pacific, Singapore Airlines and Thai Airways, among others for International flights
Banking and Financial Services	Bank of Commerce, Philippine Bank of Communications, and Maybank Philippines Incorporated
Petrochemicals	Imports

***Publicly-Announced New Product or Service***

Other than those discussed above under the air transportation and banking segments, the Group has no publicly-announced new product or service as of the date of the report.

***Patents, Trademarks, Licenses, Franchises Concessions, Royalty Agreements***

The Group owns a substantial number of trademarks registered with the Intellectual Property Office of the Philippines (IPPHL). Trademark registrations with the IPPHL prior to the effective date of Republic Act No. 8293, or the current Intellectual Property Code of the Philippines, are valid for 20 years from the date of issue of the certificate of registration. Meanwhile, trademark registrations covered by Republic Act No. 8293 are valid for ten years from the date of the certificate of registration. Regardless of whether the trademark registration is for 20 years or ten years, the same may be renewed for subsequent ten-year terms.

The Group also has various licenses and franchises issued by the government to enable them to operate its diverse businesses including food, real estate, banking and financial services, telecommunications, air transportation and power generation.

### ***Effect of Existing or Probable Governmental Regulations on the Business***

The Company operates the majority of its businesses, including food, real estate, banking and financial services, telecommunications, air transportation and power generation activities, in a highly regulated environment. Many of these businesses depend upon licenses or franchises issued by the government authorities or agencies for their operations. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises, which in turn may have a material adverse effect upon the Company. In addition, the introduction or inconsistent application of, or changes in regulations may from time to time materially affect the Company's operations.

### ***Cost and Effects of Compliance with Environmental Laws***

The operations of the Company are subject to various laws enacted for the protection of the environment. The Company believes that it has complied with all applicable Philippine environmental laws and regulations, an example of which is the installation of waste and industrial water treatments in its various facilities. Compliance with such laws has not had, and in the Company's opinion, is not expected to have, a material effect upon the Company's capital expenditures, earnings or competitive position.

### ***Employees and Labor***

The number of full-time employees employed by the Company and its operating subsidiaries as of December 31, 2019 is shown in the following table:

Company	No. of Employees
Branded Consumer Foods, Agro-industrial and Commodities	15,048
Airlines	4,352
Property Development and Hotel Management	2,823
Finance	2,221
Petrochemicals	1,004
Supplementary Businesses	710
	26,158

The Company's management believes that good labor relations generally exist throughout the operating companies. For most of the operating companies, collective bargaining agreements exist between the relevant representative unions for the employees and the relevant operating companies. The collective bargaining agreements generally cover a five-year term with a right to renegotiate the economic terms of the agreement after three years, and contain provisions for annual salary increment, health and insurance benefits and closed-shop arrangements. The management believes that those collective bargaining agreements, which are soon to expire or which have expired, will, as a result of existing good labor relations, be successfully renewed or renegotiated.

### ***Risks***

The major business risks facing the Group are as follows:

#### ***a. Competition***

Many of the Group's activities are in highly competitive industries. The Group faces competition in all segments of its businesses both in the Philippine market and in international markets. The Group's ability to compete effectively will require continuous efforts in sales and marketing of our existing products, development of new products and cost rationalization. There can be no assurance that the Group's sales volume and market share will not be adversely affected by negative consumer



reaction to higher prices as a result of price reduction or promotional sales undertaken by its competitors.

*b. Financial Market*

The Group has a foreign exchange exposure primarily associated with fluctuations in the value of the Philippine Peso against the U.S. dollar and other foreign currencies. The Group's revenues are predominantly denominated in Pesos, while certain expenses, including fixed debt obligations, are denominated in foreign currencies. Prudent fund management is employed to minimize effects of fluctuations in interest and currency rates.

*c. Raw Materials*

The Group's production operations are dependent in obtaining adequate supply of raw materials on a timely basis. In addition, its profitability depends in part on the prices of raw materials since a portion of the Group's raw material requirements is imported including packaging materials. To mitigate these risks, alternative sources of raw materials are used in operations.

*d. Cost and Availability of Fuel*

The cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world, the most important of which are not within the Group's control. Fuel prices have been subject to high volatility, fluctuating substantially over the past several years. Any increase in the cost of fuel or any decline in the availability of adequate supplies of fuel could have a material adverse effect on the Group's airline operations and profitability. The airline business implements various fuel management strategies to manage the risk of rising fuel prices including hedging.

*e. Key Executives*

The Company's key executives play an integral part in the latter's success. The experience, knowledge, business relationships and expertise of these executives could be difficult to replace and may result in a decrease in the Company's operating proficiency and financial performance should any of them decide to leave the Company.

*f. Philippine Regulations*

The Group operates a material part of its businesses in a highly regulated environment. Many of these businesses depend upon licenses and franchises issued by government authorities or agencies for their operation. These businesses would be materially adversely affected by the suspension or revocation of these licenses or franchises.

The Group is also subject to numerous environmental laws and regulations relating to the protection of the environment and human health and safety, among others. Many of these environmental laws and regulations are becoming increasingly stringent and compliance to such is becoming increasingly complex and costly.

***Working Capital***

The working capital requirement of each subsidiary varies depending on the industry it is engaged in and is financed by operations and short-term loans from banks.

## Item 2. Properties

JG Summit and its Subsidiaries conduct businesses throughout the Philippines, but primarily in and around Metro Manila (where it is based) and in the regions of Visayas and Mindanao. Substantially, all facilities are owned by the Company and are in good condition.

URC operates manufacturing/farm facilities located in the following:

Location (Number of facilities)	Type of Facility	Owned/Rented	Condition
Pasig City (4)	Branded consumer food plant, flour mills and feed mill	Owned	Good
Libis, Quezon City (1)	Branded consumer food plant	Owned	Good
Cabuyao, Laguna (1)	Branded consumer food plant	Owned	Good
Luisita, Tarlac (1)	Branded consumer food plant	Rented/Owned	Good
San Fernando, Pampanga (1)	Branded consumer food plant	Rented/Owned	Good
Dasmariñas, Cavite (2)	Branded consumer food plants	Owned	Good
Cagayan de Oro (1)	Branded consumer food plant	Owned	Good
San Pedro, Laguna (2)	Branded consumer food plants	Owned	Good
Calamba, Laguna (1)	Branded consumer food plant	Rented/Owned	Good
San Pablo, Laguna (1)	Branded consumer food plant	Owned	Good
Biñan, Laguna (1)	Branded consumer food plant	Owned	Good
Antipolo, Rizal (4)	Poultry and piggery farms and slaughterhouse	Rented/Owned	Good
Naic, Cavite (1)	Poultry farm	Owned	Good
San Miguel, Bulacan (3)	Feed mill, poultry and piggery farms	Owned	Good
Bustos, Bulacan (1)	Piggery farm	Owned	Good
Pandi, Bulacan (1)	Piggery farm	Rented/Owned	Good
Novaliches, Quezon City (1)	Piggery farm	Owned	Good
Rosario, Batangas (1)	Piggery farm	Owned	Good
Magalang, Pampanga (1)	Piggery farm	Rented/Owned	Good
Davao City, Davao (1)	Flour mill	Owned	Good
Tabok City, Cebu (1)	Branded consumer food plant	Owned	Good
San Fernando, Cebu (1)	Branded consumer food plant	Owned	Good
Mandaue City, Cebu (1)	Feed mill	Owned	Good
Bais, Negros Oriental (1)	Distillery plant	Owned	Good
Manjuyod, Negros Oriental (1)	Sugar mill	Owned	Good
Piat, Cagayan (1)	Sugar mill	Owned	Good
Kabankalan, Negros Occidental (2)	Sugar mill and cogeneration plant	Owned	Good
San Enrique, Iloilo City (1)	Sugar mill	Owned	Good
Santa Catalina, Negros Oriental (1)	Sugar mill	Owned	Good
Balayan, Batangas (1)	Sugar mill	Owned	Good
Simlong, Batangas (3)	BOPP plant / Flexible packaging	Owned	Good
Samutsakhorn Industrial Estate, Samutsakhorn, Thailand (6)	Branded consumer food plants	Owned	Good
Pasir Gudang, Johor, Malaysia (1)	Branded consumer food plant	Owned	Good
Jiangsu, China (1)	Branded consumer food plant	Owned	Good
Guangdong, China (1)	Branded consumer food plant	Owned	Good
Industrial Town, Bekasi, Indonesia (2)	Branded consumer food plants	Owned	Good
VSIP, Binh Duong Province, Vietnam (3)	Branded consumer food plants	Owned	Good
Thach That District, Ha Noi, Vietnam (1)	Branded consumer food plant	Owned	Good
Mingaladon, Yangon, Myanmar (1)	Branded consumer food plant	Rented/Owned	Good
Papakura, Auckland, New Zealand (1)	Branded consumer food plant	Owned	Good

<b>Location (Number of facilities)</b>	<b>Type of Facility</b>	<b>Owned/Rented</b>	<b>Condition</b>
Wiri, Auckland, New Zealand (1)	Branded consumer food plant	Owned	Good
Smithfield, Sydney, New South Wales, Australia (1)	Branded consumer food plant	Rented	Good
Blacktown, Sydney, New South Wales, Australia (1)	Branded consumer food plant	Rented	Good

URC intends to continuously expand the production and distribution of the branded consumer food products internationally through the addition of manufacturing facilities located in geographically desirable areas, especially in the ASEAN countries, the realignment of the production to take advantage of markets that are more efficient for production and sourcing of raw materials, and increased focus and support for exports to other markets from the manufacturing facilities. It also intends to enter into alliances with local raw material suppliers and distributors. Annual lease payments for rented properties amounted to ₱244 million in 2019.

RLC has invested in a number of properties located across the Philippines for existing and future development projects. All of these properties are fully owned by RLC and none of which are subject of any mortgage, lien or any form of encumbrance. RLC also enters into joint venture arrangements with land owners in order to optimize their capital resources. Not only does this encourage raw land development for future projects but it also provides them with exclusive development and marketing rights.

The following are locations of RLC's properties:

a) Land

<b>Location</b>	<b>Use</b>	<b>Status</b>
<b>Metro Manila</b>		
Manila	Mixed-use (mall/residential/hotel)	No encumbrances
Quezon City	Residential/Office Building/Mixed-use (mall/residential/hotel/office)	No encumbrances
Pasay City	Residential	No encumbrances
Mandaluyong City	Mixed-use (mall/hotel/residential)	No encumbrances
Makati City	Office Building/Residential	No encumbrances
Pasig City	Residential/Mall/Office Building/Mixed-use (mall/hotel/residential)	No encumbrances
Parañaque City	Residential	No encumbrances
Muntinlupa City	Residential	No encumbrances
Las Piñas City	Mall	No encumbrances
Taguig City	Residential	No encumbrances
Malabon City	Mall	No encumbrances
San Juan City	Residential/Hotel	No encumbrances
Metro Manila area	Land bank	No encumbrances
<b>Luzon</b>		
La Union	Residential	No encumbrances
Pangasinan	Mall	No encumbrances
Bulacan	Mall	No encumbrances
Nueva Ecija	Mall	No encumbrances
Pampanga	Mall	No encumbrances
Tarlac	Mall/Office Building	No encumbrances
Batangas	Mall/Residential	No encumbrances
Cavite	Mall/Residential/Mixed-use (mall/hotel/residential)	No encumbrances
Laguna	Mall	No encumbrances

<b>Location</b>	<b>Use</b>	<b>Status</b>
<b>Luzon</b>		
Palawan	Mixed-use (mall/hotel/residential)	No encumbrances
Rizal	Residential/Mall	No encumbrances
Isabela	Mall	No encumbrances
Ilocos Norte	Mixed-use (mall/office)	No encumbrances
Camarines Sur	Mall/Office Building	No encumbrances
Cagayan	Mall	No encumbrances
Laguna	Mall	No encumbrances
Luzon area	Land bank	No encumbrances
<b>Visayas</b>		
Iloilo	Mall	No encumbrances
Negros Occidental	Mall/Hotel	No encumbrances
Cebu	Hotel/Residential/Mixed-use (mall/hotel/residential/office)	No encumbrances
Negros Oriental	Mixed-use (mall/hotel)	No encumbrances
Leyte	Mall/Mixed-use (mall/hotel)	No encumbrances
Capiz	Mall	No encumbrances
Antique	Mall	No encumbrances
Visayas area	Land bank	No encumbrances
<b>Mindanao</b>		
Agusan Del Norte	Mixed-use (mall/hotel)	No encumbrances
Misamis Oriental	Residential	No encumbrances
Davao Del Sur	Mall/Hotel/Office Building	No encumbrances
South Cotabato	Mall/Residential	No encumbrances
Lanao Del Norte	Mixed-use (mall/hotel)	No encumbrances
Davao Del Norte	Mall	No encumbrances
Bukidnon	Mall	No encumbrances
Mindanao area	Land bank	No encumbrances

b) Building and Improvements

<b>Location</b>	<b>Use</b>	<b>Status</b>
<b>Metro Manila</b>		
Manila	Mixed-use (mall/residential/hotel)	No encumbrances
Quezon City	Residential/Office Building/Mixed-use (mall/residential/hotel/office)	No encumbrances
Pasay City	Residential	No encumbrances
Mandaluyong City	Mixed-use (mall/hotel/residential/office)	No encumbrances
Makati City	Office Building/Residential	No encumbrances
Pasig City	Residential/Mall/Office Building/Mixed-use (mall/hotel/residential)	No encumbrances
Paranaque City	Residential	No encumbrances
Muntinlupa City	Residential/Warehousing facility	No encumbrances
Las Pinas City	Mall	No encumbrances
Taguig City	Residential/Office Building	No encumbrances
Malabon City	Mall	No encumbrances
San Juan City	Residential/Hotel	No encumbrances
<b>Luzon</b>		
La Union	Residential	No encumbrances
Pangasinan	Mall	No encumbrances
Bulacan	Mall	No encumbrances
Nueva Ecija	Mall	No encumbrances
Pampanga	Mall	No encumbrances
Tarlac	Mall/Office Building	No encumbrances

<b>Location</b>	<b>Use</b>	<b>Status</b>
Batangas	Mall/Residential	No encumbrances
Cavite	Mall/Residential/Mixed-use (mall/hotel/residential)	No encumbrances
Laguna	Mall	No encumbrances
Palawan	Mixed-use (mall/hotel/residential)	No encumbrances
Rizal	Mall/Residential	No encumbrances
Isabela	Mall	No encumbrances
Ilocos Norte	Mixed-use (mall/office)	No encumbrances
Camarines Sur	Mall/Office Building	No encumbrances
Cagayan	Mall	No encumbrances
Laguna	Mall	No encumbrances
<b>Visayas</b>		
Iloilo	Mall/Mixed-use (mall/hotel)	No encumbrances
Negros Occidental	Mall/Hotel	No encumbrances
Cebu	Hotel/Mixed-use (mall/hotel/residential/office)	No encumbrances
Negros Oriental	Mixed-use (mall/hotel)	No encumbrances
Leyte	Mall/Mixed-use (mall/hotel)	No encumbrances
Capiz	Mall	No encumbrances
Antique	Mall	No encumbrances
<b>Mindanao</b>		
Misamis Oriental	Mall/Residential	No encumbrances
Davao Del Sur	Mall/Hotel/Office Building	No encumbrances
South Cotabato	Mall/Residential	No encumbrances
Agusan Del Norte	Mixed-use (mall/hotel)	No encumbrances
Davao Del Norte	Mall	No encumbrances
Lanao Del Norte	Mixed-use (mall/hotel)	No encumbrances
Bukidnon	Mall	No encumbrances

RLC owns all the land properties upon which all of its existing commercial centers and offices are located except for the following: (i) Robinsons Place Iloilo, (ii) Robinsons Cagayan De Oro, (iii) Robinsons Cainta, (iv) Robinsons Pulilan, (v) Robinsons Place Jaro, (vi) Cyber Sigma, and (vii) Robinsons Place Tuguegarao. These seven land properties are leased at prevailing market rates. The leases for the Iloilo and Cagayan de Oro properties are for 50 years each and commenced in October 2001 and December 2002, respectively. The leases for the Cainta, Pulilan, Cyber Sigma and Tuguegarao properties are for 25 years each and commenced in December 2003, January 2008, August 2014 and January 2018, respectively. Renewal options for Cainta, Pulilan, Cyber Sigma and Tuguegarao are available to RLC with an Option to Purchase the property and its improvements for Cyber Sigma. The lease for the Jaro, Iloilo property is for 30 years and commenced in March 2015.

CEB does not own any land. However, it owns office buildings which serve as its corporate headquarters, operations and training center. These are located at the Domestic Road, Barangay 191, Zone 20, Pasay City. The land on which these buildings stand are leased from the Manila International Airport Authority (MIAA). CEB also leases its hangar, aircraft parking and other operational space from MIAA.

RBC currently owns the following properties:

- A commercial condominium unit located at 17th Floor, Galleria Corporate Center, EDSA corner Ortigas Avenue, Quezon City;
- A parcel of land with an area of 314 square meters located at No. 1861 Evangelista Street, Bgy. Pio del Pilar, Makati City, with commercial building thereon;
- Legazpi branch located at Corner, Rizal and Mabini Sts., Dinagaan, Legazpi City 100

- and 72; and
- Guinobatan branch located at Paulate St., Pobalcion, Guinobatan Albay 294.

There are no mortgages, liens, encumbrances or any limitations on the Bank's ownership of the foregoing properties, except that the property located at No. 1861 Evangelista Street, Brgy. Pio del Pilar, Makati City which was sold by the Bank to Robinsons Land Corporation is subject of a Contract to Sell, the consideration of which has not yet been fully paid. The Bank also leases spaces for its branches, branch-lite units, offices and facilities including parking spaces, warehouse and building space for data center.

JGSPC's PE and PP complex and JGSOC's naphtha cracker plant are both located in Barangay. Simlong, Batangas City.

### **Item 3. Legal Proceedings**

Certain consolidated subsidiaries are defendants to lawsuits or claims filed by third parties which have pending decisions by the courts or are under negotiation, the outcomes of which are not presently determinable. In the opinion of management, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Company's consolidated financial position. Refer to Note 43 of the Consolidated Financial Statements attached to this report for a detailed description.

### **Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of the year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

#### *Principal Market or Markets where the Registrant's Common Equity is Traded*

The common stock of the Company is listed on the Philippine Stock Exchange. Sales prices of the common stock follow:

	<u>High</u>	<u>Low</u>
<u>2019</u>		
First Quarter	₱69.50	₱55.10
Second Quarter	67.40	56.50
Third Quarter	75.50	63.05
Fourth Quarter	81.90	69.00
<u>2018</u>		
First Quarter	₱81.00	₱62.00
Second Quarter	64.80	46.90
Third Quarter	60.30	49.50
Fourth Quarter	56.10	41.90
<u>2017</u>		
First Quarter	₱82.90	₱69.95
Second Quarter	86.55	78.00
Third Quarter	81.50	69.45
Fourth Quarter	79.00	66.55

The stock price of the Company's shares as of April 8, 2020 is ₱54.50.

#### *Cash Dividends per Share*

On May 30, 2019, the Company declared a regular cash dividend of ₱0.33 per common share and a special cash dividend of ₱0.04 per common share from the Unrestricted Retained Earnings as of December 31, 2018 to all stockholders of record as of June 20, 2019 and paid on July 16, 2019.

On May 28, 2018, the Company declared a regular cash dividend of ₱0.30 per common share from the Unrestricted Retained Earnings as of December 31, 2017 to all stockholders of record as of July 18, 2018 and paid on July 12, 2018.

On June 27, 2017, the Company declared a regular cash dividend of ₱0.23 per common share from the Unrestricted Retained Earnings as of December 31, 1997 and a special cash dividend of ₱0.05 per common share from the Unrestricted Retained Earnings as of March 31, 2017 to all stockholders of record as of July 17, 2017 and paid on August 10, 2017.

#### *Stock Dividends Declared*

No stock dividend was declared in 2018, 2017 and 2016.

### ***Restricted Retained Earnings***

The Parent Company's BOD approved the appropriation of retained earnings totaling ₱101.2 billion. The ₱101.2 billion total appropriations of the Parent Company's retained earnings are earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company; (b) settlement of Parent Company loan obligations and retail bonds; (c) capital investment related to Digital venture businesses amounting to ₱2.5 billion; (d) capital investments related to the Clark International Airport expansion project amounting to ₱5.9 billion; (e) investments related to NAIA rehabilitation and expansion project; and (f) general corporate purposes.

### ***Recent Sales of Unregistered Securities***

Not Applicable. All shares of the Company are listed on the Philippine Stock Exchange.

The number of shareholders of record holding common shares as of December 31, 2019 was **1,002**. Total common shares outstanding as of December 31, 2019 were **7,162,841,657** common shares with a par value of ₱1.00.

### ***Top 20 stockholders as of December 31, 2019***

<u>Name</u>	<u>No. of Common Shares Held</u>	<u>% to Total Outstanding (Common)</u>
1. Gokongwei Brothers Foundation, Inc.	1,997,076,451	27.88
2. PCD Nominee Corporation (Filipino)	1,650,813,319	23.05
3. RSB-TIG No. 030-46-000001-9	1,033,319,225	14.43
4. PCD Nominee Corporation (Non-Filipino)	949,528,917	13.26
5. Lance Yu Gokongwei	306,324,720	4.28
6. Ego Investments Holdings Limited	267,568,000	3.74
7. James L. Go	148,679,656	2.08
8. Robina Yu Gokongwei	105,314,722	1.47
9. Gosotto & Co., Inc.	100,644,494	1.41
10. Lisa Yu Gokongwei	82,930,000	1.16
11. Robina G. Pe or Elizabeth Y. Gokongwei	74,145,277	1.04
12. Faith Yu Gokongwei	60,920,000	0.85
12. Marcia Yu Gokongwei	60,920,000	0.85
13. Lisa Yu Gokongwei &/or Elizabeth Yu Gokongwei	54,200,000	0.76
14. Faith Gokongwei &/or Elizabeth Yu Gokongwei	36,100,000	0.50
14. Marcia Yu Gokongwei &/or Elizabeth Yu Gokongwei	36,100,000	0.50
14. Hope Gokongwei Tang &/or Elizabeth Yu Gokongwei	36,100,000	0.50
15. Nicris Development Corporation	34,073,252	0.48
16. Michael Seetebeng	13,400,327	0.19
17. John Gokongwei, Jr.	11,183,531	0.16
18. Quality Investments & Securities Corp.	8,794,498	0.12
19. Richard Yap	8,570,362	0.12
20. Olympia T. Gotao	8,767,730	0.12
Other stockholders	77,567,176	1.08
	<u>7,162,841,657</u>	<u>100.00</u>



## **Item 6. Management's Discussion and Analysis or Plan of Operation.**

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto as of and for the years ended December 31, 2019, 2018 and 2017, which form part of this Report. The consolidated financial statements and notes thereto have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS).

Management's Discussion of Results of Operations is presented in two parts: Consolidated Operations and Segment Operations.

### **RESULTS OF OPERATIONS**

#### **2019 vs. 2018**

##### **I. Consolidated Operations**

JG Summit Holdings, Inc. posted a consolidated net income from equity holders of the parent of ₱31.3 billion in 2019, a 63.1% increase from ₱19.19 billion in 2018. The increase is mainly driven by the income growth in the airline business coupled by the foreign exchange translation and market valuation gains and increase in equity in net earnings of associates particularly from United Industrial Corporation Limited (UIC). Consolidated core net income after taxes (excluding non-operating and nonrecurring items) amounted to ₱25.3 billion in 2019, a 12.9% increase from ₱22.4 billion in 2018. Consolidated EBITDA reached ₱83.9 billion, a 27.5% increase from last year's ₱65.8 billion, due to the impact of PFRS 16 on depreciation expense. Excluding PFRS 16 adjustments, EBITDA would have only increased by 17%.

Consolidated revenues grew 3.4% from ₱291.9 billion in 2018 to ₱301.8 billion in 2019 due to the performance of the following core subsidiaries:

- URC's total revenues increased by 5% from ₱127.8 billion in 2018 to ₱134.2 billion in 2019 driven by the 7.9% growth in branded consumer foods (BCF) domestic sales, 34.6% increase in feeds business, and 25.5% increase in flour sales.
- CEB's total revenues went up by 14.4% from ₱74.1 billion in 2018 to ₱84.8 billion in 2019 mainly due to the 10.8% growth in passenger volume and 2.6% increase in average fares. The 21.0% increase in ancillary revenues also contributed to the increase.
- RLC's total revenues increased by 2.5% from ₱29.5 billion in 2018 to ₱30.2 billion in 2019 due to growth in rental income and increase in hotel revenues.
- JG Petrochemicals Group revenues declined by 31.4% from ₱42.4 billion in 2018 to ₱29.1 billion in 2019 as a result of lower average selling prices and volumes.
- The banking revenue increased 32.4% from ₱6.1 billion in 2018 to ₱8.1 billion this year mainly due to higher interest income from finance receivables, commission income and trading gains for the year.

Revenues from our core investments increased by 28.9% from ₱11.4 billion in 2018 to ₱14.7 billion in 2019. Equity in net earnings of associates, primarily from our investments in UIC/Singapore Land, Meralco and GBPC, increased by 31.2% from ₱10.2 billion in 2018 to ₱13.4 billion in 2019. The significant increase came from the SG\$210.3 million one-off gain recognized by UIC on its acquisition of Marina Mandarin

in the second quarter of 2019 which resulted to an additional ₱3.0 billion equity income take-up by the Group in UIC. Dividend income for the year also increased by 9.9% as the dividends received by the Group from PLDT increased 12.5% (₱64 per share in 2018 to ₱72 per share in 2019).

The Group's operating expenses increased by 5.2% from ₱53.1 billion last year to ₱55.8 billion this year. As a result, Consolidated Operating Income or EBIT amounted to ₱56.2 billion in 2019 from ₱45.3 billion in 2018.

The Group's financing costs and other charges, net of interest income, increased by 12.4% to ₱8.9 billion this year from last year's ₱7.9 billion due to higher level of financial debt of the Parent Company, airline, petrochemicals and real estate businesses, as well as the impact of PFRS 16 on interest expense. Excluding the PFRS 16 impact, financing costs and other charges, net of interest income, would have only increased by 3.4%.

Market valuation gains on financial assets amounted to ₱640.5 million in 2019 from a ₱1.0 billion market valuation losses in 2018 attributable to the increase in fair values and realized gains on investment securities as well as the lower mark-to-market valuation losses on fuel hedging transactions of the airline business.

The Group recognized a net foreign exchange gain of ₱828.7 million in 2019 from a net foreign exchange loss of ₱2.9 billion in 2018 due to appreciation of Philippine Peso against US Dollar in 2019 (₱52.6 as of December 31, 2018 to ₱50.6 as of December 31, 2019) as compared to the Philippine Peso depreciation in 2018 (₱49.9 as of December 31, 2017 to ₱52.6 as of December 31, 2018).

Other income (expense) - net account, which represents miscellaneous income and expenses, amounted to a loss of ₱764.7 million in 2019 mainly due to CEB's loss on sale of aircraft and URC's restructuring provisions this year.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱134.2 billion for the year ended December 31, 2019, a 5.0% sales growth over last year. Sale of goods and services performance by business segment follows:

- Sale of goods and services in URC's branded consumer foods segment (BCFG), excluding packaging division, increased 3.5%, to ₱104.6 billion in 2019 from ₱101.0 billion registered in 2018. BCFG domestic operations posted a 7.9% increase in net sales from ₱57.8 billion in 2018 to ₱62.4 billion in 2019, due to growth across different key categories supported by strong consumer demand and sales and distribution transformation, which brought a successful coffee turn-around, sustained growth performance in snacks and noodles, and recovery of RTD beverages.

BCFG international sales reported a ₱1.0 billion decrease to ₱42.2 billion in 2019 against ₱43.2 billion in 2018 driven by weaker performance in Thailand, offsetting the growth coming from Vietnam and Oceania, compounded by forex devaluations particularly in New Zealand and Australia. In constant US dollar (US\$) terms, sales improved by 1.8% to US\$816 million in 2019 from US\$801 million in 2018. Vietnam recovered with stronger growth of 8.9% driven by C2 with the significant contributions from new product launches, partly offset by decline in Rong Do. New Zealand sales slightly up by 1.0% due to slow domestic market while Australia grew

by 4.0% driven by strong performance across the board. Thailand sales decreased by 5.6% driven by decline in biscuits and wafers while exports grew due to strong sales to Cambodia. Thailand's performance remains challenged as the economy continues to affect consumer sentiment.

Sale of goods and services in URC's packaging division decreased by 13.1% to ₱1.3 billion in 2019 from ₱1.5 billion recorded in 2018 due to lower selling price and volume.

- Sale of goods and services in URC's agro-industrial segment (AIG) amounted to ₱13.1 billion in 2019, a 12.4% increase from ₱11.7 billion recorded in 2018. Feeds business grew by 34.6% due to higher sales volume and improved selling prices across all feed categories while Farms business weakened by 18.8% due to lower volume in hogs despite increase in sales volume of poultry.
- Sale of goods and services in URC's commodity foods segment (CFG) amounted to ₱15.2 billion in 2019 or up by 11.9% from ₱13.5 billion reported in 2018. Sugar business grew by 8.0% brought by higher volumes in raw sugar despite lower volume in refined sugar and lower prices for both raw and refined sugar. Renewables slightly declined by 1.5% due to lower volume of molasses. Flour business also posted higher sales by 25.5% driven by higher volume.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱3.5 billion, or 3.9%, to ₱93.9 billion in 2019 from ₱90.3 billion recorded in 2018 due to higher sales, partially offset by lower costs of commodities and other raw and packaging materials.

URC's gross profit for 2019 amounted to ₱40.3 billion, higher by ₱2.9 billion or 7.7% from ₱37.4 billion reported in 2018. Gross profit margin increased by 74 basis points from 29.3% in 2018 to 30.04% in 2019.

URC's selling and distribution costs, and general and administrative expenses consist primarily of compensation benefits, advertising and promotion costs, freight and other selling expenses, depreciation, repairs and maintenance expenses and other administrative expenses. Selling and distribution costs, and general and administrative expenses increased by ₱1.2 billion or 5.2% to ₱25.3 billion in 2019 from ₱24.1 billion registered in 2018 primarily due to (1) 12.7% or ₱901 million increase in advertising and promotions to ₱8.0 billion in 2019 from ₱7.1 billion in 2018 due to higher consumer promotions and trade development activities to boost sales; (2) 22.5% or ₱185 million increase in depreciation and amortization expense to ₱1.0 billion in 2019 from ₱822 million in 2018 due to capital expenditures and impact of PFRS 16; and (3) 1.2% or ₱105 million increase in freight and other selling expense to ₱8.7 million in 2019 from ₱8.6 million in 2018 due to higher volume.

As a result, URC's operating income (EBIT) increased by ₱1.6 billion, or 12.2% to ₱15.0 billion in 2019 from ₱13.4 billion reported in 2018.

URC's finance costs slightly increased by ₱8 million to ₱1.7 billion in 2019 from ₱1.7 billion recorded in 2018 due to higher level of trust receipts payable and recognition of interest expense related to PFRS 16 this year, net of pre-termination of NZD denominated long-term debt last year.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue decreased by ₱32 million to ₱328 million in 2019 from ₱359 million in 2018 due to lower level of financial assets during the year.

Equity in net losses of joint ventures increased to ₱159 million in 2019 from ₱132 million in 2018 due to recognition of net losses of DURBI this year.

Net foreign exchange loss amounted to ₱558 million in 2019 from the ₱175 million reported in 2018 due to the combined effects of appreciation of international subsidiaries' local currencies against US dollar, particularly Indonesian Rupiah, and appreciation of Philippine peso against US dollar.

Market valuation loss on financial instruments at fair value through profit or loss decreased to ₱5 million in 2019 from ₱35 million in 2018 due to lower decrease in market values of equity investments.

Impairment losses decreased to ₱2 million in 2019 from ₱45 million in 2018 due to lower impairment in receivables and last year's impairment of goodwill of Advanson.

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other expense - net amounted to ₱1.0 billion in 2019 higher than the ₱146 million reported in 2018 mainly due to restructuring provisions this year.

URC recognized provision for income tax of ₱1.8 billion in 2019, a 14.4% decrease from ₱2.1 billion in 2018 due to recognition of deferred tax asset on unrealized forex loss and restructuring provisions.

URC's consolidated net income for 2019 amounted to ₱10.1 billion, higher by ₱652 million or 6.9% from ₱9.5 billion in 2018 due to higher operating income, reduced by higher net foreign exchange losses and recognition of restructuring provisions.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) in 2019 amounted to ₱13.3 billion, an increase of 12.6% from ₱11.8 billion recorded in 2018.

Net income attributable to equity holders of the parent increased by ₱568 million or 6.2% to ₱9.8 billion in 2019 from ₱9.2 billion in 2018 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱22.3 billion in 2019, 13.0% higher than ₱19.8 billion posted in 2018.

**Real estate and hotels** generated total gross revenues of ₱30.2 billion in 2019, an increase of 2.5% from ₱29.5 billion in 2018. EBIT grew 3.4% to ₱12.3 billion while EBITDA posted a 5.6% growth to ₱17.2 billion. Net income attributable to equity holders of the parent stood at ₱8.7 billion, up by 5.7% compared to last year.

The Commercial Centers Division accounted for ₱13.3 billion of the real estate revenues for the year versus ₱11.9 billion last year or an 11.0% increase. The increase in revenues was brought about by stable same mall rental revenue growth of existing malls, the full-year impact of new malls that opened in 2018, namely Robinsons Place Ormoc, Robinsons Place Pavia, Robinsons Place Tuguegarao and Robinsons Place Valencia, as well as the opening of Robinsons Galleria South and the expansion of Robinsons Magnolia in 2019. Cinema revenues also improved with the opening of new branches. The Division's EBIT and EBITDA grew by 21.8% and 15.1%, respectively.

Revenues of Office Buildings Division grew by 23.8% to ₱5.3 billion from ₱4.3 billion over the same period last year. Revenue growth was mainly attributable from a combination of rental escalation and higher renewal rates in existing offices, as well as contribution from the newly completed offices, namely Robinsons Cybergate Magnolia, Luisita 2, and Giga Tower in 2019. The Division's EBIT and EBITDA showed positive variances of 21.5% and 21.2%, respectively.

The Residential Division's realized revenues is at ₱9.1 billion this year versus ₱8.7 billion last year, an increase of 5.4%, due to higher level of buyers meeting the equity requirement in recognizing sales based on percentage of construction completion. EBIT and EBITDA increased by 32.8% and 32.3%, respectively.

The Hotels and Resorts Division registered gross revenues of ₱2.4 billion as against last year's ₱2.0 billion. The 22.7% increase in hotel revenues was due to higher occupancy rates of company-owned brands - Go Hotels and Summit Hotels, and increased system-wide average room rate. Hotels and Resorts Division's EBIT declined by 19.3% due to additional depreciation from the new hotels that were opened in 2019 namely Dusit Thani Mactan Cebu Resort and Summit Greenhills; while the decline in last year's EBITDA recovered with a 4.3% increase this year at ₱0.7 billion.

The IID Division accounted for ₱0.5 billion revenues, generated from lease of warehouse facilities and sale of commercial lots. Developmental revenues of IID registered an 87.4% drop to ₱0.3 billion in 2019 from ₱2.6 billion in 2018 following the partial recognition last year of the gain on sale of land to Shang Robinsons Properties, Inc. Revenues in 2019 mainly came from the gain on sale of land located in Las Pinas to Robinsons DMCI Properties Ventures, Inc., which yielded additional EBIT and EBITDA of ₱0.20 billion. Further gains will be realized from the selling of lots with joint ventures. EBIT and EBITDA for calendar year 2019 stood at ₱0.21 billion and ₱0.24 billion, respectively.

Interest income increased to ₱287.4 million from ₱157.0 million last year due to higher average balance of cash and cash equivalents during the calendar year 2019.

Cost of real estate sales went down by 14.1% to ₱4.2 billion from ₱4.9 billion last year due to recognition of sales from high-margin projects. Cost of rental services increased by 5.7% to ₱5.4 billion from ₱5.1 billion last year. The opening of new malls raised the level of depreciation expense of Commercial Centers Division by ₱196.6 million or 5.7%; while completion of new office buildings increased depreciation expense of the Office

Buildings Division by ₱118.9 million or 17.1%. Furthermore, cinema expense rose by 5.6% or ₱50.5 million in line with the increase in cinema revenues.

Hotel expenses rose by 34.2% to ₱2.1 billion attributable to the increase in depreciation, salaries and wages, and contracted services, that were incurred prior the start of commercial operations of new and upcoming hotels.

Gain or loss from foreign exchange mainly pertains to foreign currency denominated transactions of RLC's foreign subsidiary. Gain on sale of property and equipment mainly pertains to sale of retired transportation equipment.

As a result of property dividend distribution, RLC lost control over Altus Property Ventures, Inc, (APVI). Loss on deconsolidation amounting to ₱12.3 million resulted from the derecognition of related assets and liabilities of APVI.

Interest expense increased by 25.9% to ₱1.1 billion from ₱0.8 billion last year due to the availment of additional short-term loans and recognition of interest on lease liabilities as a result of the Group's adoption of PFRS 16 in 2019.

**Air transportation** generated gross revenues of ₱84.8 billion for the year ended December 31, 2019, 14.4% higher than the ₱74.1 billion revenues earned last year mainly attributed to the increase in passenger revenues by ₱7.4 billion or 13.7% to ₱61.7 billion for the year ended December 31, 2019 from ₱54.3 billion posted in 2018. This was mainly attributable to the 10.8% growth in passenger volume to 22.5 million from 20.3 million last year as the Group increased capacity. The increase in average fares by 2.6% to ₱2,745 from ₱2,675 last year also contributed to the increase in revenues. Cargo revenues grew by ₱253.8 million or 4.6% to ₱5.7 billion for the year ended December 31, 2019 from ₱5.5 billion for the year ended December 31, 2018 following the increase in both yield and volume of cargo transported in 2019. Ancillary revenues went up by ₱3.0 billion or 21.0% to ₱17.4 billion for the year ended December 31, 2019 from ₱14.4 billion posted last year consequent to the 10.8% increase in passenger traffic and 9.2% increase in average ancillary revenue per passenger due to pricing adjustments and increased volume of certain ancillary products and services.

CEB incurred operating expenses of ₱72.2 billion for the year ended December 31, 2019 higher by 7.6% than the ₱67.1 billion operating expenses recorded for the year ended December 31, 2018. The increase was driven by its expanded operations, growth in seat capacity from the acquisition of new aircraft partially offset by the strengthening of the Philippine peso against the U.S. dollar as referenced by the appreciation of the Philippine peso to an average of ₱51.79 per U.S. dollar for the year ended December 31, 2019 from an average of ₱52.67 per U.S. Dollar last year based on the Philippine Bloomberg Valuation (PH BVAL) weighted average rates.

As a result, CEB finished with an operating income (EBIT) of ₱12.6 billion for the year ended December 31, 2019, 79.0% higher than the ₱7.0 billion operating income earned last year. EBITDAR amounted to ₱30.3 billion from ₱22.3 billion last year.

Interest income increased by ₱269.0 million or 67.0% to ₱670.6 million for the year ended December 31, 2019 from ₱401.6 million earned in the same period last year due to the increase in the balance of cash in bank and short-term placements year on year.

CEB incurred a hedging loss of ₱63.4 million for the year ended December 31, 2019, an improvement by ₱259.2 million from a hedging loss of ₱322.6 million in the same period

last year as a result of higher mark-to-market valuation on fuel hedging positions in 2019. Net foreign exchange gains of ₱274.6 million for the year ended December 31, 2019 resulted from the strengthening of the Philippine Peso against the U.S. dollar.

Equity in net income of joint venture amounted to ₱67.0 million in 2019, ₱69.3 million lower than the ₱136.3 million in 2018. The decrease was attributable to lower net income of Aviation Partnership (Philippines) Corporation (A-plus) and SIA Engineering (Philippines) Corporation (SIAEP) in 2019 plus the net loss incurred by the Group's new venture, Digital Analytics Ventures, Inc. (DAVI).

Interest expense increased by ₱957.1 million or 45.5% to ₱3.1 billion for the year ended December 31, 2019 from ₱2.1 billion registered in 2018 brought about by the adoption of PFRS 16 and also due to the additional loans availed to finance the acquisition of the additional aircraft delivered in 2019.

In 2019, CEB sold and delivered three (3) Airbus A320 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱352.1 million. CEB also sold and delivered two (2) Rolls - Royce Trent 772B engines to RRP Engine Leasing Limited which resulted to a gain of ₱126.4 million. In 2018, CEB entered into a Lease Amendment Agreement with JPA No. 117/118/119 Co., Ltd., which transferred economic ownership of three Airbus A320 aircraft to the counterparty and resulted in a gain of ₱110.2 million. CEB also sold and delivered one Airbus A319 aircraft to a subsidiary of Allegiant which resulted to a loss of ₱156.7 million.

As a result of the foregoing, net income for the year ended December 31, 2019 amounted to ₱9.1 billion, an increase of 132.6% from the ₱3.9 billion net income earned in 2018.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues amounted to ₱29.1 billion in 2019, a decrease of 31.4% from last year's ₱42.4 billion, as a result of lower average selling prices and volumes, brought about by the global economic slowdown, as well as the planned facility shutdown in 4th quarter of 2019 for turnaround maintenance and project tie-ins. Costs and expenses also decreased by 25.5% from ₱42.2 billion in 2018 to ₱31.5 billion in 2019 due to lower naphtha cost. Petrochem recognized a reversal of impairment loss on its property and equipment this year amounting to ₱2.3 billion, which resulted to an EBIT of ₱859.0 million for the year ended December 31, 2019. Interest expense increased by 139.2% to ₱745.2 million in 2019 from ₱311.6 million in 2018 due to the ₱2.6 billion net increase in trust receipts and ₱3.1 billion availment of short-term loans. A net foreign exchange gain of ₱168.5 million was also recognized in 2019 from last year's gain of ₱16.9 million. All these factors contributed to the net income of ₱970.6 million in 2019 from ₱1.05 billion in 2018.

**Banking services** generated banking revenue of ₱8.1 billion in 2019, a 32.4% increase from last year's ₱6.1 billion mainly driven by higher interest income from finance receivables resulted from growth in loans portfolio. Higher commission income and trading gains for the year also contributed to the increase in revenues. Cost and expenses, including interest expense on deposits and bills payable, increased by 39.5% from ₱2.3 billion in 2018 to ₱3.2 billion in 2019 as the bank continued its expansion. As a result, net income for the year ended December 31, 2019 amounted to ₱719.4 million, 126.5% increase from last year's ₱317.7 million.

**Equity in net earnings of associated companies and joint ventures** amounted to ₱13.4 billion for the year ended December 31, 2019, a 31.2% increase from last year's ₱10.2 billion mainly driven by the 86.4% increase in equity earnings from UIC from ₱3.2 billion last year to ₱6.0 billion in 2019. UIC recorded net income from operations of S\$456.6 million in 2019, an 82.2% increase from last year's S\$250.6 million arising from the SG\$210.3 million one-off gain on derecognition of an associated company booked by UIC in the second quarter of 2019. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **2018 vs. 2017**

### **I. Consolidated Operations**

JG Summit Holdings, Inc.'s consolidated core net income after taxes (excluding non-operating and nonrecurring items) amounted to ₱22.40 billion in 2018, a 24.2% decline from ₱29.56 billion in 2017, mainly due to lower net income of our airline and petrochemical businesses which were significantly affected by the rise in fuel prices and input costs. The Group's consolidated net income from equity holders of the parent likewise declined 34.7% from ₱29.37 billion in 2017 to ₱19.19 billion in 2018 resulted from weaker Philippine Peso against the US dollar, higher financing costs and market valuation losses on our financial assets. Consolidated EBITDA reached ₱65.83 billion in 2018 from ₱70.67 billion in 2017.

Consolidated revenues grew 6.8% from ₱273.45 billion in 2017 to ₱291.92 billion in 2018 due to the performance of the following core subsidiaries:

- URC's total revenues increased by 2.2% from ₱125.01 billion in 2017 to ₱127.77 billion in 2018 driven by the 27.6% growth in feeds business and 14.8% total increase in sugar and renewables businesses.
- CEB's total revenues went up by 8.9% from ₱68.03 billion in 2017 to ₱74.11 billion in 2018 mainly due to 5.8% increase in average fares coupled by the 2.7% growth in passenger volume.
- JG Petrochemicals Group revenues increased by 2.3% from ₱41.41 billion in 2017 to ₱42.35 billion in 2018 driven by higher average selling price of polymers and cracker products, offset by lower sales volumes of polymers and pygas.
- RLC's total revenues increased by 31.3% from ₱22.45 billion in 2017 to ₱29.47 billion in 2018 due to growth in rental income and increase in realized revenues from residential division.
- The banking revenue increased 37.0% from ₱4.48 billion in 2017 to ₱6.13 billion this year mainly due to increase in interest income recognized from finance receivables.

Revenues from our core investments declined by 15.4% as the dividend income received by the Group decreased from ₱1.45 billion last year to ₱1.23 billion this year due to the lower dividends declared by PLDT (₱76 per share in 2017 to ₱64 per share in 2018). Equity in net earnings of associates, primarily from our investments in UIC/Singapore Land, Meralco and GBPC, increased by 2.8% from ₱9.91 billion in 2017 to ₱10.18 billion in 2018, mainly due to the Group's additional 2.4% stake in Meralco acquired in June 2017, partially offset by the decline in equity earnings from UIC.



Consolidated cost of sales and services in 2018 increased by 12.8% from ₱171.55 billion last year to ₱193.59 billion this year due to higher input costs of all core businesses.

The Group's operating expenses increased by 5.8% from ₱50.16 billion last year to ₱53.06 billion this year due to higher selling, general and administrative expenses, particularly from the airline businesses. As a result, Consolidated Operating Income or EBIT amounted to ₱45.26 billion in 2018 from ₱51.73 billion in 2017.

The Group's financing costs and other charges, net of interest income, increased by 19.7% to ₱7.89 billion this year from last year's ₱6.59 billion due to higher level of financial debt of the Parent Company and airline business, as well as net increase in trust receipts of the petrochemicals business.

Market valuation loss recognized from financial assets and derivative instruments amounted to ₱1.02 billion, a turnaround from a ₱541.18 million gain in 2017 primarily due to decline in market values of the Group's equity investments coupled by the mark-to-market valuation losses on fuel hedging transactions of the airline business.

The Group recognized a net foreign exchange loss of ₱2.85 billion in 2018 from only ₱902.72 million in 2017 due to the depreciation of Philippine Peso against the US Dollar from ₱49.93 as of December 31, 2017 to ₱52.58 as of December 31, 2018.

Other income (expense) - net account, which represents miscellaneous income and expenses, amounted to a loss of ₱459.47 million from ₱241.87 million gain last year mainly due to this year's net loss on sale of CEB's aircraft as compared to last year's net gain on sale of aircrafts.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱127.77 billion for the year ended December 31, 2018, a 2.2% growth over last year. Excluding PFRS 15 impact, net sales grew by 3.6%. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, slightly decreased 0.8%, to ₱101.01 billion in 2018 from ₱101.82 billion registered in 2017. BCF domestic operations' net sales declined from ₱58.95 billion in 2017 to ₱57.81 billion in 2018 due to lower volumes and unfavorable mix in the coffee category that slowed down the sustained growth performance in snacks and noodles, and recovery of RTD beverages. BCF international sales increased by 0.8% to ₱43.20 billion in 2018 against ₱42.87 billion in 2017 driven by continuous recovery in Vietnam and sustained momentum in Australia. Vietnam is still on track on its path to recovery as sales continue to grow from its drive to recover numeric distribution, as well as from additional sales from new products such as milk tea. Australia maintained its growth attributed to a very strong sales of both branded and private labels. (2) Agro-Industrial segment (AIG) amounted to ₱11.69 billion in 2018, a 15.7% increase from ₱10.11 billion recorded in 2017. Feeds business grew by 27.6% due to higher sales volume and improved selling prices across all feed categories. Farms business also grew by 2.2% due to favorable sales mix and better average selling prices of hogs, slightly offset by lower sales of poultry products due to decline in production of day-old pullets. (3) Sale of goods and services in commodity foods segment amounted to ₱13.54 billion in 2018, up by 14.7% from ₱11.80 billion reported in 2017. Sugar and renewables businesses grew by 15.8% and 12.3%, respectively, on the account of higher volume and selling prices of raw sugar and molasses. Flour business also posted higher sales by 14.5% due to higher volume.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 5.4%, to ₱90.33 billion in 2018 from ₱85.69 billion recorded in 2017 due to higher sales and higher costs of commodities and other raw and packaging materials.

URC's gross profit for 2018 amounted to ₱37.44 billion from ₱39.31 billion reported in 2017. Gross profit margin decreased by 215 basis points from 31.4% in 2017 to 29.3% in 2018. URC's selling and distribution costs, and general and administrative expenses consist primarily of compensation benefits, advertising and promotion costs, freight and other selling expenses, depreciation, repairs and maintenance expenses and other administrative expenses. Selling and distribution costs, and general and administrative expenses slightly declined by 1.3% to ₱24.06 billion in 2018 from ₱24.36 billion registered in 2017 primarily due to decline in freight and delivery costs as a result of distribution restructuring in Myanmar and Cambodia. As a result, URC's operating income (EBIT) decreased by 10.5% to ₱13.38 billion in 2018 from ₱14.95 billion reported in 2017.

URC's finance costs increased by 16.4%, to ₱1.66 billion in 2018 from ₱1.43 billion recorded in 2017 due to higher level of trust receipts payable and short-term debt, coupled with higher interest rates.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased to ₱359.28 million in 2018 from ₱225.58 million in 2017 due to higher level of financial assets during the year.

Equity in net losses of joint ventures decreased to ₱132.41 million in 2018 from the ₱280.53 million in 2017 due to lower net losses of domestic joint ventures coupled with the higher net income of Proper Snacks in New Zealand.

Net foreign exchange loss amounted to ₱174.66 million in 2018 from ₱154.19 million gain reported in 2017 due to the combined effects of appreciation of international subsidiaries' local currencies against US dollar, particularly NZD, and depreciation of Philippine peso against US dollar.

Market valuation loss on financial instruments at fair value through profit or loss amounted to ₱35.42 million in 2018 from ₱71.02 million gain reported in 2017 due to decrease in market values of equity investments.

Impairment losses increased to ₱45.00 million in 2018 from ₱21.42 million in 2017 due to this year's impairment of goodwill of Advanson.

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other expense-net amounted to ₱145.82 million in 2018 while other income - net of ₱276.74 million was reported in 2017 due to last year's higher gain on sale of fixed assets.

URC recognized provision for income tax of ₱2.08 billion in 2018, a 25.6% decrease from ₱2.80 billion in 2017 due to lower taxable income and recognition of lower deferred tax liabilities.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for 2018 amounted to ₱11.80 billion, a decline of 13.6% from ₱13.66 billion recorded in 2017.

Net income attributable to equity holders of the parent decreased by 15.5% to ₱9.20 billion in 2018 from ₱10.89 billion in 2017 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱19.75 billion for 2018, 6.2% lower than the ₱21.06 billion posted in 2017.

**Real estate and hotels** generated total gross revenues of ₱29.47 billion in 2018, an increase of 31.3% from ₱22.45 billion in 2017. EBIT grew 38.8% to ₱11.88 billion while EBITDA posted a 30.9% growth to ₱16.34 billion. Net income attributable to equity holders of the parent stood at ₱8.22 billion, up by 39.7% compared to last year.

The Commercial Centers Division accounted for ₱11.94 billion of the real estate revenues for the year versus ₱10.79 billion last year or a 10.7% increase. Rental revenues increased due to strong same malls growth at 7%, contribution of four malls and two expansions opened in 2017 located in Naga, Iligan, North Tacloban, Antique and Butuan, and contribution of four new malls opened in 2018 namely Robinsons Place Ormoc, Robinsons Place Pavia, Robinsons Place Tuguegarao and Robinsons Place Valencia. Cinema revenues increased due to more blockbuster films released this year than last year and the operation of new cinemas in new malls. Apart from the mall openings, Commercial Centers launched Playlab in Robinsons Galleria Ortigas and Robinsons Galleria Cebu and Aqua Fun in Robinsons Pavia. Playlab and Aquafun are the country's first digital and water playgrounds located within the mall premises. The Division's EBIT and EBITDA grew by 6% and 9%, respectively.

Revenues of Office Buildings Division grew by 31.4% to ₱4.29 billion from ₱3.27 billion over the same period last year. Revenue growth was mainly attributable to growth in rental escalation and high renewal rates as well as contribution from the completed offices in 2017 and 2018 namely Cyber Sigma, Cybergate Delta, Cybergate Naga and Exxa Tower. The Division's EBIT and EBITDA showed positive variances of 33% and 28%, respectively.

The Residential Division realized revenues is at ₱8.69 billion this year versus ₱6.55 billion last year, an increase of 32.6%, due to higher level of buyers meeting the equity requirement in recognizing sales based on percentage of construction completion. Both EBIT and EBITDA increased by 21%.

The Hotels Division, a major contributor to RLC's recurring revenues, registered gross revenues of ₱1.98 billion as against last year's ₱1.89 billion. The 4.7% increase in hotel revenues principally came from the new hotels, Summit Hotel Tacloban and Go Hotels Iligan. The hotel average occupancy rate is 62% in 2018. Hotels Division EBIT and EBITDA declined by 22% and 7%, respectively, as the division continues to redevelop some of the existing hotels and a much accelerated pre-operating expenses on hotels to be opened in 2019 and higher overhead expense in the Head Office.

The IID division accounted for ₱2.64 billion revenues, with 95% attributed to the sale of the commercial lots and the remainder 5% is the revenue generated from the warehouse business. Further gains will be realized from the selling of lots with joint ventures.

Interest income increased to ₱196.29 million from ₱36.81 million last year due to higher average balance of cash and cash equivalents during the calendar year 2018.

Real estate costs went up by 30.6% to ₱12.11 billion from ₱9.28 billion last year. The higher level of realized sales of residential units brought cost of real estate sales to increase by ₱1.79 billion or 57%. The opening of new malls raised the level of depreciation expense of Commercial Centers Division by 13% while opening of new office buildings increased depreciation expense of the Office Buildings Division by 10%. Furthermore, cinema expense rose by 10% or ₱85.18 million as a result of increase in cinema revenues.

Hotel expenses rose by 15.3% to ₱1.56 billion due substantially to higher level of property and maintenance cost, depreciation, salaries and wages, contracted services, which were all due to higher level of operations brought about by higher room revenues and pre-operating expenses on hotels to be opened in 2019.

General and administrative expenses went up by 20.1% to ₱4.00 billion due to higher commission, rent, advertising and promotions and salaries, among others.

Gain or loss from foreign exchange mainly pertains to foreign currency denominated transactions of RLC's foreign subsidiary.

**Air transportation** generated gross revenues of ₱74.11 billion for the year ended December 31, 2018, 8.9% higher than the ₱68.03 billion revenues earned last year mainly attributed to the increase in passenger revenues by 8.7% to ₱54.26 billion for the year ended December 31, 2018 from ₱49.93 billion posted in 2017. This increase was largely attributable to the 5.8% increase in average fares to ₱2,676 in 2018 from ₱2,529 in 2017. The growth in passenger volume by 2.7% to 20.3 million from 19.7 million last year also contributed to the increase in revenues. Cargo revenues grew 19.3% to ₱5.49 billion for the year ended December 31, 2018 from ₱4.60 billion in the same period last year following the increase in the cargo volume and yield in 2018. Ancillary revenues went up by 6.4% to ₱14.36 billion for the year ended December 31, 2018 from ₱13.49 billion posted last year consequent to the 2.7% increase in passenger traffic and 3.6% increase in ancillary revenue per passenger. This was driven by improved online bookings and pricing adjustments on certain ancillary products and services.

Operating expenses for the year ended December 31, 2018 increased by 15.8% to ₱67.06 billion from ₱57.90 billion last year mostly due to the rise in fuel prices in 2018 coupled with the weakening of the Philippine peso against the U.S. dollar. The average published fuel MOPS price increased from U.S. \$84.79 per barrel in 2018 from U.S. \$65.31 per barrel in 2017. As a result, CEB finished with an operating income (EBIT) of ₱7.05 billion in 2018, 30.4% lower than the ₱10.13 billion earned in 2017. EBITDAR amounted to ₱22.29 billion from ₱22.82 billion last year.

CEB recognized higher interest income by 119.5% from ₱182.95 million last year to ₱401.62 million this year due to the increase in the balance of cash in bank and short-term placements year on year and higher interest rates in short term placements.

CEB incurred a hedging loss of ₱322.58 million for the year ended December 31, 2018, an increase by ₱190.01 million from a hedging loss of ₱132.57 million incurred last year as a result of lower mark-to-market valuation on fuel hedging positions in 2018. Net foreign exchange losses of ₱1.63 billion for the year ended December 31, 2018 resulted from the weakening of the Philippine Peso against the U.S. dollar. CEB's major exposure

to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net income of joint venture amounted to ₱136.26 million in 2018 attributable to the net income from current operations earned by the joint ventures in 2018.

Interest expense increased by 47.9% to ₱2.10 billion for the year ended December 31, 2018 from ₱1.42 billion in 2017 due to the additional loans availed to finance the acquisition of additional aircraft delivered in 2018.

In 2018, CEB entered into a Lease Amendment Agreement with JPA No. 117/118/119 Co., Ltd., which transferred economic ownership of three Airbus A320 aircraft to the counterparty and resulted in a gain of ₱110.19 million. CEB also sold and delivered one Airbus A319 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱156.65 million. In 2017, CEB sold and delivered three Airbus A319 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) and entered into lease amendment agreements which transferred economic ownership of six Airbus A320 aircraft to the counterparty which resulted to a gain of ₱102.57 million.

As a result of the foregoing, net income for the year ended December 31, 2018 decreased by 50.4% to ₱3.92 billion from ₱7.91 billion last year.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues reached ₱42.35 billion in 2018, a slight increase of 2.3% from last year's ₱41.41 billion as higher selling prices of most products were offset by lower volumes of polymers (from 503,572 MT in 2017 to 398,070 MT in 2018) and pygas (from 250,178 MT in 2017 to 218,484 MT in 2018).. Costs and expenses also increased by 17.1% from ₱36.08 billion in 2017 to ₱42.25 billion in 2018 due to higher naphtha cost. Interest expense increased by 84.5% to ₱311.61 million in 2018 from ₱109.51 million in 2017 due to the ₱18.60 billion net increase in trust receipts. A net foreign exchange gain of ₱16.88 million was also recognized in 2018 from last year's gain of ₱61.90 million. All these factors contributed to the net income of ₱1.05 billion in 2018 from ₱5.99 billion in 2017.

**Banking services**, generated banking revenue of ₱6.13 billion in 2018, a 37.0% increase from last year's ₱4.48 billion brought about by higher interest income from finance receivables. Costs and expenses also increased by 37.5% as the bank continued its expansion, including higher interest expense on deposits from ₱1.13 billion in 2017 to ₱2.19 billion in 2018. As a result, net income for the year ended December 31, 2018 amounted to ₱317.68 million, a 3.4% increase from last year's ₱307.21 million.

**Equity in net earnings of associate companies and joint ventures** amounted to ₱10.18 billion for the year ended December 31, 2018, a 2.8% increase from last year's ₱9.91 billion mainly attributable to the 17.6% increase in equity earnings from Meralco from ₱5.60 billion last year to ₱6.59 billion this year as a result of higher sales volume and the additional 2.4% equity share acquired in June 2017, partially offset by the decline in equity in net earnings from United Industrial Corporation, Limited (UIC). UICL recorded an 18.1% decline in its net income from operations from S\$305.98 million in 2017 to S\$250.62 million in 2018 due to lower sales of trading properties as UIC's development projects were completed and substantially sold in 2017. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **2017 vs. 2016**

### **I. Consolidated Operations**

JG Summit Holdings, Inc.'s consolidated net income from equity holders of the parent amounted to ₱29.37 billion in 2017, a 169% increase from ₱10.92 billion in 2016 due to the impairment losses recorded last year totaling ₱16.71 billion primarily from the decline in market value of the Group's investment in PLDT. The Group's consolidated core net income after taxes (excluding non-operating and nonrecurring items) amounted to ₱29.56 billion in 2017, relatively flat from ₱29.97 billion in 2016, mainly due to the lower net income of our airline business which was affected by the rise in fuel prices, offset by the double-digit income growth in our petrochemicals business and increase in our equity earnings from associates particularly from United Industrial Corporation Limited (UICL), Manila Electric Company (Meralco) and Global Business Power Corporation (GBPC). Consolidated EBITDA reached ₱70.67 billion in 2017 from ₱69.37 billion in 2016.

Consolidated revenues grew 13.7% from ₱240.50 billion in 2016 to ₱273.45 billion in 2017 due to the performance of the following core subsidiaries:

- URC's total revenues increased by 11.0% from ₱112.61 billion in 2016 to ₱125.01 billion in 2017 driven by the 30.1% increase in BCFG international sales and 33.6% sales growth of the sugar business.
- JG Petrochemicals Group revenues increased by 42.4% from ₱29.07 billion in 2016 to ₱41.41 billion in 2017 due to higher sales volume and average selling price of polymers and olefins.
- CEB's total revenues went up by 9.9% from ₱61.90 billion in 2016 to ₱68.03 billion in 2017 mainly due to 3.2% growth in passenger volume and 3.8% increase in average fares.
- RLC's total revenues slightly decreased from ₱22.75 billion in 2016 to ₱22.45 billion in 2017 due to lower real estate sales partially offset by the increase in rental revenues.
- The banking revenue increased 31.2% from ₱3.41 billion in 2016 to ₱4.48 billion this year due to increase in interest income recognized from finance receivables and trading gains.

Revenues from our core investments, however, declined this year as dividend income received by the Group dropped 28.5% from ₱2.03 billion last year to ₱1.45 billion this year mainly due to lower dividend income declared by PLDT from ₱106 per share in 2016 to ₱76 per share in 2017. Equity in net earnings of associates, primarily from our investments in UIC/Singapore Land and Meralco, increased by 21.2% from ₱8.18 billion in 2016 to ₱9.91 billion in 2017, including the ₱719.18 billion full-year equity earnings take-up from GBPC in 2017.

Consolidated cost of sales and services in 2017 increased by 19.1% from ₱144.09 billion last year to ₱171.55 billion this year driven by the rise in fuel prices affecting our airline business, and higher input costs of our food and petrochemicals businesses.

The Group's operating expenses increased by 13.6% from ₱44.14 billion last year to ₱50.16 billion this year due to higher selling, general and administrative expenses in the food and airline business units. As a result, Operating Income or EBIT amounted to ₱51.73 billion in 2017 from ₱52.27 billion in 2016.

Market valuation gain on financial assets at FVPL amounted to ₱696.41 million in 2017 from a market valuation loss of ₱57.68 million in 2016 primarily due to the ₱628.50 million fair value gain recognized on the Group's investment in convertible notes of Sea Limited. Market valuation loss on derivative financial instruments amounted to ₱155.23 million in 2017, a significant swing of ₱1.89 billion from a market valuation gain of ₱1.73 billion in 2016. This is attributable mainly to the mark-to-market valuation losses on fuel hedging transactions of the airline business.

Market valuation loss on impaired available-for-sale investments recorded in 2016 pertains to the impairment loss recognized due to the significant drop in the market price of PLDT shares from an average acquisition cost of ₱2,331 per share to ₱1,365 per share as of end of 2016. As of end of 2017, PLDT's share price was ₱1,480, with the increase during the year recognized directly in equity under 'Net unrealized gains on AFS investments'.

The Group recognized a net foreign exchange loss of ₱902.72 million from ₱2.64 billion reported last year due to the combined effects of appreciation of URC international subsidiaries' local currencies against US dollar, particularly NZD, and lower depreciation of Philippine Peso against US Dollar this year compared to last year.

Other income (expense) - net account, which represents miscellaneous income and expenses, netted a gain of ₱241.87 million from last year's loss of ₱487.96 million mainly due to the loss on sale of CEB's aircraft last year.

## **II. Segment Operations**

**Foods** generated a consolidated sale of goods and services of ₱125.01 billion for the year ended December 31, 2017, an 11.0% growth over last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, increased 10.5%, to ₱101.82 billion in 2017 from ₱92.14 billion registered in 2016. BCF domestic operations' net sales slightly decline from ₱59.19 billion in 2016 to ₱58.95 billion in 2017 which was mainly driven by the lower volume and unfavorable mix in the coffee category that dragged down the sustained growth performance in snacks and recovery of RTD beverages. BCF international sales increased by 30.1% to ₱42.87 billion in 2017 against ₱32.95 billion in 2016. In constant U.S. dollar (US\$) term, sales improved by 21.2% to US\$851 million in 2017 against last year due to full year consolidation of SBA as well as growth from Thailand and Malaysia, partly offset by Vietnam's slower than expected recovery. Malaysia grew by 7.8% on the back of positive performances from snacks, wafer and chocolates while Thailand increased by 6.1% due to continuous growth with wafer and snack categories reaching their highest market shares to date. Vietnam's steady recovery was driven by renewed campaign of C2 brand plus growing snackfoods business. Sale of goods and services in URC's packaging division increased by 16.4% to ₱1.28 billion in 2017 from ₱1.10 billion recorded in 2016. (2) Agro-Industrial segment (AIG) amounted to ₱10.11 billion in 2017, a 9.9% increase from ₱9.20 billion recorded in 2016. Feeds business grew by 4.6% due to increase in sales volume while farms business increased by 16.4% due to higher volumes and average selling prices of value-added hogs. (3) Sale of goods and services in commodity foods segment amounted to ₱11.80 billion in 2017, up by 15.9% from

₱10.18 billion reported in 2016. Sugar and renewables businesses grew by 33.6% and 15.5%, respectively, on the account of higher volumes. On the other hand, flour business declined by 3.8% due to lower volume and average selling price.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by 12.2% to ₱85.69 billion in 2017 from ₱76.40 billion recorded in 2016 mainly coming from the effect of SBA full year consolidation.

URC's gross profit for 2017 amounted to ₱39.31 billion from ₱36.21 billion reported in 2016. Gross profit margin decreased by 70 basis points from 32.2% in 2016 to 31.5% in 2017. Selling and distribution costs, and general and administrative expenses rose by 19.1% to ₱24.36 billion in 2017 from ₱20.45 billion registered in 2016. This increase resulted primarily from the following factors: (a) 23.5% increase in compensation and benefits to ₱5.28 billion in 2017 from ₱4.28 billion in 2016 due to SBA full year consolidation, increase in headcount and annual salary adjustments; (b) 10.3% increase in advertising and promotion costs to ₱7.60 billion in 2017 from ₱6.89 billion in 2016 due to promotion programs with key accounts and wholesalers, and new product launches; (c) 49.4% increase in contracted services to ₱766 million in 2017 from ₱513 million in 2016 due to additional conso warehouses and increase in shared services charges. As a result, operating income (EBIT) decreased by 5.1% to ₱14.95 billion in 2017 from ₱15.76 billion in 2016.

URC's finance costs which consist mainly of interest expense increased by 54.0%, to ₱1.43 billion in 2017 from ₱927.12 million recorded in 2016 due to higher level of long-term debt, which was used to finance the acquisition of SBA.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased to ₱225.58 million in 2017 from ₱182.34 million in 2015 due to higher level of financial assets during the year.

Equity in net losses of joint ventures amounted to ₱280.53 million in 2017 from ₱166.72 million in 2016 due to equity share in the net losses of newly created joint venture, Vitasoy-URC.

Net foreign exchange gain decreased to ₱154.19 million in 2017 from ₱1.31 billion reported in 2016 due to the combined effects of appreciation of international subsidiaries' local currencies against US dollar, particularly NZD, and depreciation of Philippine peso against US dollar.

Market valuation gain on financial instruments at fair value through profit or loss amounted to ₱71.02 million in 2017 from ₱107.38 million in 2016 due to unfavorable fair value changes of derivative instruments, partially offset by the increase in market values of equity investments.

Impairment losses decreased to ₱21.42 million in 2017 from ₱185.59 million in 2016 due to last year's higher inventory write-offs resulting from issues encountered in Vietnam.

Other income (expenses) - net consists of gain (loss) on sale of fixed assets, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net increased to ₱276.74 million in 2017 from ₱220.63 million in 2016 due to higher gain on sale of fixed assets.



URC recognized provision for income tax of ₱2.80 billion in 2017, a 13.0% decrease from ₱3.22 billion in 2016 due to lower taxable income and utilization of deferred tax assets on realized foreign exchanges losses and tax credits.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other expenses - net) for 2017 amounted to ₱13.66 billion, a decline of 9.6% from ₱14.94 billion recorded in 2016.

Net income attributable to equity holders of the parent decreased by 13.1% to ₱10.89 billion in 2017 from ₱12.87 billion in 2016 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱21.06 billion for 2017, 1.6% lower than the ₱21.40 billion posted in 2016.

**Real estate and hotels** generated total gross revenues of ₱22.45 billion in 2017, a slight decrease of 1.3% from ₱22.75 billion in 2016. EBIT grew 3.4% to ₱8.56 billion while EBITDA posted a 3.5% growth to ₱12.48 billion. Net income attributable to equity holders of the parent stood at ₱5.88 billion, up by 2.3% compared to last year.

The Commercial Centers Division accounted for ₱10.79 billion of the real estate revenues for the year versus ₱10.14 billion last year or a 6.4% increase. Rental revenues increased due to opening of new malls in Iligan, Naga and North Tacloban and expansion of Robinsons Place Antique and Robinsons Butuan this year. Also, the full year impact of Robinsons Place General Trias, Robinsons Place Tagum, Robinsons Place Jaro and the expansion of Robinsons Ilocos Norte last year, contributed to the growth, despite renovation of Robinsons Galleria, one of our largest revenue contributors. Cinema revenues increased due to more blockbuster films released this year than last year and the operation of new cinemas in new malls. The Division's EBIT and EBITDA grew by 3.3% and 3.4%, respectively.

Revenues of Office Buildings Division grew by 8.8% to ₱3.27 billion from ₱3.00 billion over the same period last year. Revenue growth was mainly attributable to sustained occupancy rates, and escalation of rents in existing offices and contribution from the new offices namely Cyber Sigma, Galleria Cebu Office, Robinsons Lusitua Office and Cybergate Delta. The Division's EBIT and EBITDA showed positive variances of 10.3% and 7.9%, respectively.

The Residential Division realized revenues is at ₱6.57 billion this year, a decrease of 16.5% from last year, due to lower level of buyers meeting the equity requirement in recognizing sales based on percentage of construction completion. Both EBIT and EBITDA decreased by 5.4% and 3.8%, respectively.

The Hotels Division, a major contributor to the RLC's recurring revenues, registered gross revenues of ₱1.89 billion as against last year's ₱1.81 billion. The 4.8% increase in hotel revenues principally came from the new hotels, Go Hotels Davao and Summit Galleria Cebu. The hotel average occupancy rate is 66% in 2017. Hotels Division EBIT and EBITDA grew by 9.0% and 7.5%, respectively.

Interest income increased to ₱36.81 million from ₱19.34 million last year due to higher average balance of cash and cash equivalents in 2017.

Real estate costs went down by 4.5% to ₱9.28 billion from ₱9.72 billion last year. The lower level of realized sales of residential units brought cost of real estate sales to decrease by ₱1.01 billion or 24.3%. Furthermore, cinema expense rose by 9.3% to ₱820.82 million as a result of increase in cinema revenues.

Gain from insurance is lower this year by 86% to ₱28.40 million from ₱208.71 million last year, which basically included insurance proceeds from Typhoon Yolanda. Finance charge amounting to ₱146.97 million in 2016 pertain to pre-termination of loans. Gain or loss from foreign exchange mainly pertains to foreign currency denominated transactions of RLC's foreign subsidiary.

**Air transportation** generated gross revenues of ₱68.03 billion for the year ended December 31, 2017, 9.9% higher than the ₱61.90 billion revenues earned last year mainly attributed to the increase in passenger revenues by 7.2% to ₱49.93 billion for the year ended December 31, 2017 from ₱46.59 billion registered in 2016. This increase was primarily due to the 3.2% growth in passenger volume to 19.7 million from last year's 19.1 million resulted from the increase in CEB's fleet from 57 aircraft as of December 31, 2016 to 61 aircraft as of December 31, 2017. The increase in average fares by 3.8% to ₱2,529 in 2017 from ₱2,436 in 2016 also contributed to the increase in revenues. Cargo revenues grew 29.2% to ₱4.60 billion for the year ended December 31, 2017 from ₱3.56 billion in the same period last year following the increase in the cargo volume and yield in 2017. Ancillary revenues went up by 14.9% to ₱13.49 billion for the year ended December 31, 2017 from ₱11.74 billion posted last year consequent to the 3.2% increase in passenger traffic and 11.3% increase in ancillary revenue per passenger. This was driven by improved online bookings, pricing adjustments and introduction of new ancillary revenue products and services.

Operating expenses for the year ended December 31, 2017 increased by 16.6% to ₱57.90 billion from ₱49.65 billion last year primarily due to the rise in fuel prices in 2017 coupled with the weakening of the Philippine peso against the U.S. dollar. The average published fuel MOPS price increased from U.S. \$65.31 per barrel for the year ended December 31, 2017 from U.S. \$52.83 per barrel in 2016. The growth in the airline's seat capacity from the acquisition of new aircraft also contributed to the increase in expenses. As a result, CEB finished with an operating income (EBIT) of ₱10.13 billion in 2017, 17.3% lower than the ₱12.25 billion earned in 2016. EBITDAR amounted to ₱22.82 billion from ₱23.62 billion last year.

CEB recognized higher interest income by 60.9% from ₱113.67 million last year to ₱182.95 million this year due to the increase in the balance of cash in bank and short-term placements year on year and higher interest rates in short term placements.

CEB incurred a hedging loss of ₱132.57 million for the year ended December 31, 2017, a decrease of ₱1.72 billion from a hedging gain of ₱1.59 billion incurred last year as a result of lower mark-to-market valuation on fuel hedging positions in 2017. Net foreign exchange losses of ₱797.98 million for the year ended December 31, 2017 resulted from the weakening of the Philippine Peso against the U.S. dollar. CEB's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net income of joint venture amounted to ₱140.33 million for the year ended December 31, 2017 attributable to the net income from current operations earned by the joint ventures in 2017.

Interest expense increased by 21.5% to ₱1.42 billion for the year ended December 31, 2017 from ₱1.17 billion in 2016 due to the additional loans availed to finance the acquisition of additional aircraft delivered in 2017.

In 2017, CEB sold and delivered three Airbus A319 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) and entered into lease amendment agreements which transferred economic ownership of six Airbus A320 aircraft to the counterparty which resulted to a gain of ₱102.57 million. In 2016, CEB sold and delivered four Airbus A319 aircraft to Allegiant which resulted to a loss of ₱962.61 million.

As a result of the foregoing, net income for the year ended December 31, 2017 decreased by 18.9% to ₱7.91 billion from ₱9.75 billion last year.

**Petrochemicals** (consist of JGSPC and JGSOC) combined gross revenues reached ₱41.41 billion in 2017, 42.4% increase from last year's ₱29.07 billion due to higher sales volume from 1.15 million MT in 2016 to 1.39 million MT in 2017. Costs and expenses also increased by 49.4% from ₱24.15 billion in 2016 to ₱36.08 billion in 2017 due to higher naphtha cost. Interest expense decreased by 20.0% to ₱109.51 million in 2017 from ₱136.90 million in 2016 due to lower level of trust receipts and short-term notes payable. A net foreign exchange gain of ₱61.90 million was also recognized in 2017 from last year's net foreign exchange loss of ₱272.38 million. All these factors contributed to the net income of ₱5.99 billion in 2017 from ₱5.13 billion in 2016, or an improvement of 16.9%.

**Banking Services**, generated banking revenue of ₱4.48 billion in 2017, a 31.2% increase from last year's ₱3.41 billion brought about by higher interest income and trading gains for the year. Cost and expenses also increased by 32.1% as the bank continued its expansion, including higher provision for impairment losses on receivables from ₱138.97 million in 2016 to ₱217.13 million in 2017. As a result, net income for the year ended December 31, 2017 amounted to ₱307.21 million, a 19.7% increase from last year's ₱256.65 million.

**Equity in net earnings of associate companies and joint ventures** amounted to ₱9.91 billion for the year ended December 31, 2017, a 21.2% increase from last year's ₱8.18 billion primarily attributable to the (a) 34.5% increase in equity earnings from UIC from ₱2.79 billion last year to ₱3.75 billion this year, (b) 12.5% increase in equity income from Meralco from ₱4.98 billion in 2016 to ₱5.60 billion in 2017 and (c) the full-year equity earnings take-up from GBP amounting to ₱719.18 million this year from ₱356.43 million last year since its acquisition in June 2016. **United Industrial Corporation, Limited** recorded a 22.7% growth in its net income from operations from S\$249.42 million in 2016 to S\$305.98 million in 2017 due to higher revenue recognition from trading properties mainly contributed by the higher sales in Alex Residences and Pollen & Bleu. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **2019 vs 2018**

Cash and cash equivalents increased to ₱64.3 billion as of December 31, 2019, from ₱49.2 billion as of December 31, 2018. Cash provided by operating activities amounted to ₱52.4 billion. As of December 31, 2019, net cash used in investing activities amounted to ₱58.2 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱21.0 billion mainly due to net availments for short-term and long-term debts. Our financial assets, including those held at fair value through profit and loss (FVTPL) (excluding derivative assets), fair value through other comprehensive income (FVOCI), and investment securities at amortized cost amounted to ₱62.1 billion, a 4.1% increase from ₱59.6 billion as of December 31, 2018 due to higher market valuation during the year.

Receivables, including noncurrent portion increased by 16.1% from ₱93.5 billion as of December 31, 2018 to ₱108.6 billion as of December 31, 2019 mainly due to the increase in finance receivables of the banking business.

Inventories increased 7.9% from ₱63.5 billion as of December 31, 2018 to ₱68.5 billion as of December 31, 2019 primarily due to higher level of capital expenditures for new and ongoing projects of the real estate business.

Biological assets, including noncurrent portion, decreased by 13.6% due to decline in hogs population and write-down from restructuring

Other current assets decreased by 5.5% from ₱24.6 billion as of December 31, 2018 to ₱23.2 billion as of December 31, 2019 mainly due to decrease in cash under escrow which will mainly be used for the construction of real estate inventories.

Investment properties increased 5.5% from ₱93.8 billion as of December 31, 2018 to ₱99.0 billion as of December 31, 2019 primarily due to acquisition of several land properties both for residential and commercial development, and ongoing constructions of the real estate business during the year.

Property, plant and equipment increased 18.8% from ₱218.3 billion as of December 31, 2018 to ₱259.2 billion due to acquisition of five Airbus A321 NEO aircraft offset by the sale of three (3) Airbus A320 aircraft and two (2) Airbus A330 engine in 2019 by the airline business, as well as expansion projects of the petrochemicals business.

Right-of-Use Assets amounting to ₱20.5 billion was recognized as of December 31, 2019 as a result of the adoption of PFRS 16 in 2019.

Consolidated total assets reached ₱928.3 billion as of end of December 2019.

Accounts payable and accrued expenses increased by 10.3% from ₱132.7 billion as of December 31, 2018 to ₱146.3 billion as of December 31, 2019 primarily due to higher level of deposit liabilities and bills payable of the banking business.

Short term debt increased 52.4% to ₱54.0 billion as of December 31, 2019 from ₱35.5 billion as of December 31, 2018 due to additional loans of RLC, URC, Petrochem, and the Parent Company during the period.

Contract liabilities (current and noncurrent) recognized by the real estate business amounted to ₱17.1 billion as of December 31, 2019, a 12.0% increase from ₱15.3 billion as of December 31, 2018 mainly due to increase in reservation sales during the year. Contract liabilities consist of collections from real estate customers which have not reached the equity threshold to qualify for revenue recognition and excess of collections over the goods and services transferred based on percentage of completion.

Lease liabilities (current and noncurrent) amounting to ₱21.1 billion was recognized as of December 31, 2019 as a result of the adoption of PFRS 16 in 2019.

Deferred tax liabilities amounted to ₱8.3 billion as of December 31, 2019, a 5.6% increase from ₱7.9 billion as of December 31, 2018 due to higher deferred tax liabilities of the real estate business.

Other noncurrent liabilities increased to ₱35.8 billion as of December 31, 2019 from ₱32.8 billion as of December 31, 2018 due to higher deposit liabilities of the banking business, as well as higher pension liabilities of the Group.

Stockholders' equity, excluding minority interest, stood at ₱304.8 billion as of December 31, 2019 from ₱276.6 billion last year.

Book value per share amounted to ₱42.55 as of December 31, 2018 from ₱38.61 as of December 31, 2017.

### **2018 vs 2017**

Cash and cash equivalents decreased to ₱49.19 billion as of December 31, 2018, from ₱54.34 billion as of December 31, 2017. Cash provided by operating activities amounted to ₱56.64 billion. As of December 31, 2018, net cash used in investing activities amounted to ₱86.03 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱24.25 billion mainly due to the Group's additional loan availments during the year, and the net proceeds from stock rights offering of RLC. Our financial assets, including those held at fair value through profit and loss (FVTPL) (excluding derivative assets), fair value through other comprehensive income (FVOCI), and investment securities at amortized cost amounted to ₱59.62 billion, a 2.2% decrease from ₱60.95 billion as of December 31, 2017 due to lower market valuation during the year.

Receivables, including noncurrent portion increased by 3.6% from ₱90.26 billion as of December 31, 2017 to ₱93.53 billion as of December 31, 2018 mainly due to the significant increase in finance receivables of the banking business.

Inventories increased 15.9% from ₱54.76 billion as of December 31, 2017 to ₱63.47 billion as of December 31, 2018 due to higher level of finished goods of the food and petrochemicals businesses, as well as increase in subdivision land, condominium and residential units for sale of the real estate business.

Biological assets, including noncurrent portion, decreased by 34.0% due to decline in headcount and market prices of hogs.

Other current assets increased from ₱12.85 billion as of December 31, 2017 to ₱29.65 billion as of December 31, 2018 mainly coming from RLC's recognition of

contract assets in accordance with PFRS 15 as well as deposits received from buyers of Cheng Du Xin Yao.

Investment properties increased 7.8% from ₱87.02 billion as of December 31, 2017 to ₱93.82 billion as of December 31, 2018 primarily due to acquisition of several land properties both for residential and commercial development, and ongoing constructions of the real estate business during the year.

Property, plant and equipment increased 20.2% from ₱181.66 billion as of December 31, 2017 to ₱218.27 billion due to the acquisition of four ATR 72-600 and seven Airbus A321 CEO aircraft, offset by the sale of one Airbus A319 of the airline business, as well as expansion projects of the petrochemicals business.

Other noncurrent assets went up by 81.7% from ₱10.87 billion as of December 31, 2017 to ₱19.74 billion as of December 31, 2018 due to the CEB's prepayments for Airbus A330 life limited engine parts, power by the hour charges and engine overhaul, and increase in RLC's advances to lot owners and advances to suppliers and contractors for ongoing projects

Consolidated total assets reached ₱819.29 billion as of end of December 2018.

Accounts payable and accrued expenses increased by 16.5% from ₱113.88 billion as of December 31, 2017 to ₱132.66 billion as of December 31, 2018 due to higher level of trade payables of the airline and food businesses, and deposit liabilities and bills payable of the banking business.

Short term debt decreased 22.7% to ₱34.45 billion as of December 31, 2018 from ₱45.88 billion as of December 31, 2017 due to full settlement of short-term loans of the Parent Company and RLC.

Derivative liabilities, including noncurrent portion, which amounted to ₱763.32 million as of December 31, 2018 pertain mainly to CEB's fuel derivative contracts.

Other current liabilities increased 104.4% to ₱27.98 billion as of December 31, 2018 due to the current portion of RLC's contract liabilities to real estate customers, and CEB's higher unearned transportation revenue on sale of passenger travel services.

Long-term debt, including current portion, increased 15.7% from ₱181.69 billion as of December 31, 2017 to ₱210.25 billion as of December 31, 2018 due to additional term loans availed by the Parent Company and CEB during the period.

Deferred tax liabilities amounted to ₱7.88 billion as of December 31, 2018, a 9.3% increase from ₱7.21 billion as of December 31, 2017 due to higher deferred tax liabilities of RLC.

Other noncurrent liabilities increased to ₱35.05 billion as of December 31, 2018 from ₱28.91 billion as of December 31, 2017 due to CEB's higher provision for asset retirement obligation, RLC's noncurrent contract liabilities to real estate customers, and RBC's higher deposit liabilities.

Stockholders' equity, excluding minority interest, stood at ₱276.59 billion as of December 31, 2018 from ₱267.84 billion last year.

Book value per share amounted to ₱38.61 as of December 31, 2018 from ₱37.13 (as restated) as of December 31, 2017.

### **2017 vs 2016**

Cash and cash equivalents increased to ₱54.34 billion as of December 31, 2017, from ₱43.41 billion as of December 31, 2016. Cash provided by operating activities amounted to ₱38.30 billion. As of December 31, 2017, net cash used in investing activities amounted to ₱38.75 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱11.37 billion mainly due to additional long-term loan availments of the Group, net of partial settlements of trust receipts payable of the petrochemicals business and short-term loans of an offshore company. Our financial assets, including those held at fair value through profit and loss (excluding derivative assets), available for sale investments and held to maturity amounted to ₱60.95 billion, a 7.2% increase from ₱56.85 billion as of December 31, 2016 due to higher market valuation during the year.

Receivables, including noncurrent portion increased by 29.5% from ₱69.72 billion as of December 31, 2016 to ₱90.26 billion as of December 31, 2017 mainly due to the significant increase in finance receivables of the banking business.

Inventories increased 5.7% from ₱49.70 billion as of December 31, 2016 to ₱52.54 billion as of December 31, 2017 due to higher level of raw materials and spare parts of the food and petrochemicals businesses.

Biological assets, including noncurrent portion, increased 21.3% due to increase in headcount and market prices of hogs.

Other current assets increased 16.9% from ₱13.01 billion as of December 31, 2016 to ₱15.21 billion as of December 31, 2017 mainly due to higher input value-added tax of the real estate and petrochemicals businesses.

Investment in associates and joint ventures increased 8.3% from ₱127.95 billion as of December 31, 2016 to ₱138.54 billion as of December 31, 2017 due to the additional investment in Meralco and equity earnings from UIC during the year.

Investment properties increased 18.3% from ₱75.42 billion as of December 31, 2016 to ₱89.24 billion as of December 31, 2017 due to acquisition of several land properties both for residential and commercial development, and ongoing constructions of the real estate business during the year.

Other noncurrent assets went up by 30.4% from ₱6.52 billion as of December 31, 2016 to ₱8.51 billion as of December 31, 2017 primarily due to the advance payments made for the Airbus A330 life limited engine parts of the airline business.

Consolidated total assets reached ₱739.45 billion as of end of December 2017.

Accounts payable and accrued expenses increased by 18.3% from ₱96.30 billion as of December 31, 2016 to ₱113.89 billion as of December 31, 2017 mainly due to the higher level of deposit liabilities of our banking business.

Short term debt decreased 25.9% to ₱45.85 billion as of December 31, 2017 from ₱61.88 billion as of December 31, 2016 due to partial settlement of JGSPL's short-term loans and Petrochemical's trust receipts during the year.

Income tax payable decreased 39.5% mainly due to lower level of tax payable of the food and real estate business units.

Other current liabilities increased 6.1% to ₱13.69 billion as of December 31, 2017 mainly due to higher unearned transportation revenue on sale of passenger travel services by the airline business.

Long-term debt, including current portion, increased 14.1% from ₱159.19 billion as of December 31, 2016 to ₱181.69 billion as of December 31, 2017 mainly due to additional term loans availed by the Parent Company and RLC during the period.

Other noncurrent liabilities increased to ₱28.91 billion as of December 31, 2017 from ₱13.21 billion as of December 31, 2016 due to higher level of deposit liabilities of the banking business.

Stockholders' equity, excluding minority interest, stood at ₱267.84 billion as of December 31, 2017 from ₱239.52 billion last year.

Book value per share amounted to ₱37.39 as of December 31, 2017 from ₱33.43 as of December 31, 2016.

#### **KEY FINANCIAL INDICATORS**

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial data as of and for the year ended December 31, 2019, 2018 and 2017.

<b>Key Financial Indicators</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenues	₱301.82 Billion	₱291.92 Billion	₱273.45 Billion
EBIT	₱56.20 Billion	₱45.26 Billion	₱51.73 Billion
EBITDA	₱83.94 Billion	₱65.83 Billion	₱70.67 Billion
Core net income after taxes	₱25.29 Billion	₱22.40 Billion	₱29.56 Billion
Net income attributable to equity holders of the Parent Company	₱31.29 Billion	₱19.19 Billion	₱29.37 Billion
Liquidity Ratio:			
Current ratio	0.96	0.93	1.14
Solvency ratios:			
Gearing ratio	0.67	0.67	0.66
Net debt to equity ratio	0.52	0.53	0.50
Asset-to-equity ratio	2.27	2.23	2.13
Interest rate coverage ratio	7.65	6.83	9.02
Profitability ratio:			
Operating margin	0.19	0.16	0.19
Book value per share	₱42.48	₱38.61	₱37.39



The manner in which the Company calculates the above key performance indicators is as follows:

<b>Key Financial Indicators</b>		
Revenues	=	Total of sales and services, income from banking business, dividend income and equity in net earnings
EBIT	=	Operating income
EBITDA	=	Operating income add back depreciation and amortization expense
Core net income after taxes	=	Net income attributable to equity holders of Parent Company as adjusted for the net effect of gains/losses on foreign exchange, market valuations and other nonrecurring items.
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total financial debt over total equity
Net debt to equity ratio	=	Total financial debt less cash including financial assets at FVTPL and FVOCI investments (excluding RBC cash, financial assets at FVTPL and FVOCI investments) over total equity
Asset-to-equity ratio	=	Total assets over total equity
Interest rate coverage ratio	=	EBITDA over interest expense
Operating Margin	=	Operating income over total revenue
Book value per share	=	Stockholders' equity (equity attributable to parent excluding preferred capital stock) over outstanding number of common shares

Current assets amounted to ₱234.16 billion while current liabilities reached ₱245.14 billion, for a current ratio of 0.96:1. Total financial debt amounted to ₱272.98 billion in 2019, higher than last year's ₱245.70 billion. The Company's indebtedness remains manageable with a gearing ratio of 0.67:1, well within the financial covenant of 2.0:1. Net debt stood at ₱214.32 billion, bringing our net debt to equity ratio to 0.53:1.

The Company, in the normal course of business, makes various commitments and has certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, standby letters of credit for the purchase of equipment, tax assessments and bank guarantees through its subsidiary bank. The Company does not anticipate any material losses as a result of these transactions.

#### **DISCLOSURE OF EFFECTS OF PESO DEPRECIATION AND OTHER CURRENT EVENTS**

Refer to Management Discussion and Analysis on pages 51-74 of this report and Note 4 to the Consolidated Financial Statements.

#### **Item 7. Financial Statements**

The Consolidated Financial Statements and schedules listed in the accompanying Index to Consolidated Financial Statements and Supplementary Schedules (page 91) are filed as part of this report.

## Item 8. Information on Independent Accountant and other Related Matters

### A. External Audit Fees and Services

#### Audit and Audit - Related Fees

The following table sets out the aggregate fees billed to the Company for each of the last three (3) years for professional services rendered by SyCip Gorres Velayo & Co.,

	2019	2018	2017
<b>Audit and Audit-Related Fees</b>			
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements	<b>₱3,610,000</b>	<b>₱3,340,000</b>	₱3,180,000
All Other Fees	None	<b>4,000,000</b>	None
<b>Total</b>	<b>₱3,610,000</b>	<b>₱7,340,000</b>	₱3,180,000

No other service was provided by external auditors to the Company for the calendar years 2019, 2018 and 2017.

#### **The audit committee's approval policies and procedures for the services rendered by the external auditors**

The Corporate Governance Manual of the Company provides that the audit committee shall, among others:

1. Evaluate all significant issues reported by the external auditors relating to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company.
2. Ensure that other non-audit work provided by the external auditors is not in conflict with their functions as external auditors.
3. Ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

### B. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

NONE.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Registrant

The names and ages of the directors, member of the advisory board and executive officers of the Company are as follows:

#### 1. Directors

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Citizenship</b>
James L. Go	80	Director, Chairman	Filipino
Lance Y. Gokongwei	53	Director, President and Chief Executive Officer	Filipino
Lily G. Ngochua	88	Director	Filipino
Patrick Henry C. Go	49	Director	Filipino
Johnson Robert G. Go, Jr.	54	Director	Filipino
Robina Y. Gokongwei-Pe	58	Director	Filipino
Cirilo P. Noel	63	Director	Filipino
Jose T. Pardo	80	Director (Independent)	Filipino
Renato T. De Guzman	69	Director (Independent)	Filipino
Antonio L. Go	79	Director (Independent)	Filipino

#### 2. Member of Advisory Board

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Citizenship</b>
Aloysius B. Colayco	69	Member of Advisory Board	Filipino

#### 3. Executive Officers

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Citizenship</b>
Cornelio S. Mapa, Jr.	53	Senior Vice President	Filipino
Bach Johann M. Sebastian	58	Senior Vice President	Filipino
Nicasio L. Lim	63	Senior Vice President	Filipino
Maria Celia H. Fernandez-Estavillo	48	Senior Vice President and General Counsel	Filipino
Renato T. Salud	56	Senior Vice President	Filipino
Aldrich T. Javellana	46	Senior Vice President and Treasurer	Filipino
Francisco M. Del Mundo	50	Senior Vice President and Chief Financial Officer	Filipino
Michael P. Liwanag	47	Senior Vice President and Chief of Staff to the Chief Executive Officer	Filipino
Alan D. Surposa	56	Senior Vice President and Chief Procurement Officer	Filipino
Rosalinda F. Rivera	49	Corporate Secretary	Filipino
Chona R. Ferrer	61	Deputy Treasurer	Filipino
Arlene S. Denzon	51	Compliance Officer	Filipino
Ian Pajantoy	54	Data Protection Officer	Filipino

All of the above directors, member of the advisory board and officers have served their respective offices since May 30, 2019.

Messrs. Jose T. Pardo, Renato T. De Guzman and Antonio L. Go are the independent directors of the Company as defined under SRC Rule 38.1.

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

Officers and members of the advisory board are appointed or elected annually by the Board of Directors. Appointed or elected officers and advisory board members are to hold office until a successor shall have been elected, appointed or shall have qualified.

A brief description of the directors, advisory board members and executive officers' business experience and other directorships held in other reporting companies are provided as follows:

### **Directors**

1. **James L. Go**, 80, is the Chairman of JGSHI and Cebu Air, Inc. He is the Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation. He is the Chairman Emeritus of Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is the Vice Chairman of Robinsons Retail Holdings, Inc. and a director of Marina Center Holdings Private Limited, United Industrial Corporation Limited and Hotel Marina City Private Limited. He is also the President and Trustee of the Gokongwei Brothers Foundation, Inc. He has been a Director of PLDT, Inc. (PLDT) since November 3, 2011. He is a member of the Technology Strategy and Risk Committees and Advisor of the Audit Committee of the Board of Directors of PLDT. He was elected a director of Manila Electric Company on December 16, 2013. Mr. James L. Go received his Bachelor of Science Degree and Master of Science Degree in Chemical Engineering from Massachusetts Institute of Technology, USA.
2. **Lance Y. Gokongwei**, 53, is the President and Chief Executive Officer of JGSHI. He is the Chairman of Robinsons Retail Holdings, Inc., Universal Robina Corporation, Robinsons Land Corporation, JG Summit Petrochemical Corporation, JG Summit Olefins Corporation and Robinsons Bank Corporation. He is also the President and Chief Executive Officer of Cebu Air, Inc. He is a director and Vice Chairman of Manila Electric Company and is a director of Oriental Petroleum and Minerals Corporation and United Industrial Corporation Limited. He is a member of the Board of Global Reporting Initiative. He is a trustee and chairman of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania.
3. **Lily G. Ngochua**, 88, has been a director of JGSHI since its formation in 1990. She is responsible for overseeing the Company's hotel and agro-industrial business in Cebu. She also supervises the purchasing and treasury departments of the URC Biscuit and Noodle Plants in Cebu and handles the treasury functions of the retail and mall business in Cebu. She received a Bachelor of Arts degree from Maryknoll College in Quezon City in 1957.
4. **Patrick Henry C. Go**, 49, has been a director of JGSHI since 2000. He is currently a director and Executive Vice President of Universal Robina Corporation and is the President and Chief Executive Officer of JG Summit Petrochemical Corporation and

JG Summit Olefins Corporation. In addition, he is a director of Robinsons Land Corporation, Robinsons Bank Corporation, Global Business Power Corporation and Meralco Powergen Corporation. He is a trustee and treasurer of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Management from the Ateneo De Manila University and attended the General Management Program at Harvard Business School. Mr. Patrick Henry C. Go is a nephew of Mr. John L. Gokongwei, Jr.

5. **Johnson Robert G. Go, Jr.**, 54, has been a director of JGSHI since August 18, 2005. He is currently a director of Universal Robina Corporation, Robinsons Land Corporation, Robinsons Bank Corporation and A. Soriano Corporation. He is also a trustee of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Arts degree in Interdisciplinary Studies (Liberal Arts) from the Ateneo de Manila University. He is a nephew of Mr. John L. Gokongwei, Jr.
6. **Robina Y. Gokongwei**, 58, has been a director of JGSHI since April 15, 2009. She is the President and Chief Executive Officer of Robinsons Retail Holdings, Inc. (RRHI). Operating a diverse portfolio of brands, RRHI is one of the largest multi-format retailers in the country and is included in the Philippine Stock Exchange main index. She is also a director of Robinsons Land Corporation, Cebu Air, Inc., and Robinsons Bank Corporation. She is a trustee and the secretary of the Gokongwei Brothers Foundation, Inc. and a trustee of the Immaculate Concepcion Academy Scholarship Fund. She is also a member of the Xavier School Board of Trustees. She was formerly a member of the University of the Philippines Centennial Commission and was a former trustee of the Ramon Magsaysay Awards Foundation. She attended the University of the Philippines-Diliman from 1978 to 1981 and obtained a Bachelor of Arts degree (Journalism) from New York University in 1984.
7. **Cirilo P. Noel**, 63, has been a director of JGSHI since May 28, 2018. He was a Senior Advisor to the Ernst & Young Global Limited (EY) Global Delivery Services (GDS) Philippines from July 1, 2017 to March 31, 2018. He also serves as a Board of Trustee/Director at St Luke's Medical Center since August 2017 to the present, St Luke's Foundation and St. Luke's Medical Center College of Medicines since September 2018 to the present. Mr. Noel used to serve as a trustee of the SGV Foundation. He is a founding board member of the US-Philippines Society. He was the former audit committee chair and a trustee of the Makati Business Club. He used to be a former member of the ASEAN Business Club. As a certified public accountant (CPA) and lawyer, Mr. Noel's areas of expertise include international tax for inbound and outbound investments, tax advisory and planning, tax advocacy, litigation, investment and trade laws. He was, for many years, the Head of SGV's Tax Division. In June 30, 2017, Mr. Noel retired as Chairman and Managing Partner of SGV, the Philippine member firm of EY. He assumed the post as Chairman and Managing Partner from February 1, 2010 to December 31, 2016 and Managing Partner from January 2009 to December 31, 2016. Under his leadership, SGV became part of the EY Global Delivery Network e global EY organization. He was a member of the EY Global Advisory Council and the EY Asia Pacific Advisory Council for two terms or six years. Mr. Noel was the Presiding Partner of the EY Far East Asia Advisory Council and the EY ASEAN Partners Forum. He also served as ASEAN Sub-Area Tax Head and the Far East Area Business Tax Services Leader. He was a former member of the Board of Trustees and the audit committee chair of the Philippine Business for Social Progress. He was also a former governor of the Management Association of the Philippines. He served as president of the Harvard Law Alumni Association of the Philippines and a former member of the Board of

Trustees of the Harvard Club of the Philippines. Mr. Noel graduated from the University of the East in Manila with a degree in Business Administration and holds a Bachelor of Laws degree from the Ateneo de Manila University Law School. He obtained his Master's degree in Law from the Harvard Law School and is a fellow of the Harvard International Tax Program. He also attended the Management Development Program at the Asian Institute of Management. He sits in the Board of the following companies: LH Paragon Inc. since January 2018 to the present, Cal-Comp Technology (Philippines), Inc. since June 2018 to the present, and Amber Kinetics Holding Co. PTE LTD since January 2019 to the present, Trans Diversified Group since August 2019 and Eton Properties Inc. since July 2019. He is the Chairman of the Board of Palm Concepcion Power Corporation since June 2018 to the present. Aside from JGSHI, he sits in the following PLCs: Globe Telecoms, Security Bank and San Miguel Food and Beverage Holding.

8. **Jose T. Pardo**, 80, has been an independent director of JGSHI since August 6, 2003. He is presently the Chairman of the Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Philippine Savings Bank, Bank of Commerce, and Philippine Seven Corporation. He is also a Director of the National Grid Corporation of the Philippines, ZNN Radio Veritas, Araneta Hotels, Inc., Monte Oro Grid Resources Corporation, Synergy Grid and Development Phils., Inc., Del Monte Philippines, Inc. and League One Finance and Leasing Corporation. He also held positions in government as former Secretary of the Department of Finance and former Secretary of the Department of Trade and Industry. Mr. Pardo is Chairman of PCCI Council of Business Leaders and ECOP Council of Business Leaders. He obtained his Bachelor of Science degree in Commerce, Major in Accounting and his Master's Degree in Business Administration from the De La Salle University in Manila. He has been conferred on February 10, 2018 an Honorary Doctorate in Finance by the De La Salle University.
9. **Renato T. de Guzman**, 69, has been an independent director of JGSHI since April 28, 2015. He was appointed Chairman of the Board of Trustees of the Government Service Insurance System in July 2015 under the previous administration and served as such until December 2016. He was a Senior Adviser of the Bank of Singapore until September 2017. He is currently a Director of Maybank Philippines, Inc. and Director of Maybank Singapore Limited as of July 1 2019. He is a Director of Investment & Capital Corporation of the Philippines, and Sarimonde Foods Corporation, and Chairman of Nueva Ecija Good Samaritan Health System, Inc. and Good Samaritan College. He was formerly the Chief Executive Officer of the Bank of Singapore (January 2010-January 2015), and ING Asia Private Bank (May 2000-January 2010), Country Manager Philippines of ING Barings (1990-2000), and Deputy Branch Manager of BNP Philippines (1980-2000). He holds a Bachelor of Science in Management Engineering from the Ateneo de Manila University, Master's Degree in Business Administration with Distinction at the Katholieke Universiteit Leuven, Belgium and a Masters in Management from McGill University, Canada.
10. **Antonio L. Go**, 79, has been an independent director of JGSHI since May 28, 2018. He is a Director of Equitable Computer Services, Inc. and is the Chairman of Equicom Savings Bank and ALGO Leasing and Finance, Inc. He is also a director of Medilink Network, Inc., Maxicare Healthcare Corporation, Equicom Manila Holdings, Equicom Inc., Equitable Development Corporation, United Industrial Corporation Limited, T32 Dental Centre Singapore, Dental Implant and Maxillofacial Centre Hong Kong, Oriental Petroleum and Minerals Corporation, Pin-An Holdings, Inc., Equicom Information Technology, Robinsons Retail Holdings,

Inc., Cebu Air, Inc. and Steel Asia Manufacturing Corporation. He is a Non-Executive Officer of Dito Telecommunity Corporation. He is also a Trustee of Go Kim Pah Foundation, Equitable Foundation, Inc., and Gokongwei Brothers Foundation, Inc. He graduated from Youngstown University, United States with a Bachelor Science Degree in Business Administration. He attended the International Advance Management program at the International Management Institute, Geneva, Switzerland as well as the Financial Planning/Control program at the ABA National School of Bankcard Management, Northwestern University, United States.

### **Member of Advisory Board**

*Aloysius B. Colayco*, 69, has been a member of the advisory board of JGSHI since August 2001 and is presently the Country Chairman for the Jardine Matheson Group in the Philippines. He is also Co-Founder of Argosy Partners, a private equity firm. He is the Chairman of Colliers Philippines and a director of Maybank Philippines. Previously, Mr. Colayco was President of AIG Investment Corporation in New York, the AIG subsidiary responsible for managing the Group's investment portfolios outside the US (primarily Europe, Asia, Latin America, the Middle East and Africa).

### **Executive Officers**

1. *Cornelio S. Mapa, Jr.*, 53, is the Senior Vice President, Investments and New Builds of JGSHI. He is also concurrently assuming the role of President for Better For You Corporation, the distribution partner of JUUL Labs. He was the Executive Vice President for Corporate Strategy of URC and Senior Vice President, Corporate Strategy for Consumer Businesses of JGSHI. He was also the Managing Director of the URC Branded Consumer Foods Group. He was the General Manager of the Commercial Centers Division of Robinsons Land Corporation before joining URC in October 2010. Prior to joining URC and Robinsons Land Corporation, he was Senior Vice President and Chief Financial Officer of the Coca Cola Bottlers Philippines including its subsidiaries, Cosmos Bottling and Philippine Beverage Partners. He was also formerly Senior Vice President and Chief Financial Officer of La Tondeña Distillers, Inc. He earned his Bachelor of Science degrees in Economics and International Finance from New York University and obtained his Masters in Business Administration from IMD in Lausanne, Switzerland.
2. *Bach Johann M. Sebastian*, 58, is the Senior Vice President, Strategic Investments Group of JGSHI. He had been Senior Vice President and Chief Strategist of JGSHI until May 14, 2018. He is also a Senior Vice President of Universal Robina Corporation, Robinsons Land Corporation, Cebu Air, Inc. and Robinsons Retail Holdings, Inc. Prior to joining JGSHI in 2002, he was Senior Vice President and Chief Corporate Strategist at PSI Technologies and RFM Corporation. He was also Chief Economist, Director of Policy and Planning Group at the Department of Trade and Industry. He received a Bachelor of Arts degree in Economics from the University of the Philippines and his Master's in Business Management degree from the Asian Institute of Management.
3. *Nicasio L. Lim*, 63, is the Senior Vice President of the Corporate Resources Group (CRG) of JGSHI. He is a Human Resource Executive with 41 years solid experience in Human Resources, 21 of those years in San Miguel Corporation (SMC), 5 in Kraft Foods International (KFI), and now with JGSHI. In JG Summit, he heads not only the overall HR function but also Safety and Security and Third-Party Outsourcing. He partners with the Executive Committee and the Leadership Teams of the different

Strategic Business Units on these areas. All HR Heads, Security and Safety Heads and Third-Party Managers in the Strategic Business Units all functionally report to him. He was conferred the People Manager of the Year Award given by the People Management Association of the Philippines (PMAP) in 2007. Through the years, he has coined several HR mantras that are circulating in HR circles. Some of which would be: “Behind every business issue is a people issue;” “Growing the business goes hand in hand with growing the people;” “HR is a vocation;” and “HR should be in the Boardroom.” Through these quotes, he clearly conveys the reverberating message that HR should be strategic partners of the business. He graduated with a Bachelor’s Degree on Business Administration at the De La Salle University and pursued advanced Human Resource Executive Program at the University of Michigan-USA.

4. ***Maria Celia H. Fernandez-Estavillo***, 48, is the Senior Vice President and General Counsel of JGSHI. She was appointed on February 15, 2017 and assumed her functions on March 1, 2017. Prior to her appointment in JGSHI, Atty. Fernandez-Estavillo was the head of the Legal and Regulatory Affairs Group, Corporate Secretary and member of the Board of Directors of Rizal Commercial Banking Corporation. She was Assistant Vice President of Global Business Development of ABS-CBN. She also held positions in government as Head of the Presidential Management Staff, Assistant Secretary at the Department of Agriculture and Chief of Staff of Senator Edgardo J. Angara. She began her legal career in ACCRA. She graduated from the University of the Philippines with a Bachelor of Science degree in Business Economics (Summa Cum Laude) and a Bachelor of Laws degree (Cum Laude). She completed her Master of Laws (LLM) in Corporate Law (Cum Laude) from New York University School of Law. She received the highest score in the Philippine Bar examinations of 1997.
5. ***Renato T. Salud***, 56, is the Senior Vice President for Corporate Affairs and Sustainability of JGSHI. Prior to joining JGSHI in March 2016, he was the Corporate Relations Director, Asia for Diageo Asia Pacific based in Singapore. In this role, he had oversight on a number of Asian countries in the areas of regulation, communications and corporate social responsibility. He has extensive experience in working with governments in formulating best practice policy recommendations. He started his career as Legislative Liaison Officer for the Department of National Defense and speechwriter for Defense Secretary Fidel Ramos. In 1992, when Fidel Ramos became President of the Philippines, he continued to serve him at the Office of the Press Secretary until 1998. He moved into the private sector with Pfizer Philippines where he was Corporate Affairs Director for two years. From 2000 to 2006, he then joined Philip Morris, starting as Philip Morris Philippines Corporate Affairs Director before moving to Hong Kong to take on the role of Director for Communications for Asia Pacific. He later became Regional Corporate Affairs Director for Eastern Europe, Africa and Middle East based in Switzerland and by the time he left Philip Morris to join Diageo in 2006, he held the position of Regional Corporate Affairs Director for the European Union. He has degrees in business and law both from Ateneo de Manila University. He also obtained his Master’s Degree in Public Administration at Harvard’s John F. Kennedy School of Government.
6. ***Aldrich T. Javellana***, 46, is the Senior Vice President and Treasurer of JGSHI. He was appointed Senior Vice President on October 2, 2017 and has been Vice President-Treasurer of JGSHI since January 2, 2012. Prior to joining JGSHI in 2003, he worked in Corporate Finance with CLSA Exchange Capital. He graduated from De La Salle University with a degree in BS Accountancy and is a Certified Public



Accountant.

7. **Francisco M. Del Mundo**, 50, is the Senior Vice President and Chief Financial Officer (CFO) of JGSHI. He was appointed Senior Vice President on July 6, 2018 and has been CFO since October 2, 2017. He is also the Senior Vice President and CFO of Universal Robina Corporation. He brings with him 27 years of experience in all aspects of the finance career. He has built his career from 17 years of rigorous training in Procter & Gamble (P&G) and 3 years in Coca-Cola prior to joining the JG Summit Group. He has worked in three different markets: Manila, Thailand and Singapore, and has held numerous CFO and Regional Finance Head positions, namely: CFO for ASEAN, Head of Accounting Shared Services for Central and Eastern Europe, Middle East and Africa, and Asia Hub Manager for Internal Controls for P&G. During his stint with Coca-Cola, he was the CFO for Coca-Cola Bottlers Philippines, Inc. and concurrently the CEO of Coca-Cola Bottlers Business Services, the company's global shared service handling Philippines, Singapore and Malaysia. In 2013, he joined JG Summit Holdings, Inc. as Vice President for JG Summit and Affiliates Shared Services. He was appointed as CFO of URC International the same year, concurrent with Shared Services role. In 2016, he was appointed CFO of URC and Head of JG Summit Enterprise Risk Management Group, and continues to lead Shared Services as its Vice President. He graduated cum laude from the University of the Philippines Diliman with a Bachelor of Science in Business Administration degree. He was recognized as the Most Distinguished Alumnus of the University's College of Business Administration in 2008. He is also a Certified Internal Auditor and has done several external talks on shared service and finance transformation in Manila, Malaysia and Dubai.
8. **Michael P. Liwanag**, 47, is the Senior Vice President and Chief of Staff to the CEO of JGSHI. He is also a Senior Vice President of URC. Prior to his current role in JGSHI, he was the Vice President for Corporate Strategy and Development of URC until May 14, 2018. Before joining URC in 2001, he was exposed to different business functions such as Strategic Management, Mergers and Acquisitions, Program Management, and Business Analytics in Digital Telecommunications Phils., Inc., Global Crossings and Philippine Global Communications, Inc. He studied Engineering at the University of the Philippines, is a Certified Management Accountant (ICMA Australia) and an alumni of the Harvard Business School (AMP).
9. **Alan D. Surposa**, 56, is the Senior Vice President and Chief Procurement Officer of JGSHI effective May 30, 2019. He is also the Senior Vice President of URC. He is responsible for ensuring that procurement processes operate smoothly and consistently across the group in line with the set procurement policies of the organization. He will synergize procurement policies, procedures and strategies across the different businesses to create a unified procurement group that is efficient, competent and strategically aligned to deliver competitive advantage. In his expanded role, he also exercises strong functional oversight over heads/managers in the different countries whose work revolves around procurement to ensure consistent alignment and synergies across the region. He also handles the Corporate Import Services of JGSHI. He is a member and formerly a Director of The Purchasing Managers Association of the Philippines. He received his Bachelor of Science degree in Civil Engineering from the Cebu Institute of Technology in Cebu City.
10. **Rosalinda F. Rivera**, 49, was appointed as Corporate Secretary of JGSHI on August 6, 2003 and has been Assistant Corporate Secretary since May 2002. She is also the Corporate Secretary of Universal Robina Corporation, Robinsons Land

Corporation, Cebu Air, Inc., Robinsons Retail Holdings, Inc., and JG Summit Petrochemical Corporation. Prior to joining the Company, she was a Senior Associate in Puno and Puno Law Offices. She received a degree of Juris Doctor from the Ateneo de Manila University School of Law and a Masters of Law in International Banking from the Boston University School of Law.

11. **Chona R. Ferrer**, 61, is the Deputy Treasurer of JGSHI. She is also the Treasurer of Data Analytics Ventures, Inc. and is also the First Vice President of Universal Robina Corporation. Prior to joining JGSHI in 1983, she was Assistant Treasurer of Guevent Industrial Development Corporation. She received a Bachelor of Science degree in Business Administration from the University of the Philippines.
12. **Arlene S. Denzon**, 51, is the Compliance Officer and Vice President of the Corporate Governance and Management Systems (CGMS) of JGSHI. She is also the Compliance Officer of Universal Robina Corporation and Robinsons Land Corporation. Prior to rejoining JGSHI in February 2013, she was the Senior Vice President and Chief Risk Officer in charge of the Enterprise-wide Risk Management Group of Digitel Mobile Philippines, Inc. (DMPI, more popularly known as Sun Cellular) until December, 2012. Ms. Denzon started her career in the Gokongwei Group in 1991 and performed various roles including Accounting Manager of JGSHI until 1997, Assistant Vice President - Special Assistant to the Chairman until 2001, Vice President - Treasurer and Acting Chief Financial Officer of URC International until 2003 before she was seconded to DMPI in 2004. Prior to JGSHI, Ms. Denzon had three years working experience as external auditor in SGV & Co. She was a Certified Public Accountant Board topnotcher and obtained her Bachelor of Accountancy degree, Magna Cum Laude, from the Polytechnic University of the Philippines.
13. **Ian Pajantoy**, 54, is the Data Protection Officer of JGSHI since May 30, 2019. He was tapped as one of the Core Team of the BPO (Shared Services) arm of JGSHI in 2013. Prior to joining the Shared Services Group (now Aspen Business Solutions, Inc), he joined URC as Plant Administrative Services Manager on May 2, 1996. From year 2000 to 2013, Mr. Pajantoy handled different facets of Supply Chain Management (logistics, procurement, & governance). He graduated from Mapua Institute of Technology with a degree in Management and Industrial Engineering and then later on, Techno-MBA from the De La Salle University - Dasmarias City, Cavite.

#### **Significant Employee**

There are no persons who are not executive officers of the Company who are expected to make a significant contribution to the business.

#### **Involvement in Certain Legal Proceedings which occurred during the Past Five Years**

None.

### Family Relationships

1. Mr. James L. Go is the brother of Mr. John L. Gokongwei, Jr.
2. Ms. Lily G. Ngochua is the sister of Mr. John L. Gokongwei, Jr.
3. Mr. Lance Y. Gokongwei is the son of Mr. John L. Gokongwei, Jr.
4. Mr. Patrick Henry C. Go is the nephew of Mr. John L. Gokongwei, Jr.
5. Mr. Johnson Robert G. Go, Jr. is the nephew of Mr. John L. Gokongwei, Jr.
6. Ms. Robina Y. Gokongwei-Pe is the daughter of Mr. John L. Gokongwei, Jr.

### **Item 10. Executive Compensation**

The aggregate compensation of executive officers and directors of the Company for the last 2 years and projected for the ensuing year (2020) are as follows:

	ACTUAL				
	2019			2018	
	Salary	Bonus	Others	Total	Total
CEO and Four (4) most highly compensated Executive officers	₱166,785,740	₱4,000,000	₱1,975,000	₱172,760,740	₱161,939,593
All directors and executive officers as a group unnamed	₱307,286,307	₱6,500,000	₱2,950,000	₱316,736,307	₱258,155,658

	PROJECTED 2020			
	Salary	Bonus	Others	Total
CEO and Four (4) most highly compensated Executive officers	₱150,062,541	₱4,000,000	₱1,925,000	₱155,987,541
All directors and executive officers as a group unnamed	₱335,588,617	₱6,500,000	₱3,075,000	₱345,163,617

### Standard Arrangements

Other than payment of reasonable per diem, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services rendered provided as a director for the last completed year and the ensuing year.

### Other Arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed year, and the ensuing year, for any service provided as a director.

### Terms and Conditions of any Employment Contract or any Compensatory Plan or Arrangement between the Company and the Executive Officers.

None.

Outstanding Warrants or Options Held by the Company's CEO, the Executive Officers and Directors.

None.

**Item 11. Security Ownership of Certain Record and Beneficial Owners and Management**

As of December 31, 2019, the Company is not aware of anyone who beneficially owns in excess of 5% of the Company's common stock except as set forth in the table below:

**(1) Security Ownership of Certain Record and Beneficial Owners**

Title of class	Names and addresses of record owners and relationship with the Corporation	Names of beneficial owner and relationship with record owner	Citizenship	No. of shares held	% to total outstanding
Common	Gokongwei Brothers Foundation, Inc. 43/F Robinsons-Equitable Tower ADB Ave. cor. Poveda St. Ortigas Center, Pasig City (stockholder)	Same as record owner (see note 1)	Filipino	1,997,076,451	27.88%
Common	PCD Nominee Corporation (Filipino) 37/F Tower I, The Enterprise Center, 6766 Ayala Ave. cor. Paseo de Roxas, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Filipino	1,650,813,319 (see note 3)	23.05%
Common	RSB-TIG No. 030-46-000001-9 17/F Galleria Corporate Center, EDSA cor. Ortigas Ave., Quezon City (stockholder)	Trustee's designated officers (see note 4)	Filipino	1,033,319,225	14.43%
Common	PCD Nominee Corporation (Non-Filipino) 37/F Tower I, The Enterprise Center, 6766 Ayala Ave. Cor. Paseo de Roxas, Makati City (stockholder)	PCD Participants and their clients (see note 2)	Non-Filipino	949,528,917 (see note 3)	13.26%

**Notes:**

- Gokongwei Brothers Foundation, Inc. (the "Foundation") is a non-stock, non-profit corporation organized by the irrevocable donation by the incorporators, who are also Trustees of the Foundation, of shares of JG Summit Holdings, Inc.. Under the Articles of Incorporation and By-Laws of the Foundation, except for salaries of employees and honoraria of consultants and similar expenses for actual services rendered to the Foundation or its projects, no part of the corpus or its income and increments shall benefit or be used for the private gain of any member, trustee, officer or any juridical or natural person whatsoever. The Chairman of the Board of Trustees shall exercise exclusive power and authority to represent and vote for any shares of stock owned by the Foundation in other corporate entities.
- PCD Nominee Corporation is the registered owner of the shares in the books of the Corporation's transfer agent. PCD Nominee Corporation is a corporation wholly-owned by Philippine Depository and Trust Corporation, Inc. (formerly the Philippine Central Depository) ("PDTC"), whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged in the PDTC. PDTC is a private corporation organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. Under the current system of the PDTC, only participants (brokers and custodians) are recognized by PDTC as the beneficial owners of the lodged shares. Each beneficial owner of shares through his participant is the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee.
- Out of the PCD Nominee Corporation account, "Citibank N.B." and "Philippine Equity Partners, Inc." hold for various trust accounts the following shares of the Corporation as of December 31, 2019:

	<u>No. of shares</u>	<u>% to Outstanding</u>
Citibank N.A.	974,128,338	13.60%
Maybank ATR Kim Eng Securities, Inc.	315,267,543	4.40%

Voting instructions may be provided by the beneficial owners of the shares.

- Robinsons Bank - Trust & Investment Group (RSB-TIG) is the trustee of this trust account. The shares are voted by the trustee's designated officers.

## (2) Security Ownership of Management

Title of class	Names of beneficial owner	Position	Amount and nature of beneficial ownership	Citizenship	% to total outstanding
<i>A. Named Executive Officers<sup>1</sup></i>					
Common	1. John L. Gokongwei, Jr.	Director, Chairman Emeritus	11,183,531(D)	Filipino	0.16%
Common	2. James L. Go	Director, Chairman	148,679,656(D)	Filipino	2.08%
Common	3. Lance Y. Gokongwei	Director, President and Chief Executive Officer	541,838,575(D)	Filipino	7.56%
Common	4. Patrick Henry C. Go	Director	93,500(D)	Filipino	*
Common	5. Robina Y. Gokongwei-Pe	Director	179,460,000(D)	Filipino	2.51%
			<u>881,255,262</u>		<u>12.31%</u>
<i>B. Other Directors and Executive Officers</i>					
Common	6. Lily G. Ngochua	Director	388,018(D)	Filipino	*
Common	7. Johnson Robert G. Go, Jr.	Director	1(D)	Filipino	*
Common	8. Cirilo P. Noel	Director	1(D)	Filipino	*
Common	9. Jose T. Pardo	Director (Independent)	1(D)	Filipino	*
Common	10. Renato T. De Guzman	Director (Independent)	1(D)	Filipino	*
Common	11. Antonio L. Go	Director (Independent)	1(D)	Filipino	*
Common	12. Maria Celia H. Fernandez-Estavillo	Senior Vice President and General Counsel	5,000(D)	Filipino	*
			<u>393,023</u>		<u>0.01%</u>
			<u>881,648,285</u>		<u>12.32%</u>

### Notes:

D - Direct

1. As defined under Part IV (B)(1)(b) of Annex "C" of SRC Rule 12, the "named executive officers" to be listed refer to the Chief Executive Officer and those that are the four (4) most highly compensated executive officers as of December 31, 2019.

\* less than 0.01%.

The other Executive Officers of the Company have no beneficial ownership over any shares of the Company as of December 31, 2019, namely:

1. Cornelio S. Mapa, Jr. - Senior Vice President
2. Bach Johann M. Sebastian - Senior Vice President
3. Nicasio L. Lim - Senior Vice President
4. Renato T. Salud - Senior Vice President
5. Aldrich T. Javellana - Senior Vice President and Treasurer
6. Francisco M. Del Mundo - Senior Vice President and Chief Financial Officer
7. Michael P. Liwanag - Senior Vice President
8. Alan D. Surposa - Vice President
9. Rosalinda F. Rivera - Corporate Secretary
10. Chona R. Ferrer - Deputy Treasurer
11. Arlene S. Denzon - Compliance Officer
12. Ian Pajantoy - Data Protection Officer

**(3) Voting Trust Holders of 5% or More**

As of December 31, 2019, there are no persons holding more than 5% of a class under a voting trust or similar agreement.

**(4) Changes in Control**

None

**Item 12. Certain Relationships and Related Transactions**

See Note 40 (Related Party Transactions Disclosures) of the Notes to Consolidated Financial Statements filed as part of this Form 17-A.

The Company and its subsidiaries and affiliates, in their regular conduct of business, have engaged in transactions with each other and with other affiliated companies, consisting principally of sales and purchases at market prices and advances made and obtained.

**PART IV - CORPORATE GOVERNANCE**

**Item 13. Corporate Governance**

The Group adheres to the principles and practices of good corporate governance, as embodied in its Corporate Governance Manual, Code of Ethics and related SEC Circulars. Continuous improvement and monitoring of governance and management policies have been undertaken to ensure that the Group observes good governance and management practices. This is to assure the shareholders that the Group conducts its business with the highest level of integrity, transparency and accountability.

The Group likewise consistently strives to raise its financial reporting standards by adopting and implementing prescribed Philippine Financial Reporting Standards (PFRSs).

**Item 14. Sustainability Report**

Please refer to the attached Sustainability Report.

## PART V - EXHIBITS AND SCHEDULES

### Item 15. Exhibits and Reports on SEC Form 17-C

(a) **Exhibits** - See accompanying Index to Exhibits (page 91)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

### (b) Reports on SEC Form 17-C (Current Report)

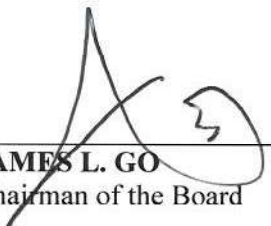
Following is a list of disclosures filed by JGSHI under SEC Form 17-C for the six month period from July 1, 2019 to December 31, 2019:

<b>Date of Disclosure</b>	<b>Subject Matter</b>
August 14, 2019	Press release entitled "JG Summit posted a record net income of Php17.6 billion in 1H2019"
August 16, 2019	Press release entitled "Clark International Airport Officially Handed Over to LIPAD Corporation"
September 19, 2019	Press release entitled "Veteran Fintech executive named as head of Gokongwei group's digital companies"
October 7, 2019	Change in Corporate Contact Details
November 11, 2019	Change in Directors and/or Officers - Disclosure on the passing of Mr. John L. Gokongwei, Jr.
November 11, 2019	Press release entitled "Statement on Mr. John L. Gokongwei, Jr. passing"
November 14, 2019	Press release entitled "JG Summit's 9M2019 net income surpasses its full-year 2018 earnings by 16%"
December 9, 2019	Joint Venture Agreement among JG Summit Holdings, Inc. (JGSHI), Deutsche Post Beteiligungen Holding GMBH (DHL) and ACCRAIN Holdings Corporation (ACCRAIN)

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of \_\_\_\_\_ on \_\_\_\_\_, 2020.

By:

  
**JAMES L. GO**  
 Chairman of the Board

  
**LANCIE Y. GOKONGWEI**  
 President and  
 Chief Executive Officer

  
**FRANCISCO M. DEL MUNDO**  
 Senior Vice President and  
 Chief Financial Officer

  
**ROSALINDA F. RIVERA**  
 Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_ day of April 2020 affiant(s) exhibiting to me his/their Residence Certificates, as follows:

<b>NAMES</b>	<b>CTC NO./TIN</b>	<b>DATE OF ISSUE</b>	<b>PLACE OF ISSUE</b>
James L. Go	14503308/124-294-200	January 21, 2020	Pasig City
Lance Y. Gokongwei	14503307/116-312-586	January 21, 2020	Pasig City
Francisco M. Del Mundo	Passport No: P9624564A	November 20, 2018	DFA NCR Central
Rosalinda F. Rivera	Drivers License No. N0194172453	June 12, 2018	Pasig City

**Notary Public**

**Doc. No.** \_\_\_\_\_  
**Book No.** \_\_\_\_\_  
**Page No.** \_\_\_\_\_  
**Series of** \_\_\_\_\_



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**

**CONSOLIDATED COMPANY FINANCIAL STATEMENTS**

Statement of Management’s Responsibility for Financial Statements.....	92
Report of Independent Auditors.....	94
Consolidated Statements of Financial Position as of December 31, 2019 and 2018.....	105
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017.....	107
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2019, 2018 and 2017.....	109
Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017.....	110
Notes to Consolidated Financial Statements.....	112

**SUPPLEMENTARY SCHEDULES**

I. Reconciliation of Retained Earnings Available for Dividend Declaration (Annex 68-D).....	304
II. Financial Soundness Indicator (Annex 68-E).....	305
III. Map of the relationships of the companies within the group.....	306
Supplementary Schedules Required by Annex 68-J	
A. Financial Assets.....	316
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties).....	317
C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements.....	318
D. Long-term Debt.....	319
E. Indebtedness to Related Parties (Long-Term Loans from Related Companies).....	320
F. Guarantees of Securities of Other Issuers.....	321
G. Capital Stock.....	322



# JG SUMMIT HOLDINGS, INC.

43<sup>rd</sup> FLOOR ROBINSONS EQUITABLE TOWER ASB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-7631, 637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

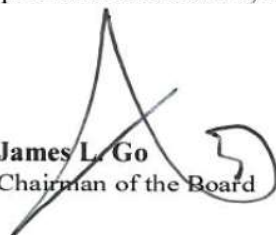
The management of JG Summit Holdings, Inc. and Subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance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

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

The Board of Directors (BOD) is responsible for overseeing the Group's financial reporting process.

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

SyCip Gorres Velayo & Co. (SGV), the independent auditors, appointed by the stockholders, has audited the consolidated financial statements of the Group 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.

  
**James L. Go**  
Chairman of the Board

  
**Lance Y. Gokongwei**  
President & Chief Executive Officer

  
**Francisco M. Del Mundo**  
Chief Financial Officer

Subscribed and Sworn to before me in the City of \_\_\_\_\_ this April \_\_\_\_, 2019 affiants(s) exhibiting to me his Residence Certificates/Passport, as follows:

<u>Names</u>	<u>CTC No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
James L. Go	14503308	01/21/2020	Pasig City
Lance Y. Gokongwei	14503307	01/21/2020	Pasig City
Francisco M. Del Mundo	Passport No. P9624564A		

Doc. No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Series of \_\_\_\_\_

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City

### Opinion

We have audited the accompanying consolidated financial statements of JG Summit Holdings, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



## **Real Estate Revenue Recognition**

The Group's revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the input method as the measure of progress in determining real estate revenue; and (4) determination of the actual costs incurred as cost of sales .

In evaluating whether collectability of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Group considers the selling price of the real estate property and other fees and charges collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and actual overhead relative to the total estimated development costs of the real estate project. The Group uses the cost accumulated by the accounting department to determine the actual costs incurred. The estimation of the total costs of the real estate project requires technical inputs by project engineers.

In determining the actual costs incurred to be recognized as cost of sales, the Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The disclosures related to the real estate revenue are included in Notes 2, 3 and 26 to the consolidated financial statements.

### *Audit Response*

We obtained an understanding of the revenue recognition process.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We validated the analysis through examination of the list of cancelled sales and sales listing.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the input method in determining real estate revenue and for determining cost of sales, we obtained an understanding of the Group's processes for determining the percentage of completion (POC), including the cost accumulation process, and for determining and updating of total estimated costs, and performed tests of the relevant controls on these processes. We assessed the competence and objectivity of the project engineers by reference to their qualifications, experience and reporting responsibilities. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to the supporting documents such as purchase order, billings and invoices of



contractors and other documents evidencing receipt of materials and services from contractors. We visited selected project sites and made relevant inquiries with project engineers. We performed test computation of the percentage of completion calculation of management. For selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details such as capital fulfillment plan, capital expenditure requests and related executive committee approvals. We likewise performed inquiries with the project engineers for the revisions.

### **Recoverability of Goodwill and Intangible Assets**

As of December 31, 2019, the Group's goodwill attributable to the acquisition of Consolidated Snacks, Pty. Ltd., Griffin's Food Limited and other entities amounted to ₱32.0 billion. The Group's intangible assets with indefinite useful lives pertaining to trademarks and product formulation amounted to ₱9.4 billion and ₱0.4 billion, respectively. These items are significant to the consolidated financial statements. Under PFRS, the Group is required to test annually the amount of goodwill and intangible assets with indefinite useful lives for impairment. Accordingly, management has performed an impairment test on its goodwill and other intangible assets with indefinite useful lives. Management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the long-term growth rate in determining value-in-use, as well as EBITDA multiples in estimating fair value less cost to sell.

The disclosures in relation to goodwill and intangible assets are included in Notes 3, 18 and 19 to the consolidated financial statements.

#### *Audit response*

We reviewed the value-in-use and fair value less cost to sell (FVLCTS) calculations prepared by management. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate, discount rate and the long-term growth rate in determining value-in-use, as well as EBITDA multiples. We compared the key assumptions used, such as revenue growth rate against the historical performance of the cash generating unit, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. For FVLCTS calculations, we evaluated the reasonableness of the valuation by comparison with recent comparable market transactions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible assets with indefinite useful lives.

### **Accounting for Investment in an Associate**

The Group has an investment in Manila Electric Company (Meralco) that is accounted for under the equity method. For the year ended December 31, 2019, the Group's share in the net income of Meralco amounted to ₱6.7 billion and accounts for 16% of the Group's consolidated net income.

The Group's share in Meralco's net income is significantly affected by Meralco's revenues from the sale of electricity which arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within Meralco's franchise area. The revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over



the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes; and (c) the reliability of the IT systems involved in processing the billing transactions. In addition, Meralco is involved in certain proceedings and claims for which Meralco has recognized provisions for probable costs and/or expense, which may be incurred, and/or has disclosed relevant information about such contingencies. The determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

The disclosures in relation to investments in associates are included in Note 14 to the consolidated financial statements.

#### *Audit response*

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the Energy Regulatory Commission-approved rates and formulae, as well as actual costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT system supporting the revenue process.

We also examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized, and involved our internal specialists when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from internal and external legal counsels. We evaluated the position of the management by considering the relevant laws, rulings and jurisprudence.

We obtained the financial information of Meralco for the year ended December 31, 2019 and recomputed the Group's share in total comprehensive income for the year ended December 31, 2019.

#### **Adequacy of Allowance for Credit Losses on Finance Receivables from the Banking Segment**

The Group's adoption of the expected credit loss (ECL) model for loans receivables of its banking business is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

Refer to Notes 3 and 11 to the consolidated financial statements for the disclosures on the details of the allowance for credit losses using the ECL models.

#### *Audit response*

We obtained an understanding of the methodologies and models used for the Group's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments*,



to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) reviewed loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's lending portfolios and broader industry knowledge; and (h) tested the model through backtesting of prior year loss rates versus actual observed default rates.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on per portfolio basis. We reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

### **Adoption of PFRS 16, *Leases***

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liability amounting to ₱18.6 billion and ₱19.3 billion, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱6.6 billion and ₱715.2 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 3 and 42 to the consolidated financial statements.



*Audit response*

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and Philippine Accounting Standard 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Impairment Testing of Property, Plant and Equipment**

As of December 31, 2019, the Group's property, plant and equipment relating to its petrochemicals business amounted to ₱40.7 billion. In 2014, an impairment provision was recorded to reduce the carrying values of machinery and equipment, and building and improvements to their recoverable values. In 2019, the Group made a capital investment amounting to ₱17.0 billion to the petrochemical business to fund its turnaround maintenance and reliability improvements in its building and expansion projects with the goal of introducing new products in 2020. Following a review of the business, the outlook for the industry and operating plans, management has assessed the carrying values of machinery and equipment, and building and improvements and a reversal of impairment loss of ₱2.3 billion has been recorded to adjust the carrying values of certain machinery and equipment, and building and improvements to their estimated recoverable values, which is the higher of fair value less cost of disposal and value-in-use. Management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate and discount rate.

The disclosures in relation to property, plant and equipment and the related reversal of impairment losses are included in Notes 3, 16 and 34 to the consolidated financial statements.

*Audit response*

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate and discount rate. We compared the key assumptions used such as revenue growth rate against the historical performance of the cash generating unit, industry/market outlook, and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of property and equipment.





## **Other Information**

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

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

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of



not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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



The engagement partner on the audit resulting in this independent auditor's report is Vicky Lee Salas.

SYCIP GORRES VELAYO & CO.



Vicky Lee Salas  
Partner

CPA Certificate No. 86838

SEC Accreditation No. 0115-AR-4 (Group A),  
April 16, 2019, valid until April 15, 2022

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2018,  
February 14, 2018, valid until February 13, 2021

PTR No. 8125248, January 7, 2020, Makati City

April 13, 2020



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City, Metro Manila

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of JG Summit Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated April 13, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Vicky Lee Salas  
Partner

CPA Certificate No. 86838  
SEC Accreditation No. 0115-AR-4 (Group A),  
April 16, 2019, valid until April 15, 2022  
Tax Identification No. 129-434-735  
BIR Accreditation No. 08-001998-53-2018,  
February 14, 2018, valid until February 13, 2021  
PTR No. 8125248, January 7, 2020, Makati City

April 13, 2020



## **INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City, Metro Manila

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of JG Summit Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated April 13, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Vicky Lee Salas  
Partner

CPA Certificate No. 86838  
SEC Accreditation No. 0115-AR-4 (Group A),  
April 16, 2019, valid until April 15, 2022  
Tax Identification No. 129-434-735  
BIR Accreditation No. 08-001998-53-2018,  
February 14, 2018, valid until February 13, 2021  
PTR No. 8125248, January 7, 2020, Makati City

April 13, 2020



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	₱64,343,249,162	₱49,194,676,441
Financial assets at fair value through profit or loss (Note 9)	4,384,644,970	3,650,524,523
Financial assets at fair value through other comprehensive income (Note 10)	22,259,890,046	23,915,670,876
Receivables (Note 11)	47,712,909,823	43,675,353,273
Inventories (Note 12)	68,513,876,509	63,472,037,028
Biological assets (Note 17)	733,435,525	741,719,637
Contract assets (Note 26)	3,007,038,670	5,088,356,660
Other current assets (Note 13)	23,200,634,578	24,566,599,212
Total Current Assets	<b>234,155,679,283</b>	<b>214,304,937,650</b>
<b>Noncurrent Assets</b>		
Financial assets at fair value through other comprehensive income (Note 10)	24,050,346,528	19,457,411,625
Receivables (Note 11)	60,913,547,800	49,851,486,164
Investment securities at amortized cost (Note 10)	11,357,261,241	12,597,089,717
Investments in associates and joint ventures (Note 14)	151,691,572,588	144,914,597,233
Property, plant and equipment (Note 16)	259,242,816,964	218,273,655,227
Investment properties (Note 15)	99,000,246,036	93,816,970,875
Right-of-use assets (Note 42)	20,531,421,297	—
Contract assets (Note 26)	7,843,135,383	6,444,995,326
Goodwill (Note 19)	32,005,604,356	32,005,604,356
Intangible assets (Note 18)	13,898,390,399	13,954,424,592
Biological assets (Note 17)	224,128,072	366,184,414
Other noncurrent assets (Note 20)	13,395,368,730	13,299,658,655
Total Noncurrent Assets	<b>694,153,839,394</b>	<b>604,982,078,184</b>
	<b>₱928,309,518,677</b>	<b>₱819,287,015,834</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Notes 21 and 42)	₱146,327,371,857	₱132,655,835,417
Short-term debts (Note 23)	54,047,410,004	35,453,723,993
Current portion of long-term debts (Note 23)	6,819,093,642	30,962,269,832
Contract liabilities (Note 26)	14,184,663,585	12,931,513,843
Income tax payable	1,771,270,985	1,776,773,241
Other current liabilities (Note 22)	21,989,131,302	15,639,061,129
Total Current Liabilities	<b>245,138,941,375</b>	<b>229,419,177,455</b>
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 23)	212,116,441,065	179,286,697,516
Deferred tax liabilities (Note 38)	8,318,082,154	7,877,223,942
Contract liabilities (Note 26)	2,958,482,166	2,378,690,953
Other noncurrent liabilities (Note 24)	51,130,429,050	32,847,365,429
Total Noncurrent Liabilities	<b>274,523,434,435</b>	<b>222,389,977,840</b>
Total Liabilities	<b>519,662,375,810</b>	<b>451,809,155,295</b>

(Forward)



	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company:		
Paid-up capital (Note 25)	<b>₱30,755,866,814</b>	₱30,755,866,814
Retained earnings (Note 25)	<b>267,972,795,556</b>	239,101,689,440
Equity reserve (Note 25)	<b>30,870,148,859</b>	29,573,169,046
Other comprehensive losses (Note 36)	<b>(24,787,168,710)</b>	(22,844,854,470)
	<b>304,811,642,519</b>	276,585,870,830
Non-controlling interests (Note 25)	<b>103,835,500,348</b>	90,891,989,709
Total Equity	<b>408,647,142,867</b>	367,477,860,539
	<b>₱928,309,518,677</b>	₱819,287,015,834

*See accompanying Notes to Consolidated Financial Statements.*



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2019	2018	2017
<b>REVENUE</b>			
Sale of goods and services (Note 26):			
Foods	₱134,174,527,579	₱127,769,949,329	₱125,007,824,013
Air transportation	84,806,810,363	74,113,776,885	68,029,131,426
Real estate and hotels	30,210,187,210	29,467,564,096	22,448,257,224
Petrochemicals	29,053,982,086	42,351,966,134	41,406,489,496
Banking	8,121,662,955	6,132,382,567	4,475,828,582
Equity in net earnings of associates and joint ventures (Note 14)	13,357,511,170	10,181,841,883	9,908,717,906
Dividend income (Note 28)	1,348,711,916	1,227,572,942	1,451,837,755
Supplementary businesses	749,175,892	670,963,828	717,368,505
	<b>301,822,569,171</b>	<b>291,916,017,664</b>	<b>273,445,454,907</b>
<b>COST OF SALES AND SERVICES</b>			
Cost of sales (Note 30)	122,977,293,487	129,734,114,999	119,176,312,217
Cost of services (Note 30)	66,804,207,760	63,858,758,345	52,378,128,769
	<b>189,781,501,247</b>	<b>193,592,873,344</b>	<b>171,554,440,986</b>
<b>GROSS INCOME</b>	<b>112,041,067,924</b>	<b>98,323,144,320</b>	<b>101,891,013,921</b>
<b>NET OPERATING EXPENSES</b>			
General and administrative expenses (Note 31)	57,983,100,861	52,912,530,779	49,910,047,737
Provision for (reversal of) impairment losses and others (Note 34)	(2,144,968,452)	145,801,581	248,080,372
	<b>55,838,132,409</b>	<b>53,058,332,360</b>	<b>50,158,128,109</b>
<b>OPERATING INCOME</b>	<b>56,202,935,515</b>	<b>45,264,811,960</b>	<b>51,732,885,812</b>
<b>OTHER INCOME (LOSSES)</b>			
Financing costs and other charges (Note 35)	(10,965,846,901)	(9,635,374,773)	(7,836,137,934)
Finance income (Note 27)	2,096,212,143	1,745,547,717	1,243,424,967
Foreign exchange gains (losses)	828,657,682	(2,854,338,888)	(902,717,961)
Market valuation gains (losses) on financial assets at fair value through profit or loss - net (Note 9)	703,885,932	(683,102,223)	696,406,991
Market valuation losses on derivative financial instruments - net (Note 8)	(63,352,472)	(336,784,218)	(155,230,460)
Others (Notes 21 and 29)	(764,665,540)	(459,468,426)	241,871,584
<b>INCOME BEFORE INCOME TAX</b>	<b>48,037,826,359</b>	<b>33,041,291,149</b>	<b>45,020,502,999</b>
<b>PROVISION FOR INCOME TAX</b> (Note 38)	<b>5,372,314,510</b>	<b>5,143,793,706</b>	<b>5,501,468,891</b>
<b>NET INCOME</b>	<b>42,665,511,849</b>	<b>27,897,497,443</b>	<b>39,519,034,108</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b> (Note 36)			
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustments	1,200,011,485	1,486,465,748	(1,183,796,363)
Net gains (losses) on financial assets at FVOCI (debt securities)	1,496,992,980	(2,041,409,693)	–
Share in the net unrealized gains (losses) on financial assets at FVOCI of associates (debt securities)	176,256,150	(137,490,800)	–
Net gains (losses) from cash flow hedges (Note 8)	175,171,778	(3,336,553)	(11,359,660)
Share in net unrealized gains on available-for-sale investments of an associate (Notes 10 and 14)	–	–	24,394,385
Net gains on available-for-sale investments (Note 10)	–	–	1,759,433,181

(Forward)





	Years Ended December 31		
	2019	2018	2017
Items that will not be reclassified to profit or loss:			
Net losses on financial assets at FVOCI (equity securities) (Note 10)	(₱2,403,711,068)	(₱5,897,064,704)	₱-
Remeasurements of the net defined benefit liability (Note 37)	(588,565,201)	312,977,712	116,814,170
Share in remeasurements of the net defined benefit liability of associates (Note 14)	(1,170,380,505)	387,758,074	(326,973,548)
Share in the net unrealized losses on financial assets at FVOCI of associates (equity securities)	-	(3,913,766)	-
	<b>(1,114,224,381)</b>	<b>(5,896,013,982)</b>	<b>378,512,165</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱41,551,287,468</b>	<b>₱22,001,483,461</b>	<b>₱39,897,546,273</b>
<b>NET INCOME ATTRIBUTABLE TO</b>			
Equity holders of the Parent Company	<b>₱31,285,246,332</b>	<b>₱19,186,040,273</b>	<b>₱29,369,537,456</b>
Non-controlling interests (Note 25)	<b>11,380,265,517</b>	<b>8,711,457,170</b>	<b>10,149,496,652</b>
	<b>₱42,665,511,849</b>	<b>₱27,897,497,443</b>	<b>₱39,519,034,108</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Equity holders of the Parent Company	<b>₱29,342,932,092</b>	<b>₱12,843,653,219</b>	<b>₱30,338,629,205</b>
Non-controlling interests (Note 25)	<b>12,208,355,376</b>	<b>9,157,830,242</b>	<b>9,558,917,068</b>
	<b>₱41,551,287,468</b>	<b>₱22,001,483,461</b>	<b>₱39,897,546,273</b>
<b>Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 39)</b>			
Basic/diluted earnings per share	<b>₱4.37</b>	<b>₱2.68</b>	<b>₱4.10</b>

*See accompanying Notes to Consolidated Financial Statements.*



# JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2019, 2018 and 2017  
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

	Paid-up Capital (Note 25)			Retained Earnings (Note 25)			Equity Reserve (Note 25)	Other Comprehensive Income (Note 36)							NON-CONTROLLING INTERESTS (Note 25)	TOTAL EQUITY
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings		Cumulative Translation Adjustments (Note 25)	Net Unrealized Gains (Losses) on Available-for-Sale Investments (Note 10)	Net Unrealized Gains (Losses) on Financial Assets at FVOCI (Note 10)	Net Unrealized Losses on Cash Flow Hedge (Note 8)	Remeasurements of the Net Defined Benefit Liability (Note 37)	Total Other Comprehensive Income (Loss)	Total		
Balance at January 1, 2019	₱7,202,841,657	₱23,553,025,157	₱30,755,866,814	₱121,317,360,041	₱117,784,329,399	₱239,101,689,440	₱29,573,169,046	(₱538,392,593)	₱-	(₱22,647,670,192)	₱2,541,653	₱338,666,662	(₱22,844,854,470)	₱276,585,870,830	₱90,891,989,709	₱367,477,860,539
Effect of adoption of new accounting standard and interpretation (Note 2)	-	-	-	250,911,197	-	250,911,197	-	-	-	-	-	-	-	250,911,197	163,040,229	413,951,426
Balance at January 1, 2019, as restated	7,202,841,657	23,553,025,157	30,755,866,814	121,568,271,238	117,784,329,399	239,352,600,637	29,573,169,046	(538,392,593)	-	(22,647,670,192)	2,541,653	338,666,662	(22,844,854,470)	276,836,782,027	91,055,029,938	367,891,811,965
Total comprehensive income	-	-	-	31,285,246,332	-	31,285,246,332	-	673,475,522	-	(1,184,951,348)	119,340,853	(1,550,179,267)	(1,942,314,240)	29,342,932,092	12,208,355,376	41,551,287,468
Reversal of appropriation of retained earnings	-	-	-	24,500,000,000	(24,500,000,000)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of retained earnings	-	-	-	(25,000,000,000)	25,000,000,000	-	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(2,665,051,413)	-	(2,665,051,413)	-	-	-	-	-	-	-	(2,665,051,413)	-	(2,665,051,413)
Cash dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,768,961,389)	(5,768,961,389)
Property dividends (subsidiary)	-	-	-	-	-	-	(18,260,801)	-	-	-	-	-	-	(18,260,801)	(20,477,594)	(38,738,395)
Increase in subsidiary's treasury shares	-	-	-	-	-	-	(16,132,408)	-	-	-	-	-	-	(16,132,408)	(104,451,717)	(120,584,125)
Incorporation of a subsidiary (by a subsidiary)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	159,250,000	159,250,000
Sale of equity interest in a subsidiary (Note 44)	-	-	-	-	-	-	1,331,373,022	-	-	-	-	-	-	1,331,373,022	6,066,755,734	7,398,128,756
Issuance of shares by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	240,000,000	240,000,000
<b>Balance at December 31, 2018</b>	<b>₱7,202,841,657</b>	<b>₱23,553,025,157</b>	<b>₱30,755,866,814</b>	<b>₱149,688,466,157</b>	<b>₱118,284,329,399</b>	<b>₱267,972,795,556</b>	<b>₱30,870,148,859</b>	<b>₱135,082,929</b>	<b>₱-</b>	<b>(₱23,832,621,540)</b>	<b>₱121,882,506</b>	<b>(₱1,211,512,605)</b>	<b>(₱24,787,168,710)</b>	<b>₱304,811,642,519</b>	<b>₱103,835,500,348</b>	<b>₱408,647,142,867</b>
Balance at January 1, 2018	₱7,202,841,657	₱23,553,025,157	₱30,755,866,814	₱89,937,827,588	₱117,784,329,399	₱207,722,156,987	₱29,638,831,336	(₱1,302,514,721)	₱1,268,554,501	₱-	₱4,385,162	(₱249,924,693)	(₱279,499,751)	₱267,837,355,386	₱78,582,192,615	₱346,419,548,001
Effect of adoption of new accounting standard and interpretation	-	-	-	14,354,344,677	-	14,354,344,677	-	-	(1,268,554,501)	(14,954,413,164)	-	-	(16,222,967,665)	(1,868,622,988)	(654,723,807)	(2,523,346,795)
Balance at January 1, 2018, as restated	7,202,841,657	23,553,025,157	30,755,866,814	104,292,172,265	117,784,329,399	222,076,501,664	29,638,831,336	(1,302,514,721)	-	(14,954,413,164)	4,385,162	(249,924,693)	(16,502,467,416)	265,968,732,398	77,927,468,808	343,896,201,206
Total comprehensive income	-	-	-	19,186,040,273	-	19,186,040,273	-	764,122,128	-	(7,693,257,028)	(1,843,509)	588,591,355	(6,342,387,054)	12,843,653,219	9,157,830,242	22,001,483,461
Cash dividends (Note 25)	-	-	-	(2,160,852,497)	-	(2,160,852,497)	-	-	-	-	-	-	-	(2,160,852,497)	(5,068,481,993)	(7,229,334,490)
Issuance of shares by a subsidiary	-	-	-	-	-	-	(41,366,805)	-	-	-	-	-	-	(41,366,805)	8,987,219,560	8,945,852,755
Acquisition of non-controlling interest by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	120,000,000	120,000,000
Increase in subsidiary's treasury shares	-	-	-	-	-	-	(24,295,485)	-	-	-	-	-	-	(24,295,485)	(231,921,908)	(256,217,393)
Sale of investment by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(125,000)	(125,000)
<b>Balance at December 31, 2017</b>	<b>₱7,202,841,657</b>	<b>₱23,553,025,157</b>	<b>₱30,755,866,814</b>	<b>₱121,317,360,041</b>	<b>₱117,784,329,399</b>	<b>₱239,101,689,440</b>	<b>₱29,573,169,046</b>	<b>(₱538,392,593)</b>	<b>₱-</b>	<b>(₱22,647,670,192)</b>	<b>₱2,541,653</b>	<b>₱338,666,662</b>	<b>(₱22,844,854,470)</b>	<b>₱276,585,870,830</b>	<b>₱90,891,989,709</b>	<b>₱367,477,860,539</b>
Balance at January 1, 2017	₱7,202,841,657	₱23,553,025,157	₱30,755,866,814	₱66,285,085,796	₱114,084,329,399	₱180,369,415,195	₱29,638,831,336	(₱673,326,887)	(₱596,224,679)	₱-	₱10,661,590	₱10,298,476	(₱1,248,591,500)	₱239,515,521,845	₱73,268,333,356	₱312,783,855,201
Total comprehensive income	-	-	-	29,369,537,456	-	29,369,537,456	-	(629,187,834)	1,864,779,180	-	(6,276,428)	(260,223,169)	969,091,749	30,338,629,205	9,558,917,068	39,897,546,273
Appropriation of retained earnings	-	-	-	(3,700,000,000)	3,700,000,000	-	-	-	-	-	-	-	-	-	-	-
Cash dividends (Note 25)	-	-	-	(2,016,795,664)	-	(2,016,795,664)	-	-	-	-	-	-	-	(2,016,795,664)	(4,245,057,809)	(6,261,853,473)
<b>Balance at December 31, 2017</b>	<b>₱7,202,841,657</b>	<b>₱23,553,025,157</b>	<b>₱30,755,866,814</b>	<b>₱89,937,827,588</b>	<b>₱117,784,329,399</b>	<b>₱207,722,156,987</b>	<b>₱29,638,831,336</b>	<b>(₱1,302,514,721)</b>	<b>₱1,268,554,501</b>	<b>₱-</b>	<b>₱4,385,162</b>	<b>(₱249,924,693)</b>	<b>(₱279,499,751)</b>	<b>₱267,837,355,386</b>	<b>₱78,582,192,615</b>	<b>₱346,419,548,001</b>

See accompanying Notes to Consolidated Financial Statements.



**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱48,037,826,359</b>	₱33,041,291,149	₱45,020,502,999
Adjustments for:			
Depreciation and amortization (Notes 15,16, 18 and 46)	<b>30,012,996,106</b>	20,567,280,014	18,936,739,260
Equity in net earnings of associates and joint ventures (Note 14)	<b>(13,357,511,170)</b>	(10,181,841,883)	(9,908,717,906)
Interest expense (Note 35)	<b>10,735,461,364</b>	9,377,151,320	7,635,388,645
Provision for (recovery from) impairment losses (Note 34)	<b>(2,144,971,130)</b>	137,853,532	245,210,325
Interest income (Note 27)	<b>(2,096,212,143)</b>	(1,745,547,717)	(1,243,424,967)
Dividend income (Note 28)	<b>(1,348,711,916)</b>	(1,227,572,942)	(1,451,837,755)
Unrealized foreign exchange (gains) losses	<b>(828,657,682)</b>	2,854,338,888	902,717,961
Market valuation losses (gains) on financial assets at fair value through profit or loss (Note 9)	<b>(703,885,932)</b>	683,102,223	(696,406,991)
Gain on sale of financial assets at fair value through OCI	<b>(277,810,114)</b>	(34,208,528)	–
Loss (gain) on sale and retirement of property, plant and equipment (Note 16)	<b>223,819,896</b>	(37,107,773)	(357,609,567)
Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks (Note 17)	<b>70,184,825</b>	467,471,975	(118,841,072)
Market valuation losses on derivative financial instruments - net (Note 8)	<b>63,352,472</b>	336,784,218	155,230,460
Gain on sale of investment securities at amortized cost	<b>(62,879,198)</b>	–	(14,747,467)–
Gain on retirement and disposal of investment properties (Note 15)	<b>(17,356,519)</b>	–	(5,323,947)
Inventory obsolescence and market decline (Note 34)	<b>2,678</b>	7,948,049	2,870,047
Gain on sale of investments in associates and joint ventures (Note 14)	<b>–</b>	(297,544,736)	–
Operating income before changes in working capital accounts	<b>68,305,647,896</b>	53,949,397,789	59,101,750,025
Changes in operating assets and liabilities:			
Decrease (increase) in			
Financial assets at fair value through profit or loss	<b>(231,289,647)</b>	10,357,763,247	1,083,366,574
Derivative assets	<b>(49,787,891)</b>	712,613,827	(139,646,082)
Receivables	<b>(14,128,506,697)</b>	(2,659,365,975)	(20,539,411,718)
Inventories	<b>(4,573,432,766)</b>	(6,160,883,910)	(4,420,618,310)
Biological assets	<b>(27,562,723)</b>	(272,030)	(262,992,645)
Other current assets	<b>3,004,665,848</b>	(15,845,215,858)	(2,917,451,126)
Increase (decrease) in			
Accounts payable and accrued expenses	<b>12,832,086,217</b>	14,830,290,358	18,070,891,006
Unearned revenue	<b>771,081,559</b>	2,060,166,577	908,598,728
Other current liabilities	<b>909,221,590</b>	12,235,065,367	(123,854,705)
Net cash generated from operations	<b>66,812,123,386</b>	69,479,559,392	50,760,631,747
Interest paid	<b>(10,981,560,781)</b>	(9,179,922,623)	(7,484,610,422)
Income taxes paid	<b>(5,346,484,101)</b>	(5,282,816,210)	(6,091,437,965)
Interest received	<b>1,921,379,426</b>	1,622,433,282	1,118,435,799
Net cash provided by operating activities	<b>52,405,457,930</b>	56,639,253,841	38,303,019,159
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Notes 16 and 46)	<b>(62,087,888,513)</b>	(56,823,519,232)	(28,120,671,763)
Investment properties (Notes 15 and 46)	<b>(10,060,530,771)</b>	(11,500,194,701)	(15,399,228,857)
Investment securities at amortized cost	<b>(196,260,131)</b>	(796,741,357)	–
Investments in associates and joint ventures (Note 14)	<b>(1,544,789,775)</b>	(3,273,567,354)	(7,402,986,821)
Financial assets at fair value through other comprehensive income (Note 10)	<b>(28,047,982,472)</b>	(17,076,977,295)	–
Intangible assets (Note 18)	<b>(137,886,422)</b>	(197,000,528)	(282,472,977)
Subsidiaries, net of cash acquired (Notes 14 and 44)	<b>–</b>	(173,995,570)	–

(Forward)



	<b>Years Ended December 31</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Available-for-sale investments (Note 10)	₱-	₱-	(₱15,996,196,225)
Held-to-maturity investments (Note 10)	-	-	(14,828,885)
Proceeds from sale of business without loss control (Note 44)	<b>7,204,512,000</b>	-	-
Dividends received on investments in associates and joint ventures (Note 14)	<b>6,866,259,987</b>	5,914,109,460	6,604,286,345
Dividends received (Note 28)	<b>1,348,711,916</b>	1,227,572,942	1,451,837,755
Decrease in the amounts of other noncurrent assets (Note 20)	<b>(1,810,085,103)</b>	(11,147,232,124)	(2,011,128,916)
Proceeds from sale/maturity of:			
Financial assets at fair value through other comprehensive income	<b>24,243,072,327</b>	2,808,442,571	-
Property, plant and equipment (Note 16)	<b>4,453,351,444</b>	4,783,915,239	8,948,396,503
Investment property	<b>50,004,269</b>	-	22,529,110
Investment securities	<b>1,498,635,579</b>	171,000,000	-
Investment in subsidiary	-	56,079,593	-
Available-for-sale investments	-	-	13,145,035,547
Held-to-maturity investments (Note 10)	-	-	308,928,275
<b>Net cash used in investing activities</b>	<b>(58,220,875,665)</b>	<b>(86,028,108,356)</b>	<b>(38,746,500,909)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net availments (payments) of:			
Short-term debts	<b>85,967,968,788</b>	127,722,440,023	91,848,238,085
Long-term debts	<b>47,449,632,216</b>	62,986,402,288	31,243,531,210
Dividends paid to non-controlling interests (Note 25)	<b>(5,768,961,389)</b>	(5,068,481,993)	(4,245,057,809)
Increase in other noncurrent liabilities (Note 24)	<b>5,114,680,765</b>	7,405,661,745	10,326,258,863
Settlements of:			
Short-term debts	<b>(67,145,701,321)</b>	(138,428,074,125)	(108,257,955,312)
Long-term debts (Note 23)	<b>(35,529,183,139)</b>	(37,019,495,036)	(11,710,904,401)
Principal portion of lease liabilities	<b>(6,738,059,926)</b>	-	-
Dividends paid on:			
Common shares (Note 25)	<b>(2,650,251,413)</b>	(2,148,852,497)	(2,005,595,664)
Preferred shares (Note 25)	<b>(14,800,000)</b>	(12,000,000)	(11,200,000)
Cash received from non-controlling interest for newly incorporated subsidiary	<b>399,250,000</b>	120,000,000	-
Subsidiary's purchase of treasury shares	<b>(120,584,125)</b>	(256,217,393)	-
Issuance of long-term negotiable certificate of deposit	-	-	4,182,320,000
Net proceeds from stock rights offering of a subsidiary	-	7,745,852,755	-
Cash received from non-controlling interest for issuance of shares by a subsidiary	-	1,200,000,000	-
<b>Net cash provided by financing activities</b>	<b>20,963,990,456</b>	<b>24,247,235,767</b>	<b>11,369,634,972</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>15,148,572,721</b>	<b>(5,141,618,748)</b>	<b>10,926,153,222</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>49,194,676,441</b>	<b>54,336,295,189</b>	<b>43,410,141,967</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	<b>₱64,343,249,162</b>	<b>₱49,194,676,441</b>	<b>₱54,336,295,189</b>

See accompanying Notes to Consolidated Financial Statements.



# JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information

JG Summit Holdings, Inc. (the Parent Company) was incorporated in the Philippines on November 23, 1990 with a corporate term of 50 years from the date of incorporation. On May 8, 2014, the Board of Directors (BOD) of the Parent Company approved its amendment to Article Three of the Amended Articles of Incorporation to change the principal office address of the Parent Company from “Metro Manila, Philippines” to “43rd Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City” in accordance with Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2014.

The Parent Company, a holding company, is the ultimate parent of the JG Summit Group (the Group). The Group has business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, telecommunications, petrochemicals, air transportation and power distribution.

The Group conducts business throughout the Philippines, but primarily in and around Metro Manila where it is based. The Group also has branded food businesses in the People’s Republic of China, in the Association of Southeast Asian Nations region, New Zealand and Australia and an interest in a property development business in Singapore and People’s Republic of China.

The principal activities of the Group are further described in Note 6, *Segment Information*, to the consolidated financial statements.

### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), financial assets at fair value through other comprehensive income (FVOCI), and derivative financial instruments that are measured at fair value, and certain biological assets and agricultural produce that are measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine peso (₱), the functional currency of the Parent Company. All values are rounded to the nearest peso except when otherwise stated.

A summary of the functional currencies of certain foreign subsidiaries within the Group follows:

Subsidiaries	Country of Incorporation	Functional Currency
<b>Parent Company</b>		
JG Summit Cayman Limited	Cayman Islands	US Dollar
JG Summit Philippines, Ltd. and Subsidiaries		
JG Summit Philippines, Ltd.	-do-	-do-
JGSH Philippines, Limited	British Virgin Islands	-do-
Telegraph Development, Ltd.	-do-	-do-
Summit Top Investment, Ltd.	-do-	-do-
JG Digital Equity Ventures and subsidiary		
JG Digital Capital Pte. Ltd.	Singapore	Singapore Dollar

(Forward)



Subsidiaries	Country of Incorporation	Functional Currency
<b>URC Group</b>		
Universal Robina (Cayman), Limited	Cayman Islands	US Dollar
URC Philippines, Limited	British Virgin Islands	-do-
URC Asean Brands Co. Ltd.	-do-	-do-
Hong Kong China Foods Co. Ltd.	-do-	-do-
URC International Co., Ltd.	-do-	-do-
URC China Commercial Co. Ltd.	China	Chinese Renminbi
Xiamen Tongan Pacific Food Co., Ltd.	-do-	-do-
Shanghai Peggy Foods Co., Ltd.	-do-	-do-
Guangzhou Peggy Foods Co., Ltd.	-do-	-do-
Jiangsu Acesfood Industrial Co.	-do-	-do-
Shantou SEZ Shanfu Foods Co., Ltd.	-do-	-do-
Shantou Peggy Co., Ltd.	-do-	-do-
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
Siam Pattanasin Co., Ltd.	-do-	-do-
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
Advanson International Pte. Ltd.	-do-	-do-
Acesfood Network Pte. Ltd.	-do-	-do-
Acesfood Holdings Pte. Ltd.	-do-	-do-
Acesfood Distributors Pte. Ltd.	-do-	-do-
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC (Myanmar) Co. Ltd.	Myanmar	Myanmar Kyats
URC Hong Kong Company Limited	China	Hong Kong Dollar
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
URC Hanoi Company Limited	-do-	-do-
URC Central Co. Ltd.	-do-	-do-
Ricellent Sdn. Bhd.	Malaysia	Malaysian Ringgit
URC Snack Foods (Malaysia) Sdn. Bhd.	-do-	-do-
URC Oceania Company Ltd.	British Virgin Islands	US Dollar
Uni Snack Holding Company Ltd	Australia	Australian Dollar
Uni Snack Mid Company Ltd	-do-	-do-
URC New Zealand Holding Company Ltd.	New Zealand	New Zealand Dollar
URC New Zealand Finance Company Ltd.	-do-	-do-
Griffin's Foods Limited	-do-	-do-
Nice & Natural Limited	-do-	-do-
URC Australia Holding Company Ltd.	Australia	Australian Dollar
URC Australia Finance Company Ltd.	-do-	-do-
Consolidated Snacks Pty Ltd	-do-	-do-
Yarra Valley Group Holding Pty Ltd.	-do-	-do-
Snack Brands Australia Partnership	-do-	-do-
<b>RLC Group</b>		
Robinsons (Cayman) Limited	Cayman Islands	US Dollar
RLC Resources Ltd	British Virgin Islands	-do-
Land Century Holdings, Ltd.	China	Hong Kong Dollar
World Century Enterprise Ltd.	-do-	-do-
First Capital Development, Ltd	-do-	-do-
Chengdu Xin Yao Real Estate Development, Co. Ltd	-do-	Chinese Renminbi

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).



**Basis of Consolidation**

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

Subsidiaries	Country of Incorporation	Principal Place of Business	Effective Percentage of Ownership	
			2019	2018
<b>Food</b>				
Universal Robina Corporation (URC) and Subsidiaries	Philippines*	8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	55.25	55.25
CFC Corporation	-do-	-do-	55.25	55.25
Bio-Resource Power Generation Corporation	-do-	Manjuyod, Negros Oriental	55.25	55.25
Nissin-URC	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	28.17**	28.17**
URC Snack Ventures Inc. (formerly, Calbee-URC, Inc. (CURCI))	-do-	8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	55.25	55.25
URC Beverage Ventures Inc. (formerly, Hunt-URC (HURC))	-do-	8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	55.25	55.25
URC Philippines, Limited (URCPL)	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	55.25	55.25
URC International Co. Ltd. (URCICL) and Subsidiaries	-do-	-do-	55.25	55.25
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, British West Indies	55.25	55.25
URC China Commercial Co., Ltd.	China	318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China	55.25	55.25
<b>Air Transportation</b>				
CP Air Holdings, Inc. (CPAHI) and Subsidiaries	Philippines	2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City	100.00	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	-do-	67.64	67.64
CEBGO, Inc. (CEBGO)	-do-	AO-08-09 Mezzanine Level, Passenger Terminal Building, Clark International Airport, Clark Freeport Zone, Pampanga	67.64	67.64
<b>Real Estate and Hotels</b>				
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	60.97	60.97
Robinson's Inn, Inc.	-do-	-do-	60.97	60.97
Robinsons Realty and Management Corporation	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	60.97	60.97
Robinsons (Cayman) Limited	Cayman Islands	Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands	60.97	60.97
Robinsons Properties Marketing and Management Corporation	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City	60.97	60.97
Manhattan Buildings and Management Corp	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Artigas Center, Pasig City	60.97	60.97
Altus Angeles, Inc.	-do-	McArthur Highway, Balisage, Angeles City, Pampanga	31.09**	31.09**
Altus Property Ventures, Inc. (formerly Altus San Nicolas Corporation) (APVI)	-do-	Bogy. 1 San Francisco, San Nicolas, I locos Norte	-	60.97
Go Hotels Davao, Inc.	-do-	Lanang, Davao City	31.09**	31.09**
RLC Resources Ltd	British Virgin Islands	British Virgin Islands	60.97	60.97

(Forward)



Subsidiaries	Country of Incorporation	Principal Place of Business	Effective Percentage of Ownership	
			2019	2018
Land Century Holdings, Ltd.	China	Hong Kong	60.97	60.97
World Century Enterprise Ltd.	China	Hong Kong	60.97	60.97
First Capital Development, Ltd	China	Hong Kong	60.97	60.97
Chengdu Xin Yao Real Estate Development Co. Ltd.	China	China	60.97	60.97
Bacoor R and F Land Corporation (BRFLC)	Philippines	Philippines	42.68	42.68
Bonifacio Property Ventures, Inc.	Philippines	Philippines	60.97	60.97
Altus Mall Ventures, Inc.	Philippines	Philippines	60.97	60.97
RLGB Land Corporation (RLGB)	Philippines	Philippines	60.97	-
<b>Petrochemicals</b>				
JG Summit Petrochemical Corporation (JGSPC)	Philippines	Ground Floor, Cybergate Tower 1, EDSA corner, Pioneer Street, Mandaluyong City	100.00	100.00
JG Summit Olefins Corporation (JGSOC)	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	100.00	100.00
<b>Banking</b>				
Robinsons Bank Corporation (RBC) and a Subsidiary	-do-	17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City	60.00	60.00
Legazpi Savings Bank, Inc. (LSB)	-do-	Rizal Street, Barangay Sagpon, Albay, Legazpi City	60.00	60.00
<b>Supplementary Businesses</b>				
Altus Property Ventures, Inc. (formerly Altus San Nicolas Corporation) (APVI)	-do-	Bogy. 1 San Francisco, San Nicolas, I locos Norte	60.97	-
Digital Analytics Ventures, Inc. (DAVI)	-do-	42nd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City	45.17**	-
JG Digital Equity Ventures, Inc. (formerly Express Holdings, Inc. or EHI) and Subsidiary (JG DEV)	-do-	29th Floor, Galleria Corporate Center, EDSA, Quezon City	100.00	100.00
JG Digital Capital Pte. Ltd (JDCPL)	Singapore	168 Tagore Lane Singapore	100.00	100.00
JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries	Philippines	40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City	100.00	100.00
JG Summit Capital Markets Corporation (JGSMC)	-do-	-do-	100.00	100.00
Summit Internet Investments, Inc.	-do-	-do-	100.00	100.00
JG Summit Cayman, Ltd. (JGSCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands	100.00	100.00
JG Summit Philippines Ltd. (JGSPL) and Subsidiaries	-do-	-do-	100.00	100.00
JGSH Philippines, Limited	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola,	100.00	100.00
Telegraph Developments, Ltd.	-do-	-do-	100.00	100.00
Summit Top Investments, Ltd.	-do-	-do-	100.00	100.00
Unicon Insurance Brokers Corporation (UIBC)	Philippines	CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City	100.00	100.00
JG Summit Infrastructure Holdings Corporation	-do-	43rd Floor Robinsons Equitable Tower, ADB avenue, Corner Poveda Road, Pasig City	100.00	100.00
Merbau Corporation	-do-	Ground floor Cybergate Tower 1 Edsa cor Pioneer St. Mandaluyong City	100.00	100.00

(Forward)





Subsidiaries	Country of Incorporation	Principal Place of Business	Effective Percentage of Ownership	
			2019	2018
Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries	-do-	5th Floor Citibank Center, Makati	<b>100.00</b>	100.00
Fruits of the East, Inc.	-do-	Citibank Center, Paseo de Roxas, Makati	<b>100.00</b>	100.00
Hometel Integrated Management Corporation	-do-	-do-	<b>100.00</b>	100.00
King Leader Philippines, Inc.	-do-	5th Floor Citibank Center, Makati	<b>100.00</b>	100.00
Tropical Aqua Resources	-do-	-do-	<b>100.00</b>	100.00
United Philippines Oil Trading, Inc.	-do-	-do-	<b>100.00</b>	100.00
Samar Commodities Trading and Industrial Corporation	-do-	-do-	<b>100.00</b>	100.00

\* Certain subsidiaries are located in other countries, such as China, Malaysia, Singapore, Thailand, Vietnam, etc.

\*\* These are majority-owned subsidiaries of the Parent Company's directly-owned subsidiaries.



*Transfer of direct control over APVI*

On July 31, 2019, RLC declared its 93.89% stake in APVI as property dividends in favor of its registered shareholders. As a result, the Parent Company now has direct control over APVI. However, this has no impact in the consolidated financial statements.

*Incorporation of DAVI*

On December 4, 2018, the Group, through its majority-owned subsidiaries CAI and RLC and wholly-owned subsidiary JG DEV and in partnership with Robinsons Retail Holdings, Inc. (RRHI), launched DAVI, the conglomerate's data services firm.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, special purpose entities (SPE) should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one entity is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. In accordance with PFRS 10, the Group's consolidated financial statements include the accounts of SPEs namely: Boracay Leasing Limited (BLL), Surigao Leasing Limited (SLL), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL), Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL) and CAI Limited (CL). BLL, SLL, POALL, PTALL and PTHALL are SPEs in which the Parent Company does not have equity interest. BLL, SLL, POALL, PTALL, PTHALL, SCALL, TOADAC, SDALL and CL acquired the passenger aircraft for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt. In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.



All intragroup transactions, balances, income and expenses are eliminated in the consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Group.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss in the consolidated statement of comprehensive income.

#### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant PFRS. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.



If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest, if any, in the entity over the net fair value of the identifiable net assets recognized.

If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest, if any, the excess is recognized immediately in profit or loss in the consolidated statement of comprehensive income as a bargain purchase gain.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2019. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

- PFRS 16, *Leases*

In 2019, the Group adopted PFRS 16 which sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – lease of “low-value” assets and short term leases (i.e., leases with a term of 12 months or less). At the commencement date, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., right-of-use or ROU asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset. Upon occurrence of certain events (e.g., a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments), lessees are required to remeasure the lease liability and recognize the remeasurement as an adjustment to the ROU asset. Lessor accounting under PFRS 16 is substantially unchanged in comparison to the accounting under PAS 17 and related interpretations.

In the adoption of PFRS 16, the Group has chosen to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, January 1, 2019. Therefore, the comparative information was not restated and continues to be reported under PAS 17 and related interpretations. In using the modified



retrospective approach, the Group has availed of the following practical expedients provided under the standard:

- PFRS 16 was not applied to leases for which the lease term is within 12 months from the date of initial application;
- The Group has relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Hindsight was used in determining the lease term for those contracts containing options to extend or terminate the lease; and
- A single discount rate was used to a portfolio of leases with reasonably similar characteristics.

The Group has also elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*. The Group therefore did not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

As comparative information is not restated, the Group is not required to provide a third statement of financial position at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

The impact on the Group's consolidated statement of financial position as at January 1, 2019 upon the adoption of PFRS 16 are as follows (*in thousands*):

	Under previous PFRSs	Adjustments	Under PFRS 16
<b>ASSETS</b>			
Other current assets	₱32,702,784	(₱32,702,784)	₱-
Investment properties	29,922,064	(29,922,064)	-
Right-of-use assets	-	18,599,339,564	18,599,339,564
Other noncurrent assets	376,279,927	(376,279,927)	-
	<b>₱438,904,775</b>	<b>₱18,160,434,789</b>	<b>₱18,599,339,564</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and other accrued expenses	₱1,690,224,055	(₱1,690,224,055)	₱-
Lease liabilities*	-	19,279,144,855	19,279,144,855
Deferred tax liabilities - net	-	183,525,290	183,525,290
Retained earnings	-	236,556,710	236,556,710
Non-controlling interest	-	151,431,989	151,431,989
	<b>₱1,690,224,055</b>	<b>₱18,160,434,789</b>	<b>₱19,850,658,844</b>

\*Presented within "Other noncurrent liabilities" account in the consolidated statement of financial position

The Group has leases for various items such as land, office spaces, commercial and residential properties, passenger aircraft and flight equipment, vehicles and other equipment. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement date at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (i.e., recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalized and the leased payments were recognized as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Other current assets" and "Accounts payable and accrued expenses" accounts in the consolidated statement of financial position.



Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases (as lessee), except for short-term leases and leases of low-valued assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

*Leases previously classified as finance leases*

At the date of initial application, the Group did not change the carrying amounts of recognized assets and liabilities for leases previously classified as finance leases under PAS 17 because they equal the amount of ROU assets and lease liabilities to be recognized under PFRS 16. Subsequent to January 1, 2019, the requirements of PFRS 16 have been applied to these leases.

*Leases previously classified as operating leases*

The Group recognized ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets for most leases were recognized based on the amount equal to the lease liabilities adjusted for any previously recognized prepaid rent or accrued rent. In some leases, ROU assets were recognized based on the carrying amount as if the standard has always been applied since the commencement date but discounted using the incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

Based on the foregoing, the Group recognized ROU assets of ₱18.6 billion and lease liabilities of ₱19.3 billion as at January 1, 2019, and ROU assets of ₱20.5 billion and lease liabilities of ₱21.1 billion, comprised of noncurrent portion of ₱15.3 billion and current portion of ₱5.8 billion, as at December 31, 2019.

The lease liabilities as at January 1, 2019 as can be reconciled to the opening lease commitments as at December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	₱51,541,861,700
Weighted average incremental borrowing rate at January 1, 2019	2.12%-7.99%
Discounted operating lease commitments at January 1, 2019	33,138,324,414
Less: Commitments relating to short term leases	14,068,542,596
Add: Payments in optional extension periods not recognized at December 31, 2018	209,363,037
<u>Lease liabilities as at January 1, 2019</u>	<u>₱19,279,144,855</u>

- Philippine Interpretations Committee issued PIC Q&A 2019-3, *Revenue Recognition Guidance for Sugar Millers*  
With the effectivity of PFRS 15 on January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued PIC Q&A 2019-3, Revenue Recognition Guidance for Sugar Millers, to assist the companies operating in the sugar industry in the adoption of PFRS 15. The interpretation states that a miller recognize revenue arising from its sugar milling operation under either output sharing agreement (OSA) or cane purchase agreement (CPA), and that providing free-period storage constitutes a separate performance obligation in the case of OSA.

In response to concerns raised by the sugar industry on the implementation and adoption of the PIC Q&A, the SEC issued MC No. 6 on April 4, 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of one (1) year.



The Group availed of the deferral of adoption of the above specific provisions. Effective January 1, 2019, the Group adopted PIC Q&A No. 2019-3 using modified retrospective approach. Under this approach, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed as of this date. The Group elected to apply the standard to all contracts that are not completed as at December 31, 2018. The Group had assessed that the impact of the adoption on the January 1, 2018 financial statements is not significant to the consolidated financial statements taken as a whole. Accordingly, no adjustments were made in the January 1, 2018 opening balance. As of December 31, 2019, the Group now is in full compliance with PFRS 15 with its sugar business adopting the said standard, both under OSA and CPA.

Set out below are the amounts by which each financial statement line item is affected as at January 1, 2019. The adoption of PFRS 15 did not have an impact on the Group's other comprehensive income nor on its operating, investing and financing cash flows at January 1, 2019. Impact in beginning balance of retained earnings and non-controlling interests amounted to ₱14.3 million and ₱11.6 million, respectively.

*Group's statement of comprehensive income for the year ended December 31, 2019*

	<b>Before Adoption</b>	<b>Adjustment</b>	<b>After Adoption</b>
Sale of goods and services - Foods	₱133,245,422,149	₱929,105,430	₱134,174,527,579
Cost of sales	122,074,707,670	902,585,817	122,977,293,487

*Group's statement of financial position as of December 31, 2019*

	<b>Before Adoption</b>	<b>Adjustment</b>	<b>After Adoption</b>
Inventories	₱68,487,356,895	₱26,519,614	₱ 68,513,876,509
Deferred tax asset*	2,470,481,730	(7,955,884)	2,462,525,846

*\*Presented within "Other noncurrent assets" account in the consolidated statement of financial position*

The nature of the adjustment as at January 1, 2019 and the reasons for the significant changes in the consolidated statement of income for the year ended December 31, 2019 as presented in the above table are described below:

- a) The Group has determined that all contracts under PAS 18 qualify as contracts under PFRS 15. Under PAS 18, milling contracts entered into by the Group with the planters for the conversion of the planters' sugar cane into raw sugar through OSA is not considered as a revenue contract, but is now within the scope of PFRS 15. Planters are considered customers under this arrangement and the Group provides services to the planters in the form of conversion processes of sugar cane to raw sugar.

Other than the sale of goods and services, providing free-period storage is identified as a separate performance obligation for the planters' share under OSA, stored at the Group's warehouse.

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:



- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

- Amendments to PAS 19, *Plant Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should apply PFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts





the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its consolidated financial statement. The Group determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have a significant impact on the consolidated financial statements of the Group.

- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - *Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.
  - *Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in the consolidated statement of comprehensive income or equity according to where the entity originally recognized those past transactions or events.
  - *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

## **Significant Accounting Policies**

### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

#### Foreign Currency Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### *Group companies*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Parent Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in profit or loss.



### Cash and Cash Equivalents

Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement, and that are subject to an insignificant risk of changes in value.

### Financial Instruments – Classification and Measurement

#### *Initial recognition and measurement of financial assets*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or computed based on valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable from the market, the difference between the transaction price and the model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of 'Day 1' difference.

#### *Contractual cash flows characteristics*

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments that do not pass this test are automatically classified at fair value through profit or loss. In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

#### *Business model*

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the portfolio and the financial assets held within that portfolio are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the portfolio (and the financial assets held within that portfolio) and how these risks are managed and how managers of the business are compensated.



*Subsequent measurement of financial assets*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

*Investment securities at amortized cost*

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Impairment losses' in the consolidated statement of comprehensive income.

*Financial assets at fair value through other comprehensive income (FVOCI)*

Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI.'

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the consolidated statements of comprehensive income. Interest earned on holding debt securities at FVOCI are reported as interest income using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the consolidated statements of comprehensive income is recognized in profit or loss. The expected credit losses (ECL) arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Impairment losses and others' in the consolidated statements of comprehensive income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the consolidated statements of comprehensive income as 'Dividend income' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative



gain or loss previously recognized in the statements of comprehensive income is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

*Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of comprehensive income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of debt instruments classified as FVOCI and investments securities at amortized cost.

*Derecognition of 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 (i.e., removed from the consolidated statement of financial position) when:

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

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

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

*Initial recognition and measurement of financial liabilities*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, derivatives designated as hedging instruments in an effective hedge, or other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.



*Subsequent measurement of financial liabilities*

The measurement of financial liabilities depends on their classification, as described below:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

*Other financial liabilities*

This category pertains to the Group's interest-bearing loans and borrowing and payables. After initial recognition, these other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of comprehensive income.

*Derecognition of 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

*Reclassifications of financial instruments*

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets

*Policies applicable beginning January 1, 2018*

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not classified as FVTPL. ECLs represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.



*Incurred loss versus expected credit loss methodology*

The impairment requirements under PAS 39 (incurred loss model) are significantly different from those under PFRS 9 (expected loss model). Under the incurred loss model, loan and investment assets are regarded as impaired if there is no longer reasonable assurance that the future cash flows related to them will be either collected in their entirety or when due. Under the expected loss methodology, impairment is more forward-looking, in that a credit event (or impairment ‘trigger’) no longer has to occur before credit losses are recognized. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

*Staging assessment*

PFRS 9 establishes a three-stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a significant increase in credit risk (SICR) since initial recognition or is considered of low credit risk as of the reporting date. The Group recognizes a 12-month ECL for Stage 1 financial instruments. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Group recognizes a lifetime ECL for Stage 3 financial instruments.

*Definition of “default” and “restored”*

The Group eventually classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Group considers a variety of instances that may indicate unlikelihood to pay. In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.



*Credit risk at initial recognition*

The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

*Significant increase in credit risk*

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

*ECL parameters and methodologies*

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

*Forward-looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group applied the general approach for customer receivables from its Banking Segment. For the trade receivables and contract assets of other segments, the standard's simplified approach was applied where ECLs are calculated based on lifetime expected credit losses. Therefore, the Group does not





track changes in credit risk of these receivables, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. For the Real estate and hotels segment's installment contract and contract assets, the vintage analysis approach is used. This method accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For cash and cash equivalents, short-term investments and debt securities, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

#### *Debt instruments measured at fair value through OCI*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statements of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets are measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

#### *Policies applicable prior to January 1, 2018*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of comprehensive income as 'Impairment losses and others'. The asset, together with the associated allowance account, is written-off when there is no realistic prospect of future recovery.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability



to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss.

The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

#### *AFS investments*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as AFS investments, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats 'significant' generally as 20% and 'prolonged' as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized as part of other comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of 'Interest income' in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

#### Write-off of Financial Assets

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the Group has effectively exhausted all collection efforts).

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement 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 asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the



right is not contingent on a future event, and is legally enforceable in the normal course of business of default, and event of solvency or bankruptcy of the Group and all of the counterparties.

#### Classification of Financial Instruments Between Debt and Equity

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

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

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

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

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100.0% of the carrying value of slow-moving items and nonmoving items for more than one year.

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in profit or loss in the period when the related revenue is recognized.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of a self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

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

#### *Finished goods, work-in-process, raw materials and packaging materials*

##### *a. Petrochemicals*

Cost is determined using the moving average costing method. Cost of finished goods and work-in-process includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced.

##### *b. Branded consumer foods, agro-industrial and commodity food products*

Cost is determined using the weighted average method. Under the weighted average costing method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. Cost of finished goods and work-in-process include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

#### *Subdivision land and condominium and residential units for sale*

Subdivision land, condominium and residential units for sale in the ordinary course of business are



carried at the lower of cost and NRV. Cost includes land costs, costs incurred for development and improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction.

NRV is the estimated selling price in the ordinary course of business less cost of completion and estimated costs necessary to make the sale.

The cost of inventory recognized in the consolidated statement of comprehensive income is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

*Factory supplies and spare parts*

Cost is determined using the weighted average method.

Investments in Associates and Joint Ventures

Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

The Group also has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates and joint ventures. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized in the investees' other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint ventures.

The Group's investments in certain associates and joint ventures include goodwill on acquisition, less any impairment in value. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized.

Where necessary, adjustments are made to the financial statements of associates to bring the accounting policies used in line with those used by the Group.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange



transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dacion in payment (dacion en pago).

The Group's investment properties are depreciated using the straight-line method over their estimated useful lives (EUL) as follows:

Land improvements	5 to 10 years
Buildings and improvements	10 to 30 years

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

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

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under 'Property, plant and equipment' up to the date of change in use.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

#### Property, Plant and Equipment

Property, plant and equipment, except land which is stated at cost less any impairment in value, are carried at cost less accumulated depreciation, amortization and impairment loss, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation (ARO) relating to property, plant and equipment installed/constructed on leased properties or leased aircraft.

Subsequent replacement costs of parts of property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can



be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against profit or loss in the consolidated statement of comprehensive income and are no longer capitalized.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use, and are computed using the straight-line method over the EUL of the assets, regardless of utilization.

The EUL of property, plant and equipment of the Group follow:

	EUL
Land and improvements	10 to 40 years
Buildings and improvements	10 to 30 years
Machinery and equipment	4 to 50 years
Leasehold improvements	15 years
Passenger aircraft	15 years
Other flight equipment	3 to 5 years
Transportation, furnishing and other equipment	3 to 5 years

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are reclassified to a specific category of property, plant and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for use.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income, in the year the item is derecognized.



### ARO

The Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls.

Advance payment for materials for the restoration of the aircraft is initially recorded under 'Advances to supplier' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability.

### Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate for general borrowings. For specific borrowings, all borrowing costs are eligible for capitalization.

Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the effective interest method over the term of the loans.

### Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:

- |                   |   |                                                                                                          |
|-------------------|---|----------------------------------------------------------------------------------------------------------|
| Swine livestock   | - | Breeders (livestock bearer)                                                                              |
|                   | - | Sucklings (breeders' offspring)                                                                          |
|                   | - | Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)                      |
|                   | - | Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat) |
|                   | - |                                                                                                          |
| Poultry livestock | - | Breeders (livestock bearer)                                                                              |
|                   | - | Chicks (breeders' offspring intended to be sold as breeders)                                             |

Biological assets are measured on initial recognition and at each reporting date at its fair value less estimated costs to sell. The fair values are determined based on current market prices of livestock of



similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers, while the agricultural produce in poultry livestock is the hatched chick and table eggs.

A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset are included in the consolidated statement of income in the period in which it arises.

#### Goodwill

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

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

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

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Nonfinancial Assets).

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### Bank Licenses

Bank licenses arise from the acquisition of branches of a local bank by the Group and commercial bank license. The Group's bank licenses have indefinite useful lives and are subject to annual individual impairment testing.

#### Intangible Assets

Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

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





The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives.

The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized under ‘Cost of sales and services’ and ‘General and administrative expenses’ in profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (which are not an integral part of its related hardware) and costs to bring it to its intended use are capitalized as intangible assets. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are also recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Group’s intangible assets follows:

	Technology Licenses	Branch Licenses	Product Formulation and Brands	Software Costs	Customer Relationship	Trademarks
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 years)	Finite (35 years)	Indefinite
Amortization method used	Amortized on a straight-line basis over the EUL of the license	No amortization	No amortization	Amortized on a straight-line basis over the EUL of the software cost	Straight line amortization	No amortization
Internally generated or acquired	Acquired	Acquired	Acquired	Acquired	Acquired	Acquired

#### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group’s ‘Investments in associates and joint ventures’, ‘Investment properties’, ‘Property, plant and equipment’, ‘Biological assets at cost’, ‘Intangible assets’, ‘Goodwill’, ‘Right-of-Use assets’ and ‘Deferred subscriber acquisition and retention costs’.

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset’s (or cash-generating unit’s) fair value less costs to sell and its value-in-use, and is



determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount. 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 (or cash-generating unit).

Impairment losses or reversal of impairment losses from continuing operations are recognized under 'Provision for (reversal of) impairment losses and others' in profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

*Property, plant and equipment, investment properties, right-of-use assets, intangible assets with definite useful lives and costs*

For property, plant and equipment, investment properties, intangible assets with definite useful lives, 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

*Goodwill*

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its impairment test of goodwill every annually.

*Investments in associates and joint ventures*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount under 'Impairment losses and others' in profit or loss.

*Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.



### Equity

Common and preferred stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of changes in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Retained earnings represent the cumulative balance of periodic net income/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

### Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. No gain or loss is recognized in profit or on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## **Significant Accounting Policies Generally Applicable to Foods, Agro-Industrial and Commodities and Petrochemicals**

### Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

#### *Sales of goods*

Revenue from sale of goods and services is recognized at the point in time when control of the goods or services is transferred to the customer, generally on delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods and services, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer, if any.

#### *Sale of sugar*

Sale of raw sugar is recognized upon (a) endorsement and transfer of quedans for quedan-based sales and (b) shipment or delivery and acceptance by the customers for physical sugar sales. Sale of refined sugar and alcohol is recognized upon shipment of delivery and acceptance by the customers. Sale of molasses warehouse receipts, which represents ownership title over the molasses inventories.

#### *Rendering of tolling services*

Revenue derived from tolling activities is recognized as revenue at a point in time when the related services have been rendered.

### Revenue Recognition (Prior to adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.



*Sale of goods*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

*Rendering of tolling services*

Revenue derived from tolling activities is recognized as revenue when the related services have been rendered.

**Significant Accounting Policies Generally Applicable to Air Transportation**

Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Group expects to be entitled to.

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

*Sale of air transportation services*

Passenger ticket and cargo waybill sales are initially recorded as contract liabilities under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted or flown.

Prior to the adoption of PFRS 15, passenger ticket and cargo waybill sales, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted.

*Flight and booking services*

Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and website administration fees are initially recognized as contract liabilities under 'Unearned transportation revenue' account in the consolidated statement of financial position until the services are rendered.

Before the adoption of PFRS 15, ancillary fees (that is, baggage and booking fees) are recognized at the time of booking.

*Other ancillary revenue*

Other revenue such as refund surcharges, service income and cancellation fees are recognized when the services are provided.

*Liability under Lifestyle Rewards Program*

The Group operates a lifestyle rewards program called 'Getgo'. A portion of passenger revenue attributable to the award of Getgo points, which is estimated based on expected utilization of these benefits, is deferred until utilized. The fair value of the consideration received in respect of the initial sale is allocated to the award credits based on its fair value. The deferred revenue is included under 'Other noncurrent liabilities' account in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.



There have been no changes in the accounting policy on the deferral and subsequent recognition of passenger revenue related to the award of Getgo points as effect of the adoption of PFRS 15.

### **Significant Accounting Policies Generally Applicable to Real Estate and Hotels**

#### Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

##### *Revenue from Contract with Customers*

The Group primarily derives its real estate revenue from the sale of vertical and horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water, electricity, and common use service area in its mall retail spaces, wherein it is acting as agent.

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

##### *Real estate sales – Philippines Operations – Performance obligation is satisfied over time*

The Group derives its real estate revenue from sale of lots, house and lot and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses input method. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation. Progress is measured based on actual resources consumed such as materials, labor hours expended and actual overhead incurred relative to the total expected inputs to the satisfaction of that performance obligation, or the total estimated development costs of the real estate project. The Group uses the cost accumulated by the accounting department to determine the actual resources used. Input method exclude the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer.

Estimated development costs of the real estate project include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

##### *Real estate sales – Philippines Operations – Performance obligation is satisfied at a point in time*

The Group also derives real estate revenue from sale of parcels of raw land. Revenue from the sale of these parcels of raw land are recognized at a point in time (i.e., upon transfer of control to the buyer) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use but the Group does not have an enforceable right to payment for performance completed to date. The Group is only entitled to payment upon delivery of the land to the buyer and if the contract is terminated, the Group has to return all payments made by the buyer.



*Real estate sales – China Operations*

Taking into account the contract terms per house purchase and sales contract, Chengdu Xin Yao's business practice and the legal and regulatory environment in China, most of the property sales contracts in China do not meet the criteria for recognizing revenue over time and therefore, revenue from property sales continues to be recognized at a point in time, while some property sales contracts meet the criteria for recognizing revenue over time as the properties have no alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from customer for performance completed to date. Under PFRS 15, revenue from property sales is generally recognized when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

*Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

*Amusement income*

Revenue is recognized upon rendering of services or at a point in time.

*Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered or at a point in time. Revenue from banquets and other special events are recognized when the events take place or at a point in time. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

*Interest income*

Interest income is recognized as the interest accrues using the effective interest rate (EIR) method.

*Other income*

Other income is recognized when earned.

Costs Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

*Cost of Real Estate Sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.



#### *Costs and General and Administrative Expense*

Costs and expenses are recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### *Contract Balances*

##### *Receivables*

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

##### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is unconditional.

##### *Contract liabilities*

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

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

##### *Costs to obtain contract*

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

##### *Contract fulfillment assets*

Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the



Group firstly considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets pertain to connection fees and land acquisition costs.

*Amortization, de-recognition and impairment of capitalized costs to obtain a contract*

The Group amortizes capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within general and administrative expenses.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that cost to obtain a contract maybe impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Revenue Recognition (Prior to adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the consideration received or receivable, taking into the account contractually defined terms of payment and excluding taxes or duty.

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

*Real estate sales*

Revenue from sales of real estate and cost from completed projects is accounted for using the percentage of completion (POC). In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-1, the POC is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable





interest has been transferred to buyer and the costs incurred or to be incurred can be measured reliably. Under the POC method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of project.

Revenue recognition commences when the construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the required buyer's equity is met. Buyer's equity represents the percentage of collection over the total selling price that the buyer has paid the Group and it is at this collection level that the Group assesses that it is probable that the economic benefits will flow to the Group because of certainty of collection of the remaining balance of the selling price. This gives the buyer, a stake in the property, the level of which is sufficient enough to mitigate the risks of loss through default which would motivate the buyer to honor its obligations to the Group.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Deposits from real estate buyers" account which is shown as part of the "Deposits and other current liabilities" and "Deposits and other noncurrent liabilities" account in the liabilities section of the consolidated statement of financial position.

Penalties are recognized as income when cash is received and forfeitures from cancelled sales and reservation fees are recognized as income when the cancellation of sales and reservation fees of buyers has been determined and established.

#### *Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

#### *Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

#### Costs Recognition (Prior to adoption of PFRS 15)

##### *Cost of Real Estate Sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract



settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

#### *Costs and General and Administrative Expense*

Costs and expenses are recognized in the consolidated statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### **Significant Accounting Policies Generally Applicable to Banking**

The following revenues which are generally applicable to the banking segment are outside of the scope of PFRS 15:

##### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVTPL, FVOCI and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method and is shown as a deduction from loans.

##### *Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, portfolio fees, credit-related



fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

*Trading and securities gain (loss)*

Trading and securities gain (loss) represents results arising from trading activities, including all gains losses from changes in the fair values of FVPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI and AFS investments.

*Gain from sale of properties, investments and other assets*

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

**Other Income of the Group (Outside of Scope of PFRS 15)**

*Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

*Dividend income*

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (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 can be made of the amount of the obligation. 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 assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense under 'Financing costs and other charges' account in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Contingencies

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

Pension Costs

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period 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 any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.



The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit 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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### *Termination benefit*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.



### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

### Income Taxes

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting 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
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from unused minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits from excess MCIT and unused 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 future taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilized.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets 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 income will allow the deferred tax assets to be recognized.

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



Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss in the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and 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.

#### Leases – Group as a Lessee (Upon adoption of PFRS 16 beginning January 1, 2019)

The Group assesses whether a contract is, or contains a lease, at the inception of a contract. This assessment involves the exercise of judgment about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of the asset, whether the Group has the right to direct the use of the asset. The Group recognizes a right-of-use (ROU) asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases and leases of low-value assets.

#### *Right-of-use assets*

The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received, and any estimated costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The depreciation period for each class of ROU assets follow:

	<u>Period</u>
Land and improvements	2 to 50 years
Buildings and improvements	2 to 30 years
Passenger aircraft and other flight equipment	1.25 to 18 years
Transportation and other equipment	2 to 30 years

ROU assets are also subject to impairment.

#### *Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflected the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the commencement date if the interest rate implicit to the lease is not readily determinable. After the



commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The current portion of lease liabilities is presented within the “Other current liabilities” account in the consolidated statement of financial position.

#### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of other flight equipment, furniture and fixtures, and machineries (i.e., lease term of 12 months or less). It also applies the lease of low-value assets recognition exemption to leases of office spaces that are considered low-value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### Leases (Prior to adoption of PFRS 16)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and is included in the consolidated statement of financial position under ‘Property, plant and equipment’ with the corresponding liability to the lessor included under ‘Long-term debt’. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss in the consolidated statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the EUL of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense under ‘Cost of sales and services’ and ‘General administrative expenses’ in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.



A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a on the sale.

#### Applicable to both periods prior to and upon adoption of PFRS 16 beginning January 1, 2019

##### *Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

##### Joint Operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognize in relation to its interest in a joint operation its assets, including its share of any assets held jointly; liabilities, including its share of any liabilities incurred jointly; revenue from the sale of its share of the output arising from the joint operation; share of the revenue from the sale of the output by the joint operation; and expenses, including its share of any expenses incurred jointly.

##### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the period attributable to the ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company (after deducting interest of the preferred shares, if any) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

##### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

##### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements.





### Subsequent Events

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2020*

- *Amendments to PFRS 3, Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments may apply on future business combinations of the Group.

- *Amendments to PFRS 9, PAS 39, Financial Instruments: Recognition and Measurement and PFRS 7, Financial Instruments: Disclosures*

The amendments is in response to the ongoing reform of interest rate benchmarks around the world. Many interbank offered rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in the next few years. This presents potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets. This amendments aims to provide relief for hedging relationships.

This amendment is effective retrospectively for periods beginning on or after January 1, 2020, with early application permitted.

- *Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

#### *Effective beginning on or after January 1, 2021*

- *PIC Q&A 2018-12, PFRS 15 Implementation issues affecting the Real Estate Industry, and PIC Q&A 2018-14, PFRS 15 Accounting for Cancellation of Real Estate Sales*

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and



February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three years until December 31, 2020:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A 2018-12-E;
- b. Accounting for significant financing component discussed in PIC Q&A 2018-12-D, and;
- c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A 2018-14 was also deferred until December 31, 2020.

Except for the CUSA charges discussed under PIC Q&A 2018-12-H which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

Effective January 1, 2021, real estate companies will adopt PIC Q&A 2018-12 and PIC Q&A 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

As the Group already excludes land and uninstalled materials in the determination of POC, it availed of the deferral of adoption of provisions (b) and (c) of PIC Q&A 2018-12 and PIC Q&A 2018-14. These provisions would have the following impact in the consolidated financial statements:

- a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2019 and 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
  - b. The Group is acting as a principal for the provision of air-conditioning services. This would have resulted in the gross presentation of the related revenue and the related expenses and cost. Currently, the related revenue is presented net of costs and expenses. These would not result in any adjustment in the retained earnings as of January 1, 2018 and net income for 2019 and 2018.
  - c. Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2019 and 2018. Currently, the Group records the repossessed inventory at its original carrying amount and recognize any difference between the carrying amount of the derecognized receivable and the repossessed property in profit or loss.
- *IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (IAS 23, Borrowing Cost) for the Real Estate Industry*

In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is/will be recognized over time under par. 35(c) of IFRS 15. IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a



qualifying asset under IAS 23 considering that these inventories are ready for their intended sale in their current condition.

The IFRIC Agenda Decision would change the Group's current practice of capitalizing borrowing costs on real estate projects with pre-selling activities.

On February 11, 2020, the SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, the real estate industry will adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC agenda decision.

For real estate companies that avail of the deferral, the SEC requires disclosure in the Notes to the Financial Statements of the accounting policies applied, a discussion of the deferral of the subject implementation issues, and a qualitative discussion of the impact in the financial statements had the IFRIC Agenda Decision been adopted.

The Group opted to avail of the relief as provided by the SEC. Had the Group adopted the IFRIC Agenda Decision, borrowing costs capitalized to real estate inventories related to projects with pre-selling activities would have been expensed out in the period incurred.

This adjustment would have been applied retrospectively and would have resulted in the restatement of prior year financial statements. A restatement would have impacted interest expense, cost of sales, provision for deferred income tax, real estate inventories, deferred tax liability and opening balance of retained earnings.

- *PFRS 17, Insurance Contracts*  
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

#### *Deferred effectivity*

- *Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*  
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

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.

#### Judgments

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

*a. Revenue and cost recognition on real estate sales (Beginning January 1, 2018)*

#### Identifying performance obligation

In 2018, the Group entered into a contract to sell covering a land upon which, site preparation will be performed prior to turnover to the buyer. The Group concluded that the revenue and cost of real estate sales should be recorded upon completion of the site preparation activities as specifically stated in the contract to sell, which is at a point in time, since there is only one performance obligation (i.e., developed land) and the Group does not have a right to demand payment for work performed to date from the buyer.

In 2018, the Group entered into a contract to sell covering raw land. The Group concluded that there is one performance obligation in this contract, the raw land. Revenue and cost of real estate sales should be recorded upon delivery of the raw land to the buyer which is at a point in time.

#### Revenue recognition method and measure of progress

For the revenue from real estate sales in the Philippines, the Group concluded that revenue is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.



The Group has determined that input method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customers.

#### Principal versus agent considerations

The contract for the mall retail spaces and office spaces leased out by the Group to its tenants includes the right to charge for the electricity usage, water usage, air conditioning charges and common usage service area (CUSA) like maintenance, janitorial and security services.

For the electricity and water usage and CUSA, the Group determined that it is acting as an agent because the promise of the Group to the tenants is to arrange for the electricity and water supply to be provided by a utility company and to provide services such as maintenance, janitorial and security services. The utility and service companies, and not the real estate developer, are primary responsible for the provisioning of the utilities while the Group, administers the leased spaces and coordinates with the utility and service companies to ensure that tenants have access to these utilities. The Group does not have the discretion on the pricing of the services provided since the price is based on the actual rate charged by the utility providers.

For the provision of air conditioning, the Group acts as a principal. This is because it is the Group who retains the right to direct the service provider of air conditioning to the leased premises. The right to the services mentioned never transfers to the tenant and the Group has the discretion on how to price the air conditioning charges. However, since the Group has availed of the relief to the real estate industry by deferring the application of accounting to CUSA charges discussed in PIC Q&A No. 2018-12-H, the Group retained its current assessment and accounting for air conditioning charges.

#### Revenue and cost recognition

The Group's real estate sales is recognized over time and the percentage-of-completion is determined using input method measured principally based on total actual cost of resources consumed such as materials, labor hours expended and actual overhead incurred over the total expected project development cost. Actual costs also include incurred costs but not yet billed which are estimated by the project engineers. Expected project development costs include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis and is allocated between costs of sales and real estate inventories.

#### Real estate revenue and cost recognition from pre-selling in Chengdu Project

In July 2018, Chengdu Xin Yao Real Estate Development Co. Ltd. secured the license to sell the condominium units in Phase 1 of its residential development in Chengdu Xin Yao Ban Bian Jie. As of December 31, 2019 and 2018, the deposits received from buyers amounted to P9,119 million and P8,208 million, respectively.

Revenue from the sale of real estate units of Chengdu Xin Yao will be accounted for under a full accrual method (i.e., at a point in time) in the Group's consolidated financial statements. Under paragraph 35(c) of PFRS 15, "*An entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 35 (c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the*



*customer or another party for reasons other than the entity's failure to perform as promised.*" Based on management's assessment, throughout the duration of the contract term, Chengdu Xin Yao is entitled to an amount that does not compensate it for performance completed to date if the contract is terminated by the buyer or another party for reasons other than Chengdu Xin Yao's failure to perform as promised.

*b. Revenue recognition on sale of goods from the food business*

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint; and (d) recognition of revenue as the Group satisfies the performance obligation.

*i. Existence of a contract*

The Group enters into a contract with customer through an approved purchase order which constitutes a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified. In the case of sales to key accounts and distributors, the combined approved purchase order and trading terms agreement / exclusive distributorship agreement constitute a valid contract. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

*ii. Identifying performance obligation*

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

Based on management assessment, other than the sale of goods and services, no other performance obligations were identified except in the case of milling revenue.

*iii. Recognition of revenue as the Group satisfies the performance obligation*

The Group recognizes its revenue from the food business at a point in time, when the goods are sold and delivered and when services are already rendered.

*iv. Recognition of milling revenue under output sharing agreement*

The Group applies both output sharing agreement and cane purchase agreement in relation to milling operation. Under output sharing agreement, milling revenue is recognized based on the fair value of the millshare at average raw sugar selling price on the month with sugar production after considering in-purchase, which represents cane purchase agreement. Under cane purchase agreement, the Group purchases raw sugar from the traders and/or planters. The in-purchase rate is derived by determining the total raw sugar purchases and the total planters' share. Raw production costs are allocated systematically based on the output sharing and cane purchase agreement rates.



c. *Classification of financial assets from the banking business*

*Evaluation of business model in managing financial instruments*

The Group manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group, various risks and key performance indicators being reviewed and monitored by responsible officers, as well as the manner of compensation for them. The Bank's BOD approved its documentation of business models which contains broad categories of business models. The business model includes the Bank's lending activities as well as treasury business activities broken down into liquidity and investment portfolios. In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

*Testing the cash flow characteristics of financial assets*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e., cash flows that are non-SPPI, does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

d. *Classification of financial assets from the other businesses*

The Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial assets are SPPI on the principal amount outstanding.



The Group performs the business model assessment based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of those assets managed or on the contractual cash flows collected
- Expected frequency, value, and timing of sales

*e. Determination of fair values of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Refer to Note 5 for the fair value measurements of financial instruments.

*f. Revenue from real estate sales (Prior to January 1, 2018)*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment (buyer's equity); and
- stage of completion of the project determined using cost-to-cost method.

The Group has set a certain percentage of collection over the total selling price in determining buyer's commitment on the sale. It is when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group.

*g. Determining whether it is reasonably certain that a renewal and termination option will be exercised – Group as a lessee (Beginning January 1, 2019)*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to renew the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include renewal and termination options. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g., a change in business strategy).





For most of its leases, the Group did not include the renewal or termination options in the lease term as the Group assesses that these options are not reasonably certain to be exercised. However, for some leases of parcels of land, the Group included the renewal period as part of the lease term due to significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one year) and there will be a significant negative effect on the operations if a replacement is not readily available. Refer to Note 42 for the disclosure on the Group's leases.

*h. Classification of leases*

Operating Lease

*Operating lease commitments - Group as lessee (Prior to January 1, 2019)*

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on evaluation of the terms and conditions of the lease agreements that the significant risk and rewards of ownership to these properties did not transfer to the Group. In determining this, the Group considers the following:

- the lease does not transfer the ownership of the asset to the lessee by the end of the lease term; and
- the related lease term does not approximate the EUL of the assets being leased.

*Operating lease commitments - Group as lessor*

Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership to these properties. In determining this, the Group considers, the following:

- the leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease; and
- the related lease term does not approximate the EUL of the assets being leased.

Finance Lease

*Group as lessee (Prior to January 1, 2019)*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments payable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has obtained all significant risks and rewards of ownership of the properties it leased on finance leases.

*Group as lessor*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments receivable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

Refer to Note 42 for the disclosure on the Group's leases.

*i. Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.



Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

*j. Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Group's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, the management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

*k. Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine an entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

- a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b. the currency in which funds from financing activities are generated; and
- c. the currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the Parent Company and performing the functions of the Parent Company - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the Parent Company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the Parent Company; while in the latter case, the functional currency of the entity would be assessed separately.

*l. Significant influence over an associate with less than 20.0% ownership*

In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.



There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

### Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

#### *a. Impairment of goodwill and intangible assets*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

Value-in-use is the most sensitive to changes in revenue growth rates and discount rates.

As of December 31, 2019 and 2018, the balance of the Group's goodwill and intangible assets, net of accumulated depreciation, amortization and impairment loss follow:

	2019	2018
Goodwill (Note 19)	<b>₱32,005,604,356</b>	₱32,005,604,356
Intangible assets (Note 18)	<b>13,898,390,399</b>	13,954,424,592

#### *b. Expected credit losses on receivables*

For loans and receivables from the banking business, ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessment should be done individually or collectively;
- Quantitative and qualitative criteria for determining whether there have been SICR as at a given reporting date and the corresponding transfers between stages;
- Development of ECL models, including the various formulas and the choice of input;
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs; and
- Selection of forward-looking information and determination of probability weightings to derive the ECL.



For installment contracts receivables and contract assets from the real estate business, the Group uses vintage analysis approach to calculate ECLs for installment contracts and contract assets. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

For other trade receivables, provision matrix was used to calculate ECLs. The provision rates are based on historical default rates days past due for groupings of various segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group then calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Note 11 for the carrying amount of receivables subject to ECL and the related allowance for credit losses as of December 31, 2019.

*c. Revenue and cost recognition from the real estate business*

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost from real estate where performance obligation is satisfied over time and recognized based on the percentage of completion is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of the project. For the years ended December 31, 2019, 2018 and 2017, the real estate sales recognized over time amounted to ₱8.7 billion, ₱8.3 billion and ₱6.0 billion, respectively, while the related cost of real estate sales amounted to ₱4.2 billion, ₱4.5 billion and ₱3.1 billion, respectively.

The Group also recognized revenue when control is passed on a certain point in time. The Group's revenue and cost of real estate sales were recognized upon transfer of control to the buyer. Real estate sales pertaining to this transaction amounted to ₱321.0 million and ₱2.547 million for the years ended December 31, 2019 and 2018, respectively. The related cost of sales amounted to ₱85.0 million and ₱398.0 million for the years ended December 31, 2019 and 2018, respectively.

*d. Valuation of ROU assets and lease liabilities*

The application of PFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include determining the lease term and determining the interest rate to be used for discounting future cash flows.

*Lease term.* The lease term determined by the Group comprises non-cancellable period of lease contracts, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. For lease contracts with indefinite term the Group estimates the length of the contract to be equal to the economic useful life of noncurrent assets located in the leased property and physically connected with it or determines the length of the contract to be equal to the



average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of ROU assets.

*Discount rate.* The Group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is determined using the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

As at December 31, 2019, the Group's ROU assets and lease liabilities amounted to ₱20.5 billion and ₱21.1 billion, respectively (see Note 42).

*e. Determination of the fair value of intangible assets and property, plant and equipment acquired in a business combination*

The Group measures the identifiable assets and liabilities acquired in a business combination at fair value at the date of acquisition.

The fair value of the intangible assets acquired in a business combination is determined based on the net sales forecast attributable to the intangible assets, growth rate estimates and royalty rates using comparable license agreements. Royalty rates are based on the estimated arm's length royalty rate that would be paid for the use of the intangible assets. Growth rate estimate includes long-term growth rate and terminal growth rate applied to future cash flows beyond the projection period.

The fair value of property, plant and equipment acquired in a business combination is determined based on comparable properties after adjustments for various factors such as location, size and shape of the property. Cost information and current prices of comparable equipment are also utilized to determine the fair value of equipment.

The Group's acquisitions are discussed in Note 44 to the consolidated financial statements.

*f. Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Notes 12 and 34 to the consolidated financial statements.

The carrying value of the Group's inventories, net of inventory obsolescence and market decline, is disclosed in Note 12 to the consolidated financial statements.



g. *Estimation of ARO*

The Group is contractually required under certain lease contracts to restore certain leased passenger aircraft to stipulated return condition or to bear a proportionate cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes certain overhaul, restoration, and redelivery costs at the end of the operating aircraft lease. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis. Calculations of such costs includes assumptions and estimates in respect of the anticipated rate of aircraft utilization which includes flying hours and flying cycles and calendar months of the asset as used.

Assumptions and estimates used to compute ARO are reviewed and updated annually by the Group. As of December 31, 2019 and 2018, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 24 to the consolidated financial statements.

h. *Estimation of useful lives of property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost*

The Group estimates the useful lives of its depreciable property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost based on the period over which the assets are expected to be available for use. The EUL of the said depreciable assets are reviewed at least annually and are updated, if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the EUL of the depreciable property, plant and equipment, investment properties and intangible assets would increase depreciation and amortization expense and decrease noncurrent assets.

The carrying balances of the Group's depreciable assets are disclosed in Notes 15, 16, 17 and 18 to the consolidated financial statements.

i. *Determination of fair values less estimated costs to sell of biological assets*

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit or based on adjusted commercial farmgate prices. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transportation and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated, if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.



The Group recognized gain (loss) arising from changes in the fair value of biological assets amounting to (₱70.18 million), (₱467.5 million) and ₱118.8 million (included in 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) in 2019, 2018 and 2017, respectively (see Note 17).

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 17 to the consolidated financial statements.

*j. Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (see Note 37). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

As of December 31, 2019 and 2018, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 37 to the consolidated financial statements.

*k. Assessment of impairment of nonfinancial assets*

The Group assesses impairment on its nonfinancial assets (i.e., property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried at cost and goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value-in-use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. In 2019, following the review of the Petrochemical business, the outlook for the industry and Petrochemical's operating plan, a reversal



of impairment loss has been recognized to adjust the carrying value of certain buildings of the Group to their estimated recoverable values, which is the higher of fair value less to sell and value-in-use, but not exceeding the depreciated historical cost that would have been if the impairment had not been recognised.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for impairment losses on nonfinancial assets recognized in 2019, 2018 and 2017 is disclosed in Note 34 to the consolidated financial statements.

As of December 31, 2019 and 2018, the balance of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss are shown in Notes 14, 15, 16 and 18 to the consolidated financial statements.

*l. Recognition of deferred tax assets*

The Group reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized.

The Group's recognized deferred tax assets are shown in Note 38.

The Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period (see Note 38).

The total amount of temporary differences for which the Group did not recognize any deferred tax assets are shown in Note 38.

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#### **4. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise cash and cash equivalents, investment securities at amortized cost, financial assets at FVTPL, financial assets at FVOCI, financial liabilities at FVTPL and interest-bearing loans and borrowings. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as receivables and payables which arise directly from its operations. Also, the Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options and commodity swaps and options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures.

The BOD of the Parent Company and its subsidiaries review and approve the policies for managing each of these risks which are summarized below, together with the related risk management structure.





### Risk Management Structure

The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

#### *AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems and the internal audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

#### *Corporate Governance and Management Systems*

The CGMS was created to be primarily responsible for the execution of the enterprise risk management framework. The CGMS's main concerns include:

- a. recommendation of risk policies, strategies, principles, framework and limits;
- b. management of fundamental risk issues and monitoring of relevant risk decisions;
- c. support to management in implementing the risk policies and strategies; and
- d. development of a risk awareness program.

#### *Corporate Governance Compliance Officer*

Compliance with the principles of good corporate governance is one of the objectives of the Group's BOD. To assist the Group's BOD in achieving this purpose, the Group's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance of the Group with the provisions and requirements of good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties for such infringements for further review and approval of the Group's BOD, among others.



*Day-to-day risk management functions*

At the business unit or company level, the day-to-day risk management functions are handled by four different groups, namely:

1. Risk-taking Personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk Control and Compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk Management. This group pertains to the business unit's Management Committee which makes risk-mitigating decisions within the enterprise-wide risk management framework.

*Enterprise Resource Management (ERM) Framework*

The Parent Company's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Parent Company. The Parent Company's BOD also shares the responsibility with the CGMS in promoting the risk awareness program enterprise-wide.

The ERM framework revolves around the following eight interrelated risk management approaches:

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Event Identification. It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment. The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
5. Risk Response. The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities. Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication. Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring. The CGMS, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.



*Risk management support groups*

The Group's BOD created the following departments within the Group to support the risk management activities of the Parent Company and the other business units:

1. Corporate Security and Safety Board (CSSB). Under the supervision of CGMS, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. Corporate Supplier Accreditation Team (CORPSAT). Under the supervision of CGMS, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. Corporate Management Services (CMS). The CMS is responsible for the formulation of enterprise-wide policies and procedures.
4. Corporate Strategy. The Corporate Strategy is responsible for the administration of strategic planning, budgeting and performance review processes of business units.

Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, such as foreign currency risk, commodity price risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group transacts only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVTPL, financial assets at FVOCI, investment securities at amortized cost and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

With respect to the Banking Segment, there are several credit risk mitigation practices in place, as follow:

- The Banking Segment offers a variety of loan products with substantial collateral values. The policy on collateral and other credit enhancements are discussed further below.
- Limits are set on the amount of credit risk that the Banking Segment is willing to take for customers and counterparties, and exposures are monitored against such credit limits.



- The Banking Segment also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- To protect against settlement risk, the Banking Segment employs a delivery-versus-payment (DvP) settlement system, wherein payment is effected only when the corresponding asset has been delivered.
- There is an internal credit risk rating system (ICRRS) in place, providing a structured format for collating and analyzing borrower data to arrive at a summary indicator of credit risk.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

a. Credit risk exposure

The Group's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following accounts:

	2019			
	Carrying amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱2,408,705,460	₱1,603,350,278	₱1,603,350,278	₱805,355,182
Loans and receivables:				
Finance receivables:				
Commercial	49,105,221,842	13,966,555,107	11,818,030,519	37,287,191,323
Real estate	19,067,998,568	14,588,487,309	10,314,921,736	8,753,076,832
Consumption	10,161,292,294	9,716,871,923	5,166,992,449	4,994,299,845
Other receivables	13,662,275,394	3,071,001,245	2,953,779,279	10,708,496,115
<b>Total credit risk exposure</b>	<b>₱94,405,493,558</b>	<b>₱42,946,265,862</b>	<b>₱31,857,074,261</b>	<b>₱62,548,419,297</b>

	2018			
	Carrying amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Interbank loans receivable	₱2,123,675,000	₱2,123,675,000	₱2,123,675,000	₱-
Loans and receivables:				
Finance receivables:				
Commercial	43,838,017,355	220,667,548	48,478,249	43,789,539,106
Real estate	13,882,037,460	19,985,094,892	13,800,023,230	82,014,230
Consumption	7,231,736,279	8,129,980,920	5,113,241,660	2,118,494,619
Other receivables	12,128,501,001	2,821,806,322	2,810,163,052	9,318,337,949
<b>Total credit risk exposure</b>	<b>₱79,203,967,095</b>	<b>₱33,281,224,682</b>	<b>₱23,895,581,191</b>	<b>₱55,308,385,904</b>

*Collateral and other credit enhancements*

The Group holds collateral in the form of real estate and chattel mortgages, government securities and standby letters of credit. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumer lending
- Chattels over inventory and receivable for commercial lending
- Government securities for interbank lending

It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.



b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.

The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2019 and 2018, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

	December 31, 2019					
	Philippines	Asia (excluding Philippines)	United States	Europe	Others*	Total
Cash and cash equivalents**	₱40,392,933,814	₱18,612,975,697	₱-	₱-	₱1,926,564,972	₱60,932,474,483
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Government	3,943,264	-	-	-	-	3,943,264
Investment in convertible notes	-	135,257,546	2,525,914,569	-	-	2,661,172,115
Derivative assets	-	-	-	-	992,618	992,618
	3,943,264	135,257,546	2,525,914,569	-	992,618	2,666,107,997
Financial assets at FVOCI						
Debt securities:						
Government	8,557,069,472	533,085,422	-	-	302,652,089	9,392,806,983
Private	7,914,619,578	2,216,841,137	412,067,883	1,114,327,255	244,512,384	11,902,368,237
	16,471,689,050	2,749,926,559	412,067,883	1,114,327,255	547,164,473	21,295,175,220
Investment securities at amortized cost:						
Debt securities:						
Government	9,356,915,213	-	-	-	-	9,356,915,213
Private	2,000,346,028	-	-	-	-	2,000,346,028
	11,357,261,241	-	-	-	-	11,357,261,241
Receivables:						
Finance receivables	78,822,852,386	-	-	-	-	78,822,852,386
Trade receivables	15,695,185,756	3,185,020,020	14,326,882	7,292,674	2,931,606,998	21,833,432,330
Due from related parties	1,930,866,127	616,848,658	-	-	-	2,547,714,785
Interest receivable	1,021,865,234	62,250,924	76,588,422	12,517,056	6,907,919	1,180,129,555
Other receivables***	3,724,785,612	100,203,277	-	100,475,902	80,896,862	4,006,361,653
	101,195,555,115	3,964,322,879	90,915,304	120,285,632	3,019,411,779	108,390,490,709
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	817,115,232	181,057,483	-	-	-	998,172,715
	₱170,238,497,716	₱25,643,540,164	₱3,028,897,756	₱1,234,612,887	₱5,494,133,842	₱205,639,682,365

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱3,410,774,679

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱265,769,076



December 31, 2018

	Philippines	Asia (excluding Philippines)	United States	Europe	Others*	Total
Cash and cash equivalents**	₱38,852,897,061	₱5,307,185,058	₱-	₱250,044,195	₱2,255,507,539	₱46,665,633,853
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Government	8,206,143	-	-	-	-	8,206,143
Investment in convertible notes	-	1,806,085,829	-	-	-	1,806,085,829
	8,206,143	1,806,085,829	-	-	-	1,814,291,972
Derivative assets:						
Designated as accounting hedges	-	-	-	-	6,389,048	6,389,048
	-	-	-	-	6,389,048	6,389,048
Financial assets at FVOCI						
Debt securities:						
Government	7,567,173,337	2,706,138,184	-	-	-	10,273,311,521
Private	7,251,421,434	2,670,734,213	1,334,309,226	1,663,733,566	44,460,919	12,964,659,358
	14,818,594,771	5,376,872,397	1,334,309,226	1,663,733,566	44,460,919	23,237,970,879
Investment securities at amortized cost:						
Debt securities:						
Government	9,290,428,591	1,232,898,193	-	-	-	10,523,326,784
Private	1,937,862,238	101,335,974	-	34,564,721	-	2,073,762,933
	11,228,290,829	1,334,234,167	-	34,564,721	-	12,597,089,717
Receivables:						
Finance receivables	66,897,077,529	-	-	-	-	66,897,077,529
Trade receivables	13,881,964,250	3,681,875,425	367,769,745	173,038,197	2,895,514,716	21,000,162,333
Due from related parties	957,644,153	616,848,658	-	-	-	1,574,492,811
Interest receivable	926,083,274	44,724,170	12,592,656	21,795,521	101,216	1,005,296,837
Other receivables***	2,344,453,411	242,588,179	-	1,127,248	34,186,060	2,622,354,898
	85,007,222,617	4,586,036,432	380,362,401	195,960,966	2,929,801,992	93,099,384,408
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	811,586,864	203,244,020	-	-	-	1,014,830,884
	₱150,726,798,285	₱18,613,657,903	₱1,714,671,627	₱2,144,303,448	₱5,236,159,498	₱178,435,590,761

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱2,529,042,588

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱ 457,257,191



ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2019 and 2018, before taking into account any collateral held or other credit enhancements.

	2019										
	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Financial Intermediaries	Transportation, Storage and Communication	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Construction	Government Institutions	Others*	Total
Cash and cash equivalents**	₱-	₱-	₱-	₱60,932,474,483	₱-	₱-	₱-	₱-	₱-	₱-	₱60,932,474,483
Financial assets at FVPL:											
Held-for-trading:											
Debt securities:											
Government	-	-	-	-	-	-	-	-	3,943,264	-	3,943,264
Investment in convertible notes	2,525,914,569	-	-	-	-	-	-	-	-	135,257,546	2,661,172,115
Derivative financial assets:	992,618	-	-	-	-	-	-	-	-	-	992,618
	2,526,907,187	-	-	-	-	-	-	-	3,943,264	135,257,546	2,666,107,997
Financial assets at FVOCI											
Debt securities:											
Government	-	-	-	135,954,975	-	-	-	-	8,421,114,497	835,737,511	9,392,806,983
Private	82,553,481	2,197,715,030	1,089,917,160	2,339,409,241	1,711,775,125	-	3,010,699,877	159,880,013	-	1,310,418,312	11,902,368,239
	82,553,481	2,197,715,030	1,089,917,160	2,475,364,216	1,711,775,125	-	3,010,699,877	159,880,013	8,421,114,497	2,146,155,823	21,295,175,222
Investment securities at amortized cost											
Debt securities:											
Government	-	-	-	-	-	-	-	-	9,356,915,213	-	9,356,915,213
Private	-	900,000,000	-	-	-	-	900,369,072	-	-	199,976,956	2,000,346,028
	-	900,000,000	-	-	-	-	900,369,072	-	9,356,915,213	199,976,956	11,357,261,241
Receivables:											
Finance receivables	6,042,470,393	23,581,999,040	11,915,966,452	3,367,657,345	5,708,836,368	745,140,759	9,286,645,005	2,032,813,147	49,185,312	16,092,138,564	78,822,852,385
Trade receivables	14,154,818,912	4,669,281,218	-	-	2,096,259,003	-	-	-	-	913,073,197	21,833,432,330
Due from related parties	122,951,766	1,352,507,422	69,694,182	477,236,444	18,499,416	-	-	-	-	506,825,555	2,547,714,785
Interest receivable	121,263,990	134,536,899	63,314,841	141,337,454	79,484,674	20,723,154	81,275,246	21,977,064	229,690,209	286,526,023	1,180,129,554
Other receivables***	1,106,303,825	796,124,107	-	1,110,366,899	274,299,627	-	6,445	112,212	2,673,497	716,475,041	4,006,361,653
	21,547,808,886	30,534,448,686	12,048,975,475	5,096,598,142	8,177,379,088	765,863,913	9,367,926,696	2,054,902,423	281,549,018	18,515,038,380	108,390,490,707
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	-	815,111,232	-	-	181,057,483	-	-	-	-	2,004,000	998,172,715
	₱24,157,269,554	₱34,447,274,948	₱13,138,892,635	₱68,504,436,841	₱10,070,211,696	₱765,863,913	₱13,278,995,645	₱2,214,782,436	₱18,063,521,992	₱20,998,432,705	₱205,639,682,365

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱3,410,774,679

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱265,769,076



	2018										
	Manufacturing	Real Estate, Renting and Related Business Activities	Wholesale and Retail Trade	Financial Intermediaries	Transportation, Storage and Communication	Agricultural, Hunting and Forestry	Electricity, Gas and Water	Construction	Public Administration	Others*	Total
Cash and cash equivalents**	₱-	₱-	₱-	₱30,469,306,635	₱-	₱-	₱-	₱-	₱16,196,327,218	₱-	₱46,665,633,853
Financial assets at FVPL:											
Held-for-trading:											
Debt securities:											
Government	-	-	-	-	-	-	-	-	8,206,143	-	8,206,143
Investment in convertible notes	-	-	-	93,122,837	1,665,756,475	-	-	-	-	47,206,517	1,806,085,829
	-	-	-	93,122,837	1,665,756,475	-	-	-	8,206,143	47,206,517	1,814,291,972
Derivative financial assets:											
Designated as an accounting hedge	6,389,048	-	-	-	-	-	-	-	-	-	6,389,048
	6,389,048	-	-	-	-	-	-	-	-	-	6,389,048
Financial assets at FVOCI											
Debt securities:											
Government	-	-	-	130,987,296	-	-	-	-	7,268,522,839	2,873,801,386	10,273,311,521
Private	157,277,296	6,168,357,346	-	2,057,046,706	428,127,918	-	1,470,349,155	-	-	2,683,500,937	12,964,659,358
	157,277,296	6,168,357,346	-	2,188,034,002	428,127,918	-	1,470,349,155	-	7,268,522,839	5,557,302,323	23,237,970,879
Investment securities at amortized cost											
Debt securities:											
Government	-	-	-	-	-	-	-	-	10,523,326,784	-	10,523,326,784
Private	-	2,073,762,933	-	-	-	-	-	-	-	-	2,073,762,933
	-	2,073,762,933	-	-	-	-	-	-	10,523,326,784	-	12,597,089,717
Receivables:											
Finance receivables	7,039,016,469	17,861,994,049	9,825,206,920	3,596,048,985	5,591,120,738	826,517,599	7,130,295,735	1,121,392,388	54,595,695	13,850,888,951	66,897,077,529
Trade receivables	15,716,636,572	3,086,884,922	-	-	2,102,234,497	-	-	-	-	94,406,342	21,000,162,333
Due from related parties	44,910,646	203,563,354	-	256,984,564	371,577,340	-	-	-	-	697,456,907	1,574,492,811
Interest receivable	2,765,235	7,046,218	-	887,566,554	6,619,282	-	15,071,384	-	-	86,228,164	1,005,296,837
Other receivables***	1,010,424,891	264,589,538	-	-	131,058,080	-	-	-	-	1,216,282,389	2,622,354,898
	23,813,753,813	21,424,078,081	9,825,206,920	4,740,600,103	8,202,609,937	826,517,599	7,145,367,119	1,121,392,388	54,595,695	15,945,262,753	93,099,384,408
Refundable security deposits (included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position)	4,091,266	800,012,050	-	-	203,244,020	-	-	-	-	7,483,548	1,014,830,884
	₱23,981,511,423	₱30,466,210,410	₱9,825,206,920	₱37,491,063,577	₱10,499,738,350	₱826,517,599	₱8,615,716,274	₱1,121,392,388	₱34,050,978,679	₱21,557,255,141	₱178,435,590,761

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱ 2,529,042,588

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱ 457,257,191





c. Credit quality per class of financial assets

The table below shows the maximum exposure to credit risk for the Group's financial assets not measured at fair value by credit rating grades:

	2019 (in millions)				
	General Approach			Simplified Approach	Total
	Stage 1	Stage 2	Stage 3		
<b>Cash and cash equivalents</b>					
Neither Past Due nor Individually Impaired					
High Grade	₱43,844	₱-	₱-	₱-	₱43,844
Standard	17,088	-	-	-	17,088
<b>Financial Assets at FVPL</b>					
Debt securities					
High Grade	4	-	-	-	4
Investment in convertible note					
Unrated	2,661	-	-	-	2,661
Derivative assets					
High Grade	1	-	-	-	1
<b>Financial Assets at FVOCI</b>					
Neither Past Due nor Individually Impaired					
High Grade	7,530	-	-	-	7,530
Standard	13,765	-	-	-	13,765
<b>Investment securities at Amortized Cost</b>					
Neither Past Due nor Individually Impaired					
Standard	11,357	-	-	-	11,357
<b>Receivables:</b>					
Finance receivables					
Neither Past Due nor Individually Impaired					
High Grade	18,942	5	-	-	18,947
Standard	42,232	2,585	-	-	44,817
Substandard	420	4,920	1	-	5,341
Unrated	24	294	8,089	-	8,407
Past Due but not Individually Impaired					
High Grade	40	1,350	860	-	2,250
Individually Impaired	6	6	392	-	404
Trade receivables					
Neither Past Due nor Individually Impaired					
High Grade	-	-	-	17,440	17,440
Standard	-	-	-	377	377
Past Due but not Individually Impaired					
High Grade	-	-	-	4,016	4,016
Individually Impaired	-	-	-	199	199
Due from related parties					
Neither Past Due nor Individually Impaired					
High Grade	-	-	-	2,091	2,091
Standard	-	-	-	457	457
Interest receivable					
Neither Past Due nor Individually Impaired					
High Grade	195	-	-	229	424
Standard	394	28	-	-	422
Substandard	2	26	-	-	28
Unrated	78	1	26	-	105

(Forward)



2019 (in millions)					
	General Approach			Simplified Approach	Total
	Stage 1	Stage 2	Stage 3		
Past Due but not Individually Impaired	₱78	₱39	₱66	₱1	₱184
Individually Impaired	-	-	19	-	19
Other receivables					
Neither Past Due nor Individually Impaired					
High Grade	304	-	-	1,574	1,878
Standard	4	-	-	810	814
Substandard	6	-	-	30	36
Unrated	16	2	3	-	21
Past Due but not Individually Impaired	827	2	17	488	1334
Individually Impaired	15	-	43	311	369
<b>Refundable security deposits</b>					
Neither Past Due nor Individually Impaired					
High Grade	934	-	-	-	934
Standard	64	-	-	-	64
	<b>₱160,831</b>	<b>₱9,258</b>	<b>₱9,516</b>	<b>₱28,023</b>	<b>₱207,628</b>

2018 (in millions)					
	General Approach			Simplified Approach	Total
	Stage 1	Stage 2	Stage 3		
<b>Cash and cash equivalents</b>					
Neither Past Due nor Individually Impaired					
High Grade	₱25,358	₱-	₱-	₱-	₱25,358
Standard	21,308	-	-	-	21,308
<b>Financial Assets at FVPL</b>					
Debt securities					
High Grade	8	-	-	-	8
Investment in convertible note					
Unrated	1,806	-	-	-	1,806
Derivative financial assets designated as accounting hedge					
High Grade	6	-	-	-	6
<b>Financial Assets at FVOCI</b>					
Neither Past Due nor Individually Impaired					
High Grade	10,322	-	-	-	10,322
Standard	12,916	-	-	-	12,916
<b>Investment securities at Amortized Cost</b>					
Neither Past Due nor Individually Impaired					
Standard	12,597	-	-	-	12,597
<b>Receivables:</b>					
Finance receivables					
Neither Past Due nor Individually Impaired					
High Grade	22,947	-	-	-	22,947
Standard	32,524	-	-	-	32,524
Substandard	-	4,056	-	-	4,056
Unrated	96	52	6,799	-	6,947
Past Due but not Individually Impaired					
High Grade	17	749	431	-	1,197
Individually Impaired	20	-	588	-	608
Trade receivables					
Neither Past Due nor Individually Impaired					
High Grade	-	-	-	15,326	15,326

(Forward)



	2018 (in millions)					
	General Approach			Simplified Approach	Total	
	Stage 1	Stage 2	Stage 3			
Past Due but not Individually Impaired	₱-	₱-	₱-	₱5,674	₱5,674	
Individually Impaired	-	-	-	279	279	
Due from related parties						
Neither Past Due nor Individually Impaired						
High Grade	-	-	-	957	957	
Standard	-	-	-	618	618	
Interest receivable						
Neither Past Due nor Individually Impaired						
High Grade	209	-	-	182	391	
Standard	382	27	-	-	409	
Substandard	2	25	-	-	27	
Unrated	61	1	20	-	82	
Past Due but not Individually Impaired	33	16	28	-	77	
Individually Impaired	-	-	19	-	19	
Other receivables						
Neither Past Due nor Individually Impaired						
High Grade	17	-	-	821	838	
Standard	716	-	-	404	1,120	
Substandard	50	-	-	37	87	
Unrated	9	1	2	-	12	
Past Due but not Individually Impaired	98	-	2	519	619	
Individually Impaired	23	-	65	209	297	
<b>Refundable security deposits</b>						
Neither Past Due nor Individually Impaired						
High Grade	1,003	-	-	-	1,003	
Standard	8	-	-	-	8	
Past Due but not Individually Impaired	-	4	-	-	4	
	₱142,536	₱4,931	₱7,954	₱25,026	₱180,447	

*Classification of Financial Assets by Class used by the Group except for the Banking Segment*

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

Other high grade accounts are considered to be of high value since the counterparties have a remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

*Classification of Financial Assets by Class used by the Banking Segment*

For loans and receivables from customers, the Banking Segment's internal credit risk rating (ICCR) system was approved in 2007 and further enhanced to reflect latest updates. Last enhancement was made in 2017 for the ICRRS covering corporate credit exposures as defined by BSP Circular 439, initially for those borrowers with asset size of more than ₱15.0 million. In compliance with BSP



Circular 855, the Banking Segment also developed another ICRRS in 2016 for those borrowers with asset size of ₱15.0 million and below which was also enhanced in 2018.

The Banking Segment's internal credit risk rating is as follows:

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<b>High grade</b>		
<i>Risk rating 1</i>	Excellent	Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.
<i>Risk rating 2</i>	Super Prime	Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.
<i>Risk rating 3</i>	Prime	Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business/economic conditions.
<i>Risk rating 4</i>	Very Good	Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity.
<i>Risk rating 5</i>	Good	More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes.
<b>Standard</b>		
<i>Risk rating 6</i>	Satisfactory	Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.
<i>Risk rating 7</i>	Average	Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.
<i>Risk rating 8</i>	Fair	Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels.
<b>Sub-standard grade</b>		
<i>Risk rating 9</i>	Marginal	Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.
<i>Risk rating 10</i>	Watch list	Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.



<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<i>Risk rating 11</i>	Special mention	Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized due to evidence of weakness in the borrower's financial condition.
<i>Risk rating 12</i>	Substandard	Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation e.g. negative cash flow, case of fraud.
Past due and impaired <i>Risk rating 13</i>	Doubtful	Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable.
<i>Risk rating 14</i>	Loss	Uncollectible or worthless.

The Banking Segment's internal credit risk rating system intends to provide a structure to define the corporate credit portfolio, and consists of an initial rating for the borrower risk later adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

Below is the staging parameters adopted by the Banking Segment effective January 1, 2018 in relation to its PFRS 9 adoption.

<b>Staging Parameter</b>	<b>Stage</b>	<b>Description</b>
Staging by Days Past Due	1	<i>Applicable to all loan products</i> Accounts with 0 - 30 days past due (applicable for all loan products except for microfinancing loans wherein days past due for Stage 1 accounts is 0 - 6 days).
	2	Accounts with 31 - 90 days past due (applicable for all loan products except for microfinancing loans wherein days past due for Stage 2 accounts is 7 - 10 days).
	3	Accounts with days past due of 91 days and above (applicable for all loan products except for microfinancing loans wherein days past due for Stage 3 accounts is 11 days and above).
Staging by Status	1	Accounts tagged as Current in its Status are classified under Stage 1.
	3	Accounts tagged as ITL in its Status are classified under Stage 3.
Staging by Origination Rating vs Current Rating	1	<i>Applicable to Commercial Loans (Large Scale and Medium Scale) only</i> If no movement in the ratings from origination rating against the latest rating, the staging will be based on the current ICRRS rating. If the account's current rating is either Excellent, Super



<u>Staging Parameter</u>	<u>Stage</u>	<u>Description</u>
		Prime, Prime, Very Good, Good, Satisfactory, Average, Fair, the account will be tagged under Stage 1.
	2	If the account's current rating/equivalent Risk Level deteriorates by 2 notches from its origination rating/equivalent Risk Level, the account is tagged under Stage 2. If no movement in the ratings from origination rating against the latest rating, the staging will be based on the latest ICRRS rating. If the account's latest Rating is either Marginal, Watchlist or Especially Mentioned, account will be tagged under Stage 2.

Staging by Maturity Date vs  
Cut-off Date

*Applicable to all loan products*

- |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | If maturity date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cutoff date from the maturity date is less than 30 days, the account is tagged under Stage 1 (For Microfinance loans, if maturity date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cutoff date from the maturity date is less than 10 days, the account is tagged under Stage 1).      |
| 3 | If maturity date of the account is prior to the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 30 days, the account is tagged under Stage 3 (For Microfinance loans, if Maturity Date of the account is prior the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 10 days, the account is tagged under Stage 3). |

*External ratings*

In ensuring a quality investment portfolio, the Group monitors credit risk from investments using credit ratings based on Standard and Poor (S&P). Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Group assigns the following credit quality groupings based on ratings prior to PFRS 9 adoption as follows:

<u>Credit Quality</u>	<u>Fitch</u>	<u>Moody's</u>	<u>S&amp;P</u>	<u>Stage*</u>
High Grade	AAA to A-	Aaa to A3	AAA to A-	1
Standard Grade	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	1
Substandard Grade	B+ to C-	B1 to Ca	B+ to C-	2
Past due and impaired	D	C	D	3

\*Applicable to Banking Segment only.



d. Aging analysis of receivables by class

The aging analysis of the Group's Past Due but Not Impaired receivables as of December 31, 2019 and 2018 follow:

	2019 (in millions)				Total
	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	
Finance receivables	₱34	₱937	₱414	₱865	₱2,250
Trade receivables	2,113	773	263	867	4,016
Interest receivable	65	35	16	68	184
Others	829	47	129	329	1,334
	<b>₱3,041</b>	<b>₱1,792</b>	<b>₱822</b>	<b>₱2,129</b>	<b>₱7,784</b>

	2018 (in millions)				Total
	Less than 30 Days	30 to 60 Days	61 to 90 Days	Over 90 Days	
Finance receivables	₱298	₱88	₱241	₱570	₱1,197
Trade receivables	4,334	537	133	670	5,674
Due from related parties	—	—	—	—	—
Interest receivable	37	15	10	15	77
Others	273	19	43	284	619
	<b>₱4,942</b>	<b>₱ 659</b>	<b>₱427</b>	<b>₱1,539</b>	<b>₱7,567</b>

*Liquidity risk*

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

With respect to the Banking Segment, liquidity risk is considered in assets and liabilities management. The Banking Segment seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market. The Assets and Liabilities Committee (ALCO) is composed of some members of the Senior Management including the Lending Groups and Treasury Group Heads. ALCO conducts weekly meetings. The Banking Segment also has specialized units that help monitor market and regulatory developments pertinent to interest rates and liquidity position, as well as prepare cash position reports as needed to measure the liquidity and reserves position of the Banking Segment.

The Banking Segment also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Banking Segment, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows



within the time band. A positive liquidity gap is an estimate of the Banking Segment's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Banking Segment. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on the applicable undiscounted contractual payments as of December 31, 2019 and 2018:

	2019					Total
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	
<b>Financial Assets</b>						
Cash and cash equivalents	₱42,522,355,730	₱21,820,893,432	₱-	₱-	₱-	₱64,343,249,162
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Government	-	3,943,264	-	-	-	3,943,264
Equity securities:						
Quoted	528,355,475	-	1,190,181,498	-	-	1,718,536,973
Investment in convertible note	45,460,289	-	2,615,711,826	-	-	2,661,172,115
Derivative financial assets designated as accounting hedges	-	-	-	-	992,618	992,618
	573,815,764	3,943,264	3,805,893,324	-	992,618	4,384,644,970
Financial assets at FVOCI:						
Debt securities:						
Private	-	6,675,856,535	6,632,403,950	141,485,426	-	13,449,745,911
Government	-	-	971,692,486	4,358,709,309	6,500,681,132	11,831,082,927
	-	6,675,856,535	7,604,096,436	4,500,194,735	6,500,681,132	25,280,828,838
Equity securities:						
Quoted	-	-	477,659,667	24,050,346,528	-	24,528,006,195
Unquoted	-	-	487,055,158	-	-	487,055,158
	-	-	964,714,825	24,050,346,528	-	25,015,061,353
	-	6,675,856,535	8,568,811,261	28,550,541,263	6,500,681,132	50,295,890,191
Investment securities at amortized cost:						
Debt securities:						
Government	-	-	-	5,592,739,113	6,271,641,421	11,864,380,534
Private	-	232,049,978	445,235,627	1,859,112,977	-	2,536,398,582
	-	232,049,978	445,235,627	7,451,852,090	6,271,641,421	14,400,779,116
Receivables:						
Trade receivables	1,783,241,782	17,519,794,094	381,755,626	824,696,821	1,522,665,241	22,032,153,564
Finance receivables	62,671,515	17,505,428,832	13,005,844,587	33,023,966,598	25,239,666,935	88,837,578,467
Due from related parties	1,217,714,785	-	-	1,330,000,000	-	2,547,714,785
Interest receivable	29,839,278	1,001,310,207	148,980,069	-	-	1,180,129,554
Other receivables	718,832,255	3,616,614,779	117,526,329	-	-	4,452,973,363
	3,812,299,615	39,643,147,912	13,654,106,611	35,178,663,419	26,762,332,176	119,050,549,733
Refundable security deposits	8,602,019	729,686	3,677,942	526,479,521	458,683,547	998,172,715
	₱46,917,073,128	₱68,376,620,807	₱26,477,724,765	₱71,707,536,293	₱39,994,330,894	₱253,473,285,887

	2019					Total
	On Demand	Up to 3 Months	4 to 12 Months	1 to 5 Years	More Than 5 Years	
<b>Financial Liabilities</b>						
Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties')	₱28,968,671,174	₱21,403,027,473	₱8,343,107,934	₱2,101,793,041	₱2,113,477,833	₱62,930,077,455
Short-term debt	-	45,096,301,236	9,035,787,121	-	-	54,132,088,357
Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	36,147,499,220	42,169,130,854	6,161,174,852	22,143,516,512	3,006,821	106,624,328,259
Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	114,835,410	-	-	-	-	114,835,410
Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	-	1,432,862,955	1,495,736,314	1,764,874,057	1,406,670,869	6,100,144,195
Long-term debt (including current portion)	-	1,970,653,285	4,778,823,378	179,026,630,295	54,956,806,354	240,732,913,312
Lease liabilities (including current portion)	146,638,963	1,238,007,058	4,784,042,167	7,600,538,187	9,257,140,388	23,026,366,763
Derivative liabilities	-	462,908	305,835,400	126,312,502	-	432,610,810
	₱65,377,644,767	₱113,310,445,769	₱34,904,507,166	₱212,763,664,594	₱67,737,102,265	₱494,093,364,561





	2018					
	On Demand	Up to 3 Months	3 to 12 Months	1 to 5 Years	More Than 5 Years	Total
<b>Financial Assets</b>						
Cash and cash equivalents	₱17,308,168,404	₱29,368,376,786	₱23,500,000	₱-	₱-	₱46,700,045,190
Financial assets at FVPL:						
Held-for-trading:						
Debt securities:						
Government	8,206,143	-	-	-	-	8,206,143
	8,206,143	-	-	-	-	8,206,143
Equity securities:						
Quoted	527,400,278	-	1,308,832,273	-	-	1,836,232,551
	527,400,278	-	1,308,832,273	-	-	1,836,232,551
Investment in convertible note	-	-	-	1,806,085,829	-	1,806,085,829
	535,606,421	-	1,308,832,273	1,806,085,829	-	3,650,524,523
Derivative financial assets designated as accounting hedges	-	-	6,389,048	-	-	6,389,048
Financial assets at FVOCI:						
Debt securities:						
Private	-	-	7,331,706,086	5,632,953,272	-	12,964,659,358
Government	-	-	3,004,788,682	-	7,268,522,839	10,273,311,521
	-	-	10,336,494,768	5,632,953,272	7,268,522,839	23,237,970,879
Equity securities:						
Quoted	50,300,000	-	371,191,210	19,457,411,625	-	19,878,902,835
Unquoted	-	-	256,208,787	-	-	256,208,787
	50,300,000	-	627,399,997	19,457,411,625	-	20,135,111,622
	50,300,000	-	10,963,894,765	25,090,364,897	7,268,522,839	43,373,082,501
Investment securities at amortized cost:						
Debt securities:						
Government	-	-	-	-	10,523,326,784	10,523,326,784
Private	-	-	-	1,427,512,166	646,250,767	2,073,762,933
	-	-	-	1,427,512,166	11,169,577,551	12,597,089,717
Receivables:						
Trade receivables	3,774,011,263	15,285,523,340	699,484,032	1,200,135,528	320,310,585	21,279,464,748
Finance receivables	6,054,300,530	5,584,725,299	6,986,013,290	17,488,441,348	32,334,805,081	68,448,285,548
Due from related parties	1,574,492,811	-	-	-	-	1,574,492,811
Interest receivable	845,846,472	17,716,834	141,733,531	-	-	1,005,296,837
Other receivables	1,361,024,537	1,491,760,267	119,467,809	-	149,022	2,972,401,635
	13,609,675,613	22,379,725,740	7,946,698,662	18,688,576,876	32,655,264,688	95,279,941,579
Refundable security deposits	215,166,327	-	7,483,548	558,738,138	233,442,871	1,014,830,884
	₱31,718,916,765	₱51,748,102,526	₱20,256,798,296	₱47,571,277,906	₱51,326,807,949	₱202,621,903,442

	2018					
	On Demand	Up to 3 Months	4 to 12 Months	1 to 5 Years	More Than 5 Years	Total
<b>Financial Liabilities</b>						
Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties')	₱35,758,783,520	₱21,910,159,746	₱6,033,744,008	₱908,418,034	₱2,925,262,168	₱67,536,367,476
Short-term debt	20,947,554,201	9,466,224,812	12,476,461,528	-	-	42,890,240,541
Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)	46,356,421,580	6,149,949,819	2,607,566,823	8,718,041,782	1,770,739,538	65,602,719,542
Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	119,849,940	31,922,803	-	-	-	151,772,743
Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)	1,057,031,997	269,565,385	1,332,081,610	1,847,971,470	802,800,443	5,309,450,905
Long-term debt (including current portion)	-	1,329,430,653	3,385,029,642	95,191,717,276	88,448,784,265	188,354,961,836
Derivative liabilities	-	-	-	763,322,060	-	763,322,060
	₱104,239,641,238	₱39,157,253,218	₱25,834,883,611	₱107,429,470,622	₱93,947,586,414	₱370,608,835,103

### Market risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.



The following discussion covers the market risks of the Group except for its Banking Segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure (Note 8).

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2019, 2018 and 2017, approximately 32.0%, 34.5% and 35.5%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 28.5% and 30.8% of total debt are denominated in US Dollar as of December 31, 2019 and 2018, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The tables below summarize the Group's exposure to foreign currency risk as of December 31, 2019 and 2018:

	2019		Total
	US Dollar	Other Currencies*	
<b>Assets</b>			
Cash and cash equivalents	₱7,542,120,251	₱7,981,872,497	₱15,523,992,748
Financial assets at FVPL	3,360,997,415	949,756,815	4,310,754,230
Financial assets at FVOCI	7,529,856,518	–	7,529,856,518
Receivables	7,358,744,421	627,967,213	7,986,711,634
Other current assets	181,057,483	–	181,057,483
	<b>25,972,776,088</b>	<b>9,559,596,525</b>	<b>35,532,372,613</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	11,232,068,685	1,472,923,402	12,704,992,087
Financial liabilities at FVPL	126,312,501	–	126,312,501
Short-term debt	9,822,359,631	–	9,822,359,631
Long-term debt (including current portion)	62,925,369,057	8,424,916,122	71,350,285,179
	<b>84,106,109,874</b>	<b>9,897,839,524</b>	<b>94,003,949,398</b>
<b>Net Foreign Currency-Denominated Assets (Liabilities)</b>	<b>(₱58,133,333,786)</b>	<b>(₱338,242,999)</b>	<b>(₱58,471,576,785)</b>

\* Other currencies include Hongkong Dollar, Singapore Dollar, Chinese Yuan, Japanese Yen, Thai Baht, Malaysian ringgit, Korean won, New Taiwan dollar, Australian dollar and Euro

	2018		Total
	US Dollar	Other Currencies*	
<b>Assets</b>			
Cash and cash equivalents	₱ 8,856,583,743	₱2,227,862,654	₱11,084,446,397
Financial assets at FVPL	2,974,588,780	–	2,974,588,780
Financial assets at FVOCI	10,322,134,596	–	10,322,134,596
Receivables	20,508,015,300	384,783,471	20,892,798,771
Other noncurrent assets	203,244,020	–	203,244,020
	<b>42,864,566,439</b>	<b>2,612,646,125</b>	<b>45,477,212,564</b>
<b>Liabilities</b>			
Accounts payable and accrued expenses	₱21,093,997,523	₱737,901,490	₱21,831,899,013
Financial liabilities at FVPL	762,985,362	–	762,985,362
Short-term debt	9,180,819,989	1,651,127,328	10,831,947,317
Long-term debt (including current portion)	66,608,417,189	–	66,608,417,189
	<b>97,646,220,063</b>	<b>2,389,028,818</b>	<b>100,035,248,881</b>
<b>Net Foreign Currency-Denominated Assets (Liabilities)</b>	<b>(₱54,781,653,624)</b>	<b>₱223,617,307</b>	<b>(₱54,558,036,317)</b>

\* Other currencies include Hong Kong Dollar, Singaporean Dollar, Chinese Yuan, Malaysian ringgit, Korean won, New Taiwan dollar, Japanese yen, Australian dollar and Euro



The exchange rates used to convert the Group's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2019 and 2018 follow:

	<b>2019</b>	<b>2018</b>
US dollar-Philippine peso exchange rate	<b>₱50.64 to US\$1.00</b>	<b>₱52.58 to US\$1.00</b>

The following table sets forth the impact of the range of reasonably possible changes in the US Dollar-Philippine peso exchange rate on the Group's income before income tax (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2019 and 2018:

Reasonably Possible Changes in Exchange rates	Change in Income Before Income Tax	
	<b>2019</b>	<b>2018</b>
₱2.0	<b>(₱2,296,171,967)</b>	(₱2,083,744,908)
(2.0)	<b>₱2,296,171,967</b>	2,083,744,908

Other than the potential impact on the Group's pre-tax income, the Group does not expect any other material effect on equity.

The Group does not expect the impact of the volatility on other currencies to be material.

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

In 2019 and 2018, changes in fair value of equity instruments held as financial assets at FVOCI due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱244.2 million and ₱289.3 million if equity prices will increase by 1.5%. A similar increase in equity indices on AFS equity instruments will also increase net unrealized gains on other comprehensive income by ₱431.2 million as of December 31, 2017. In 2019, 2018 and 2017, changes in fair value of equity instruments held as financial assets at FVTPL due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱6.1 million, ₱8.3 million and ₱83.7 million, respectively, if equity prices will increase by 1.5%. An equal change in the opposite direction would have decreased equity and profit by the same amount.

*Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group makes use of derivative financial instruments, such as interest rate swaps, to hedge the variability in cash flows arising from fluctuation in benchmark interest rates.



The following tables show information about the Group's long-term debt with floating interest rate presented by maturity profile:

	2019						Total (In Original Currency)	Total (in Philippine Peso)	Debt Issuance Costs	Carrying Value (in Philippine Peso)	Fair Value
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years					
Long-term debt											
Philippine peso											
Floating rate											
Commercial loans from banks											
Interest rate 5%-7% (PDST-R2 and BVAL)	₱2,612,028,929	₱2,612,028,929	₱2,612,028,929	₱2,612,028,929	₱2,612,028,929	₱5,189,113,255	₱18,249,257,900	₱18,249,257,900	₱-	₱18,249,257,900	₱17,431,910,845
BDO Term loan											
Interest rate (Prevailing market rate + GRT)	376,027,397	375,000,000	375,000,000	10,155,136,986	-	-	11,281,164,383	10,000,000,000	53,102,517	9,946,897,483	10,587,401,374
MBTC Term loan											
Interest rate (BVAL + 0.5%)	190,094,384	189,575,000	189,575,000	5,094,527,808	-	-	5,663,772,192	5,000,000,000	26,674,921	4,973,325,079	5,367,527,315
BPI Term Loan											
Interest rate (BVAL + 0.75%)	286,382,466	285,600,000	285,600,000	285,600,000	190,400,000	-	1,333,582,466	7,000,000,000	49,117,085	6,950,882,915	7,043,524,084
Interest rate (BVAL + 0.75%)	656,550,402	691,188,200	691,188,200	691,188,200	14,921,394,765	-	17,651,509,767	14,508,000,000	-	14,508,000,000	17,213,688,871
Foreign currencies:											
Floating rate											
US Dollar loans											
JPY Commercial loans											
Less than 1% (JPY LIBOR)	¥1,506,555,004	¥1,552,581,304	¥1,560,736,932	¥1,568,936,150	¥1,577,004,749	¥10,434,479,925	¥18,200,294,064	8,424,916,122	-	8,424,916,122	9,713,858,495
USD Commercial loans											
Interest rate 3%-5% (USD LIBOR)	US\$70,618,924	US\$71,715,442	US\$82,704,501	US\$93,909,666	US\$73,530,123	US\$209,285,879	US\$601,764,535	30,470,347,254	-	30,470,347,254	28,906,899,365
New Zealand Dollar loans											
Interest rate (NZ BKBM+1.10%)	NZ\$9,505,456	NZ\$9,557,683	NZ\$9,531,569	NZ\$404,453,228	NZ\$-	NZ\$-	NZ\$433,047,936	13,462,223,310	165,466,470	13,296,756,840	13,488,831,019
Australian Dollar loans											
Interest rate (BBSY BID+1.25%)	AUS\$8,987,286	AUS\$490,891,198	AUS-	AUS-	AUS-	AUS-	AUS\$499,878,484	17,200,057,755	110,736,987	17,089,320,768	17,077,499,232
								<u>₱124,314,802,341</u>	<u>₱405,097,980</u>	<u>₱123,909,704,361</u>	<u>₱126,831,140,600</u>



	2018						Total (In Original Currency)	Total (in Philippine Peso)	Debt Issuance Costs	Carrying Value (in Philippine Peso)	Fair Value
	<1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	>5 years					
Long-term debt											
Philippine peso											
Floating rate											
Commercial loans from banks											
Interest rate 5%-7% (PDST-R2 and BVAL)	₱2,612,028,929	₱5,224,057,858	₱5,224,057,858	₱2,612,028,929	₱2,217,526,135	₱2,971,587,120	₱20,861,286,829	₱20,861,286,829	₱-	₱20,861,286,829	₱18,333,530,913
BDO Term loan											
Interest rate (Prevailing market rate + GRT)	375,000,000	376,027,397	375,000,000	375,000,000	10,155,136,986	-	11,656,164,383	11,656,164,383	67,253,782	9,932,746,218	9,510,777,881
MBTC Term loan											
Interest rate (BVAL + 0.5%)	189,575,000	190,094,384	189,575,000	189,575,000	5,094,527,808	-	5,853,347,192	5,853,347,192	33,742,915	4,966,257,085	4,798,824,663
Foreign currencies:											
Floating rate											
US Dollar loans											
ECA-backed loans											
Interest rate 3%-5% (USD LIBOR)	US\$9,819,016	US\$18,277,415	US\$18,945,211	US\$8,903,291	US\$-	US\$-	US\$55,944,933	2,941,584,577	-	2,941,584,577	2,986,387,732
Commercial loans											
Interest rate 3%-5% (USD LIBOR)	51,420,508	105,761,290	126,584,502	56,812,864	49,187,586	55,985,704	445,752,454	23,437,663,985	-	23,437,663,985	28,557,308,374
New Zealand Dollar loans											
Interest rate (NZ BKBM+1.10%)	NZ\$12,753,563	NZ\$12,580,750	NZ\$12,649,875	NZ\$12,615,313	NZ\$12,615,313	NZ\$394,896,312	NZ\$395,000,000	13,924,974,927	210,508,867	13,714,466,060	13,770,609,805
Australian Dollar loans											
Interest rate (BBSY BID+1.25%)	AUS\$13,625,723	AUS\$13,700,180	AUS\$494,387,449	AUS-	AUS-	AUS-	AUS\$484,224,000	17,922,355,336	179,697,514	17,742,657,822	17,815,292,020
								<u>₱96,597,377,229</u>	<u>₱491,203,078</u>	<u>₱93,596,662,576</u>	<u>₱95,772,731,388</u>



The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income from floating debt obligations before income tax:

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax	
	2019	2018
+150 basis points (bps)	<b>(₱2,568,951,727)</b>	(₱2,055,973,531)
-150 bps	<b>2,568,951,727</b>	2,055,973,531

*Price interest rate risk*

The Group is exposed to the risks of changes in the value/future cash flows of its financial instruments due to its market risk exposures. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at FVPL and financial assets at FVOCI investments.

Except for RBC, which uses Earnings-at -Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book, the table below shows the impact on income before income tax of the estimated future yield of the related market indices of the Group's FVPL and FVOCI investments using a sensitivity approach.

Reasonably Possible Changes in Interest Rates	Change in Income Before Income Tax	
	2019	2018
+150 basis points (bps)	<b>(₱89,708,389)</b>	(₱109,598,149)
-150 bps	<b>227,545,442</b>	347,205,706

Reasonably Possible Changes in Interest Rates	Change in Other Comprehensive Income	
	2019	2018
+150 basis points (bps)	<b>(₱498,410,017)</b>	(₱434,760,278)
-150 bps	<b>584,540,763</b>	498,725,445

*Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.0 per barrel of jet fuel affects the Group's fuel annual costs on pre-tax income by ₱2.7 billion in 2019, ₱2.6 billion in 2018 and ₱2.5 billion in 2017, assuming no change in volume of fuel is consumed.

Commodity derivative contracts maturing 3 months from reporting date are designated for hedge accounting. Derivative financial instruments which are part of hedging relationships do not expose the Group to market risk since changes in the fair value of the derivatives are offset by the changes in the fair value of the hedged items.

The Group manages its commodity price risk through fuel surcharges which are approved by the Philippine Civil Aeronautics Board, a fuel hedge that protects the Group's fuel usage from volatile price fluctuations and certain operational adjustments in order to conserve fuel use in the way the aircraft is operated.



### *Banking Segment's Market Risk*

Market risk is defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

RBC observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on RBC's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. RBC calculates and monitors VaR and profit or loss on a daily basis.

### *VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence. RBC uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

In employing the historical simulation method, RBC assumes a 500 historical data (approximately 2 years) and updates its dataset on a daily basis. Per RBC's policy, VaR is based on a 1-day holding period and a confidence level of 99%.

### *VaR methodology limitations and assumptions*

Discussed below are the limitations and assumptions applied by RBC on its VaR methodology:

- a. VaR is a statistical estimate; thus, it does not give the precise amount of loss RBC may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a RBC's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e., an unexpected collapse of the market) will not be captured and may inflict losses larger than VaR; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to the RMC, ALCO and the concerned risk-takers.

VaR back testing is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. RBC performs quarterly back testing.



RBC's VaR figures are as follows (in millions):

	2019			
	Average Daily	Highest	Lowest	December 31
Local interest rates	<b>₱0.0092</b>	<b>₱1.8670</b>	<b>₱0.0382</b>	–
Foreign interest rate	<b>\$0.0005</b>	<b>\$0.0022</b>	<b>\$0.0001</b>	<b>\$0.0004</b>

	2018			
	Average Daily	Highest	Lowest	December 31
Local interest rates	₱0.1622	₱1.8121	₱0.0005	–
Foreign interest rate	\$0.0018	\$0.0034	\$0.0005	\$0.0020

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

RBC's ALCO surveys the interest rate environment, adjusts the interest rates for RBC's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. RBC uses Earnings-at-Risk as a tool for measuring and managing interest rate risk in the banking book.

*Earnings-at-Risk objectives and methodology*

Earnings-at-Risk (EaR) is a statistical measure of the likely impact of changes in interest rates to the RBC's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk.

To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the Risk Management Committee quarterly.

RBC's EaR figures are as follows (in PHP millions):

	2019			
	Average	High	Low	December 31
Instruments sensitive to local interest rates	<b>₱292.65</b>	<b>₱361.38</b>	<b>₱195.18</b>	<b>₱302.75</b>
Instruments sensitive to foreign interest rates	<b>\$0.18</b>	<b>\$0.25</b>	<b>\$0.11</b>	<b>\$0.18</b>

	2018			
	Average	High	Low	December 31
Instruments sensitive to local interest rates	₱322.01	₱392.20	₱271.40	₱392.20
Instruments sensitive to foreign interest rates	\$0.14	\$0.18	\$0.11	\$0.13





*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on positions by currency. In accordance with the RBC's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

December 31, 2019		Statement of Income
+10% USD appreciation	USD	¥64,889,289
	Other Foreign Currencies*	813,063
-10% USD depreciation	USD	(64,889,289)
	Other Foreign Currencies*	(813,063)
December 31, 2018		Statement of Comprehensive Income
+10% USD appreciation	USD	(¥4,692,232)
	Other Foreign Currencies*	31,755,352
-10% USD depreciation	USD	(4,692,232)
	Other Foreign Currencies*	31,755,352

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**5. Fair Value Measurement**

The following methods and assumptions were used to estimate the fair value of each asset and liability for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

*Finance receivables*

Fair values of loans are estimated using the discounted cash flow methodology, using RBC's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

*Installment contract receivables*

Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables. The discount rates used range from 3.6% to 4.3% in 2019 and 3.0% to 4.7% in 2018.

*Debt securities*

Fair values of debt securities are generally based on quoted market prices. If the fair value of financial assets cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models using inputs from observable markets subject to a degree of judgment.

*Quoted equity securities*

Fair values are based on quoted prices published in markets.



*Unquoted equity securities*

Investment in unquoted equity security classified as FVOCI include interest in unlisted preference shares of stock of a fintech company. The adjusted net asset value approach was used in estimating the fair value of the equity security where assets and liabilities are restated to current fair values.

*Amounts due from and due to related parties*

Carrying amounts of due from and due to related parties which are collectible/payable on demand approximate their fair values. Due from related parties are unsecured and have no foreseeable terms of repayments.

*Noninterest-bearing refundable security deposits*

The fair values are determined as the present value of estimated future cash flows using prevailing market rates.

*Investment in convertible note*

The fair value of the convertible notes are determined using equity valuation method using comparable companies' market data..

*Biological assets*

Biological assets are measured at their fair values less costs to sell. The fair values of Level 2 biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit while Level 3 are determined based on adjusted commercial farmgate prices. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties.

The Group has determined that the highest and best use of the sucklings and weanlings is finishers while for other biological assets is their current use.

*Derivative financial instruments*

The fair values of the interest rate swaps and commodity swaps and options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards. The fair values of cross currency swaps are based on the discounted cash flow swap valuation model of a third party provider.

*Investment properties*

Fair value of investment properties is based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.

*Time deposits*

Fair values are estimated using the discounted cash flow methodology using RBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liabilities being valued.



*Long-term negotiable certificates of deposit (LTNCD)*

Fair values of LTNCD are estimated using quoted market rates for the instrument.

*Deposits from lessees*

The fair value of customers' deposits is based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables as of reporting date. The discount rates used range from 3.6% to 4.3% in 2019 and 4.9% to 6.5% in 2018.

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans. The discount rates used range from 2% to 6% in 2019 and 2018.

*Fair Value Hierarchy Assets and Liabilities*

Assets and liabilities carried at fair value are those whose fair values are required to be disclosed.

- (a) Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities;
- (b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- (c) Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows the Group's assets and liabilities carried at fair value:

	December 31, 2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair value
<i>Assets measured at fair value</i>					
<i>Financial assets at FVPL:</i>					
<i>Held-for-trading:</i>					
<i>Debt securities:</i>					
Government	₱3,943,264	₱3,943,264	₱-	₱-	₱3,943,264
Derivative assets	992,618	-	992,618	-	992,618
<i>Equity securities:</i>					
Quoted	1,718,536,973	1,718,536,973	-	-	1,718,536,973
Investment in convertible notes	2,661,172,115	-	2,661,172,115	-	2,661,172,115
	<b>4,384,644,970</b>	<b>1,722,480,237</b>	<b>2,662,164,733</b>	<b>-</b>	<b>4,384,644,970</b>
<i>Financial assets at FVOCI</i>					
<i>Debt securities:</i>					
Government	9,392,806,983	9,392,806,983	-	-	9,392,806,983
Private	11,902,368,238	11,902,368,238	-	-	11,902,368,238
	<b>21,295,175,221</b>	<b>21,295,175,221</b>	<b>-</b>	<b>-</b>	<b>21,295,175,221</b>
<i>Equity securities:</i>					
Quoted	24,528,006,195	24,451,716,195	76,290,000	-	24,528,006,195
Unquoted	487,055,158	-	487,055,158	-	487,055,158
	<b>25,015,061,353</b>	<b>24,451,716,195</b>	<b>563,345,158</b>	<b>-</b>	<b>25,015,061,353</b>
	<b>46,310,236,574</b>	<b>45,746,891,416</b>	<b>563,345,158</b>	<b>-</b>	<b>46,310,236,574</b>
Biological assets	957,563,597	-	59,841,764	897,721,833	957,563,597
	<b>₱51,652,445,141</b>	<b>₱47,036,166,430</b>	<b>₱3,718,556,878</b>	<b>₱897,721,833</b>	<b>₱51,652,445,141</b>
<i>Assets for which fair values are disclosed</i>					
Investment securities at amortized cost	₱11,357,261,241	₱3,954,282,863	₱7,126,636,855	₱-	₱11,080,919,718
<i>Receivables:</i>					
Trade receivables	21,833,432,330	-	-	21,822,778,474	21,822,778,474
Finance receivables	78,822,852,386	-	-	68,103,804,141	68,103,804,141
Other receivables	4,006,361,653	-	-	4,037,334,437	4,037,334,437
Refundable deposits	998,172,715	-	-	989,252,873	989,252,873
Investment properties	99,000,246,036	-	-	248,990,916,682	248,990,916,682
	<b>₱216,018,326,361</b>	<b>₱3,954,282,863</b>	<b>7,126,636,855</b>	<b>₱343,944,086,607</b>	<b>₱355,025,006,325</b>
<i>Liabilities</i>					
Deposit liabilities	₱103,995,566,150	₱-	₱-	₱104,726,603,234	₱104,726,603,234
Derivative liabilities	432,610,810	-	432,610,810	-	432,610,810
Deposits from lessees	6,100,144,195	-	-	5,535,394,216	5,535,394,216
Long-term debt (including current portion)	218,935,534,707	-	-	209,263,641,879	209,263,641,879
	<b>₱329,463,855,862</b>	<b>₱-</b>	<b>₱432,610,810</b>	<b>₱319,525,639,329</b>	<b>₱319,958,250,139</b>



	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair value
<i>Assets measured at fair value</i>					
Financial assets at FVPL:					
Held-for-trading:					
Debt securities:					
Government	₱8,206,143	₱8,206,143	₱-	₱-	₱8,206,143
Equity securities:					
Quoted	1,836,232,551	1,836,232,551	-	-	1,836,232,551
Investment in convertible notes	1,806,085,829	-	1,806,085,829	-	1,806,085,829
	3,650,524,523	1,844,438,694	1,806,085,829	-	3,650,524,523
Derivative financial assets designated as accounting hedges	6,389,048	-	6,389,048	-	6,389,048
	3,656,913,571	1,844,438,694	1,812,474,877	-	3,656,913,571
Financial assets at FVOCI					
Debt securities:					
Government	10,273,311,521	10,273,311,521	-	-	10,273,311,521
Private	12,964,659,358	12,964,659,358	-	-	12,964,659,358
	23,237,970,879	23,237,970,879	-	-	23,237,970,879
Equity securities:					
Quoted	19,878,902,835	19,828,602,835	50,300,000	-	19,878,902,835
Unquoted	256,208,787	-	256,208,787	-	256,208,787
	43,373,082,501	43,066,573,714	306,508,787	-	43,373,082,501
Biological assets	1,107,904,051	-	137,522,046	970,382,005	1,107,904,051
	₱48,137,900,123	₱44,911,012,408	₱2,256,505,710	₱970,382,005	₱48,137,900,123
<i>Assets for which fair values are disclosed</i>					
Investment securities at amortized cost:					
Debt securities:					
Government	₱10,523,326,784	₱-	₱10,523,326,784	₱-	₱10,523,326,784
Private	2,073,762,933	-	2,073,762,933	-	2,073,762,933
	12,597,089,717	-	12,597,089,717	-	12,597,089,717
Receivables:					
Trade receivables	21,000,162,333	-	-	19,611,590,785	19,611,590,785
Finance receivables	66,897,077,529	-	-	74,067,342,941	74,067,342,941
Other receivables	2,622,354,898	-	-	2,613,815,499	2,613,815,499
Refundable deposits	1,014,830,884	-	-	969,010,794	969,010,794
Investment properties	93,816,970,875	-	-	201,397,348,388	201,397,348,388
Repossessed chattels	101,671,945	-	-	134,336,570	134,336,570
	₱185,453,068,464	₱-	₱-	₱298,793,444,977	₱298,793,444,977
Deposit liabilities	₱85,388,842,035	₱-	₱-	₱84,921,731,583	₱84,921,731,583
Derivative liabilities	763,322,060	-	763,322,060	-	763,322,060
Deposits from lessees	5,309,450,905	-	-	4,570,524,401	4,570,524,401
Long-term debt (including current portion)	210,248,967,348	-	-	177,130,372,140	177,130,372,140
	₱301,710,582,348	₱-	₱763,322,060	₱266,622,628,124	₱267,385,950,184

In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. Non-financial asset determined under Level 3 includes investment properties. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

Description of significant unobservable inputs to valuation:

Account	Valuation Technique	Significant Unobservable Inputs
Loans and receivables	Discounted cash flow method	4.0% - 14.75% risk premium rate
Biological assets	Adjusted commercial farmgate prices	Commercial farmgate prices
Investment properties	Market data approach and Cost approach	Price/cost per square meter, size, shape, location, time element, discount, replacement cost and depreciation for improvements
	Discounted cash flow method	Discount rate, capitalization rate, growth rate, occupancy rate
Refundable deposits	Discounted cash flow method	0.25% - 11.50% risk premium rate
Repossessed chattels	Market data approach	Price per unit, size, shape, location, time element and discount
Time deposits	Discounted cash flow method	0.25% - 3.90% risk premium rate
Long-term debt	Discounted cash flow method	2% - 6% discount rate



Significant increases (decreases) in reasonable profit margin applied would result in a significantly higher (lower) fair value of the biological assets, considering all other variables are held constant.

*Significant Unobservable Inputs*

Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Risk premium	The return in excess of the risk-free rate of return that an investment is expected to yield.
Reasonable profit margin	Mark up of biological assets at different stages of development.
Adjusted commercial farmgate prices	Fair value based on commercial farmgate prices, adjusted by considering the age, breed and genetic merit

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## 6. Segment Information

### Operating Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The industry segments where the Group operates are as follows:

- Foods, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services, both domestic and international, for passengers and cargoes.



- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed-use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.
- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. This also includes dividend income from PLDT and equity in net earnings of Meralco and GBPC.

No operating segments have been aggregated to form the above reportable operating business segments.

The Group does not have a single external major customer (which represents 10.0% of Group's revenues).

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as the consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), finance income, market valuation gains(losses) on financial assets at FVPL and derivatives, foreign exchange gains (losses), other operating income, general and administrative expenses, impairment losses and others and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process. The Excom is the Group's chief operating decision maker.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' as of and for the years ended December 31, 2019, 2018 and 2017. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL, market valuation gains (losses) on derivative financial instruments and foreign exchange gains (losses).



The Group's operating segment information follows:

	December 31, 2019							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱134,174,527,579	₱84,806,810,363	₱30,210,187,210	₱29,053,982,086	₱8,121,662,955	₱749,175,892	₱-	₱287,116,346,085
Intersegment revenues	-	-	373,648,355	1,021,253,450	-	-	(1,394,901,805)	-
Dividend income (Note 28)	134,174,527,579	84,806,810,363	30,583,835,565	30,075,235,536	8,121,662,955	749,175,892	(1,394,901,805)	287,116,346,085
Equity in net earnings of associates and joint ventures (Note 14)	16,151,435	-	-	-	10,178,075	1,323,581,816	(1,199,410)	1,348,711,916
<b>Total revenue</b>	<b>134,032,076,532</b>	<b>84,873,769,747</b>	<b>36,689,461,694</b>	<b>30,075,235,536</b>	<b>8,131,841,030</b>	<b>9,363,959,703</b>	<b>(1,343,775,071)</b>	<b>301,822,569,171</b>
Cost of sales and services (Note 30)	93,861,929,762	49,518,018,515	14,204,146,300	30,232,850,986	3,173,237,752	-	(1,208,682,068)	189,781,501,247
<b>Gross income</b>	<b>₱40,170,146,770</b>	<b>₱35,355,751,232</b>	<b>₱22,485,315,394</b>	<b>(₱157,615,450)</b>	<b>₱4,958,603,278</b>	<b>₱9,363,959,703</b>	<b>₱(135,093,003)</b>	<b>112,041,067,924</b>
General and administrative expenses (Note 31)								57,983,100,861
Impairment losses and others (Note 34)								(2,144,968,452)
<b>Operating income</b>								<b>56,202,935,515</b>
Financing cost and other charges (Note 35)								(10,965,846,901)
Finance income (Note 27)								2,096,212,143
Other operating income (Note 29)								(764,665,540)
<b>Core earnings</b>								<b>46,568,635,217</b>
Market valuation gains (losses) on financial assets								640,533,460
Foreign exchange gains (losses)								828,657,682
<b>Income before income tax</b>								<b>48,037,826,359</b>
Provision for income tax (Note 38)								5,372,314,510
<b>Net income</b>								<b>₱42,665,511,849</b>
<b>Net income attributable to equity holders of the Parent</b>								
Company	₱5,399,282,651	₱6,185,199,432	₱11,333,531,130	₱970,642,663	₱431,655,905	₱6,902,496,160	₱62,438,391	₱31,285,246,332
<b>EBIT</b>	<b>₱15,011,957,658</b>	<b>₱12,621,017,504</b>	<b>₱12,282,895,865</b>	<b>₱858,955,829</b>	<b>₱781,026,480</b>	<b>₱14,647,082,179</b>	<b>₱-</b>	<b>₱56,202,935,515</b>
Depreciation and amortization (Notes 15, 16, 18 and 33)	7,310,056,927	15,399,075,784	4,966,545,415	1,954,567,251	579,139,834	179,628,855	(376,017,960)	30,012,996,106
Reversal of impairment loss	-	-	-	(2,274,795,253)	-	-	-	(2,274,795,253)
<b>EBITDA</b>	<b>₱22,322,014,585</b>	<b>₱28,020,093,288</b>	<b>₱17,249,441,280</b>	<b>₱538,727,827</b>	<b>₱1,360,166,314</b>	<b>₱14,826,711,034</b>	<b>(₱376,017,960)</b>	<b>₱83,941,136,368</b>
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization (Note 34):								
Impairment losses on receivables (Note 11)	₱2,208,724	₱3,427	₱-	₱-	₱131,435,597	₱-	₱-	₱133,647,748
Inventory obsolescence and market decline (Note 12)	2,678	-	-	-	-	-	-	2,678
Property, plant and equipment	-	-	-	(2,274,795,253)	-	-	-	(2,274,795,253)
Impairment losses on other assets	-	-	-	-	(3,823,625)	-	-	(3,823,625)
	<b>₱2,211,402</b>	<b>₱3,427</b>	<b>₱-</b>	<b>(₱2,274,795,253)</b>	<b>₱127,611,972</b>	<b>₱-</b>	<b>₱-</b>	<b>(₱2,144,968,452)</b>



December 31, 2018

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱127,769,949,329	₱74,113,776,885	₱29,467,564,096	₱42,351,966,134	₱6,132,382,567	₱670,963,828	₱-	₱280,506,602,839
Intersegment revenues	-	-	77,749,795	1,424,297,376	-	-	(1,502,047,171)	-
Dividend income (Note 28)	127,769,949,329	74,113,776,885	29,545,313,891	43,776,263,510	6,132,382,567	670,963,828	(1,502,047,171)	280,506,602,839
Equity in net earnings of associates and joint ventures (Note 14)	32,302,870	-	-	-	11,212,315	1,185,257,167	(1,199,410)	1,227,572,942
<b>Total revenue</b>	(132,407,965)	136,264,174	3,213,224,264	-	-	6,970,712,104	(5,950,694)	10,181,841,883
<b>Total revenue</b>	127,669,844,234	74,250,041,059	32,758,538,155	43,776,263,510	6,143,594,882	8,826,933,099	(1,509,197,275)	291,916,017,664
Cost of sales and services (Note 30)	90,332,569,588	48,039,492,056	13,668,592,264	40,917,554,303	2,275,281,099	-	(1,640,615,966)	193,592,873,344
<b>Gross income</b>	₱37,337,274,646	₱26,210,549,003	₱19,089,945,891	₱2,858,709,207	₱3,868,313,783	₱8,826,933,099	₱131,418,691	98,323,144,320
General and administrative expenses (Note 31)								52,912,530,779
Impairment losses and others (Note 34)								145,801,581
<b>Operating income</b>								45,264,811,960
Financing cost and other charges (Note 35)								(9,635,374,773)
Finance income (Note 27)								1,745,547,717
Other operating income (Note 29)								(459,468,426)
<b>Core earnings</b>								36,915,516,478
Market valuation gains (losses) on financial assets								(1,019,886,441)
Foreign exchange gains (losses)								(2,854,338,888)
<b>Income before income tax</b>								33,041,291,149
Provision for income tax (Note 38)								5,143,793,706
<b>Net income</b>								₱27,897,497,443
<b>Net income attributable to equity holders of the Parent Company</b>	₱5,085,554,061	₱2,653,143,265	₱8,248,872,579	₱1,054,195,029	₱190,609,473	₱2,358,536,287	(₱404,870,421)	₱19,186,040,273
<b>EBIT</b>	₱13,380,612,790	₱7,049,885,460	₱11,880,368,758	₱1,529,162,830	₱437,211,655	₱10,987,570,467	₱-	₱45,264,811,960
Depreciation and amortization (Notes 15, 16, 18 and 33)	6,369,775,844	7,479,321,315	4,456,732,645	1,848,781,422	318,332,674	94,336,114	-	20,567,280,014
<b>EBITDA</b>	₱19,750,388,634	₱14,529,206,775	₱16,337,101,403	₱3,377,944,252	₱755,544,329	₱11,081,906,581	₱-	₱65,832,091,974
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization (Note 34):								
Impairment losses on receivables (Note 11)	₱17,774,108	₱-	₱-	₱-	₱99,575,581	₱-	₱-	₱117,349,689
Inventory obsolescence and market decline (Note 12)	7,948,049	-	-	-	-	-	-	7,948,049
Property, plant and equipment	1,699,792	-	-	-	-	-	-	1,699,792
Impairment losses on other assets	17,579,587	-	-	-	1,224,464	-	-	18,804,051
	₱45,001,536	₱-	₱-	₱-	₱100,800,045	₱-	₱-	₱145,801,581





December 31, 2017

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	₱125,007,824,013	₱68,029,131,426	₱22,448,257,224	₱41,406,489,496	₱4,475,828,582	₱717,368,505	₱-	₱262,084,899,246
Intersegment revenues	-	-	68,560,406	1,190,430,306	-	-	(1,258,990,712)	-
Dividend income (Note 28)	125,007,824,013	68,029,131,426	22,516,817,630	42,596,919,802	4,475,828,582	717,368,505	(1,258,990,712)	262,084,899,246
Equity in net earnings of associates and joint ventures (Note 14)	12,921,148	-	-	-	13,399,782	1,426,716,235	(1,199,410)	1,451,837,755
<b>Total revenue</b>	124,740,211,838	68,169,462,075	26,268,935,092	42,596,919,802	4,489,228,364	8,454,831,513	(1,274,133,777)	273,445,454,907
Cost of sales and services (Note 30)	85,693,355,234	40,626,822,232	10,626,386,640	34,811,743,595	1,183,714,020	-	(1,387,580,735)	171,554,440,986
<b>Gross income</b>	₱39,046,856,604	₱27,542,639,843	₱15,642,548,452	₱7,785,176,207	₱3,305,514,344	₱8,454,831,513	₱113,446,958	101,891,013,921
General and administrative expenses (Note 31)								49,910,047,737
Impairment losses and others (Note 34)								248,080,372
<b>Operating income</b>								51,732,885,812
Financing cost and other charges (Note 35)								(7,836,137,934)
Finance income (Note 27)								1,243,424,967
Other operating income (Note 29)								241,871,584
<b>Core earnings</b>								45,382,044,429
Market valuation gains (losses) on financial assets								541,176,531
Foreign exchange gains (losses)								(902,717,961)
<b>Income before income tax</b>								45,020,502,999
Provision for income tax (Note 38)								5,501,468,891
<b>Net income</b>								₱39,519,034,108
<b>Net income attributable to equity holders of the Parent Company</b>	₱6,015,871,239	₱5,316,821,268	₱7,338,007,677	₱5,991,258,470	₱184,325,780	₱4,581,345,354	(₱58,092,332)	₱29,369,537,456
<b>EBIT</b>	₱14,952,166,760	₱10,134,278,023	₱8,562,414,443	₱6,518,388,803	₱355,398,353	₱11,210,239,430	₱-	₱51,732,885,812
Depreciation and amortization (Notes 15, 16, 18 and 33)	6,104,063,359	6,839,363,607	3,914,114,101	1,697,187,358	285,278,308	96,732,527	-	18,936,739,260
<b>EBITDA</b>	₱21,056,230,119	₱16,973,641,630	₱12,476,528,544	₱8,215,576,161	₱640,676,661	₱11,306,971,957	₱-	₱70,669,625,072
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization (Note 34):								
Impairment losses on receivables (Note 11)	₱18,553,155	₱173,269	₱-	₱-	₱217,183,385	₱-	₱-	₱235,909,809
Inventory obsolescence and market decline (Note 12)	2,870,047	-	-	-	-	-	-	2,870,047
Impairment losses on other assets	-	-	-	-	9,300,516	-	-	9,300,516
	₱21,423,202	₱173,269	₱-	₱-	₱226,483,901	₱-	₱-	₱248,080,372



Other information on the Group's operating segments follow:

December 31, 2019

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱421,625,100	₱1,221,452,018	₱56,653,592,667	₱-	₱-	₱93,658,009,900	(₱263,107,097)	₱151,691,572,588
Segment assets	₱168,652,989,873	₱157,977,016,711	₱189,651,209,761	₱115,700,303,303	₱131,141,546,214	₱187,953,903,640	(₱22,767,450,825)	₱928,309,518,677
Short-term debt (Note 23)	₱12,595,841,120	₱-	₱8,491,700,000	₱21,524,562,580	₱-	₱11,435,306,304	₱-	₱54,047,410,004
Long-term debt (Note 23)	₱30,386,077,608	₱57,144,521,276	₱34,715,272,176	₱22,000,000,000	₱-	₱74,689,663,647	₱-	₱218,935,534,707
Segment liabilities	₱73,468,487,679	₱114,441,734,821	₱89,573,539,283	₱59,620,821,793	₱114,081,071,846	₱99,227,402,926	(₱30,750,682,538)	₱519,662,375,810
Capital expenditures (Notes 15 and 16)	₱8,988,692,239	₱25,570,098,817	₱11,500,261,557	₱25,199,924,879	₱222,320,890	₱667,120,902	₱-	₱72,148,419,284

December 31, 2018

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱520,917,510	₱943,781,695	₱50,364,656,041	₱-	₱-	₱93,085,241,987	₱-	₱144,914,597,233
Segment assets	₱151,935,713,410	₱129,589,739,922	₱174,158,160,285	₱98,142,227,756	₱121,509,063,300	₱192,420,794,526	(₱48,468,683,365)	₱819,287,015,834
Short-term debt (Note 23)	₱8,480,998,575	₱-	₱896,700,000	₱-	₱-	₱5,062,308,755	₱-	₱14,440,007,330
Long-term debt (Note 23)	₱31,457,123,882	₱53,797,546,261	₱36,488,539,001	₱-	₱-	₱88,505,758,204	₱-	₱210,248,967,348
Segment liabilities	₱67,942,234,140	₱90,905,166,290	₱80,238,443,780	₱42,975,790,820	₱106,163,467,794	₱106,145,084,629	(₱42,561,032,158)	₱451,809,155,295
Capital expenditures (Notes 15 and 16)	₱8,641,730,098	₱26,030,449,395	₱14,083,962,187	₱19,870,115,618	₱282,544,066	₱37,112,569	(₱622,200,000)	₱68,323,713,933

December 31, 2017

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Investments in associates and joint ventures (Note 14)	₱404,647,575	₱840,972,437	₱46,365,842,599	₱-	₱-	₱90,779,861,628	₱-	₱138,391,324,239
Segment assets	₱147,493,293,568	₱109,245,863,713	₱147,528,320,430	₱69,409,114,388	₱104,926,584,835	₱209,817,783,530	(₱49,114,026,661)	₱739,306,933,803
Short-term debt (Note 23)	₱5,164,505,591	₱-	₱15,693,400,000	₱5,714,393,097	₱-	₱19,275,514,773	₱-	₱45,847,813,461
Long-term debt (Note 23)	₱33,225,962,388	₱40,982,210,752	₱35,661,162,154	₱-	₱-	₱71,817,479,372	₱-	₱181,686,814,666
Segment liabilities	₱65,807,280,971	₱69,761,176,242	₱80,155,702,670	₱15,302,675,696	₱92,833,429,203	₱111,870,754,089	(₱42,843,633,069)	₱392,887,385,802
Capital expenditures (Notes 15 and 16)	₱8,011,626,579	₱14,776,336,747	₱23,851,531,485	₱3,090,406,047	₱229,685,485	₱104,674,277	(₱6,544,360,000)	₱43,519,900,620



Reconciliation of Income Before Income Tax to EBITDA and Core Earnings

	2019	2018	2017
Income before income tax	<b>₱48,037,826,359</b>	₱33,041,291,149	₱45,020,502,999
Finance income	<b>(2,096,212,143)</b>	(1,745,547,717)	(1,243,424,967)
Financing cost and other charges	<b>10,965,846,901</b>	9,635,374,773	7,836,137,934
Other operating income	<b>764,665,540</b>	459,468,426	(241,871,584)
Market valuation losses (gains) on financial assets at FVPL and derivative financial instruments	<b>(640,533,460)</b>	1,019,886,441	(541,176,531)
Foreign exchange (gains) losses	<b>(828,657,682)</b>	2,854,338,888	902,717,961
EBIT	<b>56,202,935,515</b>	45,264,811,960	51,732,885,812
Depreciation and amortization	<b>30,012,996,106</b>	20,567,280,014	18,936,739,260
Reversal of impairment losses	<b>(2,274,795,253)</b>	-	-
<b>EBITDA</b>	<b>₱83,941,136,368</b>	₱65,832,091,974	₱70,669,625,072
Income before income tax	<b>₱48,037,826,359</b>	₱33,041,291,149	₱45,020,502,999
Market valuation losses (gains) on financial assets at FVPL and derivative financial instruments	<b>(640,533,460)</b>	1,019,886,441	(541,176,531)
Foreign exchange losses	<b>(828,657,682)</b>	2,854,338,888	902,717,961
<b>Core earnings</b>	<b>₱46,568,635,217</b>	₱36,915,516,478	₱45,382,044,429



The table below presents the consolidated statement of financial position of the Group broken down between industrial and banking components:

	December 31, 2019			December 31, 2018		
	Non-banks*	Banks*	Consolidated	Non-banks*	Banks*	Consolidated
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	₱44,005,466,583	₱20,337,782,579	₱64,343,249,162	₱25,510,651,426	₱23,684,025,015	₱49,194,676,441
Financial assets at fair value through profit and loss	4,379,709,088	4,935,882	4,384,644,970	3,642,318,380	8,206,143	3,650,524,523
Financial assets at fair value through other comprehensive income	8,286,428,203	13,973,461,843	22,259,890,046	10,818,456,393	13,097,214,483	23,915,670,876
Receivables - net	23,666,187,872	24,046,721,951	47,712,909,823	23,189,216,734	20,486,136,539	43,675,353,273
Inventories - net	68,513,876,509	–	68,513,876,509	63,472,037,028	–	63,472,037,028
Biological assets - net	733,435,525	–	733,435,525	741,719,637	–	741,719,637
Contract assets	3,007,038,670	–	3,007,038,670	5,088,356,660	–	5,088,356,660
Other current assets	23,075,658,715	124,975,863	23,200,634,578	24,437,130,173	129,469,039	24,566,599,212
<b>Total current assets</b>	<b>175,667,801,165</b>	<b>58,487,878,118</b>	<b>234,155,679,283</b>	<b>156,899,886,431</b>	<b>57,405,051,219</b>	<b>214,304,937,650</b>
<b>Noncurrent Assets</b>						
Financial assets at fair value through other comprehensive income	24,050,346,528	–	24,050,346,528	19,457,411,625	–	19,457,411,625
Receivables - noncurrent	3,677,362,062	57,236,185,738	60,913,547,800	1,432,956,759	48,418,529,405	49,851,486,164
Investments at amortized cost	–	11,357,261,241	11,357,261,241	–	12,597,089,717	12,597,089,717
Investments in associates and JVs - net	151,691,572,588	–	151,691,572,588	144,914,597,233	–	144,914,597,233
Investments properties - net	98,617,891,032	382,355,004	99,000,246,036	93,475,897,324	341,073,551	93,816,970,875
Contract assets	7,843,135,383	–	7,843,135,383	6,444,995,326	–	6,444,995,326
Property, plant and equipment - net	258,325,525,374	917,291,590	259,242,816,964	217,650,662,391	622,992,836	218,273,655,227
Right-of-use assets	20,140,084,838	391,336,459	20,531,421,297	–	–	–
Biological assets - bearer	224,128,072	–	224,128,072	366,184,414	–	366,184,414
Goodwill - net	31,761,277,350	244,327,006	32,005,604,356	31,761,277,350	244,327,006	32,005,604,356
Intangibles - net	12,598,588,522	1,299,801,877	13,898,390,399	12,627,357,949	1,327,066,643	13,954,424,592
Other noncurrent assets	12,570,259,549	825,109,181	13,395,368,730	12,746,725,732	552,932,923	13,299,658,655
<b>Total Noncurrent Assets</b>	<b>621,500,171,298</b>	<b>72,653,668,096</b>	<b>694,153,839,394</b>	<b>540,878,066,103</b>	<b>64,104,012,081</b>	<b>604,982,078,184</b>
	<b>₱797,167,972,463</b>	<b>₱131,141,546,214</b>	<b>₱928,309,518,677</b>	<b>₱697,777,952,534</b>	<b>₱121,509,063,300</b>	<b>₱819,287,015,834</b>

\*Balances are after elimination of intercompany balances between industrial and banking components



	December 31, 2019			December 31, 2018		
	Non-banks*	Banks*	Consolidated	Non-banks*	Banks*	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	₱59,307,013,927	₱87,020,357,930	₱146,327,371,857	₱55,995,766,742	₱76,660,068,675	₱132,655,835,417
Short-term debt	54,047,410,004	–	54,047,410,004	35,453,723,993	–	35,453,723,993
Current portion of long-term debt	6,819,093,642	–	6,819,093,642	30,962,269,832	–	30,962,269,832
Derivative liabilities	418,640,661	462,908	419,103,569	585,770,498	336,698	586,107,196
Contract liabilities	14,184,663,585	–	14,184,663,585	12,931,513,843	–	12,931,513,843
Income tax payable	1,768,570,932	2,700,053	1,771,270,985	1,775,407,604	1,365,637	1,776,773,241
Other current liabilities	21,569,617,633	410,100	21,570,027,733	15,052,570,233	383,700	15,052,953,933
<b>Total current liabilities</b>	<b>158,115,010,384</b>	<b>87,023,930,991</b>	<b>245,138,941,375</b>	<b>152,757,022,745</b>	<b>76,662,154,710</b>	<b>229,419,177,455</b>
<b>Noncurrent liabilities</b>						
Long-term debt - net of current portion	212,116,441,065	–	212,116,441,065	179,286,697,516	–	179,286,697,516
Deferred tax liabilities - net	8,318,082,154	–	8,318,082,154	7,877,223,942	–	7,877,223,942
Contract liabilities	2,958,482,166	–	2,958,482,166	2,378,690,953	–	2,378,690,953
Other noncurrent liabilities	28,641,464,191	22,488,964,859	51,130,429,050	13,683,739,481	19,163,625,948	32,847,365,429
<b>Total noncurrent liabilities</b>	<b>252,034,469,576</b>	<b>22,488,964,859</b>	<b>274,523,434,435</b>	<b>203,226,351,892</b>	<b>19,163,625,948</b>	<b>222,389,977,840</b>
<b>Total Liabilities</b>	<b>410,149,479,960</b>	<b>109,512,895,850</b>	<b>519,662,375,810</b>	<b>355,983,374,637</b>	<b>95,825,780,658</b>	<b>451,809,155,295</b>
<b>Stockholders' equity</b>	<b>294,575,357,898</b>	<b>10,236,284,621</b>	<b>304,811,642,519</b>	<b>267,378,513,527</b>	<b>9,207,357,303</b>	<b>276,585,870,830</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>97,011,310,601</b>	<b>6,824,189,747</b>	<b>103,835,500,348</b>	<b>84,753,751,506</b>	<b>6,138,238,203</b>	<b>90,891,989,709</b>
	<b>₱801,736,148,459</b>	<b>₱126,573,370,218</b>	<b>₱928,309,518,677</b>	<b>₱708,115,639,670</b>	<b>₱111,171,376,164</b>	<b>₱819,287,015,834</b>

\*Balances are after elimination of intercompany balances between industrial and banking components



### Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year-end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of plant and equipment, investment properties and intangible assets.

### Depreciation and amortization

In 2019, 2018 and 2017, the amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets.

### Segment Assets

Segment assets are resources owned by each of the operating segments with the exclusion of intersegment balances, which are eliminated, and adjustment of significant transactions of operating segment with fiscal year-end.

### Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated. The Group also reports, separately, to the chief operating decision maker the breakdown of the short-term and long-term debt of each of the operating segments.

### Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the acquisitions of investment property and property, plant and equipment during the period, including those acquired through business combination.

### Geographical Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore, Vietnam, Myanmar, New Zealand and Australia.

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

	2019	2018	2017
Domestic	<b>₱205,285,144,077</b>	₱191,174,505,599	₱177,183,896,798
Foreign	<b>96,537,425,094</b>	100,741,512,064	96,261,558,109
	<b>₱301,822,569,171</b>	₱291,916,017,663	₱273,445,454,907

The Group has no significant customer which contributes 10.0% or more of the consolidated revenues of the Group.



The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets, deferred tax assets and pension assets:

	2019	2018
Domestic	¥466,450,667,764	¥400,084,128,785
Foreign	¥119,815,104,673	¥113,164,190,898
	<b>¥586,265,772,437</b>	<b>¥513,248,319,683</b>

## 7. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	¥3,410,774,679	¥2,529,042,588
Cash in banks (Note 40)	¥28,576,315,526	¥26,297,373,536
Cash equivalents (Note 40)	¥32,356,158,957	¥20,368,260,317
	<b>¥64,343,249,162</b>	<b>¥49,194,676,441</b>

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.05% to 7.5%, from 0.01% to 6.5% and from 0.05% to 6.50% in 2019, 2018 and 2017, respectively (Note 27).

## 8. Derivative Financial Instruments

The tables below show the fair value of the Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2019 and 2018. The notional amount is the basis upon which changes in the value of derivatives are measured.

	December 31, 2019			
	Notional Amounts (in Millions)		Derivative Assets (Notes 9 and 13)	Derivative Liabilities (Notes 22 and 24)
	Japanese Yen	New Zealand Dollar		
<b>Derivatives Not Designated as</b>				
<b>Accounting Hedges (Notes 9 and 22)</b>				
Freestanding:				
Call option		US\$6.04	¥-	¥305,835,400
Foreign currency swaps	JPY9.14		¥992,618	¥462,908
			<b>¥992,618</b>	<b>¥306,298,308</b>
<b>Derivatives Designated as Accounting</b>				
<b>Hedges (Note 13)</b>				
Zero cost collars and commodity swaps*		US\$165.0	¥-	¥126,312,502
			¥-	<b>¥126,312,502</b>
<b>Presented in the consolidated</b>				
<b>statements of financial position as:</b>				
Current			¥992,618	¥419,103,569
Noncurrent			¥-	¥13,507,241

\*Notional quantity amounted to 1,980,000 US barrels as of December 31, 2019



December 31, 2018			
Notional Amounts (in Millions)		Derivative	Derivative
Japanese Yen	New Zealand Dollar	Assets (Note 13)	Liabilities (Note 24)
<b>Derivatives Not Designated as</b>			
<b>Accounting Hedges</b> (Notes 9 and 22)			
Freestanding:			
		P-	P762,985,362
Zero cost collars*			
Foreign currency swaps	JPY0.54	-	336,698
		P-	P763,322,060
<b>Derivatives Designated as</b>			
<b>Accounting Hedges</b> (Note 13)			
Currency options	NZ\$28.20	P6,389,048	P-
		P6,389,048	P-
<b>Presented in the consolidated</b>			
<b>statements of financial position as:</b>			
Current (Note 22)		P6,389,048	P586,107,196
Noncurrent		P-	P177,214,864

\*Notional quantity amounted to 2,100,000 US barrels as of December 31, 2018

*Derivatives not designated as accounting hedges*

The Group's derivatives not designated as accounting hedges include transactions to take positions for risk management purpose.

- Zero cost collars and commodity swaps

CAI enters into zero cost collars and commodity swaps derivative contracts to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges until September 30, 2019.

The gains or losses on derivatives not designated for hedge accounting are accounted directly as charges against or credit to profit or loss whereas for designated hedges, effective portion identified under PFRS 9 hedge accounting are recognized as other comprehensive income or loss. Hedge ineffectiveness is recognized directly to profit or loss. As of December 31, 2019 and 2018, CAI has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through 2019 until 2021.

In 2019, CAI recognized changes in fair value of derivatives totaling to P772.1 million net gain, of which P256.8 million net gain is attributable to the effective portion of accounting hedges directly recognized in other comprehensive income as 'Net gains (losses) from cash flow hedges'.

In 2018 and 2017, CAI recognized net changes in fair value of derivatives amounting to P289.0 million loss and P135.9 million loss, respectively. These are recognized under 'Market valuation gains (losses) on derivative financial instruments' account in the consolidated statements of comprehensive income.





- **Foreign currency forwards**  
In 2019, 2018 and 2017, CAI entered into foreign currency forwards and recognized net changes in fair value of derivatives in profit or loss amounting to ₱560.9 million loss, ₱33.6 million loss and ₱3.3 million gain, respectively. The realized gain is recognized under 'Market valuation gains (losses) on derivative financial instruments - net' account in the consolidated statements of comprehensive income.
- **Foreign currency swaps**  
RBC entered into foreign currency swap transactions with positive fair values of ₱0.5 million as of December 31, 2019, and negative fair values of ₱0.3 million as of December 31, 2018. In 2019, 2018 and 2017, RBC recognized net changes in fair value of derivatives amounting to ₱45.0 million gain, ₱1.5 million loss and ₱15.3 million gain, respectively.
- **Call Option**  
As part of change in ownership of URC Oceania Group, Intersnack was also given an option to acquire an additional 9% equity share in UHC. The call option has a fair value of ₱305.8 million as of December 31, 2019.

#### *Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives, particularly interest rate swaps and currency options, as cash flow hedges in order to reduce its exposure to market risks that is achieved by hedging portfolios of floating rate financial instruments.

The accounting treatment explained in Note 2 to the consolidated financial statements, *Hedge Accounting*, varies according to the nature of the hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- **Currency options**  
URC entered into currency options with a total notional amount of NZD28.2 million and initial fair value of ₱7.5 million. URC recognized unrealized loss in other comprehensive income under 'Net gains (losses) from cash flow hedges' amounting to ₱4.6 million, ₱3.3 million and ₱11.4 million in 2019, 2018 and 2017. URC made a settlement of ₱4.6 million in 2019 for the related derivatives.
- **Zero cost collars and commodity swaps**  
CAI's fuel derivatives designated as accounting hedges have a negative fair value of ₱126.3 million as of December 31, 2019. CAI recognized changes in fair value of derivatives amounting to ₱256.8 million net gain attributable to the effective portion of accounting hedges in other comprehensive income as 'Net gains (losses) from cash flow hedges'.

#### Hedge Effectiveness Results

The hedge is assessed to be effective as the critical terms of the hedging instrument match the terms of the hedged item.



Fair value changes in derivatives

*Fair value changes of derivatives designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments designated as accounting hedges follow:

	2019	2018
Beginning balance	<b>₱6,389,048</b>	₱11,023,146
Net changes shown in other comprehensive income (Note 36):		
Net changes in fair value of derivatives taken to other comprehensive income	<b>175,171,778</b>	(3,336,553)
Fair value of settled instruments	<b>(307,873,328)</b>	(1,297,545)
	<b>(₱126,312,502)</b>	₱6,389,048

Net changes in fair value of derivatives taken to other comprehensive income are recorded under 'Net gains (losses) from cash flow hedges' in the consolidated statement of comprehensive income.

*Fair value changes of derivatives not designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments not designated as accounting hedges follow:

	2019	2018
Balance at beginning of year:		
Derivative assets	<b>₱-</b>	₱467,897,681
Derivative liabilities	<b>763,322,060</b>	5,904,377
	<b>(763,322,060)</b>	461,993,304
Net losses from changes in fair value of derivatives taken to profit or loss	<b>(18,307,172)</b>	(338,299,836)
Fair value of settled instruments	<b>476,323,542</b>	(887,015,528)
	<b>(₱305,305,690)</b>	(₱763,322,060)
Balance at end of year:		
Derivative assets (Note 9)	<b>₱992,618</b>	₱-
Derivative liabilities (Note 8)	<b>306,298,308</b>	763,322,060

The net changes in fair value of derivatives taken to profit or loss are included under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income, except for the foreign currency swaps of RBC, where the net changes in fair value are taken to profit or loss under 'Trading and securities gains' (see Note 26).

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**9. Financial Assets at Fair Value through Profit or Loss**

This account consists of the following:

	2019	2018
Debt securities:		
Government	<b>₱3,943,264</b>	₱8,206,143
Private	-	140,329,354
	<b>3,943,264</b>	148,535,497
(Forward)		



	2019	2018
Equity securities:		
Quoted	<b>₱1,718,536,973</b>	₱1,695,903,197
Investment in convertible notes	<b>2,661,172,115</b>	1,806,085,829
Derivatives (Note 8)	<b>992,618</b>	-
	<b>₱4,384,644,970</b>	₱3,650,524,523

*Sea Limited*

On April 13, 2017, JGSPL invested in a convertible note from Sea Limited in the amount of US\$25.0 million (or ₱1.3 billion). The Principal Amount excluding any accrued and unpaid interest may be converted into fully paid and non-assessable voting ordinary shares of Sea Limited.

In 2019, the note was converted into 1,834,188 ordinary shares of Sea Limited which was then sold for a total price of US\$43.7 million, resulting in realized market valuation gain of US\$10.9 million (₱566.6 million). As of December 31, 2018, unrealized gain on the investment in convertible note amounted to ₱0.3 billion.

*Oriente*

On December 14, 2018, JGDEV entered into a Securities Exchange Agreement with ORT Philippines Holdings Pte. Ltd. (ORT Philippines), wherein JGDEV sold to the latter all its shares (including deposit for future subscription) in Oriente Techsystem Philippines Corporation (OETC) and Paloo Financing Inc. (Paloo). Also, ORT Philippines transferred to JGDEV 6,627,087 Series A-2 Preferred shares of Oriente Finance Group Limited (OFGL) and a convertible note with a face value of \$1.975 million. As of December 31, 2018, the convertible note of OFGL is classified under financial assets at fair value through profit or loss while the preferred shares are classified under financial assets at FVOCI. In 2018, the Group recorded gain from the disposal of its investment in OETC and Paloo amounting to ₱198.1 million.

On December 5, 2019, the convertible note with face value of \$1.975 million was converted to 819,641 Series B-1 preferred shares. As of December 31, 2019, Series A-2 and Series B-1 preferred shares are classified under financial assets at FVOCI (see Note 10).

*JUUL Labs, Inc*

In August 2019, JGSPL invested in USD50.0 million Convertible Notes of JUUL Labs, Inc. (“JUUL Labs”). JUUL Labs is a private company based in California, USA, which is in the business of manufacturing and distributing e-cigarettes.

The Convertible Notes have the following features:

1. Repayable after 5 years;
2. 7% p.a. coupon accruing and compounding quarterly paid in kind thru increase in the outstanding principal (“Accreted principal”);
3. Conversion into class of shares (or mix thereof) as specified in paragraph 1.12 of the Note Purchase Agreement;
4. Conversion can be:
  - a. Automatic in the event of any of the following qualified financing events (e.g., qualified private financing, qualified IPO and qualified direct listing), with conversion price determined as the higher of the valuation floor and lower of valuation cap and discounted valuation in the financing event; or



- b. Optional (i) in the event of financing events whereby conditions for qualification were not met, and in that case the conversion price is determined using the basis in (a) above; (ii) upon JUUL Labs' direct listing or starting on the 24th month anniversary, and in such cases the conversion price is the valuation cap; and (iii) when exercised on maturity date and the conversion price is USD30.4 million; and
5. Early redemption at the option of JUUL Labs but subject to the consent of majority investors or one (1) owner provided the Issuer offered the same terms to other investors. The redemption price should not be less than the accreted principal as of the redemption date.

*Snapcart Group (HK) Limited*

On March 5, 2019, JGDEV entered into a Deed of Adherence with Snapcart Group (HK) Limited pursuant to the Convertible Loan Agreement entered into in February 20, 2019. The consideration is for a loan amount of \$1.0 million at a rate of 3% interest per annum. The convertible loan was set to mature on December 20, 2019 but subsequently amended to extend maturity to March 31, 2020. The convertible note is classified under financial assets at fair value through profit and loss.

*Zuzu Hospitality Solutions Pte. Ltd.*

On September 10, 2019, JGDCPL entered into a Note Purchase Agreement with Zuzu Hospitality Solutions Pte. Ltd. (Zuzu Hospitality) to invest in a Convertible Note amounting to SGD1 million. Zuzu Hospitality is a private company incorporated and based in Singapore that offers outsourced revenue management to independent hotels. Zuzu Hospitality currently operates in Indonesia and Taiwan.

As of December 31, 2019, 2018 and 2017, unrealized loss on debt securities recognized amounted to ₱9.2 million, ₱264.0 million and ₱157.7 million, respectively.

As of December 31, 2019, 2018 and 2017, unrealized gain (loss) on equity securities recognized amounted to ₱713.1 million, (₱419.1 million) and (₱95.7 million), respectively.

In 2019, 2018 and 2017, the Group recognized net market valuation gains (losses) on financial assets at FVPL (excluding derivatives) amounting to ₱703.9 million, (₱683.1 million) and ₱696.4 million, respectively, included under 'Market valuation gains (losses) on financial assets at fair value through profit or loss' in the consolidated statements of comprehensive income.

Interest income on financial assets at FVPL consists of (see Note 27):

	2019	2018	2017
Debt securities:			
Private	<b>₱87,690,303</b>	₱474,106,446	₱536,802,342
Government	<b>13,181,655</b>	130,079,434	113,969,006
	<b>₱100,871,958</b>	₱604,185,880	₱650,771,348



## 10. Investment Securities

### Financial Assets at Fair Value through Other Comprehensive Income

As at December 31, 2019, this account consists of investments in:

	2019	2018
Debt securities:		
Government	₱9,392,806,983	₱10,273,311,521
Private	11,902,368,238	12,964,659,358
	<b>21,295,175,221</b>	23,237,970,879
Equity securities:		
Quoted	24,528,006,195	19,878,902,835
Unquoted	487,055,158	256,208,787
	<b>25,015,061,353</b>	20,135,111,622
	<b>₱46,310,236,574</b>	₱43,373,082,501

Breakdown of financial assets at FVOCI as shown in the consolidated statements of financial position follows:

	2019	2018
Current portion	₱22,259,890,046	₱23,915,670,876
Noncurrent portion	24,050,346,528	19,457,411,625
	<b>₱46,310,236,574</b>	₱43,373,082,501

The Group has classified its 17.3 million PLDT shares representing 8.0% ownership interest and the additional ownership interest equivalent to 3.23% through the acquisition of American Depositary Receipts (ADRs) in December 2019 as financial assets at FVOCI, which have carrying values of ₱24.1 billion and ₱19.5 billion as of December 31, 2019 and 2018, respectively. The ADRs were converted into 7.0 million PLDT common shares in January 2020.

Interest income on debt financial assets at FVOCI/AFS debt securities follows (Note 27):

	2019	2018	2017
Debt securities:			
Private	₱664,109,167	₱374,775,163	₱370,841,736
Government	363,288,259	448,401,992	458,963,998
	<b>₱1,027,397,426</b>	₱823,177,155	₱829,805,734

The range of the Group's effective interest rates on government securities are as follows:

	2019	2018	2017
Peso-denominated securities	5.75%-8.00%	3.62%-7.20%	1.38%-5.19%
Foreign currency-denominated securities	4.75%-7.75%	3.16%-6.47%	2.75%-5.18%

The range of the Group's effective interest rates on the private bonds are as follows:

	2019	2018	2017
Peso-denominated securities	4.20%-6.49%	4.20%-7.82%	3.90%-6.63%
Foreign currency-denominated securities	4.38%-7.38%	4.01%-6.02%	3.86%-5.90%



The movements in net unrealized gains (losses) on financial assets at FVOCI follow:

	2019		
	Parent Company	Non-controlling Interests	Total
Balance at beginning of year	(P22,647,670,192)	(P204,920,170)	(P22,852,590,362)
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on financial assets at FVOCI of the Parent Company and its subsidiaries	(1,083,397,384)	454,489,410	(628,907,974)
Realized gain on sale of financial assets at FVOCI (Note 29)	(277,810,114)	–	(277,810,114)
	(24,008,877,690)	249,569,240	(23,759,308,450)
Share in net changes in fair value of financial assets at FVOCI of an associate (Note 14)	176,256,150	–	176,256,150
Balance at end of year	(P23,832,621,540)	P249,569,240	(P23,583,052,300)

	2018		
	Parent Company	Non-controlling Interests	Total
Balance at beginning of year, as previously reported	P–	P–	P–
Effect of adoption of PFRS 9	(14,954,413,164)	181,701,765	(14,772,711,399)
Balance at January 1, 2018, as restated	(14,954,413,164)	181,701,765	(14,772,711,399)
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on financial assets at FVOCI of the Parent Company and its subsidiaries	(7,517,643,934)	(386,621,935)	(7,904,265,869)
Realized gain on sale of financial assets at FVOCI (Note 29)	(34,208,528)	–	(34,208,528)
	(22,506,265,626)	(204,920,170)	(22,711,185,796)
Share in net changes in fair value of financial assets at FVOCI of an associate (Note 14)	(141,404,566)	–	(141,404,566)
Balance at end of year	(P22,647,670,192)	(P204,920,170)	(P22,852,590,362)

	2017		
	Parent Company	Non-controlling Interests	Total
Balance at beginning of year	(P596,224,679)	(P119,301,795)	(P715,526,474)
Net changes shown in other comprehensive income (Note 36):			
Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries	1,855,132,262	(80,951,614)	1,774,180,648
Realized gain on sale of AFS investments (Note 29)	(14,747,467)	–	(14,747,467)
	1,840,384,795	(80,951,614)	1,759,433,181
Share in net changes in fair value of AFS investments of an associate (Note 14)	24,394,385	–	24,394,385
Balance at end of year	P1,268,554,501	(P200,253,409)	P1,068,301,092

### Investment Securities at Amortized Cost

The investment securities at amortized cost of the Group consist of the following:

	2019	2018
Government securities	P9,507,201,849	P10,673,679,979
Private bonds	1,850,398,340	1,923,410,533
	11,357,600,189	12,597,090,512
Less allowance for impairment losses	(338,948)	(795)
	P11,357,261,241	P12,597,089,717



The effective interest rates for peso-denominated investment securities at amortized cost of the Group ranges from 3.25% to 8.13% and 2.08% to 6.00% in 2019 and 2018, respectively. The effective interest rates for foreign currency-denominated investment securities at amortized cost of the Group is 2.75% in 2019 and from 2.76% to 5.31% 2018, respectively.

Interest income on Investment securities at amortized cost/HTM investments amounted to ₱486.14 million, ₱364.32 million and nil in 2019, 2018 and 2017, respectively (see Note 27).

## 11. Receivables

This account consists of:

	2019	2018
Finance receivables	₱79,837,553,053	₱67,862,863,368
Trade receivables	22,032,153,564	21,279,464,748
Due from related parties (Note 40)	2,547,714,785	1,574,492,811
Interest receivable	1,180,129,554	1,005,296,837
Other receivables	4,718,742,439	3,429,658,825
	<b>110,316,293,395</b>	<b>95,151,776,589</b>
Less allowance for impairment losses	1,689,835,772	1,624,937,152
	<b>₱108,626,457,623</b>	<b>₱93,526,839,437</b>

Total receivables shown in the consolidated statements of financial position follow:

	2019	2018
Current portion	₱47,712,909,823	₱43,675,353,273
Noncurrent portion	60,913,547,800	49,851,486,164
	<b>₱108,626,457,623</b>	<b>₱93,526,839,437</b>

Noncurrent receivables consist of:

	2019	2018
Finance receivables	₱57,236,185,738	₱48,418,529,405
Trade receivables	2,347,362,062	1,432,956,759
Due from related parties	1,330,000,000	-
	<b>₱60,913,547,800</b>	<b>₱49,851,486,164</b>

### Finance Receivables

Breakdown of finance receivables, which represent receivables from customers of RBC and its subsidiary, follows:

	2019	2018
Receivables from customers:		
Commercial	₱49,514,835,477	₱44,523,131,007
Real estate	19,328,435,011	14,376,289,958
Consumption	10,827,271,508	8,545,058,560
Domestic bills purchased	495,192,826	834,447,716
	<b>80,165,734,822</b>	<b>68,278,927,241</b>
Less unearned interest and discounts	328,181,769	416,063,873
	<b>₱79,837,553,053</b>	<b>₱67,862,863,368</b>



Interest income on finance receivables included under 'Banking revenue' in profit or loss in the consolidated statements of comprehensive income, consists of (see Notes 26 and 27):

	2019	2018	2017
Receivables from customers:			
Commercial	<b>₱3,173,161,721</b>	₱2,488,181,208	₱1,691,903,926
Consumption	<b>1,806,095,578</b>	1,334,075,467	1,016,984,816
Real estate	<b>1,076,020,078</b>	741,540,449	480,287,737
Domestic bills purchased	<b>459,690</b>	278,928	304,453
Others	<b>6,703,541</b>	6,224,286	4,705,429
	<b>₱6,062,440,608</b>	₱4,570,300,338	₱3,194,186,361

Others consist of sales contract receivables and lease receivables.

Restructured receivables which do not meet the BSP requirements to be treated as performing receivables shall be considered as nonperforming loans. Restructured receivables as of December 31, 2019 and 2018 amounted to ₱247.8 million and ₱247.6 million, respectively.

#### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱1.3 billion and ₱1.1 billion as of December 31, 2019 and 2018. These are collectible in monthly installments over a period of between one year to ten years. These are carried at amortized cost, except for receivables from lease-to-own arrangements which are carried at fair value through OCI. The title of the real estate property, which is the subject of the installment contract receivable due beyond 12 months, passes to the buyer once the receivable is fully paid. The Group records any excess of progress of work over the right to an amount of consideration that is unconditional as contract asset. Revenue from real estate and hotels includes interest income earnings from installment contract receivables amounting to ₱0.3 billion, ₱0.9 billion and ₱1.7 billion in 2019, 2018 and 2017 respectively, and is recorded under 'Sale of goods and service' on the consolidated statements of comprehensive income.

Other trade receivables are noninterest-bearing and generally have 30 to 90-day terms.

#### Others

Other receivables include claims receivables, advances to brokers and other non-trade receivables. As of December 31, 2019 and 2018 claims receivables amounted to ₱1.1 billion and ₱0.6 billion, respectively.

#### Allowance for Impairment Losses on Receivables

Changes in the allowance for impairment losses on receivables follow:

	2019				2018			
	Trade Receivables	Finance Receivables	Other Receivables	Total	Trade Receivables	Finance Receivables	Other Receivables	Total
Balance at beginning, as adjusted	<b>₱279,302,415</b>	<b>₱965,785,839</b>	<b>₱379,848,898</b>	<b>₱1,624,937,152</b>	₱555,449,421	₱885,434,422	₱3,262,973,870	₱4,703,857,713
Provision for impairment losses (Note 34)	5,674	126,554,564	7,087,510	133,647,748	17,774,108	83,887,054	15,688,527	117,349,689
Written-off	-	-	(2,206,477)	(2,206,477)				
Unrealized foreign exchange gains (loss)	(56,539)	-	(2,280,185)	(2,336,724)	1,981,496	-	-	1,981,496
Reclassification/Others	(80,530,316)	(77,639,736)	93,964,125	(64,205,927)	(295,902,610)	(3,535,637)	(2,898,813,499)	(3,198,251,746)
Balance at end of year	<b>₱198,721,234</b>	<b>₱1,014,700,667</b>	<b>₱476,413,871</b>	<b>₱1,689,835,772</b>	₱279,302,415	₱965,785,839	₱379,848,898	₱1,624,937,152





Provision for impairment losses on receivables for the years ended December 31, 2019, 2018 and 2017 amounted to ₱133.6 million, ₱117.3 million and ₱231.2 million, respectively.

Allowance for credit losses on other receivables includes credit losses on non-trade receivables, advances to officers and employees and other receivables. Allowance for credit losses on advances to officers and employees amounted to ₱19.6 million as of December 31, 2019 and 2018.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to commercial loans follow:

	2019			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2019	₱41,921,932,935	₱ 2,192,660,381	₱408,537,691	₱44,523,131,007
New assets originated or purchased	46,602,442,842	–	–	46,602,442,842
Assets derecognized or repaid (excluding write offs)	(40,627,258,041)	(895,796,642)	(79,196,179)	(41,602,250,862)
Transfers to Stage 1	19,042,241	(18,262,028)	(780,213)	–
Transfers to Stage 2	(2,606,146,389)	2,606,146,389	–	–
Transfers to Stage 3	(82,754,966)	(23,879,279)	106,634,245	–
Amounts written off	–	–	(8,487,510)	(8,487,510)
	<b>₱45,227,258,622</b>	<b>₱3,860,868,821</b>	<b>₱426,708,034</b>	<b>₱49,514,835,477</b>
ECL allowance as at January 1, 2019 under PFRS 9	₱83,537,302	₱100,794,487	₱203,967,077	₱388,298,866
Provisions for (recovery of) credit losses*	129,961,685	(55,321,666)	(19,441,269)	55,198,750
Transfers to Stage 1	563,644	(555,842)	(7,802)	–
Transfers to Stage 2	(41,030,960)	41,030,960	–	–
Transfers to Stage 3	(25,948,619)	(12,810,656)	38,759,275	–
Amounts written off/reversals/others	–	–	(27,105,004)	(27,105,004)
	<b>₱147,083,052</b>	<b>₱73,137,283</b>	<b>₱196,172,277</b>	<b>₱416,392,612</b>

*\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses*

	2018			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2018	₱39,464,292,540	₱1,174,867,003	₱404,745,990	₱41,043,905,533
New assets originated or purchased	23,364,950,636	361,118,341	20,043,976	23,746,112,953
Assets derecognized or repaid (excluding write offs)	(19,621,495,004)	(589,806,948)	(46,995,586)	(20,258,297,538)
Transfers to Stage 1	307,476,095	(307,441,613)	(34,482)	–
Transfers to Stage 2	(1,556,831,549)	1,556,896,848	(65,299)	–
Transfers to Stage 3	(36,459,783)	(2,973,250)	39,433,033	–
Amounts written off	–	–	(8,589,941)	(8,589,941)
	<b>₱41,921,932,935</b>	<b>₱2,192,660,381</b>	<b>₱408,537,691</b>	<b>₱44,523,131,007</b>
ECL allowance as at January 1, 2018 under PFRS 9	₱118,551,456	₱43,048,715	₱144,053,980	₱305,654,151
Provisions for (recovery of) credit losses*	84,771	(5,581,679)	65,093,925	59,597,017
Transfers to Stage 1	22,394,829	(22,386,173)	(8,656)	–
Transfers to Stage 2	(2,305,027)	2,335,326	(30,299)	–
Transfers to Stage 3	(327,588)	(62,753)	390,341	–
Amounts written off/reversals/others	(54,861,139)	83,441,051	(5,532,214)	23,047,698
	<b>₱83,537,302</b>	<b>₱100,794,487</b>	<b>₱203,967,077</b>	<b>₱388,298,866</b>

*\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses*



An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to real estate follow:

	2019			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2019	<b>₱13,768,377,307</b>	<b>₱506,920,608</b>	<b>₱100,992,043</b>	<b>₱14,376,289,958</b>
New assets originated or purchased	<b>6,914,015,679</b>	–	–	<b>6,914,015,679</b>
Assets derecognized or repaid (excluding write offs)	<b>(1,822,041,114)</b>	<b>(115,817,336)</b>	<b>(24,012,176)</b>	<b>(1,961,870,626)</b>
Transfers to Stage 1	<b>153,185,241</b>	<b>(145,123,078)</b>	<b>(8,062,163)</b>	–
Transfers to Stage 2	<b>(869,062,811)</b>	<b>870,508,779</b>	<b>(1,445,968)</b>	–
Transfers to Stage 3	<b>(107,115,914)</b>	<b>(81,285,519)</b>	<b>188,401,433</b>	–
Amounts written off	–	–	–	–
	<b>₱18,037,358,388</b>	<b>₱1,035,203,454</b>	<b>₱255,873,169</b>	<b>₱19,328,435,011</b>
ECL allowance as at January 1, 2019 under PFRS 9	<b>₱3,192,152</b>	<b>₱77,690</b>	<b>₱21,255,559</b>	<b>₱24,525,401</b>
Provisions for (recovery of) credit losses*	<b>10,278,180</b>	<b>178,557</b>	<b>(15,024,227)</b>	<b>(4,567,490)</b>
Transfers to Stage 1	<b>65,712</b>	<b>(62,917)</b>	<b>(2,795)</b>	–
Transfers to Stage 2	<b>(1,258,639)</b>	<b>1,259,253</b>	<b>(614)</b>	–
Transfers to Stage 3	<b>(295,489)</b>	<b>(70,408)</b>	<b>365,897</b>	–
Amounts written off/reversals/others	–	–	<b>59,834</b>	<b>59,834</b>
	<b>₱11,981,916</b>	<b>₱1,382,175</b>	<b>₱6,653,654</b>	<b>₱20,017,745</b>

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

	2018			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at January 1, 2018	<b>₱8,904,302,261</b>	<b>₱454,990,766</b>	<b>₱71,095,894</b>	<b>₱9,430,388,921</b>
New assets originated or purchased	<b>6,001,176,655</b>	<b>112,148,059</b>	<b>7,663,077</b>	<b>6,120,987,791</b>
Assets derecognized or repaid (excluding write offs)	<b>(1,064,976,547)</b>	<b>(78,867,674)</b>	<b>(31,242,533)</b>	<b>(1,175,086,754)</b>
Transfers to Stage 1	<b>251,522,724</b>	<b>(248,679,679)</b>	<b>(2,843,045)</b>	–
Transfers to Stage 2	<b>(293,462,167)</b>	<b>295,837,671</b>	<b>(2,375,504)</b>	–
Transfers to Stage 3	<b>(30,185,619)</b>	<b>(28,508,535)</b>	<b>58,694,154</b>	–
Amounts written off	–	–	–	–
	<b>₱13,768,377,307</b>	<b>₱506,920,608</b>	<b>₱100,992,043</b>	<b>₱14,376,289,958</b>
ECL allowance as at January 1, 2018 under PFRS 9	<b>₱2,943,318</b>	<b>₱146,529</b>	<b>₱14,309,948</b>	<b>₱17,399,795</b>
Provisions for (recovery of) credit losses*	<b>101,264</b>	–	<b>4,490,635</b>	<b>4,591,899</b>
Transfers to Stage 1	<b>318,455</b>	<b>(90,538)</b>	<b>(227,917)</b>	–
Transfers to Stage 2	<b>(94,116)</b>	<b>284,552</b>	<b>(190,436)</b>	–
Transfers to Stage 3	<b>(6,061)</b>	<b>(13,465)</b>	<b>19,526</b>	–
Amounts written off/reversals/others	<b>(70,708)</b>	<b>(249,388)</b>	<b>2,853,803</b>	<b>2,533,707</b>
	<b>₱3,192,152</b>	<b>₱77,690</b>	<b>₱21,255,559</b>	<b>₱24,525,401</b>

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses



An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer loans follow:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2019	₱7,299,551,418	₱636,617,017	₱608,890,125	₱8,545,058,560
New assets originated or purchased	13,357,901,496	–	–	13,357,901,496
Assets derecognized or repaid (excluding write offs)	(10,233,327,334)	(502,348,180)	(256,909,581)	(10,992,585,095)
Transfers to Stage 1	37,818,753	(33,334,187)	(4,484,566)	–
Transfers to Stage 2	(555,784,021)	560,260,790	(4,476,769)	–
Transfers to Stage 3	(229,800,248)	(53,131,558)	282,931,806	–
Amounts written off	(61,469,155)	(9,962,381)	(11,671,917)	(83,103,453)
	₱9,614,890,909	₱598,101,501	₱614,279,098	₱10,827,271,508
ECL allowance as at January 1, 2019 under PFRS 9	₱94,119,655	₱29,016,475	₱429,825,442	₱552,961,572
Provisions for (recovery of) credit losses*	76,827,427	(6,429,006)	5,524,883	75,923,304
Transfers to Stage 1	714,750	(591,394)	(123,356)	–
Transfers to Stage 2	(6,887,238)	7,005,271	(118,033)	–
Transfers to Stage 3	(67,296,152)	(21,425,387)	88,721,539	–
Amounts written off/reversals/others	–	–	(50,594,566)	(50,594,566)
	₱97,478,442	₱7,575,959	₱473,235,909	₱578,290,310

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	₱5,982,202,651	₱261,421,486	₱603,641,275	₱6,847,265,412
New assets originated or purchased	4,917,675,514	104,581,060	22,219,280	5,044,475,854
Assets derecognized or repaid (excluding write offs)	(3,018,681,352)	(153,517,117)	(90,794,167)	(3,262,992,636)
Transfers to Stage 1	50,749,426	(48,133,361)	(2,616,065)	–
Transfers to Stage 2	(514,473,079)	518,737,348	(4,264,269)	–
Transfers to Stage 3	(117,921,742)	(46,472,399)	164,394,141	–
Amounts written off	–	–	(83,690,070)	(83,690,070)
	₱7,299,551,418	₱636,617,017	₱608,890,125	₱8,545,058,560
ECL allowance as at January 1, 2018 under PFRS 9	₱61,091,031	₱18,228,660	₱483,060,785	₱562,380,476
Provisions for (recovery of) credit losses*	6,527,664	1,164,467	12,006,007	19,698,138
Transfers to Stage 1	2,504,082	(1,527,203)	(976,879)	–
Transfers to Stage 2	(7,964,591)	9,714,157	(1,749,566)	–
Transfers to Stage 3	(2,763,152)	(5,260,527)	8,023,679	–
Amounts written off/reversals/others	34,724,621	6,696,921	(70,538,584)	(29,117,042)
	₱94,119,655	₱29,016,475	₱429,825,442	₱552,961,572

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses



## 12. Inventories

This account consists of inventories at cost held as follows:

	2019	2018
Subdivision land, condominium and residential units for sale	<b>₱36,062,897,387</b>	₱31,464,454,298
Spare parts, packaging materials and other supplies	<b>10,901,828,797</b>	10,572,850,617
Raw materials	<b>10,718,499,893</b>	11,519,075,356
Finished goods	<b>9,155,597,372</b>	8,739,717,461
Work-in-process	<b>1,667,556,834</b>	1,169,383,710
By-products	<b>7,496,226</b>	6,555,586
	<b>₱68,513,876,509</b>	₱63,472,037,028

Summary of the movements in real estate inventory follows:

	2019	2018
Balance at beginning of year	<b>₱31,464,454,298</b>	₱28,854,049,360
Balance at beginning of year, as restated	<b>31,464,454,298</b>	28,854,049,360
Construction and development costs incurred	<b>8,723,176,262</b>	5,868,091,167
Costs of real estate sales (Note 30)	<b>(4,235,325,163)</b>	(4,931,427,825)
Transfers from (to) investment properties, property and equipment and unrealized land cost (Notes 15 and 16)	<b>110,591,990</b>	1,673,741,596
Balance at end of year	<b>₱36,062,897,387</b>	₱31,464,454,298

Borrowing cost capitalized amounted to ₱486.0 million and ₱548.0 million in 2019 and 2018, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2019 and 2018 is 4.59% and 4.50%, respectively. This amount was included in the construction and development costs incurred.

The amount of subdivision land, condominium and residential units for sale recognized as cost of real estate sales in the consolidated statements of comprehensive income amounted to ₱4.2 billion, ₱4.9 billion and ₱3.1 billion for the years ended December 31, 2019, 2018 and 2017, respectively.

Under the terms of agreements covering liabilities under trust receipts amounting to ₱8.7 billion and ₱6.0 billion as of December 31, 2019 and 2018, respectively, certain inventories which approximate the trust receipts payable, have been released to the Group under trust receipt agreement with the banks (see Note 23). The Group is accountable to the banks for the value of the trusted inventories or their sales proceeds.

The Group recognized impairment losses on its inventories included under 'Impairment losses and others' amounting to ₱2,678, ₱7.9 million and ₱2.9 million in 2019, 2018 and 2017, respectively (see Note 34).

On October 20, 2015, the Chinese government awarded the Contract for Assignment of the Rights to the Use of State-Owned Land (the Contract) to the Group. In May 2016, the Masterplan had been completed and was submitted for approval to the Chinese government in the same month. The Chinese government approved the Masterplan in the first quarter of 2017 and construction activities have commenced (recognized as land use right and development cost).



Under the Contract, the Group is entitled to transfer, lease, mortgage all or part of the state-owned construction land use right to a third party. Upon receipt of the Certificate of State-owned Land Use Right Assignment, the land title will be subdivided into Individual Property Titles which will be issued to unit owners one year after completion of the development and turn-over of the units to the buyers. When all or part of the state-owned construction land use right is transferred, through sale of commercial units and high-rise condominium units to buyers, the rights and obligations specified in the Contract and in the land registration documents shall be transferred accordingly to the buyer. The use term will be the remaining years as of the date of transfer based on the original use term specified in the Contract.

When the use term under the Contract expires (residential: 70 years and commercial: 40 years) and the land user continues using the assigned land under the Contract, an application for renewal shall be submitted to the Chinese government not less than one (1) year prior to the expiration of the use term.

The land use right (included in ‘Subdivision land, condominium and residential units for sale’) amounting to P10.2 billion as at December 31, 2018 is pledged as security to the Renminbi (RMB) 216 million (P1,651 million) loan from Agricultural Bank of China. The said loan was fully paid in December 2019. No subdivision land, condominium and residential units for sale were pledged as security to liabilities as of December 31, 2019.

### 13. Other Current Assets

This account consists of:

	2019	2018
Input value-added tax (VAT)	P9,301,277,182	P5,866,368,778
Advances to suppliers (Note 2)	4,859,810,484	5,949,470,490
Prepaid expenses	2,542,682,724	2,684,249,213
Restricted cash	2,533,017,832	7,607,799,241
Advances to lot owners and joint operations	2,142,570,836	748,273,145
Creditable withholding tax	1,785,546,288	1,614,910,944
Utility deposits	8,417,364	7,831,041
Derivative assets under hedge accounting (Note 8)	-	6,389,048
Others	27,311,868	81,307,312
	<b>P23,200,634,578</b>	<b>P24,566,599,212</b>

#### Input VAT

Input tax pertains to VAT from purchases of goods and services, which will be claimed as credit against output tax liabilities in a manner prescribed by pertinent revenue regulations. The Group believes that the amount of input VAT is fully realizable in the future.

#### Advances to Suppliers

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. This also includes prepayments for the construction of residential projects.

#### Advances to Lot Owners and Joint Operations

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired. The application is expected to be within twelve (12) months after the reporting date.



This also includes deposit to various joint operations partners representing share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

Prepaid Expenses

This account consists of prepayments on rent, insurance, taxes, and office supplies.

Restricted Cash

RLC has restricted cash that includes the deposits in local banks for the purchase of land and deposits of buyers of Chengdu Xin Yao which will mainly be used for construction of real estate inventories

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**14. Investments in Associates and Joint Ventures**

Details of this account follow:

	<b>2019</b>	2018
<b>Acquisition cost:</b>		
Balance at beginning of year	<b>₱117,629,554,926</b>	₱115,132,972,597
Additional investments	<b>1,544,789,775</b>	3,273,567,354
Reclassification/ transfer	<b>82,500,000</b>	-
Disposal of investment	-	(448,735,025)
Reclassification to investment in subsidiaries due to step-up acquisition	-	(328,250,000)
<b>Balance at end of year</b>	<b>119,256,844,701</b>	117,629,554,926
<b>Accumulated equity in net earnings:</b>		
Balance at beginning of year	<b>26,863,845,970</b>	23,183,588,136
Equity in net earnings	<b>13,357,511,170</b>	10,181,841,883
Reclassification to investment in subsidiaries due to step- up acquisition		105,478,327
Accumulated equity in net losses (earnings) of disposed investment		297,544,736
Elimination of unrealized gains on downstream sales	<b>(225,846,870)</b>	(990,497,652)
Reclassification / transfer	<b>(147,578,714)</b>	
Dividends received	<b>(6,866,259,987)</b>	(5,914,109,460)
<b>Balance at end of year</b>	<b>32,981,671,569</b>	26,863,845,970
<b>Share in unrealized gain (loss) on financial assets at fair value thru other comprehensive income (FVOCI) of associates:</b>		
Balance at beginning of year	<b>(141,404,566)</b>	-
Share in net changes in fair value of financial assets at FVOCI of associates	<b>176,256,150</b>	(141,404,566)
<b>Balance at end of year</b>	<b>34,851,584</b>	(141,404,566)

(Forward)



	2019	2018
Share in remeasurements of the net defined benefit liability of associates:		
Balance at beginning of year	<b>₱585,931,095</b>	₱198,173,021
Share in net changes in remeasurements of the net defined benefit liability of associates	<b>(1,170,380,505)</b>	387,758,074
	<b>(584,449,410)</b>	585,931,095
Cumulative translation adjustment	<b>300,104,541</b>	274,120,205
	<b>151,989,022,985</b>	145,212,047,630
Less allowance for impairment losses	<b>297,450,397</b>	297,450,397
	<b>₱151,691,572,588</b>	₱144,914,597,233

Equity in net earnings amounting to ₱10.1 billion in 2017 excludes the excess of the share in net loss over the investment in a joint venture amounting to ₱147.6 million (presented in 'Other noncurrent liabilities'). In 2019, this amount was reclassified to and recorded as part of the accumulated equity in net earnings of joint venture as a result of the additional investment during the year.

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of effective ownership interest are shown below:

	Effective Ownership		Carrying Value	
	2019	2018	2019	2018
			(In Million Pesos)	
<b>Associates</b>				
Domestic:				
Manila Electric Company (Meralco)	29.56	29.56	₱80,372.8	₱79,942.0
Global Business Power Corporation (GBPC)	30.00	30.00	11,979.7	12,126.0
Oriental Petroleum and Mining Corporation (OPMC)	19.40	19.40	758.3	791.6
Luzon International Premiere Airport Development Corp. (LIPAD)	33.00	-	171.3	-
G2M Solutions Philippines Pte. Ltd (G2M)	0.00	0.00	160.5	160.5
Cebu Light Industrial Park, Inc. (CLIP)	20.00	20.00	59.1	61.3
1 Aviation Groundhandling Services Corp. Summit Supply Chain Solutions, Inc. (SSCSI)	27.05	27.05	30.7	25.0
Shang Robinsons Properties, Inc.	50.00	-	30.0	-
	30.49	30.49	-	-
Foreign:				
United Industrial Corp., Limited (UICL)	37.05	37.05	54,303.4	48,981.3
Air Black Box (ABB)	10.15	10.15	43.7	43.7
Zyllem Pte. Ltd	13.33	-	50.8	-
			<b>147,960.3</b>	142,131.4
<b>Joint Ventures</b>				
Domestic:				
RHK Land Corporation	36.58	36.58	1,375.5	1,383.3
Robinsons DoubleDragon Corporation	40.07	-	613.3	-
SIA Engineering (Philippines) Corp. (SIAEP)	23.67	23.67	470.6	425.7
RLC DMCI Property Ventures, Inc	30.49	-	361.3	-
Aviation Partnership (Philippines) Corp. (APPC)	33.14	33.14	247.5	252.4

(Forward)



	Effective Ownership		Carrying Value	
	2019	2018	2019	2018
			(In Million Pesos)	
Philippine Academy for Aviation Training (PAAT)	33.82	33.82	237.7	197.0
Vitasoy-URC, Inc (VURCI)	27.63	27.63	76.3	195.8
MPIC-JGS Airport Holdings, Inc.	41.25	41.25	3.8	3.8
Danone Universal Robina Beverages, Inc. (DURBI)	27.63	27.63	-	-
Foreign:				
Calbee – URC Malaysia Sdn. Bhd (CURM)	27.63	27.63	32.5	31.8
Proper Snack Foods Limited (PSFL)	27.68	27.68	312.8	293.3
			3,731.3	2,783.1
			<b>₱151,691.6</b>	<b>₱144,914.5</b>

### Material investees

#### *Meralco*

On June 14, 2017, the Parent Company acquired an additional 27,500,000 common shares of Meralco for a total cost of ₱6.9 billion. After this transaction, the total number of shares held by the Parent Company is 333,189,397 representing 29.56% of Meralco's total outstanding common shares.

#### *OPMC*

The Group accounts for its investment in OPMC as an associate although the Group holds less than 20.00% of the issued share capital, as the Group has the ability to exercise significant influence over the investment, due to the Group's voting power (both through its equity holding and its representation in key decision-making committees) and the nature of the commercial relationships with OPMC.

#### *UICL*

UICL, a company incorporated in Singapore, is engaged in residential property management. UICL follows the fair value model in measuring investment properties while the Group follows the cost model in measuring investment properties. The financial information of UICL below represents the adjusted amounts after reversal of the effect of revaluation and depreciation on the said assets.

#### *Fair value of investments in listed associates*

As of December 31, 2019 and 2018, the Group's investments in the following listed investee companies have fair values of:

	Exchange Listed	2019	2018
Meralco	Philippine Stock Exchange	<b>₱105,621,038,849</b>	₱126,611,970,860
UICL	Singapore Exchange Limited	<b>57,839,671,246</b>	66,734,036,905
OPMC	Philippine Stock Exchange	<b>426,890,219</b>	504,506,623

As of December 31, 2019 and 2018, the breakdown of the total fair market value of the Group's investment in OPMC follows:

	2019	2018
Class A Common Stock	<b>₱99,115,847</b>	₱117,136,910
Class B Common Stock	<b>327,774,372</b>	387,369,713
	<b>₱426,890,219</b>	<b>₱504,506,623</b>

The fair value is based on the quoted price prevailing as of the reporting date.





Summarized below is the financial information of the significant associates of the Group:

- Summarized statements of financial position of the Group's significant associates as of December 31, 2019 and 2018:

	2019				2018			
	Meralco	GBPC	UICL	OPMC	Meralco	GBPC	UICL	OPMC
Current assets	<b>₱117,689,831,692</b>	<b>₱20,184,035,973</b>	<b>₱16,201,055,165</b>	<b>₱1,052,518,706</b>	₱115,343,934,019	₱22,316,013,410	₱42,351,633,909	₱2,800,190,595
Noncurrent assets	<b>239,328,530,315</b>	<b>53,315,336,661</b>	<b>323,370,941,921</b>	<b>3,654,791,311</b>	220,905,121,930	54,186,310,779	254,084,326,293	2,055,096,503
Current liabilities	<b>127,562,136,965</b>	<b>11,410,541,046</b>	<b>25,530,846,420</b>	<b>83,985,743</b>	115,516,521,622	10,857,020,220	50,308,105,990	137,639,214
Noncurrent liabilities	<b>144,221,146,025</b>	<b>31,005,793,045</b>	<b>14,045,653,002</b>	<b>72,166,166</b>	137,850,510,873	34,459,556,763	4,247,430,935	–
Equity	<b>₱85,235,079,017</b>	<b>₱31,083,038,543</b>	<b>₱299,995,497,664</b>	<b>₱4,551,158,108</b>	₱82,882,023,454	₱31,185,747,206	₱241,880,423,277	₱4,717,647,884
Group's carrying amount of the investment	<b>₱80,372,762,133</b>	<b>₱11,979,694,056</b>	<b>₱54,303,411,019</b>	<b>₱758,306,983</b>	₱79,941,986,898	₱12,126,046,658	₱48,981,302,371	₱791,595,964

As of December 31, 2019 and 2018, the Group's share in Meralco's net assets amounted to ₱25.2 billion and ₱24.5 billion, respectively. As of December 31, 2019 and 2018, the excess of the carrying value over the Group's share in Meralco's net assets is attributable to the notional goodwill and the difference between the fair value and carrying value of Meralco's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in GBPC's net assets amounted to ₱9.4 billion and ₱9.5 billion, respectively. The excess of the Group's share in the carrying value of GBPC's net assets over the carrying value of the investment is attributable to the notional goodwill and the difference between the fair value and carrying value of GBPC's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in UICL's net assets amounted to ₱111.1 billion and ₱89.6 billion, respectively. The excess of the Group's share in the carrying value of UICL's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of UICL's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in OPMC's net assets amounted to ₱882.9 million and ₱915.2 million, respectively. The excess of the Group's share in the carrying value of OPMC's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of OPMC's net assets at the date of acquisition.



- Summarized statements of comprehensive income of the Group's significant associates for the period ended December 31, 2019, 2018 and 2017:

	2019				2018			
	Meralco	GBPC	UICL	OPMC	Meralco	GBPC	UICL	OPMC
Revenue	₱319,322,222,397	₱24,664,347,108	₱968,672,147	₱373,034,295	₱306,484,000,000	₱27,219,494,275	₱26,398,495,164	₱546,215,154
Expenses	289,069,727,910	17,390,229,780	467,453,130	299,805,689	276,737,000,000	20,342,220,593	16,158,971,353	390,232,352
Finance costs (income)	(1,662,088,758)	2,264,670,273	2,930,980	–	(798,000,000)	2,239,282,564	9,696,634	–
Profit before tax	31,914,583,245	5,009,447,055	498,288,037	73,228,606	30,545,000,000	4,637,991,118	10,229,827,177	155,982,802
Income tax expense	8,543,046,152	1,102,612,239	41,642,037	–	7,443,000,000	1,120,985,283	1,486,108,349	35,520,914
Profit for the year (continuing operations)	₱23,371,537,093	₱3,906,834,816	₱456,646,000	₱73,228,606	₱23,102,000,000	₱3,517,005,835	₱8,743,718,828	₱120,461,888
Other comprehensive income (loss) for the year	(2,995,676,854)	–	–	–	480,000,000	–	–	–
Total comprehensive income for the year (continuing operations)	₱20,375,860,239	₱3,906,834,816	₱456,646,000	₱73,228,606	₱23,582,000,000	₱3,517,005,835	₱8,743,718,828	₱120,461,888
Group's share of profit for the year	₱6,667,422,170	₱671,236,006	₱6,037,320,136	₱14,206,355	₱6,588,285,540	₱621,783,963	₱3,239,372,942	₱22,017,011

	2017			
	Meralco	GBPC	UICL	OPMC
Revenue	₱283,382,000,000	₱23,980,615,078	₱48,056,937,031	₱498,684,483
Expenses	256,178,000,000	17,192,603,211	34,646,705,537	376,981,707
Finance costs	658,000,000	1,776,083,291	426,294,642	–
Profit before tax	26,546,000,000	5,011,928,576	12,983,936,852	121,702,776
Income tax expense	7,363,000,000	1,239,464,976	1,815,520,951	2,874,004
Profit for the year (continuing operations)	₱19,183,000,000	₱3,772,463,600	₱11,168,415,901	₱118,828,772
Total comprehensive income for the year (continuing operations)	470,000,000	(54,211,548)	–	16,272,503
Total comprehensive income for the year (continuing operations)	₱19,653,000,000	₱3,718,252,052	₱11,168,415,901	₱135,101,275
Group's share of profit for the year	₱5,601,657,500	₱719,181,542	₱3,752,117,462	₱8,831,693



Individually immaterial investees

*LIPAD*

On February 18, 2019, the Parent Company invested in Luzon International Premiere Airport Development Corporation (LIPAD). The shares acquired represented 33% of LIPAD's total outstanding common shares. LIPAD is a corporation organized and incorporated in the Philippines to engage in the operation and maintenance of airports, whether operating as a domestic or international airport or both, including day-to-day administration, functioning, management, manning, upkeep, and repair of all facilities necessary for the use or required for the safe and proper operation of airports.

*CLIP I*

As of December 31, 2019 and 2018, the Group has deposit for future stock subscription in CLIP I amounting to ₱10.0 million. These represents 20.0% of CLIP I's proposed increase in authorized capital stock.

*G2M*

On September 20, 2018, the Parent Company invested in G2M's convertible note amounting to \$5.9 million. The Parent Company paid \$2.97 million to G2M as first installment payment and will pay the remaining \$2.97 million note when certain conditions are met. The convertible note gives the Parent Company the right to convert to 14.90% of the outstanding stock of G2M. The Parent Company has one representation on the BOD of the G2M.

*PAAT*

Investment in PAAT pertains to CAI's 60.00% investment in shares of the joint venture. However, the joint venture agreement between the CAI and CAE International Holdings Limited (CAE) states that CAI is entitled to 50.00% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50.00% share in net income and net assets of the joint venture.

As of December 31, 2019 and 2018, CAI's investment in PAAT amounted to ₱237.7 million and ₱188.7 million.

*CURCI*

In September 2018, URC entered into a share purchase agreement with its joint venture partner, Calbee, Inc., to acquire the latter's 50% equity interest in CURCI for a total consideration of ₱171.0 million, which approximates the fair values of identifiable net assets acquired. The purchase of the additional 50% shares will allow URC to have full control of CURCI, consistent with its agenda of driving an aligned and scalable snacking category growth. As a result of the sale, CURCI became a wholly-owned subsidiary. The purchase of the additional 50% shares will allow the Parent Company to have full control of CURCI, consistent with its agenda of driving an aligned and scalable snacking category growth. As a result of the sale, CURCI became a wholly-owned subsidiary of the Parent Company.

*HURC*

URC has an equity interest in HURC, a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines. In 2017, URC entered into certain agreements with a third party to sell its rights, title, and interest in the assets used in manufacturing the Hunt's business, as well as pre-termination of the right to manufacture, sell, and distribute Hunt's products (see Note 16). Subsequent to the sale HURC remains to exist as a jointly controlled entity.



In September 2018, URC entered into a share purchase agreement with its joint venture partner, ConAgra Grocery Products Company, LLC., to acquire its 50% equity interest in HURC for a total consideration of ₱3.2 million. The acquisition of the HURC shares made HURC a wholly-owned subsidiary of URC.

#### *DURBI*

On May 23, 2014, URC entered into a joint venture agreement with Danone Asia Holdings Pte. Ltd., a corporation duly organized in the Republic of Singapore to form Danone Universal Robina Beverages, Inc. (DURBI), a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the “B’lue” brand name, which is under exclusive license to DURBI in the Philippines.

In 2018, URC made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 5,000,000 common shares for a total cost of ₱82.5 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

In 2019, URC made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 10,000,000 common share for a total cost of ₱125.0 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

#### *PSFL*

On June 30, 2017, Griffin’s Food Limited (Griffin’s) purchased 50.1% of the shares in Proper Snack Foods Ltd (a Nelson, New Zealand-based business with the 49.9% shareholder being an individual) for a total consideration of approximately NZ\$8.0 million, or ₱282.1 million. PSFL manufactures and distributes crisps.

#### *Calbee-URC Malaysia*

On August 23, 2017, URC Malaysia entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form Calbee-URC Malaysia Sdn Bhd (CURM), a corporation registered with the Companies Commission of Malaysia organized to manufacture savory snack products. Total consideration amounted to MYR2.7 million (₱34.3 million).

#### *Shang Robinsons Properties, Inc*

On November 13, 2017, RLC’s BOD approved the agreement with Shang Properties, Inc. (SPI) to form a joint venture corporation (JVC).

On May 23, 2018, Shang Robinsons Properties, Inc., the JVC, was incorporated. Both RLC and SPI each own 50% of the outstanding shares in the JVC. The office address of the JVC is at Lower Ground Floor, Cyber Sigma Building, Lawton Avenue, Fort Bonifacio Taguig.

RLC and SPI, through the JVC, shall build and develop a property situated at McKinley Parkway corner 5th Avenue and 21st Drive at Bonifacio Global City, Taguig, Metro Manila. The project is intended to be a mixed-use development and may include residential condominium units, serviced apartments and commercial retail outlets. The JVC also plans to pursue other development projects.

RHK Land Corporation On February 5, 2018, RLC’s BOD approved the agreement with Hong Kong Land Group (HKLG) represented by Hong Kong Land International Holdings, Ltd. and its subsidiary Ideal Realm Limited to form a joint venture corporation (JVC).



On June 14, 2018, RHK Land Corporation, the JVC, was incorporated. RLC and HKLG owns 60% and 40%, respectively, of the outstanding shares in the JVC. The principal office of the JVC is at 12F Robinsons Cyberscape Alpha, Sapphire and Garnet Roads, Ortigas Center, Pasig City.

RLC and HKLG, through the JVC, shall engage in the acquisition, development, sale and leasing of real property. The JVC shall initially undertake the purchase of a property situated in Block 4 of Bridgetowne East, Pasig City, develop the property into a residential enclave and likewise carry out the marketing and sales of the residential units. The JVC also plans to pursue other development projects.

On October 2018, RLC entered into a Shareholder Loan Agreement with the JVC. Repayment date falls on the fifth anniversary of the effective date.

*Robinsons DoubleDragon Corporation (RDDC)*

On December 26, 2019, Robinsons DoubleDragon Corp. (RDDC) was incorporated as the joint venture company (JVC) between RLC and DoubleDragon Corporation. The primary purpose is to engage in realty development.

*RLC DMCI Property Ventures, Inc.*

In October 2018, the Parent Company entered into a Joint Venture Agreement with DMCI Project Developers, Inc. (DMCI PDI) to develop, construct, manage, and sell a residential condominium situated in Las Piñas City. Both parties agreed to incorporate a joint venture corporation where each party will hold a 50% ownership.

On March 18, 2019, RLC DMCI Property Ventures, Inc. (RLC DMCI) was incorporated as the joint venture company (JVC) between RLC and DMCI PDI. The proposed project is intended to be a multi-tower residential condominium and may include commercial spaces.

*Summit Supply Chain Solutions, Inc.*

On December 18, 2019, the Parent Company invested in Summit Supply Chain Solutions, Inc (SSCSI). SSSCI shall engage in the business of providing domestic transportation, logistics, warehousing and distribution of cargoes, and other supply chain management activities. SSSCI is expected to start commercial operations in June 2020.

*Zyllem Pte. Ltd.*

In August 2019, JGDCPL invested in 7,476,857 Series A+ shares of Zyllem Pte. Ltd. (Zyllem) at SGD0.1806 per share, or total subscription price of SGD1.35 million. Zyllem is a private company incorporated and based in Singapore that provides fast, cost-effective and reliable on-demand delivery service. Zyllem operates in certain cities in Southeast Asia. Post-subscription, JGDCPL holds 13.33% ownership interest in Zyllem. Also, under the Shareholders' Agreement, subject to JGDCPL holding less than 10% ownership interest, JGDCPL is entitled to appoint one (1) director. The investment in Zyllem is accounted for as investment in an associate since the Group has one representation on the BOD of Zyllem.

Aggregate information of associates and joint ventures that are not individually material follows:

	2019		2018	
	Associates	Joint Venture	Associates	Joint Venture
Group's share of:				
Profit (loss) for the year	<b>₱36,240,500</b>	<b>(₱68,913,997)</b>	(₱50,019,834)	(₱239,597,739)
Other comprehensive income for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>₱36,240,500</b>	<b>(₱68,913,997)</b>	(₱50,019,834)	(₱239,597,739)
Group's share of dividends for the year	<b>₱2,000,000</b>	<b>₱48,693,162</b>	₱4,000,000	₱79,454,916
Group's carrying amount of the investment	<b>₱546,086,425</b>	<b>₱3,731,311,972</b>	₱1,469,685,159	₱1,603,980,183



Investment in Subsidiaries

Financial information of subsidiaries that have material non-controlling interest is provided below:

- Portion of equity interest held by non-controlling interest

Name of Subsidiary	Country of Incorporation and Operation	December 31, 2019	December 31, 2018
Universal Robina Corporation (URC)	Philippines	44.75	44.75
Robinsons Land Corporation (RLC)	Philippines	39.03	39.03
Cebu Air, Inc. (CAI)	Philippines	32.20	32.36
Robinsons Bank Corporation (RBC)	Philippines	40.00	40.00

- Accumulated balances of material non-controlling interest:

Name of Subsidiary	2019	2018
URC	₱44,697,172,077	₱36,827,746,372
RLC	39,413,894,384	36,908,401,233
CAI	14,471,966,173	12,976,390,179
RBC	6,689,122,170	6,003,170,626

- Profit allocated to material non-controlling interest:

Name of Subsidiary	2019	2018
URC	₱4,797,010,497	₱4,100,336,857
RLC	3,401,193,211	3,214,464,948
CAI	2,953,400,776	1,269,582,383
RBC	275,770,603	127,072,982

The summarized financial information of subsidiaries with material non-controlling interest are provided below. This information is based on amounts before inter-company eliminations.

- Summarized statement of financial position as at December 31, 2019:

	URC	RLC	CAI	RBC
Current assets	₱64,844,632,262	₱56,779,122,872	₱25,970,368,532	₱47,939,220,762
Noncurrent assets	103,808,357,611	132,872,086,889	131,762,204,030	83,201,717,832
Current liabilities	34,933,350,028	41,345,192,866	42,696,069,925	90,539,016,591
Noncurrent liabilities	38,535,137,651	48,228,346,417	70,135,526,977	23,541,447,635

- Summarized statement of financial position as at December 31, 2018:

	URC	RLC	CAI	RBC
Current assets	₱54,409,734,482	₱52,959,404,988	₱25,944,665,488	₱54,219,418,440
Noncurrent assets	97,525,978,928	121,198,755,297	103,446,817,028	67,131,219,469
Current liabilities	31,968,500,498	32,109,366,244	34,702,883,709	96,452,774,656
Noncurrent liabilities	35,973,733,642	48,129,077,536	54,586,465,528	12,520,309,461

- Summarized statements of comprehensive income for 2019:

	URC	RLC	CAI	RBC
Revenue	₱134,174,527,579	₱30,583,835,565	₱84,806,810,363	₱8,121,662,955
Profit for the year from continuing operations	10,114,683,777	8,692,609,758	9,122,952,680	719,426,508
Total comprehensive income	11,004,041,325	8,763,698,639	9,125,843,406	1,712,920,576
Dividends paid to non-controlling interests	3,395,036,779	1,019,391,907	1,354,532,703	-



▪ Summarized statements of comprehensive income for 2018:

	URC	RLC	CAI	RBC
Revenue	₱127,769,949,329	₱29,545,313,891	₱74,113,776,885	₱6,132,382,567
Profit for the year from continuing operations	9,462,786,222	8,223,964,585	3,922,744,538	317,113,802
Total comprehensive income	11,304,232,869	8,244,577,443	3,929,651,955	(635,921,001)
Dividends paid to non-controlling interests	3,445,317,586	729,728,560	893,435,847	–

▪ Summarized statements of comprehensive income for 2017:

	URC	RLC	CAI	RBC
Revenue	₱125,007,824,013	₱22,516,817,630	₱68,029,131,426	₱4,475,828,582
Profit for the year from continuing operations	11,152,921,333	5,884,437,957	7,907,846,625	307,387,382
Total comprehensive income	9,779,867,728	5,991,091,275	7,946,678,505	125,117,191
Dividends paid to non-controlling interests	3,123,891,519	575,177,717	545,988,573	–

▪ Summarized statements of cash flows for 2019:

	URC	RLC	CAI	RBC
Operating	₱15,610,917,681	₱18,130,230,953	₱29,244,053,595	(₱9,399,941,980)
Investing	(1,753,099,045)	(15,658,603,768)	(20,812,478,783)	1,891,070,934
Financing	(6,396,659,690)	2,044,970,511	(6,601,315,417)	4,184,060,808
Effect of exchange rate changes	–	–	(527,534,227)	9,141,111
Net cash flows	₱7,461,158,946	₱4,516,597,696	₱1,302,725,168	(₱3,315,669,127)

▪ Summarized statements of cash flows for 2018:

	URC	RLC	CAI	RBC
Operating	₱14,657,595,147	₱13,290,007,948	₱15,287,432,831	(₱4,985,336,615)
Investing	(8,680,124,323)	(17,232,445,256)	(22,906,778,155)	(6,561,366,665)
Financing	(7,451,886,703)	4,410,823,612	8,459,574,791	10,436,904,315
Effect of exchange rate changes	–	–	438,876,572	(17,420,981)
Net cash flows	(₱1,474,415,879)	₱468,386,304	₱1,279,106,039	(₱1,127,219,946)

▪ Summarized statements of cash flows for 2017:

	URC	RLC	CAI	RBC
Operating	₱14,253,577,418	₱14,398,844,383	₱17,795,224,802	₱8,912,846,377
Investing	(8,408,012,980)	(24,455,224,823)	(8,788,669,399)	(3,913,532,234)
Financing	(6,695,748,567)	10,695,624,386	(3,747,183,911)	–
Effect of exchange rate changes	–	–	57,930,710	9,239,981
Net cash flows	(₱850,184,129)	₱639,243,946	₱5,317,302,202	₱5,008,554,124

## 15. Investment Properties

Movements in this account follow:

	2019			
	Land and Land Improvements	Buildings and Improvements	Construction In-Progress	Total
<b>Cost</b>				
Balance at beginning of year	₱32,721,622,396	₱87,262,961,198	₱6,314,587,588	₱126,299,171,182
Additions	950,264,717	2,754,948,866	6,355,317,188	10,060,530,771
Disposals/transfers and other adjustments	(460,777,966)	5,018,457,870	(5,657,635,207)	(1,099,955,303)
Balance at end of year	33,211,109,147	95,036,367,934	7,012,269,569	135,259,746,650

(Forward)



2019				
	Land and Land Improvements	Buildings and Improvements	Construction In-Progress	Total
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year	₱158,981,682	₱32,288,559,129	₱-	₱32,447,540,811
Depreciation and amortization	26,209,217	4,031,059,216	-	4,057,268,433
Disposals/transfers and other adjustments	(789,146)	(271,849,900)	-	(272,639,046)
Balance at end of year	184,401,753	36,047,768,445	-	36,232,170,198
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	23,214,800	11,444,696	-	34,659,496
Reversal of impairment losses	(470,209)	(3,353,416)	-	(3,823,625)
Disposals/transfers and other adjustments	3,185,602	(6,691,057)	-	(3,505,455)
Balance at end of year	25,930,193	1,400,223	-	27,330,416
<b>Net Book Value at End of Year</b>	<b>₱33,000,777,201</b>	<b>₱58,987,199,266</b>	<b>₱7,012,269,569</b>	<b>₱99,000,246,036</b>

2018				
	Land and Land Improvements	Buildings and Improvements	Construction In-Progress	Total
<b>Cost</b>				
Balance at beginning of year	₱31,604,452,318	₱74,859,786,709	₱9,421,994,196	₱115,886,233,223
Additions	2,267,039,561	4,211,032,313	5,022,122,827	11,500,194,701
Disposals/transfers and other adjustments	(1,149,869,483)	8,192,142,176	(8,129,529,435)	(1,087,256,742)
Balance at end of year	32,721,622,396	87,262,961,198	6,314,587,588	126,299,171,182
<b>Accumulated Depreciation and Amortization</b>				
Balance at beginning of year	228,654,456	28,589,131,604	-	28,817,786,060
Depreciation and amortization	19,795,874	3,711,402,192	-	3,731,198,066
Disposals/transfers and other adjustments	(89,468,648)	(11,974,667)	-	(101,443,315)
Balance at end of year	158,981,682	32,288,559,129	-	32,447,540,811
<b>Allowance for Impairment Losses</b>				
Balance at beginning of year	33,581,998	11,444,696	-	45,026,694
Transfers/other adjustments	(10,367,198)	-	-	(10,367,198)
Balance at end of year	23,214,800	11,444,696	-	34,659,496
<b>Net Book Value at End of Year</b>	<b>₱32,539,425,914</b>	<b>₱54,962,957,373</b>	<b>₱6,314,587,588</b>	<b>₱93,816,970,875</b>

Investment properties consist mainly of land held for appreciation, shopping malls or commercial centers, office buildings and warehouses that are held to earn rentals. Also included under this account are the properties acquired by the Group's banking segment through foreclosures. Most of the Group's properties are in prime locations across the Philippines.

Construction in progress amounting to ₱5.7 billion and ₱6.3 billion as of December 31, 2019 and 2018, respectively, represents the cost of ongoing construction and development of malls and office buildings for lease.

Borrowing costs capitalized amounted to ₱0.3 billion in 2019 and 2018. These amounts were included in the consolidated statements of cash flows under additions to investment properties. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2019 and 2018 were 4.59% and 4.50%, respectively.

Consolidated rent income from investment properties included under 'Real estate and hotels revenue' in the consolidated statements of comprehensive income amounted to ₱15.4 billion, ₱13.5 billion and ₱11.6 billion in 2019, 2018 and 2017, respectively.

Property operations and maintenance costs included under "Cost of services" arising from investment properties amounted to ₱680.0 million, ₱791.0 million and ₱710.0 million for the year ended December 31, 2019, 2018 and 2017, respectively.





Gain on sale or retirement and disposal of investment properties amounted to ₱17.4 million, nil and ₱5.3 million for the year ended December 31, 2019, 2018 and 2017, respectively.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on investment properties follows:

	2019	2018	2017
Depreciation and amortization expense included under:			
Cost of services (Note 33)	<b>₱4,023,366,050</b>	₱3,699,469,319	₱3,252,290,952
General and administrative expenses (Note 33)	<b>33,902,383</b>	31,728,747	29,513,675
	<b>₱4,057,268,433</b>	₱3,731,198,066	₱3,281,804,627

Collaterals

As of December 31, 2019 and 2018, the Group has no investment properties that are pledged as collateral.



## 16. Property, Plant and Equipment

The composition of and movements in this account follow:

	December 31, 2019							
	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
<b>Cost</b>								
Balance at beginning of year	₱7,442,844,599	₱33,173,487,797	₱126,294,624,225	₱11,487,154,411	₱104,689,791,895	₱44,352,463,790	₱4,920,592,170	₱332,360,958,887
Additions	427,774,011	2,867,328,508	6,429,647,355	1,119,874,196	21,166,514,748	29,917,470,239	159,279,456	62,087,888,513
Additions from acquisition of subsidiaries	–	29,148,248	659,837,348	17,320,616	–	–	–	706,306,212
Transfers, disposals and other adjustments	10,318,920	91,146,132	(1,033,419,124)	(24,662,623)	(7,656,030,784)	(1,062,097,643)	(26,221,495)	(9,700,966,617)
Balance at end of year	7,880,937,530	36,161,110,685	132,350,689,804	12,599,686,600	118,200,275,859	73,207,836,386	5,053,650,131	385,454,186,995
<b>Accumulated Depreciation and Amortization</b>								
Balance at beginning of year	1,470,820,843	13,856,401,641	62,856,801,693	8,512,289,254	25,084,182,445	–	–	111,780,495,876
Depreciation and amortization	208,112,453	1,468,339,249	6,945,307,633	1,108,404,559	9,302,025,593	–	–	19,032,189,487
Additions from acquisition of subsidiaries	–	14,747,981	248,628,009	14,165,865	–	–	–	277,541,855
Disposals, transfers and other adjustments	(6,278,337)	75,918,067	(1,333,356,073)	257,177,453	(3,904,593,481)	–	–	(4,911,132,371)
Balance at end of year	1,672,654,959	15,415,406,938	68,717,381,262	9,892,037,131	30,481,614,557	–	–	126,179,094,847
<b>Allowance for Impairment Losses</b>								
Balance at beginning of year	7,742,527	551,043,201	1,747,742,728	279,328	–	–	–	2,306,807,784
Provision for (reversal of) impairment losses (Note 34)	–	(546,468,790)	(1,728,326,463)	–	–	–	–	(2,274,795,253)
Disposals, transfers and other adjustments	3,642,527	(3,379,874)	–	–	–	–	–	262,653
Balance at end of year	11,385,054	1,194,537	19,416,265	279,328	–	–	–	32,275,184
<b>Net Book Value at End of Year</b>	<b>₱6,196,897,517</b>	<b>₱20,744,509,210</b>	<b>₱63,613,892,277</b>	<b>₱2,707,370,141</b>	<b>₱87,718,661,302</b>	<b>₱73,207,836,386</b>	<b>₱5,053,650,131</b>	<b>₱259,242,816,964</b>



December 31, 2018

	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Transportation, Furnishing and Other Equipment	Passenger Aircraft and Other Flight Equipment	Construction In-progress	Equipment In-transit	Total
<b>Cost</b>								
Balance at beginning of year	₱7,102,838,110	₱29,781,967,423	₱121,468,952,851	₱10,583,845,248	₱85,908,358,248	₱24,866,859,950	₱3,183,030,492	₱282,895,852,322
Additions	131,066,892	3,408,373,724	4,531,062,886	1,162,349,518	6,634,126,741	39,600,286,916	1,356,252,555	56,823,519,232
Additions from acquisition of subsidiaries	–	–	181,982,136	10,703,067	–	55,718	–	192,740,921
Transfers, disposals and other adjustments	208,939,597	(16,853,350)	112,626,352	(269,743,422)	12,147,306,906	(20,114,738,794)	381,309,123	(7,551,153,588)
Balance at end of year	7,442,844,599	33,173,487,797	126,294,624,225	11,487,154,411	104,689,791,895	44,352,463,790	4,920,592,170	332,360,958,887
<b>Accumulated Depreciation and Amortization</b>								
Balance at beginning of year	1,256,596,074	12,411,096,106	56,318,900,591	7,559,417,359	21,384,569,881	–	–	98,930,580,011
Depreciation and amortization	215,316,062	1,388,834,667	6,640,689,832	958,605,009	7,311,617,724	–	–	16,515,063,294
Additions from acquisition of subsidiaries	–	–	66,706,309	8,407,032	–	–	–	75,113,341
Disposals, transfers and other adjustments	(1,091,293)	56,470,868	(169,495,039)	(14,140,146)	(3,612,005,160)	–	–	(3,740,260,770)
Balance at end of year	1,470,820,843	13,856,401,641	62,856,801,693	8,512,289,254	25,084,182,445	–	–	111,780,495,876
<b>Allowance for Impairment Losses</b>								
Balance at beginning of year	7,742,527	551,043,201	1,746,042,936	279,328	–	–	–	2,305,107,992
Provision for impairment losses (Note 34)	–	–	1,699,792	–	–	–	–	1,699,792
Balance at end of year	7,742,527	551,043,201	1,747,742,728	279,328	–	–	–	2,306,807,784
<b>Net Book Value at End of Year</b>	<b>₱5,964,281,229</b>	<b>₱18,766,042,955</b>	<b>₱61,690,079,804</b>	<b>₱2,974,585,829</b>	<b>₱79,605,609,450</b>	<b>₱44,352,463,790</b>	<b>₱4,920,592,170</b>	<b>₱218,273,655,227</b>



In July 2018, CFC Corporation executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its parcel of land costing ₱3.4 million at ₱622.2 million selling price. Gain on disposal attributable to sale was ₱581.5 million, which was recognized under ‘Other income (loss) - net’ in the consolidated statements of comprehensive income.

In May 2017, Century Pacific Food Inc. (CNPF) entered into an asset purchase agreement with URC to purchase the machineries and equipment used in manufacturing the Hunt’s branded products for a total consideration of ₱145.1 million, net of tax. The Group recognized gain on disposal amounting to ₱117.0 million, under ‘Other income (losses)’ in the consolidated statements of comprehensive income. The sale was completed on August 31, 2017.

CNPF also entered into a Compensation Agreement with URC to acquire the exclusive right to manufacture and sell Hunt’s branded products amounting to ₱214.2 million. The Group recognized gain of the same amount under ‘Other income (losses)’ in the consolidated statements of comprehensive income.

In January 2017, URC executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its three parcels of land costing ₱1.0 million for a total consideration of ₱111.3 million. Gain on disposal attributable to sale amounted to ₱110.3 million, which was recognized under ‘Other income (loss) - net’ in the consolidated statements of comprehensive income.

In 2019, following the review of the Petrochemical business, the outlook for the industry and Petrochemical’s operating plan, the Group recognized a reversal of impairment loss amounting to ₱2.3 billion in 2019. The Group is currently expanding its Naphtha Cracker Plant capacity, which is expected to be completed in 2020. This expansion will generate economies of scale that will decrease the Group’s olefins costs and lead to significantly higher polymer margins.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management. The projected cash flows have been updated to reflect demand for JGSPC’s products. The pre-tax discount rate applied to cash flow projections is 13.76% and cash flows beyond one-year period are extrapolated using a 3.77% growth rate, consistent with the long-term average growth rate for petrochemical industry.

#### Construction in-progress

##### *CAI*

Construction in-progress represents the cost of aircraft and engine modifications in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2019 and 2018, the Group’s pre-delivery payments capitalized as construction in-progress amounted to ₱17.7 billion and ₱14.3 billion, respectively.

##### *URC*

Construction-in-progress amounting to ₱9.1 billion and ₱7.8 billion as of December 31, 2019 and 2018, respectively, represents costs of ongoing expansion and constructions of plants.

##### *JGSOC*

Construction-in-progress amounting to ₱16.9 billion and ₱9.1 billion as of December 31, 2019 and 2018, respectively, represents the construction costs of the Naphtha Cracker Plant. The plant is intended for the production primarily of polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.



*JGSPC*

Construction-in-progress amounting to ₱29.0 billion and ₱12.7 billion as of December 31, 2019 and 2018, respectively, represents the expansion and rehabilitation of polypropylene and polyethylene plant.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on property, plant and equipment follows:

	2019	2018	2017
General and administrative expenses (Note 33)	<b>₱10,288,831,103</b>	₱8,491,559,939	₱7,970,903,733
Cost of sales (Note 33)	<b>7,856,443,308</b>	7,266,240,029	6,731,387,202
Cost of services (Note 33)	<b>886,915,076</b>	757,263,326	661,823,149
	<b>₱19,032,189,487</b>	₱16,515,063,294	₱15,364,114,084

Property, Plant and Equipment Pledged as Collateral

*Passenger aircraft held as securing assets under various loans*

CAI entered into various Export Credit Agency (ECA) loans and commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2019 and 2018, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

	2019		2018	
	ECA Loans	Commercial Loans	ECA Loans	Commercial Loans
A320 CEO	-	17	3	17
ATR 72-500	-	-	2	-
ATR 72-600	-	12	-	12
A321 CEO	-	7	-	7
A321 NEO	-	5	-	-
A330 CEO	-	2	-	2
	-	43	5	38

Under the terms of the ECA loan and commercial loan facilities (Note 23), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by the SPEs. Under the terms of commercial loan facilities from local banks, upon event of default, the outstanding amount of loan will be payable, including interest accrued by CAI. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of December 31, 2019 and 2018, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱58.4 billion and ₱67.1 billion, respectively.

Forward Sale Agreement

On February 23, 2015, CAI signed a forward sale agreement with a subsidiary of Allegiant Travel Company (collectively known as "Allegiant") covering CAI's four (4) Airbus A319 aircraft. The aircraft were scheduled for delivery on various dates in 2017 and 2018.

Three (3) of the four Airbus A319 were delivered to Allegiant in 2017 and the last Airbus A319 aircraft was delivered in 2018. CAI recognized ₱156.7 million and ₱532.9 million loss on sale in the consolidated statements of comprehensive income in 2018 and 2017, respectively.

On December 18, 2018, CAI signed another forward sale agreement with Allegiant covering three (3) A320 aircraft. The aircraft were delivered to Allegiant on various dates within 2019 and CAI



recognized ₱352.1 million loss on sale in the consolidated statements of comprehensive income in 2019.

In 2019, CAI entered into an engine sale agreement with RRP Engine Leasing Limited for two (2) Rolls-Royce Trent 772B engines, delivered in August and September, which resulted in a gain of ₱126.4 million.

Sale and Operating Leaseback

In May and November 2017, the Group entered into a sale and operating leaseback transactions with Ibon Leasing Limited (ILL) and JPA No. 78/79/80/81 Co., Ltd. covering two and four Airbus A320, respectively. The sale of aircraft required the prepayment of outstanding balance of the loan facility attributed to the sold Airbus A320 aircraft. The total amount of loans and breakage costs paid amounted to ₱4,162.6 million and ₱12.32 million, respectively. The Group recognized gain on sale of aircraft amounting to ₱635.5 million from these transactions.

In July and August 2018, CAI entered into a sale and operating leaseback transaction with JPA No. 117/118/119 Co., Ltd. covering three (3) Airbus A320. CAI recognized gain on sale of aircraft amounting to ₱110.2 million from these transactions in 2018.

Operating Fleet

As of December 31, 2019, the Group's operating fleet follows:

	<b>2019</b>
Leased aircrafts: (Note 42)	
Airbus A320 CEO	26
Airbus A321 CEO	7
Airbus A330 CEO	6
Airbus A321 NEO	5
Airbus A320 NEO	4
ATR 72-600	1
Owned aircrafts: (Note 23)	
ATR 72-600	12
ATR 72-500	8
Airbus A320 CEO	4
Airbus A330 CEO	2
	<b>75</b>

As of December 31, 2018, the Group's operating fleet follows:

	<b>2018</b>
Owned (Note 23):	
Airbus A320 CEO	20
ATR 72-500	8
ATR 72-600	12
Airbus A321 CEO	7
Airbus A330 CEO	2
Under operating lease (Note 42):	
Airbus A320 CEO	16
Airbus A330 CEO	6
	<b>71</b>



Gain (loss) on sale or retirement of property, plant and equipment amounted to (₱224.2 million), ₱37.1 million and ₱357.6 million in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱8.4 billion and ₱4.0 billion, respectively.

## 17. Biological Assets

Total biological assets shown in the consolidated statements of financial position follow:

	2019	2018
Current portion	₱733,435,525	₱741,719,637
Noncurrent portion	224,128,072	366,184,414
	<b>₱957,563,597</b>	<b>₱1,107,904,051</b>

These biological assets consist of:

	2019	2018
<b>Swine</b>		
Commercial	₱711,301,722	₱709,045,374
Breeder	136,695,328	278,316,362
<b>Poultry</b>		
Commercial	22,133,803	32,674,263
Breeder	87,432,744	87,868,052
	<b>₱957,563,597</b>	<b>₱1,107,904,051</b>

The rollforward analysis of this account follows:

	2019	2018
Balance at beginning of year	₱1,107,904,051	₱1,678,576,389
Additions	3,641,918,030	3,200,666,651
Disposals	(3,483,083,335)	(3,303,867,014)
Write-down (Note 21)	(238,990,324)	-
Gains (loss) arising from changes in fair value less estimated costs to sell	(70,184,825)	(467,471,975)
	<b>₱957,563,597</b>	<b>₱1,107,904,051</b>

As of December 31, 2019 and 2018, the Group has about 209,640 and 232,724 heads of swine, respectively, and about 529,971 and 731,177 heads of poultry, respectively.



## 18. Intangible Assets

The composition and movements in this account follow:

	2019						
	Technology Licenses	Branch licenses and others	Software Costs	Trademarks and Brands	Product Formulation	Customer Relationship	Total
<b>Cost</b>							
Balance at beginning of year	₱552,331,752	₱1,765,776,346	₱1,022,979,831	₱9,564,461,252	₱425,000,000	₱2,201,281,165	₱15,531,830,346
Additions	-	46,589	137,839,833	-	-	-	137,886,422
Disposals/reclassification/others	-	-	(9,489,560)	-	-	-	(9,489,560)
Balance at end of year	552,331,752	1,765,822,935	1,151,330,104	9,564,461,252	425,000,000	2,201,281,165	15,660,227,208
<b>Accumulated Amortization and Impairment Losses</b>							
Balance at beginning of year	552,331,752	-	551,662,149	201,524,581	-	271,887,272	1,577,405,754
Amortization	-	-	149,310,482	-	-	73,357,370	222,667,852
Disposals/reclassifications	-	-	(29,106,813)	-	-	(9,129,984)	(38,236,797)
Balance at end of year	552,331,752	-	671,865,818	201,524,581	-	336,114,658	1,761,836,809
<b>Net Book Value at End of Year</b>	<b>₱-</b>	<b>₱1,765,822,935</b>	<b>₱479,464,286</b>	<b>₱9,362,936,671</b>	<b>₱425,000,000</b>	<b>₱1,865,166,507</b>	<b>₱13,898,390,399</b>

	2018						
	Technology Licenses	Bank licenses and others	Software Costs	Trademarks and Brands	Product Formulation	Customer Relationship	Total
<b>Cost</b>							
Balance at beginning of year	₱552,331,752	₱1,764,958,905	₱891,744,947	₱9,564,461,252	₱425,000,000	₱2,201,281,165	₱15,399,778,021
Additions	-	817,441	196,183,087	-	-	-	197,000,528
Disposals/reclassification/others	-	-	(64,948,203)	-	-	-	(64,948,203)
Balance at end of year	552,331,752	1,765,776,346	1,022,979,831	9,564,461,252	425,000,000	2,201,281,165	15,531,830,346
<b>Accumulated Amortization and Impairment Losses</b>							
Balance at beginning of year	552,331,752	-	426,653,503	201,524,581	-	198,236,989	1,378,746,825
Amortization	-	-	138,683,706	-	-	78,862,555	217,546,261
Disposals/reclassifications	-	-	(13,675,060)	-	-	(5,212,272)	(18,887,332)
Balance at end of year	552,331,752	-	551,662,149	201,524,581	-	271,887,272	1,577,405,754
<b>Net Book Value at End of Year</b>	<b>₱-</b>	<b>₱1,765,776,346</b>	<b>₱471,317,682</b>	<b>₱9,362,936,671</b>	<b>₱425,000,000</b>	<b>₱1,929,393,893</b>	<b>₱13,954,424,592</b>

### Technology Licenses

Technology licenses represent the cost of JGSPC's technology and licensing agreements which cover the construction, manufacture, use and sale of PE and PP lines. JGSPC's technology licenses were fully impaired in 2006.

### Branch Licenses and Others

Branch licenses pertain to RBC which amounted to ₱0.9 billion in 2018 and 2017. Others include intangible assets which arose from the acquisition of Cebgo, Inc. These assets represent CAI's costs to establish brand and market opportunities under the strategic alliance with Cebgo, Inc. amounting to ₱852.2 million.

Branch licenses have been allocated to the branch banking group as the cash-generating units (CGU) for impairment testing.

The recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

Key assumptions in value-in-use calculation of CGUs follow:

- Balance sheet items  
Deposit levels are based on projected bank-wide plan, with varying growth of 5.0% to 20.0% depending on product type. Cash on hand is based on 3.0% of total deposits derived from historical average. Loan levels are based on historical growth, assuming a linear trend function. Past due receivables and/or real and other properties are a function of loan levels, while other assets are a function of fund source levels. Reserve requirements include 18.0% of peso deposits.





- **Income statement items**  
Historical or average interest rates are used for loan interest income. For theoretical income from branch funds, peso-denominated accounts are pegged on the average high cost rate while foreign currency-denominated accounts use average interest derived from blended foreign currency-denominated funds. Other income is based on incremental growth ratios derived from the market's perceived response and assumed marketing efforts on the bank's products and services. Interest expense is computed using 0.3% for current and savings accounts, 4.8% for time deposits and special savings accounts, and 0.9% for foreign currency deposits. Operating expenses have 7% benchmark for increments.
- **Net present value computation**  
Terminal value is the growth rate based on the bank-wide average balance sheet spread, plus weighted average cost of capital. The discount rate is the weighted average cost of capital derived using actual levels.

#### Trademarks, Product Formulation, Brands and Customer Relationships

Trademarks and product formulation were acquired from General Milling Corporation in 2008. Total intangible assets acquired from the acquisition of CSPL and Griffin's in 2016 and 2014, respectively, were composed of brands of ₱9.3 billion, customer relationships of ₱2.2 billion and software costs of ₱56.3 million.

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amounts of goodwill and other intangible assets were determined based on value-in-use calculations for goodwill allocated to UABCL and the Balayan Sugar Mill, and fair value less costs to sell (FVLCTS) for goodwill allocated to CSPL and NZSFHL.

Value-in-use calculations used cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.30% to 10.50% and 7.80% to 10.80% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates. Growth rates used in computing the projected future cash flows ranged from 2.00% to 6.90% and 2.0% to 12.1% as of December 31, 2019 and 2018, respectively.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

FVLCTS of CSPL and NZSFHL were based on enterprise values that were derived from EBITDA multiples. This fair value measurement is categorized as a Level 2 fair value measurement, since it is observable from the recent transaction.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the Group's acquisitions to materially exceed their recoverable amounts.



## 19. Goodwill

Movements in the Group's goodwill account follow:

	2019	2018
<b>Cost</b>		
Balance at beginning and end of year	<b>₱32,276,536,238</b>	₱32,276,536,238
<b>Accumulated Impairment Losses</b>		
Balance at beginning	<b>270,931,882</b>	253,352,295
Impairment loss (Note 34)	-	17,579,587
Balance at end of year	<b>270,931,882</b>	270,931,882
<b>Net Book Value at End of Year</b>	<b>₱32,005,604,356</b>	₱32,005,604,356

The Group's goodwill pertains to: (a) the acquisition of LSB in December 2012, (b) the acquisition of Advanson in December 2007, (c) the acquisition of Acesfood in May 2007, (d) the excess of the acquisition cost over the fair values of the net assets acquired by Hongkong China Foods Co., Ltd. (HCFCL) and URC Asean Brands Co., Ltd. (UABCL) in 2000, (e) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998, (f) the acquisition of Cebgo, Inc. (formerly Tiger Airways Philippines (TAP)) and Griffin's Good Limited (Griffin's) in 2014, (g) acquisition of Balayan Sugar Mill and Consolidated Snacks Pty Ltd. (CSPL) in 2016.

Goodwill is not amortized and is non-deductible for tax purposes.

### *Acquisition of CSPL/Griffin's/UABCL/Balayan*

Goodwill arising from the acquisition of CSPL (amounting to ₱16.5 billion) and Griffin's (amounting to ₱13.9 billion) is mainly attributable to synergies formed between URC and CSPL, and URC and Griffin's, respectively.

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amounts of goodwill and other intangible assets were determined based on value-in-use calculations for goodwill allocated to UABCL and the Balayan Sugar Mill. For goodwill allocated to CSPL and NZSFHL, the recoverable amounts of goodwill and other intangible assets were determined based on fair value less costs to sell (FVLCTS) in 2019 and value-in-use calculations in 2018.

Value-in-use calculations used cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.30% to 10.50% and 7.80% to 10.80% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates. Growth rates used in computing the projected future cash flows ranged from 2.00% to 6.90% and 2.0% to 12.1% as of December 31, 2019 and 2018, respectively.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

FVLCTS of CSPL and NZSFHL were based on enterprise values that were derived from EBITDA multiples. These enterprise values served as basis for the transaction price in the sale of 40% ownership



interest in the Oceania business (Note 22). A common EBITDA multiple of 13.9 was applied to the actual 2018 EBITDA, and carrying amount of external debts were deducted from this amount to arrive at the enterprise value of each CGU. This fair value measurement is categorized as a Level 2 fair value measurement, since it is observable from the recent transaction.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the Group's acquisitions to materially exceed their recoverable amounts.

*Acquisition of Cebgo*

Goodwill arising from the acquisition of Cebgo is attributable to the following:

Achievement of Economic Scale

Using CAI's network of suppliers and other partners to improve cost and efficiency of Cebgo, thus, improving Cebgo's overall profit, given its existing market share.

Defensive Strategy

Acquiring a competitor enables CAI to manage overcapacity in certain geographical areas/markets.

**20. Other Noncurrent Assets**

This account consists of:

	2019	2018
Advances to suppliers - net of current portion	<b>₱5,493,255,632</b>	₱6,069,214,435
Deferred tax assets (Note 38)	<b>2,462,525,846</b>	1,965,060,255
Advances to lot owners - net of current portion	<b>1,886,052,753</b>	1,471,892,243
Security and miscellaneous deposits	<b>1,058,800,372</b>	1,223,107,715
Utility deposits	<b>746,384,122</b>	792,181,009
Others	<b>1,748,350,005</b>	1,778,202,998
	<b>₱13,395,368,730</b>	₱13,299,658,655

Advances to Suppliers

Advances to suppliers pertain to RLC's advance payments to suppliers or contractors which will be applied against the final billing. As of December 31, 2019 and 2018, these advances amount to ₱2.3 billion and ₱1.9 billion, respectively.

As of December 31, 2019 and 2018, advances made for the purchase of various aircraft parts, service maintenance and restoration costs of the aircraft which are expected to be consumed beyond one year from the reporting date amounting to ₱3.2 billion and ₱4.1 billion, respectively.

Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired.

Security Deposits

Security deposits include deposits provided to lessors and maintenance providers for aircraft under operating lease.



Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

Others

As of December 31, 2019, others include deposits to various joint ventures, deferred input VAT, prepaid rent, and repossessed chattels amounting to ₱514.9 million, ₱161.3 million, ₱100.0 million and ₱54.7 million, respectively. The deposits to various joint venture partners represent RLC's share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC Group's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

As of December 31, 2018, others include deferred input VAT, prepaid rent, and repossessed chattels amounting to ₱634.3 million, ₱436.0 million, and ₱101.7 million, respectively. As of December 31, 2018, prepaid rent pertains to advance rentals of the 25-year operating lease agreement between Bases Conversion and Development Authority (BCDA) and APVI (an affiliate). The contract is for the long-term and development of approximately 5,000 sqm. Lawton Corporate Center along Lawton Avenue, Bonifacio South, Taguig City. Subsequently, the said contract was assigned to RLC through a Deed of Assignment wherein APVI assigns all its rights, interests, and obligations on the contract of lease with approval of BCDA as provided for under the contract. The said prepaid rent was reclassified to right-of-use asset on January 1, 2019.

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**21. Accounts Payable and Accrued Expenses**

This account consists of:

	2019	2018
Deposit liabilities	<b>₱82,445,508,193</b>	₱66,322,620,879
Trade payables	<b>33,909,880,030</b>	31,578,205,437
Accrued expenses	<b>17,269,726,864</b>	18,304,254,089
Airport and other related fees payable	<b>4,366,214,762</b>	3,684,830,069
Bills payable	<b>2,040,505,751</b>	7,436,904,315
Output VAT	<b>1,627,770,511</b>	802,677,597
Withholding taxes payable	<b>418,311,398</b>	421,234,392
Due to related parties (Note 40)	<b>114,835,410</b>	151,772,743
Dividends payable	<b>43,287,603</b>	43,304,321
Other payables	<b>4,091,331,335</b>	3,910,031,575
	<b>₱146,327,371,857</b>	₱132,655,835,417

Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RBC and LSB. Of the total deposit liabilities of the RBC and LSB as of December 31, 2019 and 2018, 58.11% and 60.95%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities of the RBC and LBC bear annual fixed interest rates ranging from nil to 3.5% in 2019 and nil to 4.50% in 2018.

As of December 31, 2019 and 2018, the liquidity and statutory reserves of RBC and LSB amounted to ₱12.2 billion in 2019 and ₱16.1 billion in 2018.



The details of ‘Interest expense’ on ‘Deposit liabilities’, which are included in the ‘Cost of services - Banking’ in profit or loss in the consolidated statements of comprehensive income are as follows (see Note 30):

	2019	2018	2017
Savings	₱1,717,487,944	₱1,519,637,039	₱707,442,241
Time	492,682,489	327,159,604	318,812,552
LTNCD	267,893,614	221,343,421	96,808,815
Demand	4,334,999	3,062,044	2,456,744
	<b>₱2,482,399,046</b>	<b>₱2,071,202,108</b>	<b>₱1,125,520,352</b>

#### Long-Term Negotiable Certificates of Deposit (LTNCD)

On May 4, 2017, the BSP approved RBC’s issuance of the ₱3.00 billion LTNCD. On June 16, 2017, RBC listed its LTNCD issuance amounting to ₱4.18 billion through the Philippine Dealing and Exchange Corporation. The minimum investment was ₱50,000 with increments of ₱10,000 thereafter. The peso-denominated issue will mature on December 16, 2022 with nominal interest rate of 4.125% and EIR of 4.29%, payable every quarter. On July 6, 2018, the Parent Company issued additional LTNCD amounting to ₱1.78 billion with nominal interest rate of 4.875% and EIR of 5.15% payable every quarter which will mature on January 6, 2024. The proceeds were used to diversify the Parent Company’s maturity profile and funding sources and general corporate purposes.

#### Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day terms. Trade payables arise mostly from purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations. Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts. Obligations arising from purchase of inventories necessary for the daily operations and maintenance of aircraft which include aviation fuel, expendables and consumables, equipment and in-flight supplies, and unpaid billings from suppliers and contractors related to construction activities, are also charged to this account.

#### Accrued Expenses

This account consists of accruals for the following:

	2019	2018
Advertising and promotions	₱4,658,935,241	₱5,232,164,541
Landing and take-off, navigational charges, and other aircraft-related expenses	2,751,297,389	2,618,424,662
Compensation and benefits	2,670,889,488	2,577,599,999
Accrued interest payable	2,099,295,845	2,366,866,687
Contracted services	1,339,802,325	1,286,968,397
Rental expense	1,140,981,722	1,326,495,687
Taxes and licenses	889,606,075	1,020,969,297
Utilities	442,654,022	457,336,465
Freight and handling costs	331,755,430	376,676,211
Insurance	55,312,003	71,167,953
Royalties	24,542,020	24,210,375
Other accrued expenses	864,655,304	945,373,815
	<b>₱17,269,726,864</b>	<b>₱18,304,254,089</b>

Other accrued expenses include accruals for travel and transportation, commission, communication, repairs and maintenance, restructuring provision and other professional and legal fees.



In 2019, URC recorded a restructuring provision related to downsizing of farm operations and consolidation of plant operations. The key objectives of the restructuring are: (a) to focus on the profitable and growing animal nutrition and health business, (b) maximize the value-added chain concentrating on the processed meat business and (c) to improve long-term cost efficiencies for both farm and plant operations. The restructuring provision consists of write-down of biological assets (Note 17), property, plant and equipment (Note 16) and accrual of employee redundancy costs amounting ₱239.0 million, ₱453.7 million and ₱137.1 million, respectively. The related expense is recognized under “Other income (loss)” in the consolidated statement of income.

#### Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

#### Other Payables

As of December 31, 2019 and 2018, ‘Other payables’ consist of management bonus and other non-trade payables.

## 22. Other Current Liabilities

This account consists of:

	2019	2018
Unearned transportation revenue	<b>₱11,881,599,591</b>	₱11,110,518,032
Current portion of lease liabilities (Note 42)	<b>5,784,084,993</b>	–
Deposit from lessees (Notes 24 and 42)	<b>2,928,599,269</b>	2,658,678,992
Advances from agents and others	<b>567,139,322</b>	787,104,397
Derivative liabilities (Note 8)	<b>419,103,569</b>	586,107,196
Customer’s deposits	<b>408,604,558</b>	496,652,512
	<b>₱21,989,131,302</b>	₱15,639,061,129

#### Unearned Transportation Revenue

Passenger ticket and cargo waybill sales are initially recorded under ‘Unearned transportation revenue’ in the consolidated statements of financial position, until these are recognized under ‘Air transportation revenue’ in profit or loss in the consolidated statements of comprehensive income, when the transportation service is rendered by the Group (or once tickets are flown).

In 2019, unearned transportation revenue consists of unearned passenger revenue and deferred ancillary revenue amounting to ₱10.2 billion and ₱1.7 billion, respectively. In 2018, unearned transportation revenue consists of unearned passenger revenue and deferred ancillary revenue amounting to ₱9.6 billion and ₱1.5 billion, respectively.

Recognized deferred ancillary revenue as of December 31, 2019 and 2018 with the effect of PFRS 15 follows:

	2019	2018
Balance at January 1	<b>₱1,512,384,705</b>	₱630,090,664
Deferred during the year	<b>16,920,218,675</b>	13,527,286,250
Recognized to income during the year	<b>(16,708,267,830)</b>	(12,644,992,209)
Balance at December 31	<b>₱1,724,335,550</b>	₱1,512,384,705



Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents. This account also includes commitment fees received for the sale and purchase agreement of aircraft.

**23. Short-term and Long-term Debts**

Short-term Debts

Short-term debts consist of:

	2019	2018
<b>Parent Company:</b>		
Foreign currency - with interest rate of 2.4% in 2019	<b>₱7,029,403,875</b>	₱-
Philippine Peso - with interest rate of 4.7% in 2019	<b>2,000,000,000</b>	-
	<b>9,029,403,875</b>	-
<b>Subsidiaries:</b>		
Foreign currencies - unsecured with interest rates ranging from 2.2% to 4.4% in 2019 and 2.3% to 3.4% in 2018	<b>9,822,359,631</b>	11,042,205,125
Philippine Peso - with interest rates of 4.7% to 4.9% in 2019 and 2.8% to 3.4% in 2018	<b>35,195,646,498</b>	24,411,518,868
	<b>45,018,006,129</b>	35,453,723,993
	<b>₱54,047,410,004</b>	₱35,453,723,993

As of December 31, 2019 and 2018, short-term debt of certain subsidiaries denominated in foreign currency and peso include trust receipts payable amounting to ₱27.2 billion and ₱27.0 billion, respectively. The trust receipts payable are secured by the trusted inventories for the same amount (see Note 12).

In 2019, 2018 and 2017, the Group has incurred interest expense on short-term notes amounting to ₱1.4 billion, ₱1.1 billion and ₱780.4 million, respectively (see Note 35).

Long-term Debts

Long-term debts (net of debt issuance costs) consist of:

	Maturities	Interest Rates	2019	2018	Condition
<b>Parent Company:</b>					
<b>Fixed Rate Retail Bonds:</b>					
<b>₱30.0 billion Fixed Rate Retail Bonds</b>					
₱5.3 billion bonds	2021	5.24%	<b>₱5,303,582,674</b>	₱5,295,848,929	Unsecured
₱0.2 billion bonds	2024	5.30%	<b>175,550,050</b>	175,385,189	Unsecured
₱24.5 billion bonds	2019	5.23%	-	24,501,988,135	Unsecured
<b>Term Loans</b>					
₱5.0 billion Term Loan	2022	4.65%	<b>4,986,692,756</b>	4,981,826,469	Unsecured
₱5.0 billion Term Loan	2024	4.93%	<b>4,932,841,317</b>	4,979,548,422	Unsecured
		BDO's 30-day prime rate			
₱10.0 billion Term Loan	2023	(5.75%)	<b>9,946,897,483</b>	9,932,746,218	Unsecured
₱5.0 billion Term Loan	2023	Floating (6.118%)	<b>4,973,325,079</b>	4,966,257,085	Unsecured
₱5.0 billion Term Loan	2024	4.9010%	<b>4,964,869,570</b>	-	Unsecured
₱7.0 billion Term Loan	2024	Floating (4.08%)	<b>6,950,882,915</b>	-	Unsecured
			<b>42,234,641,844</b>	54,833,600,447	

(Forward)



	Maturities	Interest Rates	2019	2018	Condition
Subsidiaries:					
Foreign currencies:					
JGSPL					
US\$750.0 million guaranteed Notes	2023	4.38%	32,455,021,803	33,672,157,757	Guaranteed
CAI					
USD Commercial loan from foreign banks	2025	3-5%; (US\$ Libor)	30,470,347,254	29,947,602,347	Secured
JPY Commercial loan	2029	Less than 1% LIBOR	8,424,916,122	-	Secured
ECA loans (Note 15)	2024	2-6%; 1-2% (US\$ Libor)	-	2,988,657,085	Secured
URC					
NZ\$395.0 million term loan	2023	NZ 3.15% (BKBM+1.10%)	13,296,756,840	13,714,466,044	Guaranteed
AUS\$484.2 million term loan	2021	AU 3.04% (BBSY BID+1.25%)	17,089,320,768	17,742,657,838	- do -
RLC					
RMB60 million term loan	2022	RMB 4.75%	-	1,268,921,932	Secured
RMB50 million term loan	2019	RMB 4.75%	-	382,205,400	Unsecured
			<b>101,736,362,787</b>	<b>99,716,668,403</b>	
Philippine Peso:					
RLC					
₱10.6 billion loan facility	2022	4.80%	10,601,369,418	10,586,697,383	Unsecured
₱1.4 billion loan facility	2025	4.93%	1,357,154,478	1,355,939,617	- do -
₱4.5 billion loan facility	2027	4.95%	4,472,866,455	4,475,914,536	- do -
₱7.0 billion loan facility	2024	4.75%	6,837,575,949	6,972,884,097	- do -
₱6.5 billion loan facility	2021	3.83%	6,489,197,118	6,482,437,308	- do -
₱5.0 billion loan facility	2023	3.89%	4,957,108,758	4,963,538,728	- do -
JGSPC					
₱19.5 billion term loan	2024	Floating (4.08% to 5.4%)	19,508,000,000	-	
JGSOC					
₱2.5 billion term loan	2024	6.64% and 6.62%	2,492,000,000	-	
CAI					
Commercial loans	2026	5%-7% (PDST-R2 and BVAL)	18,249,257,900	20,861,286,829	Guaranteed
			<b>74,964,530,076</b>	<b>55,698,698,498</b>	
			<b>218,935,534,707</b>	<b>210,248,967,348</b>	
Less current portion			<b>6,819,093,642</b>	<b>30,962,269,832</b>	
			<b>₱212,116,441,065</b>	<b>₱179,286,697,516</b>	

The foreign exchange rate used to revalue the foreign currency borrowings was ₱50.635 to US\$1 and ₱52.58 to US\$1.00 as of December 31, 2019 and 2018, respectively.

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱388.3 million and ₱536.1 million as of December 31, 2019 and 2018, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱104.7 million and ₱166.4 million as of December 31, 2019 and 2018, respectively.

Repayments of the long-term debt (gross of debt issuance costs) follow:

	2019	2018
Due in:		
2019	₱-	₱44,715,621,809
2020	6,819,093,642	6,409,024,635
Thereafter	212,116,441,065	279,737,843,083
	<b>₱218,935,534,707</b>	<b>₱330,862,489,527</b>

The details of the Group's long-term debt follow:

#### Subsidiaries' Foreign Currency Loans

##### *JGSPL 4.375% Senior Unsecured Notes Due 2023*

On January 24, 2013, JGSPL issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.





#### *CAI USD Commercial Loans from Foreign Banks*

On various dates from 2007 to 2019, CAI entered into commercial loan facilities to partially finance the purchase of 19 Airbus A320 aircraft, seven (7) Airbus A321 CEO aircraft, five (5) aircraft engines, and one (1) Airbus A321 NEO aircraft. The security trustees of these commercial loan facilities established SPEs – PTALL, PTHALL, SAALL, SBALL, SCALL, SDALL, TOADAC and RALL – which purchased the aircraft from CAI pursuant to (a) five to ten-year finance lease arrangement for the Airbus A320, A321 CEO, and A321 NEO aircraft; and (b) six-year finance lease arrangement for the engines. CAI has the option to purchase the aircraft and the engines for a nominal amount at the end of such leases. The lease rentals made by CAI to these SPEs correspond to the loan payments made by the SPEs to the commercial facility lenders.

In 2018, CAI prepaid the US dollar loan facilities for ten (10) Airbus A320 aircraft resulting to dissolution of PTHALL, SAALL and SBALL (Note 1). CAI subsequently entered into four (4) Philippine peso commercial loan facilities and six (6) USD commercial loans for the same aircraft. CAI also prepaid the loan facilities of the engines and entered into US dollar commercial loans to finance the acquisition of seven (7) Airbus A321 CEO aircraft.

In 2019, CAI entered into a US dollar commercial loan facility to finance the acquisition of one (1) Airbus A321NEO aircraft.

The terms of the CAI commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a semi-annual and quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2019 and 2018, the total outstanding balance of the US dollar commercial loans amounted to ₱30.5 billion (US\$601.8 million) and ₱29.9 billion (US\$569.6 million), respectively. Interest expense amounted to ₱1.3 billion, ₱1.1 billion and ₱780.6 million in 2019, 2018 and 2017, respectively.

#### *CAI JPY Commercial Loans*

In 2019, CAI entered into a Japanese commercial loans covering four (4) Airbus A321NEO aircraft. The loan requires semi-annual installments with a maturity not longer than 14 years at a variable interest rate based on JPY LIBOR plus margin.

As of December 31, 2019, the total outstanding balance of the Japanese yen commercial loans amounted to ₱8.4 billion (¥18.2 billion). Interest expense amounted to ₱174.1 million in 2019.

#### *CAI's ECA Loans*

On various dates from 2005 to 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft. The security trustee of the ECA loans established SPEs, namely CALL, BLL, SLL, SALL, VALL and POALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to (a) ten-year finance lease arrangement for the ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft. The quarterly and semi-annual rental payments made by CAI to these SPEs correspond to the principal and interest payments



made by the SPEs to the ECA-backed lenders. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2015 to 2017, CAI exercised the purchase option on ten Airbus A319 aircraft, which were then sold to a third party as part of a forward sale arrangement. The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft.

In 2017, CAI prepaid the ECA Loans covering four (4) Airbus A320. In 2018, CAI exercised the option to purchase five (5) ATR 72-500 aircraft upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) Airbus A320 CEO.

As of December 31, 2018, the terms of the remaining ECA-backed facilities follow:

- Term of 12 years starting from the delivery date of each Airbus A320 aircraft and ten years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments for the ATR 72-500 turboprop aircraft and Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for A320 aircraft.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Other than what is permitted by the transaction documents or the ECA administrative parties, the SPEs cannot create or allow to exist any other security interest.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the ECA lenders will foreclose on secured assets, namely the aircraft.

In 2019, CAI exercised the option to purchase the remaining two (2) ATR 72-500 upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) more Airbus A320 CEO. As of December 31, 2019, CAI no longer has remaining ECA-backed facilities in its portfolio.

As of December 31, 2019 and 2018, the total outstanding balance of the ECA loans amounted to nil and ₱2,988.7 million (US\$56.8 million), respectively. Interest expense amounted to ₱39.7 million, ₱176.4 million and ₱291.6 million in 2019, 2018 and 2017, respectively.

As of December 31, 2019, CAI is not in breach of any terms on the ECA and commercial loans.

*URC NZ Finance Company Limited NZD395 Million Term Loan due 2023*

On October 22, 2018, URC NZ FinCo entered into a term loan facility agreement guaranteed by the Parent Company payable in five years, amounting to NZ\$395.0 million (₱14.4 billion), with various banks for payment of the NZ\$420 million term loan due in 2019. The loan obtained bears a market interest rate plus a certain spread, payable quarterly, and maturing on October 22, 2023.

*URC NZ Finance Company Limited NZD420 Million Term Loan due 2019*

On November 13, 2014, URC New Zealand Holding Finance Company, Ltd. (URC NZ FinCo) entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD420.0 million (₱12.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019. This long-term loan is guaranteed by URC Parent Company.



In October 2018, URC NZ FinCo prepaid its 5-year term loan under Clause 7.1 of the underlying Facility Agreement at face value plus accrued interest. Total payment amounted to NZ\$423.8 million (approximately ₱15.5 billion), which includes accrued interest. The prepayment resulted in the recognition of the unamortized debt issue costs of US\$1.7 million (approximately ₱61.6 million) as expense presented under 'Finance costs' which represents the difference between the settlement amount and the carrying value of the loan at the time of settlement.

*URC Australia Finance Company Limited Term Loan US\$484.2 Million*

On September 30, 2016, URC AU FinCo entered into a secured syndicated term loan facility agreement payable in five (5) years, amounting to AU\$484.2 million (₱17.9 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, CSPL. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on September 30, 2021. This long-term loan is guaranteed by URC Parent Company.

*RLC Five-year loan from Agricultural Bank of China (ABC) maturing in August 2022*

In 2017, Chengdu Xin Yao entered into a facility loan agreement with ABC amounting to RMB500.0 million. On August 22, 2017, RLC made a drawdown amount to ₱458.0 million or RMB60.0 million which is payable after a period of 5 years. Interest on the loan shall be based on the rates released by the People's Bank of China which is 4.75% per annum as of loan agreement date.

In 2018, Chengdu Xin Yao made an additional drawdown amounting to RMB156 million (₱1,193 million) which is payable on August 19, 2022.

In 2019, the Group pre-terminated and paid in full the total loan from this bank amounting to RMB216 million (₱1,651 million).

Parent Company's Philippine Peso Loans

*Parent Company ₱30.0 Billion Fixed Rate Retail Bonds*

On February 28, 2014, the Parent Company issued a ₱30.0 billion fixed rate retail bonds. The bond was issued in three series: (1) Five-year bond amounting to ₱24.5 billion fixed at 5.23% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.24% due 2021; and (3) Ten-year bond amounting to ₱176.3 million fixed at 5.30% due 2024. Interest is calculated on a 30/360-day count basis and is payable semi-annually starting August 27, 2014 and the 27th day of February and August of each year thereafter. Net proceeds from the bond issuance were used to partially finance its acquisition of Meralco shares and for general corporate purposes. On February 2019, the Parent Company fully settled its five-year bond amounting to ₱24.5 billion.

*Parent Company ₱5.0 Billion Term Loan with BPI due in July 2022*

On July 6, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with BPI with a fixed rate at 4.65% per annum and shall be payable quarterly in arrears.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in July 2024*

On July 13, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC with a fixed rate at 4.93% per annum and shall be payable quarterly in arrears.

*Parent Company ₱10.0 Billion Term Loan with BDO due in June 2023*

On June 8, 2018, the Company borrowed ₱10.0 billion under Term Loan Facility Agreement with BDO. Interest for 2019 and 2018 amounted to ₱563.1 million and ₱259.7 million, respectively. The loan bears an interest based on the bank's 30-day prime rate.



*Parent Company ₱5.0 Billion Term Loan with MBTC due in June 2023*

On June 14, 2018, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC. Interest for 2019 and 2018 amounted to ₱261.9 million and ₱113.5 million, respectively. The loan obtained bears a market interest rate plus a certain spread, payable quarterly.

*Parent Company ₱7.0 Billion Term Loan with BPI due in August 2024*

On August 23, 2019, the Parent Company borrowed ₱7.0 billion under Term Loan Facility Agreement with BPI. Interest for 2019 amounted to ₱100.6 million. The loan obtained bears a market interest rate plus a certain spread, payable quarterly.

*Parent Company ₱5.0 Billion Term Loan with PNB due in August 2024*

On August 23, 2019, the Parent Company borrowed ₱5.0 billion under Term Loan Facility Agreement with PNB with a fixed rate at 4.901% per annum and shall be payable quarterly in arrears. Interest for 2019 amounted to ₱87.3 million.

Subsidiaries' Philippine Peso Loans

*RLC ₱10.6 Billion Term Loan due in February 2022*

On February 23, 2015, RLC issued ₱10.6 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.80% per annum.

*RLC ₱1.4 Billion Term Loan due in February 2025*

On February 23, 2015, RLC issued ₱1.4 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.93% per annum.

*RLC ₱6.5 Billion Term Loan due in July 2021*

On July 8, 2016, RLC borrowed ₱6.5 billion under Term Loan Facility Agreements with BDO Unibank, Inc.

The loan was released on July 8, 2016 amounting to ₱3.0 billion and on September 27, 2016 amounting to ₱3.5 billion with interest rate at 3.83% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*RLC ₱5.0 Billion Term Loan due in August 2023*

On August 10, 2016, RLC borrowed ₱5.0 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The ₱5.0 billion loan was released on August 10, 2016 with interest rate at



3.89% per annum and shall be payable quarterly, computed on the basis of a 360-day year and on the actual number of days elapsed.

*RLC ₱7.0 Billion Term Loan due in March 2024*

On March 15, 2017, RLC borrowed ₱7.0 billion million under Term Loan Facility Agreements with Metropolitan Bank & Trust Company. The loan was released on March 15, 2017 amounting to ₱7.0 billion with interest rate at 4.75% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed. Annual principal payment is two percent (2%) of the total loan amount or ₱140 million.

*RLC ₱4.5 Billion Term Loan due February 2027*

On February 10, 2017, RLC borrowed ₱4.5 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The loan was released on February 10, 2017 amounting to ₱4.5 billion with interest rate at 4.95% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

Partial payment for this loan amounting to ₱5 million was made on February 13, 2019 and 2018.

*CAI Philippine Peso Commercial Loans*

From 2016 to 2017, CAI entered into Philippine peso commercial loan facilities to partially finance the acquisition of eight (8) ATR 72-600 and two (2) Airbus A330 aircraft.

In 2018, CAI entered into Philippine peso commercial loan facilities to partially finance the acquisition of four (4) ATR 72-600 aircraft and refinance four (4) Airbus A320 aircraft.

As of December 31, 2019 and 2018, the terms of the commercial loan facilities follow:

- Term of seven to ten years starting from the delivery dates of each aircraft.
- Twenty eight to forty equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates based on Philippines Bloomberg Valuation (PH BVAL).
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2019 and 2018, the total outstanding Philippine Peso commercial loans amounted to ₱18.2 billion and ₱20.9 billion, respectively. Interest expense incurred from these loans amounted to ₱1,129.4 million, ₱826.4 million and ₱349.3 million in 2019, 2018 and 2017, respectively.

The commercial loans are secured by the related aircraft. CAI is required to comply with affirmative and negative covenants until termination of loans.

In 2019, 2018 and 2017, total interest expense on long-term debt amounted to ₱8.5 billion, ₱8.0 billion and ₱6.6 billion, respectively (see Note 35).

In 2019, 2018 and 2017, the Group recognized amortization of bond issue costs amounting to ₱80.7 million, ₱105.2 million and ₱84.2 million, respectively (see Note 35).

Debt Covenants

Certain loan agreements contain provisions which, among others, require the maintenance of specified financial ratios at certain levels and impose negative covenants which, among others, prohibit a merger or consolidation with other entities, dissolution, liquidation or winding-up, except with any of its



subsidiaries; and prohibit the purchase or redemption of any issued shares or reduction of registered and paid-up capital or distribution of assets resulting in capital base impairment.

For the Parent Company's ₱9.0 Billion, ₱5.0 Billion, ₱10.0 Billion, ₱5.0 Billion and ₱5.0 Billion Term Loan Facilities, the Group is required to maintain a financial ratio of Group's total borrowings to Group's shareholders' equity not exceeding 2.0:1.0.

For the Parent Company's ₱30.0 Billion Fixed Rate Retail Bonds, the Group is required to maintain the following financial ratios:

- the Group's current ratio of not less than 0.5:1.0;
- the Group's debt-to-equity ratio of not greater than 2.0:1.0

The commercial loans of CAI are secured by the related aircraft. The Group is required to comply with affirmative and negative covenants until termination of loans.

For the RLC's ₱10.6 Billion Retail Bonds due in February 2022, ₱1.4 Billion Retail Bonds due in February 2025, ₱6.5 Billion Term Loan due in July 2021, ₱5.0 Billion Term Loan due in August 2023, ₱4.5 Billion Term Loan due in February 2027 and ₱7.0 Billion Term Loan due in March 2024, RLC is required to maintain a debt-to-equity ratio not exceeding 2:1 as referenced from its consolidated financial statement as of and for the year end December 31 and consolidated interim financial statements as of March 31. These loans were not guaranteed by the Parent Company.

For the RLC's RMB60 million loan from Agricultural Bank of China (ABC) maturing in August 2022, Chengdu Xin Yao is required to maintain the following financial indicators: (a) actual revenue in its operating period which should not be lower than 20%; (b) debt-asset ratio should not equal or exceed 70%; (c) the borrower should not have a bad credit; and (d) borrower contingent liability ratio should not exceed 4%. Chengdu Xin Yao has complied with the debt covenant as of December 31, 2019.

For JGSPL's US\$750.0 million Senior Unsecured Notes due in 2023, the Parent Company as the guarantor shall procure:

- Consolidated Current Assets to Consolidated Current Liabilities is not at any time less than 0.5:1.0; and
- Consolidated Total Borrowings to Consolidated Stockholders' Equity does not at any time exceed 2:1.

For JGSPL's US\$250.0 million loans due in 2018, the guarantor shall procure that the ratio of Consolidated Total Borrowings to Consolidated Shareholders' Equity does not at any time exceed 2:1.

For the NZ and AU Term loans, the Group is required to maintain consolidated debt-to-equity ratio of not greater than 2.5 to 1.0.

The Group has complied with all of its debt covenants as of December 31, 2019 and 2018.



## 24. Other Noncurrent Liabilities

This account consists of:

	2019	2018
Deposit liabilities - net of current portion	<b>₱21,550,057,957</b>	₱19,066,221,156
Lease liabilities (Note 42)	<b>15,320,069,643</b>	-
ARO	<b>6,233,060,774</b>	5,982,197,580
Deposit from lessees - net of current portion (Note 42)	<b>3,171,544,926</b>	2,650,771,913
Pension liabilities (Note 37)	<b>2,693,910,604</b>	1,231,409,604
Deferred revenue on rewards program	<b>1,234,903,085</b>	954,057,251
Derivative liabilities (Note 8)	<b>13,507,241</b>	177,214,864
Accrued rent expense (Note 42)	-	1,608,663,933
Others	<b>913,374,820</b>	1,176,829,128
	<b>₱51,130,429,050</b>	₱32,847,365,429

### Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RBC and LSB with maturities of beyond 12 months from reporting date.

### ARO

CAI is contractually required under various lease contracts to restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. These costs are accrued based on estimates made by CAI's engineers, which include estimates of future aircraft utilization and certain redelivery costs at the end of the lease period. (see Note 3).

URC also has obligations to restore the leased manufacturing sites, warehouses and offices at the end of the respective lease terms. These provisions are calculated as the present value of the estimated expenditures required to remove any leasehold improvements. These costs are currently capitalized as part of the cost of the plant and equipment and are amortized over the shorter of the lease term and the useful life of assets.

The rollforward analysis of the Group's ARO follows:

	2019	2018
Balance at beginning of year	<b>₱5,982,197,580</b>	₱3,824,447,419
Provision for ARO	<b>250,863,194</b>	2,157,750,161
Balance at end of year	<b>₱6,233,060,774</b>	₱5,982,197,580

In 2019, 2018 and 2017, ARO expenses included as part of repairs and maintenance under 'Cost of Sales' amounted to ₱250.9 million, ₱2.2 billion and ₱1.2 billion, respectively (Note 30).

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 22) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of the lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The accretion expense on these deposits recorded as part of cost of rental services on the discount amounted to ₱76.0 million, ₱73.0 million and ₱56.0 million in 2019, 2018 and 2017, respectively (Note 30).



The unearned rental income (included under ‘Deposit from lessees’) amounted to ₱756.0 million and ₱604.0 million as of December 31, 2019 and 2018, respectively. The rental income on amortization of unearned rental income amounted to ₱83.0 million, ₱97.0 million and ₱64.0 million in 2019, 2018 and 2017, respectively.

Deferred Revenue on Rewards Program

This account pertains to estimated liability under the Getgo lifestyle rewards program.

The rollforward analyses of deferred revenue follow:

	2019	2018
Balance at beginning of year	₱954,057,251	₱720,229,576
Add: Estimated liability on issued points	924,714,078	691,673,529
Subtotal	1,878,771,329	1,411,903,105
Less: Estimated liability on redeemed points	246,829,251	178,326,243
Estimated liability on expired points	397,038,993	279,519,611
Balance at end of year	<b>₱1,234,903,085</b>	₱954,057,251

Accrued Rent

Accrued rent expense represents the portion of the lease as a consequence of recognizing expense on a straight-line basis. These pertain to various lease of land entered by the Group where the malls are located.

Others

Others include retention payable which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

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## 25. Equity

Details of the Parent Company’s authorized capital stock as of December 31, 2019 and 2018 follow:

	Par Value	Shares	Amount
Common shares	₱1.00	12,850,800,000	₱12,850,800,000
Preferred voting shares	0.01	4,000,000,000	40,000,000
Preferred non-voting shares	1.00	2,000,000,000	2,000,000,000
		18,850,800,000	₱14,890,800,000

The paid-up capital of the Group consists of the following:

Capital stock:	
Common shares - ₱1 par value	₱7,162,841,657
Preferred voting shares - ₱0.01 par value	40,000,000
	7,202,841,657
Additional paid-in capital	23,553,025,157
Total paid-up capital	<b>₱30,755,866,814</b>

Preferred Voting Shares

The preferred voting shares have, among others, the following rights, privileges and preferences:

- a. Entitled to vote on all matters involving the affairs of the Parent Company requiring the approval of the stockholders. Each share shall have the same voting rights as a common share.





- b. The shares shall be non-redeemable.
- c. Entitled to dividends at the rate of 1/100 of common shares, such dividends shall be payable out of the surplus profits of the Parent Company so long as such shares are outstanding.
- d. In the event of liquidation, dissolution, receivership or winding up of affairs of the Parent Company, holders shall be entitled to be paid in full at par, or ratably, in so far as the assets of the Parent Company will permit, for each share held before any distribution is made to holders of the common shares.

Preferred Non-voting Shares

The preferences, privileges and voting powers of the preferred non-voting shares shall be as follows:

- a. May be issued by the BOD of the Parent Company for such amount (not less than par), in such series, and purpose or purposes as shall be determined by the BOD of the Parent Company.
- b. The shares shall be non-convertible, non-voting, cumulative and non-participating.
- c. May be redeemable at the option of the Parent Company at any time, upon payment of their aggregate par or issue value, plus all accrued and unpaid dividends, on such terms as the BOD of the Parent Company may determine at the time of issuance. Shares so redeemed may be reissued by the Parent Company upon such terms and conditions as the BOD of the Parent Company may determine.
- d. The holders of shares will have preference over holders of common stock in the payment of dividends and in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Parent Company, whether voluntary or involuntary. In such an event, the holders of the shares shall be paid in full or ratably, insofar as the assets of the Parent Company will permit, the par or issue value of each share held by them, as the BOD of the Parent Company may determine upon their issuance, plus unpaid cumulated dividends up to the current period, before any assets of the Parent Company shall be paid or distributed to the holders of the common shares.
- e. The holders of shares shall be entitled to the payment of current as well as any accrued or unpaid dividends on the shares before any dividends can be paid to the holders of common shares.
- f. The holders of shares shall not be entitled to any other or further dividends beyond that specifically payable on the preferred non-voting shares.
- g. The holders of shares shall not be entitled to vote (except in those cases specifically provided by law) or be voted for.
- h. The holders of shares shall have no pre-emptive rights, options or any other similar rights to subscribe or receive or purchase any or all issues or other disposition of common or other preferred shares of the Parent Company.
- i. The shares shall be entitled to receive dividends at a rate or rates to be determined by the Parent Company's BOD upon their issuance.

Record of Registration of Securities with the SEC

Summarized below is the Parent Company's track record of registration of securities under the Securities Regulation Code.

Date of offering	Type of offering	No. of shares offered	Par value	Offer price	Authorized number of shares	Issued and outstanding shares
June 30, 1993	Registration of authorized capital stock	-	₱1.00	₱-	12,850,800,000 common shares and 2,000,000,000 preferred non-voting shares	-
June 30, 1993	Initial public offering (IPO)	1,428,175,000 common shares	1.00	4.40	-	1,428,175,000 common shares
June 30, 1994	Conversion of convertible bonds into common shares	428,175,000 common shares	1.00	13.75	-	3,725,457 common shares
July 3, 1998	Stock rights offering (1:2)	2,060,921,728 common shares	1.00	2.00	-	2,060,921,728 common shares



The table below provides information regarding the number of stockholders of the Parent Company as of December 31, 2019, 2018 and 2017:

	2019	2018	2017
Common shares	1,002	1,017	1,033
Preferred voting shares	1	1	1

#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings and derivative liabilities, while capital represents total equity.

The Group's computation of debt-to-capital ratio follows:

	2019	2018
(a) Gross debt		
Short-term debt (Note 23)	₱54,047,410,004	₱35,453,723,993
Current portion of long-term debt (Note 23)	6,819,093,642	30,962,269,832
Long-term debt, net of current portion (Note 23)	212,116,441,065	179,286,697,516
Derivative liabilities (Note 8)	432,610,810	763,322,060
	<b>₱273,415,555,521</b>	<b>₱246,466,013,401</b>
(b) Capital	<b>₱408,647,142,867</b>	<b>₱367,477,860,539</b>
(c) Debt-to-capital ratio (a/b)	<b>0.67:1</b>	<b>0.67:1</b>

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.0:1.0 level.

#### Regulatory Qualifying Capital

##### *RBC*

In 2013, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross



Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary non-financial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 125.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Following is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0%	Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)
150%	All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

\* Not all inclusive

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2



capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2016. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.00% CET1 capital ratio and 10.00% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.00% on the Group's real estate exposure. These limits shall be complied with at all times.

On June 9, 2016, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.00% on a solo and consolidated basis and shall be complied with at all times.

The CAR of RBC as reported to the BSP as of December 31, 2019 and 2018 follows:

	2019	2018
CET 1 Capital	<b>₱14,500</b>	₱10,274
Additional Tier 1 Capital	—	—
Tier 1 capital	<b>14,500</b>	10,274
Tier 2 capital	<b>803</b>	632
Total qualifying capital	<b>₱15,303</b>	₱10,906
	<b>2019</b>	2018
Credit risk-weighted assets (RWA)	<b>₱80,264</b>	₱66,962
Market RWA	<b>887</b>	347
Operational RWA	<b>6,477</b>	5,399
Total RWA	<b>₱87,628</b>	₱72,708
Common Equity Tier 1 Ratio 1	<b>16.55%</b>	14.13%
Additional Tier 1 Ratio	<b>0.00%</b>	0.00%
Tier 1 capital ratio	<b>16.55%</b>	14.13%
Tier 2 capital ratio	<b>0.91%</b>	0.87%
Risk-based CAR	<b>17.46%</b>	15.00%

As of December 31, 2019 and 2018, RBC was in compliance with the required CAR.

#### Retained Earnings

As of December 31, 2019 and 2018, the Group has a total retained earnings of ₱268.0 billion and ₱239.1 billion, respectively. Out of this, ₱118.3 billion and ₱117.8 billion were restricted as of December 31, 2019 and 2018, respectively.

The details of the Group's restricted retained earnings follow:

#### *Parent Company*

As of December 31, 2019, the ₱101.2 billion restricted retained earnings of the Parent Company are earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company (Note 23); (b) settlement of Parent Company loan obligations and retail bonds; (c) capital investment related to digital venture businesses amounting to ₱2.5 billion; (d) capital



investments related to the Clark International Airport expansion project amounting to ₱5.9 billion; (e) investments related to NAIA rehabilitation and expansion project (f) and general corporate purposes.

The details of the loan obligations follow:

	<b>Subsidiary</b>	<b>Amount</b>	<b>Settlement</b>
<b>Loan obligations:</b>			
4.375% senior unsecured notes	JGSH Philippines, Limited	US\$750.0 million	10 years maturing in 2023
Term Loans	Parent Company	₱46.0 billion	Maturing in 2022 to 2024
Retail Bonds	Parent Company	₱5.5 billion	Maturing in 2021 and 2024

As part of its debt covenant, the Parent Company has to maintain certain financial ratios such as: (a) the Group's current ratio of not less than 1.0:1.0; and (b) the Group's debt-to-equity ratio of not greater than 2.0:1.0. A portion of the Parent Company's retained earnings is restricted to maintain these financial ratios.

A corresponding amount of appropriated retained earnings will be reversed to unappropriated retained earnings once the foregoing loan obligations are settled.

On December 18, 2019, the BOD approved the appropriation of retained earnings amounting to ₱25.0 billion and the reversal of the appropriation made in prior years amounting to ₱24.5 billion.

#### *URC*

On December 15, 2017, URC's BOD approved the additional appropriation of retained earnings amounting to ₱1.5 billion for capital expenditure commitments to expand capacities in the snack foods and beverage businesses across branded consumer food operations, which are expected to be completed within the next two years.

On December 18, 2018, URC's BOD approved the reversal of the appropriation of retained earnings in the aggregate amount of ₱2.5 billion, which was approved by the BOD in its resolutions adopted on September 27, 2016 and December 15, 2017.

#### *RLC*

On December 14, 2018, RLC's BOD approved the reversal of the retained earnings it appropriated in 2017 amounting to ₱24.5 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, RLC's BOD also approved the appropriation of ₱27.0 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of the Group for various projects approved by the Executive Committee during meetings held in December 2018. These projects and acquisitions are expected to be completed in various dates in 2019 up to 2023.

On December 9, 2019, RLC's BOD approved the reversal of the retained earnings it appropriated in 2018

amounting to ₱27.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.



On the same date, RLC's BOD also approved the appropriation of ₱27.0 million, out of the unappropriated retained earnings, to support the capital expenditure requirements of RLC for various projects. These projects and acquisitions are expected to be completed in various dates in 2020 up to 2024.

#### *CAI*

On December 4, 2019, December 12, 2018 and December 15, 2017, CAI's BOD appropriated ₱26.0 billion, ₱22.0 billion and ₱18.3 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. Appropriations as of December 31, 2018, and 2017 were reversed in the following year. The appropriated amount as of December 31, 2019 will be used for the settlement of aircraft and engine lease commitments in 2020.

As of December 31, 2019 and 2018, CAI has appropriated retained earnings totaling ₱26.0 billion and ₱22.0 billion, respectively.

#### *RBC*

In compliance with existing BSP regulations, 10.00% of the net profits realized by RBC from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.00% of RBC's regulatory capital.

In 2019 and 2018, RBC's BOD approved to appropriate reserves for trust reserves amounting to nil and ₱0.62 million, respectively.

In 2019 and 2018, RBC's BOD approved to appropriate reserves for expected credit losses amounting to ₱498.7 million and ₱98.7 million, respectively, in compliance with the requirements of the BSP Circular No. 1011. Under this BSP Circular, the Bank shall treat Stage 1 provisions for loan accounts as General Provisions (GP) while Stage 2 and 3 provisions shall be treated as Specific Provisions (SP). The Bank shall set up GLLP equivalent to 1% of all outstanding on-balance sheet loan accounts, except for accounts considered as credit risk-free under existing regulations. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1% required GP, the deficiency shall be recognized by appropriating the 'Surplus' account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in surplus shall be considered as Tier 2 capital subject to the limit provided under the CAR framework.

#### *Accumulated equity in net earnings of the subsidiaries and associates*

A portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates and joint ventures amounting to ₱113.8 billion, ₱95.9 billion and ₱86.7 billion as of December 31, 2019, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

#### Cash Dividends

##### *Parent Company*

Details of the Parent Company's dividend declarations on its common stock follow:

	<b>2019</b>	2018	2017
Date of declaration	<b>May 30, 2019</b>	May 28, 2018	June 27, 2017
Dividend per share	<b>₱0.37</b>	₱0.30	₱0.28
Total dividends	<b>₱2.7 billion</b>	₱2.2 billion	₱2.0 billion
Date of record	<b>June 20, 2019</b>	June 18, 2018	July 17, 2017
Date of payment	<b>July 16, 2019</b>	July 12, 2018	August 10, 2017



Details of the Parent Company's dividend declarations on its preferred stock follow:

	2019	2018	2017
Date of declaration	<b>May 30, 2019</b>	May 28, 2018	June 27, 2017
Dividend per share	<b>₱0.0037</b>	₱0.0030	₱0.0028
Total dividends	<b>₱14.8 million</b>	₱12.0 million	₱11.2 million
Date of record	<b>June 20, 2019</b>	June 18, 2018	July 17, 2017
Date of payment	<b>July 16, 2019</b>	July 12, 2018	August 10, 2017

The following tables summarize the dividends declared by significant subsidiaries of the Parent Company:

*URC*

Details of URC's dividend declarations follow:

	2019	2018	2017
Date of declaration	<b>February 28, 2019</b>	February 5, 2018	February 15, 2017
Dividend per share - regular	<b>₱1.50</b>	₱3.15	₱3.15
Total dividends - regular	<b>₱3.3 billion</b>	₱6.9 billion	₱6.9 billion
Date of record	<b>March 14, 2019</b>	February 26, 2018	March 1, 2017
Date of payment	<b>March 28, 2019</b>	March 22, 2018	March 27, 2017
Dividend per share - special	<b>₱1.65</b>	-	-
Total dividends - special	<b>₱3.6 billion</b>	-	-
Date of record	<b>July 1, 2019</b>	-	-
Date of payment	<b>July 26, 2019</b>	-	-

*RLC*

Details of RLC's dividend declarations follow:

	2019	2018	2017
Date of declaration	<b>May 29, 2019</b>	April 6, 2018	March 3, 2017
Dividend per share	<b>₱0.50</b>	₱0.36	₱0.36
Total dividends	<b>₱2.6 billion</b>	₱1.5 billion	₱1.5 billion
Date of record	<b>June 18, 2019</b>	April 26, 2018	April 3, 2017
Date of payment	<b>July 12, 2019</b>	May 23, 2018	May 2, 2017

*CAI*

Details of CAI's dividend declarations follow:

	2019	2018	2017
Date of declaration	<b>May 20, 2019</b>	May 19, 2018	May 19, 2017
Dividend per share - regular	<b>₱2.00</b>	₱2.88	₱1.00
Total dividends - regular	<b>₱1,201.8 million</b>	₱1,745.1 million	₱606.0 million
Dividend per share - special	<b>₱5.00</b>	₱1.62	₱1.75
Total dividends - special	<b>₱3,004.6 million</b>	₱981.6 million	₱1,060.5 million
Date of record	<b>June 14, 2019</b>	June 14, 2018	June 9, 2017
Date of payment	<b>July 10, 2019</b>	July 10, 2018	July 5, 2017

Equity Reserve

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with an extensive product portfolio, agreed to buy 40% of the Group's Oceania business (SBA and Griffin's) to leverage on the Group's and Intersnack's know-how from their respective markets (see Note 44). This transaction is expected to yield better manufacturing, supply chain and sustainability practices and will set the groundwork for an even larger and more efficient Oceania operations. Consideration for the



transaction consisted of cash and Yarra Valley Group Holding Pty Ltd. (Yarra Valley) net assets amounting to US\$142.0 million (₱7.2 billion) and US\$10.1 (₱0.5 billion), respectively.

On December 23, 2019, the Australian FIRB approved the transaction. Following the approval, the transaction was completed on December 23, 2019.

As a result of the sale, the equity interest of URC changed from 100.0% to 60.0%. The excess of the total consideration received over the carrying amount of the equity transferred and call option issued to NCI amounting to ₱1.3 billion is presented under “Equity reserve” in the consolidated statements of financial position. See Note 8 for disclosure on the call option.

On September 27, 2016, URC reissued 22.7 million common shares previously held as treasury shares by way of block sale at a selling price of ₱193.45 per share, with a total selling price amounting to ₱4.4 billion, net of transaction costs amounting to ₱27.2 million. As a result of the sale, the equity interest of the Parent Company over URC changed from 55.83% to 55.25%. The excess of the total consideration received over the carrying value of the interest transferred to the non-controlling interest is included under “Equity Reserve” in the 2016 consolidated statements of financial position.

In December 2014, URC entered into a share purchase agreement with Nissin to sell 14.0% of its equity interest in NURC. As a result of the sale, the equity interest of URC changed from 65% to 51%. The gain from the sale amounting to ₱239.8 million is included under ‘Equity reserve’ in the 2014 consolidated statements of financial position.

#### Non-controlling Interests

Below is the rollforward of non-controlling interests:

	2019	2018	2017
Beginning balance	<b>₱91,055,029,938</b>	₱77,927,468,808	₱73,268,333,356
Total comprehensive income:			
Net income attributable to non-controlling interests	<b>11,380,265,517</b>	8,711,457,170	10,149,496,652
Other comprehensive income attributable to non-controlling interests:			
Net unrealized gains (losses) on financial assets at FVOCI (Note 10)	<b>454,489,410</b>	(386,621,935)	-
Cumulative translation adjustments	<b>526,535,963</b>	722,343,620	(554,608,529)
Remeasurements due to defined benefit liability (Note 37)	<b>(208,766,439)</b>	112,144,431	50,063,791
Gain (loss) on cashflow hedge	<b>55,830,925</b>	(1,493,044)	(5,083,232)
Net unrealized gains (losses) on AFS investments (Note 10)	-	-	(80,951,614)
	<b>12,208,355,376</b>	9,157,830,242	9,558,917,068
Sale of equity interest in a subsidiary	<b>6,066,755,734</b>	-	-
Cash dividends paid to non-controlling interests	<b>(5,768,961,389)</b>	(5,068,481,993)	(4,245,057,809)
Deposit for future subscription of shares by non-controlling interest in a subsidiary / Issuance of shares by subsidiaries	<b>240,000,000</b>	8,987,219,560	-
Incorporation of a subsidiary	<b>159,250,000</b>	-	-
Property dividends to non-controlling interest	<b>(20,477,594)</b>	-	-
Decrease in subsidiaries' treasury shares	<b>(104,451,717)</b>	(231,921,908)	-
Acquisition of non-controlling interest by a subsidiary	-	120,000,000	-
Sale of investment in a subsidiary	-	(125,000)	-
	<b>₱103,835,500,348</b>	₱90,891,989,709	₱78,582,192,615





In 2018, deposit for future subscription of shares by non-controlling interest in a subsidiary amounting to ₱3.2 billion pertain to the additional investment by RRHI in RBC.

## 26. Revenue

### Disaggregated revenue information

Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2019 and 2018:

	December 31, 2019			Total
	Goods and services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	
Sale of goods and services:				
Foods	₱134,057,141,890	₱-	₱117,385,689	₱134,174,527,579
Air transportation	84,806,810,363	-	-	84,806,810,363
Petrochemicals	29,053,982,086	-	-	29,053,982,086
Real estate and hotels	6,134,392,237	9,028,944,073	15,046,850,900	30,210,187,210
Banking	462,302,868	-	7,659,360,087	8,121,662,955
Equity in net earnings of associates and joint ventures	-	-	13,357,511,170	13,357,511,170
Dividend income	-	-	1,348,711,916	1,348,711,916
Supplementary businesses	674,872,506	-	74,303,386	749,175,892
	<b>₱255,189,501,950</b>	<b>₱9,028,944,073</b>	<b>₱37,604,123,148</b>	<b>₱301,822,569,171</b>

	December 31, 2018			Total
	Goods and services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	
Sale of goods and services:				
Foods	₱127,769,949,329	₱-	₱-	₱127,769,949,329
Air transportation	74,113,776,885	-	-	74,113,776,885
Petrochemicals	42,351,966,134	-	-	42,351,966,134
Real estate and hotels	5,144,042,159	10,853,067,524	13,470,454,413	29,467,564,096
Banking	352,463,888	-	5,779,918,679	6,132,382,567
Equity in net earnings of associates and joint ventures	-	-	10,181,841,883	10,181,841,883
Dividend income	-	-	1,227,572,942	1,227,572,942
Supplementary businesses	596,660,442	-	74,303,386	670,963,828
	<b>₱250,328,858,837</b>	<b>₱10,853,067,524</b>	<b>₱30,734,091,303</b>	<b>₱291,916,017,664</b>

Banking revenue consists of:

	2019	2018	2017
Interest income (Note 27)	₱7,198,761,011	₱5,761,620,534	₱4,109,285,854
Service fees and commission income	462,302,868	352,463,888	181,649,418
Trading and securities gains (Notes 8 and 10)	460,599,076	18,298,145	184,893,310
	<b>₱8,121,662,955</b>	<b>₱6,132,382,567</b>	<b>₱4,475,828,582</b>

### Contract assets

The Group has current and noncurrent contract assets amounting to ₱3.0 billion and ₱7.8 billion as at December 31, 2019, respectively, and ₱5.1 billion and ₱6.4 billion as at December 31, 2018, respectively.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer



pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is unconditional. This is reclassified as installment contract receivables when the monthly amortization of the customer is already due for collection. The movement in contract asset is mainly due to new real estate sales contract recognized during the period, increase in percentage of completion, less reclassification of installment contract receivable.

#### Contract liabilities

Contract liabilities consist of collections from real estate customers which have not reached the equity threshold to qualify for revenue recognition and excess of collections over the good and services transferred by Group based on percentage of completion. Current and noncurrent contract liabilities as of December 31, 2019 amounted to ₱14.2 billion and ₱3.0 billion, respectively. Current and noncurrent contract liabilities as of December 31, 2018 amounted to ₱12.9 billion and ₱2.4 billion, respectively. The movement in the contract liability is mainly due to reservation sales and advance payment of buyers less real estate sales recognized upon reaching the equity threshold from increase in percentage of completion.

Revenue recognized from the amounts included in contract liabilities at the beginning of the year amounted to ₱4.0 billion and ₱1.7 billion for the year ended December 31, 2019 and 2018, respectively.

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## 27. Interest Income

This account consists of:

	2019	2018	2017
Interest income from:			
Finance receivables and sales contract receivable (Note 11)	<b>₱6,062,440,608</b>	₱4,570,300,338	₱3,194,186,361
Cash and cash equivalents (Note 7)	<b>1,626,473,064</b>	1,145,187,459	654,200,215
Financial assets at FVOCI (Note 10)	<b>1,027,397,426</b>	823,177,155	-
Financial assets at FVPL (Note 9)	<b>100,871,958</b>	604,185,880	650,771,348
Investment securities at amortized cost (Note 10)	<b>477,790,098</b>	364,317,419	-
HTM investments (Note 10)	-	-	23,747,163
AFS debt securities (Note 10)	-	-	829,805,734
	<b>₱9,294,973,154</b>	₱7,507,168,251	₱5,352,710,821

Interest income are included in the following accounts in the consolidated statements of comprehensive income as follows:

	2019	2018	2017
Banking revenue (Note 26)	<b>₱7,198,761,011</b>	₱5,761,620,534	₱4,109,285,854
Finance income	<b>2,096,212,143</b>	1,745,547,717	1,243,424,967
	<b>₱9,294,973,154</b>	₱7,507,168,251	₱5,352,710,821

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## 28. Dividend Income

As a holding company, the Parent Company receives dividends from its strategic investments in companies that are neither consolidated nor equity-accounted in the group accounts.



This account includes dividends received from PLDT amounting to ₱1.2 billion, ₱1.1 billion and ₱1.3 billion and in 2019, 2018 and 2017, respectively. Investment in PLDT is presented under financial assets at FVOCI.

## 29. Other Operating Income (Expenses)

This account consists of:

	2019	2018	2017
Realized gain on sale of financial assets at FVOCI (Note 10)	<b>₱277,810,114</b>	₱34,208,528	₱-
Gain (loss) on sale of aircraft (Note 16)	<b>(225,675,379)</b>	(46,466,570)	102,574,043
Gain on sale of equity investments	-	198,141,335	-
Gain on insurance claims	-	22,985,311	28,397,634
Realized gain on sale of AFS investments (Note 10)	-	-	14,747,467
Others (Note 21)	<b>(816,800,275)</b>	(668,337,030)	96,152,440
	<b>(₱764,665,540)</b>	(₱459,468,426)	₱241,871,584

Others also include restructuring provisions and gain (loss) on sale of PPE and investment properties.

## 30. Cost of Sales and Services

This account consists of:

	2019	2018	2017
Raw materials used	<b>₱82,191,336,067</b>	₱91,888,688,733	₱83,764,786,696
Direct labor	<b>6,420,796,194</b>	6,306,013,840	5,861,994,335
Overhead cost	<b>35,145,343,624</b>	32,911,274,997	29,252,629,291
Total manufacturing cost	<b>123,757,475,885</b>	131,105,977,570	118,879,410,322
Work-in-process	<b>(500,168,194)</b>	(228,534,317)	74,603,670
Cost of goods manufactured	<b>123,257,307,691</b>	130,877,443,253	118,954,013,992
Finished goods	<b>(280,014,204)</b>	(1,143,328,254)	222,298,225
Cost of sales	<b>122,977,293,487</b>	129,734,114,999	119,176,312,217
Cost of services	<b>66,804,207,760</b>	63,858,758,345	52,378,128,769
Cost of sales and services	<b>₱189,781,501,247</b>	₱193,592,873,344	₱171,554,440,986

Overhead costs consist of:

	2019	2018	2017
Utilities and fuel	<b>₱14,339,747,118</b>	₱13,733,217,586	₱13,216,743,403
Depreciation and amortization (Note 33)	<b>8,123,002,887</b>	7,369,712,417	6,818,023,778
Personnel (Note 32)	<b>3,956,487,889</b>	3,664,721,272	3,492,390,785
Repairs and maintenance	<b>3,901,050,472</b>	3,562,033,341	3,162,811,896
Security and other contracted services	<b>824,215,485</b>	765,581,653	681,266,926
Insurance	<b>370,434,877</b>	324,898,144	316,072,656
Taxes, licenses and fees	<b>1,686,350,926</b>	2,329,379,936	249,708,624
Handling and delivery charges	<b>245,906,851</b>	183,736,214	185,825,028
Rental	<b>239,047,138</b>	462,677,724	414,997,425
Research and development	<b>87,191,359</b>	87,264,821	82,777,295
Others	<b>1,371,908,622</b>	428,051,889	632,011,475
	<b>₱35,145,343,624</b>	₱32,911,274,997	₱29,252,629,291



Cost of services is composed of:

	2019	2018	2017
Air transportation	<b>₱49,518,018,515</b>	₱48,039,492,056	₱40,626,822,232
Real estate	<b>12,023,363,232</b>	11,987,104,415	9,217,080,148
Banking	<b>3,173,237,752</b>	2,275,281,099	1,183,714,020
Hotel operations	<b>2,089,588,261</b>	1,556,880,775	1,350,512,369
	<b>₱66,804,207,760</b>	₱63,858,758,345	₱52,378,128,769

Further breakdown of the 'Cost of services' account showing the nature of expenses follow:

	2019	2018	2017
Fuel and oil	<b>₱24,591,651,508</b>	₱25,431,126,363	₱19,594,980,725
Maintenance costs	<b>7,144,174,829</b>	7,341,707,601	6,836,779,366
Personnel (Note 32)	<b>6,882,489,474</b>	5,543,013,641	5,270,242,234
Depreciation and amortization (Note 33)	<b>4,966,545,415</b>	4,456,732,645	3,914,114,101
Cost of real estate sales (Note 12)	<b>4,235,325,163</b>	4,931,427,825	3,143,037,387
Ground handling charges	<b>4,154,701,288</b>	3,421,655,961	2,682,026,202
Landing and take-off	<b>3,818,785,918</b>	3,478,873,175	3,487,271,164
Interest expense (Note 21)	<b>2,939,576,169</b>	2,187,499,371	1,126,827,599
Reservation costs	<b>2,034,317,306</b>	2,038,933,190	1,811,955,992
Property operations and maintenance costs	<b>1,134,695,919</b>	1,216,896,943	1,097,218,241
Film rentals expense - amusement services	<b>956,468,868</b>	906,006,116	820,824,802
Contracted services	<b>710,939,896</b>	538,355,927	307,231,516
Cost of food and beverage - hotel operations	<b>380,535,302</b>	320,069,980	353,667,814
Travel and transportation	<b>274,231,103</b>	190,332,038	190,585,490
Interrupted/delayed trips expense	<b>268,974,040</b>	163,373,839	287,708,265
Passenger food and supplies	<b>259,298,060</b>	237,379,634	152,382,065
Passenger liability insurance	<b>258,740,461</b>	222,425,888	209,138,455
Service charges and commission expense	<b>233,661,583</b>	87,781,728	56,886,421
Pilot and crew meals	<b>87,997,971</b>	75,225,150	61,731,718
Customs, immigration and duties	<b>3,086,774</b>	18,629,660	34,877,755
Others	<b>1,468,010,713</b>	1,051,311,670	938,641,457
	<b>₱66,804,207,760</b>	₱63,858,758,345	₱52,378,128,769

### 31. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Depreciation and amortization (Note 33)	<b>₱16,923,447,804</b>	₱8,740,834,947	₱8,204,601,381
Outside services	<b>11,842,904,635</b>	10,860,963,011	10,537,048,072
Advertising and promotions	<b>9,725,415,021</b>	8,680,706,701	9,173,757,140
Personnel (Note 32)	<b>9,575,892,135</b>	8,742,446,729	8,091,935,699
Taxes, licenses and fees	<b>1,877,642,128</b>	1,804,907,486	1,398,172,998
Rental (Note 42)	<b>1,185,941,162</b>	1,899,162,610	2,066,485,679
Travel and transportation	<b>1,034,390,522</b>	1,166,014,683	1,316,855,993
Sales commission	<b>1,019,791,106</b>	996,168,674	731,736,670
Repairs and maintenance	<b>921,210,132</b>	944,420,851	534,931,956
Utilities and supplies	<b>696,008,051</b>	711,316,430	735,173,495

(Forward)



	2019	2018	2017
Insurance	<b>₱683,959,468</b>	₱576,395,623	₱635,478,465
Communication	<b>408,001,326</b>	383,953,070	348,095,166
Aircraft and engine lease	<b>313,939,968</b>	5,650,909,510	4,635,003,450
Entertainment, amusement and recreation (Note 38)	<b>206,723,604</b>	195,801,882	184,657,022
Others	<b>1,567,833,799</b>	1,558,528,572	1,316,114,551
	<b>₱57,983,100,861</b>	₱52,912,530,779	₱49,910,047,737

Others

Other expenses include royalties, donation and contribution, and membership and subscription dues.

### 32. Personnel Expenses

This account consists of:

	2019	2018	2017
Salaries and wages	<b>₱16,342,665,279</b>	₱14,457,015,945	₱13,558,842,741
Other employee benefits	<b>3,069,665,955</b>	2,992,238,378	2,872,204,576
Pension expense	<b>1,002,538,264</b>	500,927,319	423,521,401
	<b>₱20,414,869,498</b>	₱17,950,181,642	₱16,854,568,718

The breakdown of personnel expenses follows:

	2019	2018	2017
Cost of sales and services (Note 30)	<b>₱10,838,977,363</b>	₱9,207,734,913	₱8,762,633,019
General and administrative expenses (Note 31)	<b>9,575,892,135</b>	8,742,446,729	8,091,935,699
	<b>₱20,414,869,498</b>	₱17,950,181,642	₱16,854,568,718

### 33. Depreciation and Amortization

The breakdown of depreciation and amortization on property, plant and equipment, investment properties, biological assets, intangible assets and ROU assets follows:

	2019	2018	2017
Cost of sales and services (Notes 15, 16 and 30)	<b>₱13,089,548,302</b>	₱11,826,445,062	₱10,732,137,879
General and administrative expenses (Notes 15, 16, 18, and 31)	<b>16,923,447,804</b>	8,740,834,952	8,204,601,381
	<b>₱30,012,996,106</b>	₱20,567,280,014	₱18,936,739,260



### 34. Provision for (Reversal of) Impairment Losses and Others

This account consists of:

	2019	2018	2017
Provision for (reversal of) impairment losses on:			
Property, plant and equipment (Note 16)	(₱2,274,795,253)	₱1,699,792	₱4,714,024
Receivables (Note 11)	133,647,748	117,349,689	231,167,858
Investment properties (Note 15)	(3,823,625)	-	1,885,207
Inventory obsolescence and market decline (Note 12)	2,678	7,948,049	2,870,047
Goodwill	-	17,579,587	-
Other noncurrent assets	-	1,224,464	7,443,236
	<b>(₱2,144,968,452)</b>	<b>₱145,801,581</b>	<b>₱248,080,372</b>

### 35. Financing Costs and Other Charges

This account consists of:

	2019	2018	2017
Interest expense	₱10,735,461,364	₱9,377,151,320	₱7,635,388,645
Bank charges and others	230,385,537	258,223,453	200,749,289
	<b>₱10,965,846,901</b>	<b>₱9,635,374,773</b>	<b>₱7,836,137,934</b>

Sources of financing costs and other charges follow:

	2019	2018	2017
Long-term debt (Note 23)	₱8,459,424,425	₱8,027,885,938	₱6,642,940,617
Short-term debt (Note 23)	1,371,340,594	1,053,574,999	780,408,518
Others	339,266,940	448,717,516	328,574,778
	<b>10,170,031,959</b>	<b>9,530,178,453</b>	<b>7,751,923,913</b>
Accretion of lease liabilities (Note 42)	715,156,294	-	-
Amortization of debt issuance costs (Note 23)	80,658,648	105,196,320	84,214,021
	<b>₱10,965,846,901</b>	<b>₱9,635,374,773</b>	<b>₱7,836,137,934</b>



### 36. Components of Other Comprehensive Income

Below is the composition of the Group's 'Other comprehensive income':

	2019		
	Parent Company	Non-controlling Interests	Total
Net gain (loss) on FVOCI investments:			
Net changes in fair value of FVOCI of Parent and its subsidiaries			
Net changes in fair value during the period	<b>(P1,083,397,384)</b>	<b>P454,489,410</b>	<b>(P628,907,974)</b>
Reclassification adjustment included in profit or loss arising from disposal of FVOCI	<b>(277,810,114)</b>	–	<b>(277,810,114)</b>
	<b>(1,361,207,498)</b>	<b>454,489,410</b>	<b>(906,718,088)</b>
Net changes in fair value of FVOCI of an associate	<b>176,256,150</b>	–	<b>176,256,150</b>
	<b>(1,184,951,348)</b>	<b>454,489,410</b>	<b>(730,461,938)</b>
Net changes in fair value of cash flow hedge (Note 8):			
Net changes in fair value of derivatives taken to OCI	<b>119,340,853</b>	<b>55,830,925</b>	<b>175,171,778</b>
	<b>(1,065,610,495)</b>	<b>510,320,335</b>	<b>(555,290,160)</b>
Cumulative translation adjustments	<b>673,475,522</b>	<b>526,535,963</b>	<b>1,200,011,485</b>
Remeasurements due to defined benefit liability (DBL), net of tax (Note 37)			
Remeasurements of net DBL of Parent and subsidiaries	<b>(379,798,762)</b>	<b>(208,766,439)</b>	<b>(588,565,201)</b>
Share in remeasurements of net DBL of associates	<b>(1,170,380,505)</b>	–	<b>(1,170,380,505)</b>
	<b>(P1,942,314,240)</b>	<b>P828,089,859</b>	<b>(P1,114,224,381)</b>
	2018		
	Parent Company	Non-controlling Interests	Total
Net gain (loss) on FVOCI investments:			
Net changes in fair value of FVOCI of Parent and its subsidiaries			
Net changes in fair value during the period	<b>(P7,517,643,934)</b>	<b>(P386,621,935)</b>	<b>(P7,904,265,869)</b>
Reclassification adjustment included in profit or loss arising from disposal of FVOCI	<b>(34,208,528)</b>	–	<b>(34,208,528)</b>
	<b>(7,551,852,462)</b>	<b>(386,621,935)</b>	<b>(7,938,474,397)</b>
Net changes in fair value of FVOCI of an associate	<b>(141,404,566)</b>	–	<b>(141,404,566)</b>
	<b>(7,693,257,028)</b>	<b>(386,621,935)</b>	<b>(8,079,878,963)</b>
Net changes in fair value of cash flow hedge (Note 8):			
Net changes in fair value of derivatives taken to OCI	<b>(1,843,509)</b>	<b>(1,493,044)</b>	<b>(3,336,553)</b>
	<b>(7,695,100,537)</b>	<b>(388,114,979)</b>	<b>(8,083,215,516)</b>
Cumulative translation adjustments	<b>764,122,128</b>	<b>722,343,620</b>	<b>1,486,465,748</b>
Remeasurements due to defined benefit liability, net of tax (Note 37)			
Remeasurements of net DBL of Parent and Subsidiaries	<b>200,833,281</b>	<b>112,144,431</b>	<b>312,977,712</b>
Share in remeasurements of net DBL of associates	<b>387,758,074</b>	–	<b>387,758,074</b>
	<b>(P6,342,387,054)</b>	<b>P446,373,072</b>	<b>(P5,896,013,982)</b>



	2017		
	Parent Company	Non-controlling Interests	Total
Net gains on AFS investments (Note 10):			
Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:			
Net changes in fair value during the period	₱1,855,132,262	(₱80,951,614)	₱1,774,180,648
Reclassification adjustment included in profit or loss arising from disposal of AFS investments	(14,747,467)	–	(14,747,467)
	1,840,384,795	(80,951,614)	1,759,433,181
Share in net changes in fair value of AFS investments of an associate	24,394,385	–	24,394,385
	1,864,779,180	(80,951,614)	1,783,827,566
Net changes in fair value of cash flow hedge (Note 8):			
Net changes in fair value of derivatives taken to OCI	(6,276,428)	(5,083,232)	(11,359,660)
	1,858,502,752	(86,034,846)	1,772,467,906
Cumulative translation adjustments	(629,187,834)	(554,608,529)	(1,183,796,363)
Remeasurements due to defined benefit liability, net of tax (Note 37)			
Remeasurements of net DBL of Parent and subsidiaries	66,750,379	50,063,791	116,814,170
Share in remeasurements of net DBL of associates	(326,973,548)	–	(326,973,548)
	₱969,091,749	(₱590,579,584)	₱378,512,165

The income tax effects relating to other comprehensive income are as follows:

	2019		
	Before tax	Tax benefit	Net of tax
Net gains on financial assets at FVOCI of Parent Company and its subsidiaries	(₱906,718,088)	₱–	(₱906,718,088)
Cumulative translation adjustments	1,200,011,485	–	1,200,011,485
Net movement in cash flow hedge	252,216,877	(77,045,099)	175,171,778
Remeasurements due to defined benefit liability	(840,807,430)	252,242,229	(588,565,201)
Remeasurements due to defined benefit liability of associates	(1,170,380,505)	–	(1,170,380,505)
Net changes in fair value of financial assets at FVOCI of an associate (Note 10)	176,256,150	–	176,256,150
	(₱1,289,421,511)	₱175,197,130	(₱1,114,224,381)

	2018		
	Before tax	Tax benefit	Net of tax
Net gains on financial assets at FVOCI of Parent Company and its subsidiaries	(₱7,938,474,397)	₱–	(₱7,938,474,397)
Cumulative translation adjustments	1,486,465,748	–	1,486,465,748
Net movement in cash flow hedge	(3,336,553)	–	(3,336,553)
Remeasurements due to defined benefit liability	447,111,017	(134,133,305)	312,977,712
Remeasurements due to defined benefit liability of associates	387,758,074	–	387,758,074
Net changes in fair value of financial assets at FVOCI of an associate (Note 10)	(141,404,566)	–	(141,404,566)
	(₱5,761,880,677)	(₱134,133,305)	(₱5,896,013,982)





	2017		
	Before tax	Tax benefit	Net of tax
Net gains on AFS investments of Parent Company and its subsidiaries	₱1,759,433,181	₱-	₱1,759,433,181
Cumulative translation adjustments	(1,183,796,363)	-	(1,183,796,363)
Net movement in cash flow hedge	(11,359,660)	-	(11,359,660)
Remeasurements due to defined benefit liability	(160,096,162)	(50,063,216)	(210,159,378)
Net changes in fair value of AFS investments of an associate (Note 10)	24,394,385	-	24,394,385
	<b>₱428,575,381</b>	<b>(₱50,063,216)</b>	<b>₱378,512,165</b>

### 37. Employee Benefits

#### Pension Plans

The Group has funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees, except for JGSPC that has an unfunded, noncontributory defined benefit pension plan.

The pension funds are being administered and managed through JG Summit Multi-Employer Retirement Plan (the “Plan”), with RBC as Trustee. The plans provide for retirement, separation, disability and death benefits to their members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

The amounts recognized as pension liabilities included under ‘Other noncurrent liabilities’ in the consolidated statements of financial position follow:

	2019	2018
Present value of defined benefit obligation	<b>₱5,764,503,153</b>	₱4,078,579,993
Fair value of plan assets	<b>3,070,592,549</b>	2,862,760,085
<b>Pension liabilities (Note 24)</b>	<b>₱2,693,910,604</b>	<b>₱1,215,819,908</b>

Changes in net defined benefit liability of funded funds in 2019 and 2018 follows:

	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability/(asset)
Balance at beginning of year	<b>₱4,078,579,993</b>	<b>₱2,862,760,085</b>	<b>₱1,215,819,908</b>
Net benefit cost in consolidated statement of income:			
Current service cost	467,118,530	-	467,118,530
Past service cost	442,007,229	-	442,007,229
Net interest cost	263,017,283	227,919,026	35,098,257
Subtotal	<b>1,172,143,042</b>	<b>227,919,026</b>	<b>944,224,016</b>
Benefits paid	<b>(416,640,546)</b>	<b>(201,554,994)</b>	<b>(215,085,552)</b>
Effect of curtailment	(79,901,033)	-	(79,901,033)
Settlement	171,303,188	-	171,303,188
Net liabilities acquired	834,866	-	834,866

(Forward)



	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability/(asset)
Remeasurements in other comprehensive income:			
Return on plan assets	P-	(P2,293,138)	P2,293,138
Actuarial changes arising from experience adjustments	(190,860,255)	-	(190,860,255)
Actuarial changes arising from changes in financial assumptions	953,122,070	-	953,122,070
Actuarial changes arising from changes in financial/demographic assumptions	75,921,828	(330,649)	76,252,477
<b>Subtotal</b>	<b>838,183,643</b>	<b>(2,623,787)</b>	<b>840,807,430</b>
Contributions paid	-	184,092,219	(184,092,219)
<b>Balance at end of year</b>	<b>P5,764,503,153</b>	<b>P3,070,592,549</b>	<b>P2,693,910,604</b>
	2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability/(asset)
Balance at beginning of year	P4,205,872,266	P2,774,706,462	P1,431,165,804
Net benefit cost in consolidated statement of income:			
Current service cost	430,507,184	-	430,507,184
Net interest cost	233,310,252	147,460,639	85,849,613
<b>Subtotal</b>	<b>663,817,436</b>	<b>147,460,639</b>	<b>516,356,797</b>
Benefits paid	(397,417,209)	(178,209,427)	(219,207,782)
<b>Assets and liabilities acquired</b>	<b>3,841,811</b>	<b>1,521,558</b>	<b>2,320,253</b>
Remeasurements in other comprehensive income:			
Return on plan assets	-	(60,262,050)	60,262,050
Actuarial changes arising from experience adjustments	43,865,158	-	43,865,158
Actuarial changes arising from changes in financial/demographic assumptions	(551,238,225)	-	(551,238,225)
<b>Subtotal</b>	<b>(507,373,067)</b>	<b>(60,262,050)</b>	<b>(447,111,017)</b>
Contributions paid	109,838,756	177,542,903	(67,704,147)
<b>Balance at end of year</b>	<b>P4,078,579,993</b>	<b>P2,862,760,085</b>	<b>P1,215,819,908</b>

The fair value of plan assets by each class as at the end of the reporting period are as follow:

	2019	2018
<b>ASSETS</b>		
Cash and cash equivalents	P500,081,016	P539,604,346
UITF investments	1,440,269,798	-
Debt instruments	620,671,960	872,211,151
Financial assets at FVOCI/ Available-for-sale investments	91,272,424	936,633,095
Equity investments	4,123,496	130,728,481
Receivable	308,086,366	245,157,342
Accrued interest receivable	5,264,063	18,879,657
Prepayments	840	14,286,023
Land	143,201,000	143,201,000
	<b>3,112,970,963</b>	<b>2,900,701,095</b>
<b>LIABILITIES</b>		
Current liabilities	93,174	36,050,908
	<b>3,112,877,789</b>	<b>2,864,650,187</b>
Expected withdrawals	(42,285,240)	(1,890,102)
	<b>P3,070,592,549</b>	<b>P2,862,760,085</b>



The overall expected rates of return on assets are based on the market expectations prevailing as at the reporting date, applicable to the period over which the obligation is settled.

The average duration of the defined benefit obligation of the Group as of December 31, 2019 is 18.97 years.

The Group expects to contribute ₱508.9 million into the pension fund in 2020.

The assumptions used to determine the pension benefits of the Group follow:

2019				
	Retirement Age	Average Remaining Working Life (in years)	Salary Rate Increase	Discount Rate
Parent Company	60	15.25	5.7%	7.28%
URC	60	18.00	5.7%	4.88 to 4.90%
RLC	60	17.00	5.7%	4.52% to 5.16%
CAI	60	19.92	5.7%	4.98% to 5.02%
RBC	60	19.49	5.7%	4.95%
JGSPC	60	20.95	5.7%	4.98%
JGSOC	60	20.83	5.7%	5.00%
Unicon	60	18.10	5.7%	4.93%
Aspen	60	17.79	5.7%	4.99%
LSB	60	21.31	5.7%	4.99%

2018				
	Retirement Age	Average Remaining Working Life (in years)	Salary Rate Increase	Discount Rate
Parent Company	60	16.9	5.7%	7.28%
URC	60	19.0	5.7%	7.31 to 7.40%
RLC	60	17.0	5.7%	7.22 to 7.47%
CAI	60	19.0	5.7%	7.35 to 7.36%
RBC	60	16.8	5.7%	7.30%
JGSPC	60	20.2	5.7%	7.36%
JGSOC	60	21.6	5.7%	7.39%
Unicon	60	18.9	5.7%	7.34%
Aspen	60	17.7	5.7%	7.31%
LSB	60	21.1	5.7%	7.36%

2017				
	Retirement Age	Average Remaining Working Life (in years)	Salary Rate Increase	Discount Rate
Parent Company	60	13	5.7%	5.77%
URC	60	8 to 11	5.7%	5.23 to 5.76%
RLC	60	8 to 13	5.5%	5.63 to 5.80%
CAI	60	7 to 9	5.5 to 5.7%	5.73 to 5.76%
RBC	60	6	5.7%	5.74%
JGSPC	60	10	5.7%	5.75%
JGSOC	60	10	5.7%	5.75%
Unicon	60	10	5.7%	5.72%
LSB	60	8	5.7%	5.79%



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2019 and 2018, assuming if all other assumptions were held constant:

2019										
Parent Company	URC	RLC	CAI	RBC	LSB	JGSPC	JGSOC	ASPEN	Unicon	
<b>Discount rates</b>										
+1.00%	(₱64,179,866)	(₱239,979,798)	(₱35,560,743)	1,493,570,281	245,447,174	15,840,856	215,508,781	18,266,703	84,109,507	(₱4,665,687)
(-1.00%)	76,455,409	279,172,182	52,024,195	1,841,915,831	300,031,373	20,183,182	268,260,629	23,016,763	98,299,056	5,841,143
<b>Future salary increases</b>										
+1.00%	76,711,012	287,812,657	53,425,615	1,846,465,269	258,314,346	20,231,355	268,976,340	23,068,843	98,959,099	5,848,750
(-1.00%)	(63,853,898)	(251,957,048)	(37,518,849)	(1,486,751,636)	(284,690,140)	(15,764,573)	(214,467,326)	(18,184,308)	(83,421,175)	(4,648,870)
2018										
Parent Company	URC	RLC	CAI	RBC	LSB	JGSPC	JGSOC	ASPEN	Unicon	
<b>Discount rates</b>										
+1.00%	(₱36,928,834)	(₱145,795,088)	(₱429,489,169)	981,606,186	154,331,259	(₱6,065,487)	149,596,064	(₱10,343,182)	(₱84,109,507)	(₱2,922,378)
(-1.00%)	43,900,563	167,001,465	495,647,840	1,157,746,082	178,837,861	7,455,683	177,352,990	12,634,421	98,299,056	3,522,982
<b>Future salary increases</b>										
+1.00%	44,199,142	181,429,918	498,939,922	1,165,857,113	180,030,852	7,508,279	178,621,440	12,724,639	98,959,099	3,547,296
(-1.00%)	(36,617,647)	(160,815,063)	(426,064,803)	(973,270,554)	(153,097,334)	(6,011,542)	(148,304,822)	(10,250,795)	(83,421,175)	(2,896,639)

Shown below is the maturity analysis of the undiscounted benefit payments of the Group:

	2019	2018
Less than 1 year	<b>₱405,181,601</b>	₱376,611,172
More than 1 years to 5 years	<b>1,945,532,928</b>	1,739,542,960
More than 5 years to 10 years	<b>3,422,549,970</b>	2,989,942,882
More than 10 years to 15 years	<b>4,699,771,058</b>	3,804,904,171
More than 15 years to 20 years	<b>4,892,836,370</b>	3,811,710,836
More than 20 years	<b>14,677,465,121</b>	10,707,386,458

### 38. Income Taxes

Provision for income tax consists of:

	2019	2018	2017
Corporate	<b>₱5,091,687,014</b>	₱5,042,144,252	₱4,751,400,034
Final	<b>249,294,831</b>	207,933,998	161,281,024
Deferred	<b>31,332,665</b>	(106,284,544)	588,787,833
	<b>₱5,372,314,510</b>	₱5,143,793,706	₱5,501,468,891

The Group recognized benefit (provision) for income tax in 'Other comprehensive income' for 'Other comprehensive income items' amounting to ₱175.2 million, (₱134.1 million) and (₱50.1 million) in 2019, 2018 and 2017, respectively (see Note 36).

#### Republic Act (RA) No. 9337

Current tax regulations provide that the RCIT rate shall be 30.0% and interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.



The NIRC of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT.

Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under ‘General and administrative expenses’ in profit or loss in the consolidated statements of comprehensive income) amounting to ₱206.7 million, ₱195.8 million and ₱184.7 million in 2019, 2018 and 2017, respectively (see Note 31).

Compositions of the Group’s net deferred tax assets (included in the ‘Other noncurrent assets’ in the consolidated statements of financial position) follow (see Note 20):

	2019	2018
Deferred tax assets on:		
Asset retirement obligation	<b>₱1,782,720,435</b>	₱1,734,415,939
Allowance for impairment losses on receivables and property and equipment	<b>648,645,951</b>	513,863,906
Net operating loss carry-over	<b>647,926,081</b>	243,394,030
Unfunded pension liabilities	<b>568,880,691</b>	264,029,879
Unrealized forex loss	<b>393,282,170</b>	880,873,115
Foreign subsidiaries	<b>95,810,488</b>	100,068,558
Lease liabilities	<b>65,033,872</b>	-
Unrealized loss on net derivative liability	<b>37,893,750</b>	228,895,609
MCIT carryforward	<b>30,936,462</b>	26,392,884
Loss arising from changes in fair value less estimated point-of-sale costs of swine stocks	<b>10,081,568</b>	-
Others	<b>491,187,356</b>	400,152,343
<b>Total</b>	<b>4,772,398,824</b>	4,392,086,263
Deferred tax liabilities on:		
Double depreciation	<b>(1,789,818,540)</b>	(1,864,944,473)
Branch licenses	<b>(186,000,000)</b>	(186,000,000)
Excess of fair value of assets acquired over cost	<b>(185,645,561)</b>	(185,645,561)
Unrealized profit on excess of market value over cost of hog markets	-	(10,973,879)
Others	<b>(148,408,877)</b>	(179,462,095)
	<b>(2,309,872,978)</b>	(2,427,026,008)
<b>Net deferred tax asset</b>	<b>₱2,462,525,846</b>	₱1,965,060,255

As of December 31, 2019, deferred tax asset under ‘others’ include deferred revenue and allowance for inventory write-downs amounting to ₱370.5 million and ₱33.5 million, respectively. As of December 31, 2018, deferred tax asset under ‘others’ include deferred revenue and accrued rent amounting to ₱286.2 million and ₱19.7 million, respectively.



Compositions of the Group's net deferred tax liabilities reported in the consolidated statements of financial position follow:

	2019	2018
Deferred tax assets on:		
Lease liabilities	<b>₱633,871,992</b>	₱-
Unfunded pension benefits	<b>357,667,273</b>	252,021,442
Accrued interest expense	<b>126,766,378</b>	242,597,937
Allowance for impairment losses on receivables and property, plant and equipment	<b>14,302,980</b>	14,302,980
MCIT carryforward	<b>10,782,821</b>	2,168,956
Accrued rent	-	519,347,421
Others	<b>360,494,894</b>	243,460,224
<b>Total</b>	<b>1,503,886,338</b>	1,273,898,960
Deferred tax liabilities on:		
Intangibles	<b>(2,945,109,949)</b>	(2,965,938,522)
Unamortized capitalized interest	<b>(1,915,811,772)</b>	(1,961,848,143)
Excess of real estate revenue based on percentage-of-completion over real estate revenue based on tax rules	<b>(2,324,264,799)</b>	(1,870,869,852)
Undistributed income of foreign subsidiaries	<b>(759,708,553)</b>	(708,771,887)
Accrued rent income	<b>(580,166,328)</b>	(428,569,111)
Accelerated depreciation	<b>(483,787,981)</b>	(506,773,573)
Right-of-use asset	<b>(351,520,199)</b>	-
Foreign subsidiaries	<b>(322,597,396)</b>	(446,906,513)
Borrowing cost	<b>(71,832,394)</b>	(71,832,394)
Prepaid rent	-	(134,440,664)
Others	<b>(67,169,121)</b>	(55,172,243)
	<b>(9,821,968,492)</b>	(9,151,122,902)
<b>Net deferred tax liability</b>	<b>(₱8,318,082,154)</b>	(₱7,877,223,942)

The following are the temporary differences on which the Group did not recognize deferred tax assets:

	2019	2018
NOLCO	<b>₱5,792,411,145</b>	₱5,020,644,766
Allowance for credit and impairment losses	<b>512,184,249</b>	3,226,753,778
Net pension liability	<b>205,673,061</b>	96,053,605
Allowance for inventory write-down	<b>170,883,405</b>	170,883,405
Excess MCIT over RCIT	<b>58,297,770</b>	4,727,209
Unamortized contribution of past service costs	<b>14,611,456</b>	19,924,712
Unrealized foreign exchange losses	-	46,678,473
Unearned income	-	34,061,408
Accumulated depreciation of investment properties and repossessed chattels	-	2,288,583
Accrued rent	-	49,867,543
	<b>₱6,754,061,086</b>	₱8,671,883,482

Under Section 11 of R. A. No. 7151 (CAI's Congressional Franchise) and under Section 15 of R. A. No. 9517 (Cebgo, Inc.'s Congressional Franchise), known as the "ipso facto clause" and the "equality clause", respectively, the CAI and Cebgo, Inc. are allowed to benefit from the tax privileges being



enjoyed by competing airlines. CAI's and Cebgo, Inc.'s major competitor, by virtue of PD No. 1590, is enjoying tax exemptions which are likewise being claimed by the CAI and Cebgo, Inc., if applicable, including but not limited to the following:

- a.) To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- b.) To carry over as a deduction from taxable income any net loss (NOLCO) incurred in any year up to five years following the year of such loss. Included in the Group's NOLCO and MCIT are

Included in the Group's NOLCO and MCIT is Cebgo, Inc.'s NOLCO and MCIT as follows:

#### NOLCO

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	₱685,506,938	(₱685,506,938)	₱-	₱-	2019
	₱685,506,938	(₱685,506,938)	₱-	₱-	

#### MCIT

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2016	₱14,152,299	(₱6,345,043)	(₱7,807,256)	₱-	2019
2017	9,021,420	-	-	9,021,420	2020
2018	3,184,853	-	-	3,184,853	2021
	₱26,358,572	(₱6,345,043)	(₱7,807,256)	₱12,206,273	

CAI has outstanding registrations with the BOI as a new operator of air transport on a pioneer and non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order 226). On all existing registrations, the Parent Company can avail of bonus years in certain specified cases but the aggregate ITH availments (basic and bonus years) shall not exceed eight years.

As of December 31, 2019 and 2018, CAI has complied with externally imposed capital requirements set by the BOI in order to avail of the ITH incentives for aircraft of registered activity.

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

	2019	2018	2017
Statutory income tax rate	<b>30.00%</b>	30.00%	30.00%
Tax effects of:			
Income exempt from tax	<b>(1.19)</b>	(2.08)	(1.53)
Equity in net earnings of affiliates	<b>(8.34)</b>	(9.24)	(6.60)
Net income of subsidiaries with different tax rates	<b>(4.47)</b>	(0.41)	(2.56)
Income subjected to BOI, PEZA and ITH	<b>(5.57)</b>	(7.93)	(9.50)
Changes in unrecognized deferred tax assets	<b>0.10</b>	2.43	(2.30)
Interest income subject to final tax	<b>(1.08)</b>	(0.65)	(0.33)
Non-deductible items	<b>0.78</b>	0.73	0.58
Taxable gain on sale to a subsidiary	<b>0.00</b>	0.96	4.33
Others	<b>0.95</b>	1.76	0.13
Effective income tax rate	<b>11.18%</b>	15.57%	12.22%



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### 39. Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the Parent Company divided by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

*Earnings per share attributable to equity holders of the Parent Company*

	2019	2018	2017
Income attributable to equity holders of the Parent Company	<b>₱31,285,246,332</b>	₱19,186,040,273	₱29,369,537,456
Less: Dividends on preferred shares (Note 25)	<b>14,800,000</b>	12,000,000	11,200,000
Income attributable to holders of common shares of the Parent Company	<b>₱31,270,446,332</b>	₱19,174,040,273	₱29,358,337,456
Weighted average number of common shares	<b>7,162,841,657</b>	7,162,841,657	7,162,841,657
Basic/diluted earnings per share	<b>₱4.37</b>	₱2.68	₱4.10

There were no potential dilutive common shares in 2019, 2018 and 2017.

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### 40. Related Party Transactions

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 or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties and are generally settled in cash. Due from and due to related parties are collectible/payable on demand.





In addition to the related party information disclosed elsewhere in the consolidated financial statements, the year-end balances in respect of related parties follow:

		2019					
Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions	
			Statement of Financial Position	Statement of Comprehensive Income			
<b>Subsidiaries:</b>							
Due from related parties	Availment of advances	₱299,788,042	₱697,281,544	₱-	On demand; Non-interest bearing	Unsecured; Not impaired	
	Rent receivables	(53,719,421)	15,717,251	-	On demand; Non-interest bearing	Unsecured; Not impaired	
	Other receivables / other income: allocation of IT charges and CCU expenses	475,379,501	352,705,736	475,379,501	On demand; Non-interest bearing	Unsecured; Not impaired	
	Rent income	131,196,484	-	131,196,484	On demand; Non-interest bearing	Unsecured; Not impaired	
	Management fees	54,600,000	-	54,600,000			
Due to related parties	Availment of advances	430,833,644	3,258,985,329	-	On demand; Non-interest bearing	Unsecured; Not impaired	
Cash in bank	Deposits	(4,847,776)	31,101	-	On demand	Unsecured	
Cash equivalents	Money market placements	(1,435,086,098)	10,000,000	-	2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04%	Unsecured; Not impaired	
Dividends	Dividend receivable	(6,273,626)	1,593,529,595	-	On demand	Unsecured; Not impaired	
	Dividend income	8,768,329,504	-	8,768,329,504			
<b>Associate:</b>							
Due from related parties	Availment of advances	392,868	642,786	-	On demand; Non-interest bearing	Unsecured; Not impaired	
	Dividend income	6,119,759,438	-	6,119,759,438			
	Rent income	649,211	-	649,211			
	Other receivables / other income: allocation of CCU expenses	200,672	3,896	200,672			
	Utilities expense	7,077,657	-	7,077,657			



2019

Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Other Related Parties:</b>						
Due from related parties	Settlement of advances	(₱30,931,424)	₱452,019,131	₱-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent receivables	(32,195,309)	302,878	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent income	1,629,159	-	1,629,159		
	Other receivables / other income: allocation of IT charges and CCU expenses	118,661,846	177,152,243	118,661,846	On demand; Non-interest bearing	Unsecured; Not impaired
Due to related parties	Settlement of advances	(174,443,960)	1,051,214	-	On demand; Non-interest bearing	Unsecured; Not impaired
Director's fees (included under 'Management and other professional fees' account)	Expenses	8,750,000	-	8,750,000		



2018

Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
Subsidiaries:						
Due from related parties	Settlement of advances	(₱847,983,679)	₱397,493,502	₱-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent receivable	(8,048,397)	69,436,672	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent income	127,110,159	-	127,110,159		
	Other income	439,642,623	-	439,642,623		
	Rent expense	46,165,790	-	46,165,790		
	Management fees	64,200,000	-	64,200,000		
Due to related parties	Settlement of advances	-	2,828,151,685	-	On demand; Non-interest bearing	Unsecured; Not impaired
Cash in bank	Deposits	607,508	4,878,877	-	On demand	Unsecured
Cash equivalents	Money market placements	1,282,658,628	1,445,086,098	-	2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04%	Unsecured
	Interest income	3,273,543	-	3,273,543	2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%	
Dividends	Dividend receivable	1,023,646,756	1,599,803,221	-	On demand	Unsecured
	Dividend income	6,869,729,393	-	6,869,729,393		
Associate:						
Due from related parties	Settlement of advances	(110,518)	249,918	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Dividend income	5,206,741,374	-	5,206,741,374		
	Rent income	618,297	-	618,297		
	Utilities expense	9,512,374	-	9,512,374		
(Forward)						



2018

Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Other Related Parties:</b>						
Due from related parties	Settlement of advances	(₱7,430,489)	₱412,886,471	₱-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent receivable	32,498,188	32,498,188	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Other income	148,322,654	-	148,322,654		
	Rent income	128,661,739	-	128,661,739		
Due to related parties	Settlement of advances	-	1,217,665	-	On demand; Non-interest bearing	Unsecured; Not impaired
Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income)	Expenses	8,500,000	-	8,500,000		



2017

Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Subsidiaries:</b>						
Due from related parties	Settlement of advances	₱350,490,176	₱1,245,477,181	₱-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent receivable	49,583,786	77,485,069	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Receivable	4,842,826,400	4,842,826,400	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent income	176,088,179	-	176,088,179		
	Other income	241,130,242	-	241,130,242		
	Rent expense	39,675,747	-	39,675,747		
	Management fees	105,074,286	-	105,074,286		
	Gain on sale of investment property	6,491,059,867	-	6,491,059,867		
Due to related parties	Settlement of advances	(11,690,874,584)	2,537,388,955	-	On demand; Non-interest bearing	Unsecured; Not impaired
Cash in bank	Deposits	4,131,669	4,271,369	-	On demand	Unsecured
Cash equivalents	Money market placements	(151,273,367)	162,427,470	-	2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04%	Unsecured
	Interest income	3,273,543	-	3,273,543	2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%	
Dividends	Dividend receivable	367,901,000	576,156,465	-	On demand	Unsecured
	Dividend income	9,628,984,655	-	9,628,984,655		
<b>Associate:</b>						
Due from related parties	Settlement of advances	(108,850)	360,436	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Dividend income	6,476,626,760	-	6,476,626,760		
	Rent income	588,853	-	588,853		
	Rent receivable	(103,263)	56,995	-		
	Utilities expense	7,913,620	-	7,913,620		

(Forward)



2017

Related Party	Category/Transaction	Amount/Volume	Outstanding Balance		Terms	Conditions
			Statement of Financial Position	Statement of Comprehensive Income		
<b>Other Related Parties:</b>						
Due from related parties	Settlement of advances	(₱4,151,841)	₱420,316,960	₱-	On demand; Non-interest bearing	Unsecured; Not impaired
	Rent receivable	24,392,795	24,392,795	-	On demand; Non-interest bearing	Unsecured; Not impaired
	Other income	61,411,050	-	61,411,050		
	Rent income	35,977,368	-	35,977,368		
Due to related parties	Settlement of advances	(202,512)	1,217,665	-	On demand; Non-interest bearing	Unsecured; Not impaired
Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income)	Expenses	8,500,000	-	8,500,000		



The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 23 to the consolidated financial statements. No fees are charged for these guarantee agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

Interest earned by the Parent Company on transactions with related parties amounted to nil in 2019 and 2018. Interest expense incurred amounted to nil in 2019 and 2018.

Most of the aforementioned intercompany transactions between the Parent Company and its subsidiaries are eliminated in the accompanying consolidated financial statements.

*Transactions with the retirement plan*

The retirement fund of the Parent Company's employees amounted to ₱10.7 million and ₱10.4 million as of December 31, 2019 and 2018, respectively. The fund is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

*Compensation of key management personnel*

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

The compensation of the Group's key management personnel by benefit type follows:

	2019	2018	2017
Short-term employee benefits	<b>₱2,430,499,658</b>	₱1,727,072,228	₱1,522,647,267
Post-employment benefits	<b>256,845,114</b>	222,481,457	172,508,677
	<b>₱2,687,344,772</b>	₱1,949,553,685	₱1,695,155,944

Approval requirements and limits on the amount and extent of related party transactions

Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (1)-month with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited financial statements.

All individual MRPTs shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.



#### 41. Registration with Government Authorities/Franchise

Certain operations of consolidated subsidiaries are registered with the BOI as preferred pioneer and non-pioneer activities, and are granted various authorizations from certain government authorities. As registered enterprises, these consolidated subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

#### 42. Leases

The Group's leases mostly pertain to land, office spaces, commercial and residential properties, passenger aircraft and flight equipment, transportation and equipment. Leases of land, office spaces, commercial and residential properties, and transportation and equipment generally have terms ranging from 2 to 50 years, while passenger aircraft and other equipment generally have terms between 1.25 and 18 years.

The Group also has certain leases of other flight equipment, furnitures and fixtures and machineries with lease terms of 12 months or less, and leases of office spaces considered low-value. The Group applies the recognition exemptions for these type of leases.

##### Right-of-use Assets

Set out below are the carrying amounts of ROU assets recognized and the movements during the year ended December 31, 2019:

	Land and Land Improvements	Buildings and Improvements	Passenger Aircraft and Other Flight Equipment	Transportation And Other Equipment	Total
<b>Cost</b>					
Balance at beginning of year, as previously reported	₱-	₱-	₱-	₱-	₱-
Effect of adoption of PFRS 16	1,587,751,749	676,983,333	16,426,809,577	60,347,705	18,751,892,364
Balance at beginning of year, as restated	1,587,751,749	676,983,333	16,426,809,577	60,347,705	18,751,892,364
Additions	-	1,296,873,096	7,302,225,494	30,581,128	8,629,679,718
Other adjustments	1,347,536	(108,074,845)	-	(7,758,360)	(114,485,669)
Balance at end of year	1,589,099,285	1,865,781,584	23,729,035,071	83,170,473	27,267,086,413
<b>Accumulated Depreciation</b>					
Balance at beginning of year, as previously reported	-	-	-	-	-
Effect of adoption of PFRS 16	152,552,800	-	-	-	152,552,800
Balance at beginning of year, as restated	152,552,800	-	-	-	152,552,800
Depreciation	73,455,818	556,228,966	5,917,994,261	45,472,937	6,593,151,982
Other adjustments	40,504	(3,991,667)	-	(6,088,503)	(10,039,666)
Balance at end of year	226,049,122	552,237,299	5,917,994,261	39,384,433	6,735,665,116
Net Book Value at End of Year	₱1,363,050,163	₱1,313,544,285	₱17,811,040,810	₱43,786,040	₱20,531,421,297





Lease Liabilities

The rollforward analysis of the Group's lease liabilities as at December 31, 2019 follows:

As at January 1, 2019, as previously reported	₱-
Effect of adoption of PFRS 16	19,279,144,855
As at January 1, 2019, as restated	19,279,144,855
Additions	8,607,042,558
Accretion (Note 35)	715,156,294
Payments	(7,453,216,220)
Cumulative translation adjustment	(43,972,851)
As at December 31, 2019	<u>₱21,104,154,636</u>

Total lease liabilities shown in the 2019 consolidated statement of financial position follow:

Current portion (Note 22)	₱5,784,084,993
Noncurrent portion (Note 24)	15,320,069,643
	<u>₱21,104,154,636</u>

The maturity analysis of lease liabilities are disclosed in Note 4, *Financial Risk Management Objectives and Policies*.

Total cash payments in 2019 for the Group's leases amounted to ₱7.5 billion, of which ₱98 million pertain to variable lease payments. The Group also had non-cash additions to ROU assets and lease liabilities of ₱7.4 billion in 2019.

Summarized below are the amounts recognized in the 2019 consolidated statement of comprehensive income in relation to the Group's leases:

<b>Revenue</b>	
Sale of goods and services - rental income and sublease income	
Foods	₱117,385,869
Real estate and hotels	15,420,499,255
Banking	17,279,825
	<u>15,555,164,949</u>
<b>Cost of Sales and Services</b>	
Cost of services - depreciation of ROU assets	215,105,516
Rent expense - short term leases	205,284,893
	420,390,409
<b>General and Administrative Expenses</b>	
Depreciation of ROU assets	6,378,046,466
Rent expense - short term leases	1,815,851,448
Rent expense - leases of low-valued assets	8,511,369
	<u>8,202,409,283</u>
<b>Other Income (Losses)</b>	
Foreign exchange gain	74,683,864
Finance cost and other charges – accretion of lease liabilities	(715,156,294)
	<u>₱6,291,892,827</u>



The following provides information on the Group's variable lease payments in 2019:

	<b>Fixed payments</b>	<b>Variable payments</b>	<b>Total</b>
Fixed rent	₱7,354,727,373	₱—	₱7,354,727,373
Variable rent only	—	98,488,847	₱98,488,847
	<b>₱7,354,727,373</b>	<b>₱98,488,847</b>	<b>₱7,453,216,220</b>

### URC

#### *Operating Lease Commitments - Group as a Lessee*

The URC Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to five years from the date of the contracts and are renewable under certain terms and conditions. URC's rentals incurred on these leases (included under 'Selling and distribution costs' and 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱682.2 million, ₱937.6 million and ₱976.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Future minimum lease payments under noncancellable operating leases of the URC Group follow:

	<b>2019</b>	2018	2017
Within one year	<b>₱764,674,589</b>	₱752,048,217	₱792,639,232
After one year but not more than five years	<b>2,280,129,598</b>	1,362,757,872	1,708,022,477
Five years or more	<b>5,857,143,316</b>	464,770,770	506,731,716
	<b>₱8,901,947,503</b>	<b>₱2,579,576,859</b>	<b>₱3,007,393,425</b>

#### *Operating Lease Commitments - Group as a Lessor*

The URC Group has entered into one-year renewable, noncancellable leases with various related parties covering certain land and buildings where office spaces are located.

Future minimum lease receivables under noncancellable operating leases of the URC Group that are due within one year amounted to ₱72.5 million, ₱73.3 million and ₱63.7 million in 2019, 2018 and 2017, respectively.

#### *Finance Lease Commitments - Group as a Lessee*

Some of the URC Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the URC Group on a straight-line basis over the term of the right ranging from 30 to 50 years. The amortization on these leases (included under 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱5.2 million, ₱2.5 million and ₱2.4 million in 2019, 2018 and 2017, respectively.

### RLC

#### *Group as a Lessee*

The RLC Group has lease contracts for various parcels of land used in its operations. Leases of land generally have lease terms between 25 and 50 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.



The RLC Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Future minimum lease payments under noncancellable operating leases of RLC's certain lessee subsidiaries follow:

	2019	2018
Within one year	<b>₱138,995,906</b>	₱128,337,691
After one year but not more than five years	<b>630,780,039</b>	589,327,721
Over five years	<b>5,767,109,430</b>	5,953,173,907
	<b>₱6,536,885,375</b>	₱6,670,839,319

*Operating Lease Commitments - Group as a Lessor*

The RLC Group has entered into commercial property leases on its investment property portfolio. These noncancellable leases have remaining lease terms of between one and ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease contracts also provide for the percentage rent, which is a certain percentage of actual monthly sales or minimum monthly gross sales, whichever is higher. Total rent income (included under 'Real estate and hotels revenue' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱15.4 billion, ₱13.5 billion and ₱11.6 billion in 2019, 2018 and 2017, respectively. Total percentage rent recognized as income amounted to ₱3.9 billion, ₱3.5 billion and ₱3.1 billion in 2019, 2018 and 2017, respectively.

Future minimum lease receivables under noncancellable operating leases of the RLC Group follow:

	2019	2018	2017
Within one year	<b>₱14,346,692,713</b>	₱11,590,512,976	₱6,263,952,404
After one year but not more than five years	<b>17,739,106,757</b>	17,971,125,898	8,250,489,462
Over five years	<b>5,146,915,176</b>	2,377,232,451	923,369,939
	<b>₱37,232,714,646</b>	₱31,938,871,325	₱15,437,811,805

*Finance Lease Commitments - Group as a Lessor*

RLC has significantly entered into residential property leases on its residential condominium unit's portfolio. These leases have lease period of five (5) to ten (10) years and the lessee is given the right to purchase the property anytime within the lease period that the lessee any arrears in rental payment, condominium dues and other charges.

Future minimum lease payments under finance lease with the present value of future minimum lease payment as of December 31, 2019 and 2018 follow:

	2019	
	Minimum Lease Payments	Present Value of Minimum Lease Payments
Within one year	<b>₱527,064,357</b>	<b>₱508,606,027</b>
After one year but not more than five years	<b>288,662,164</b>	<b>256,322,263</b>
Over five years	<b>78,023,547</b>	<b>63,354,682</b>
Total minimum lease payments	<b>₱893,750,068</b>	<b>₱828,282,972</b>



	2018	
	Minimum Lease Payments	Present Value of Minimum Lease Payments
Within one year	₱552,580,889	₱517,494,745
After one year but not more than five years	302,637,036	247,180,550
Over five years	81,800,866	58,213,995
<b>Total minimum lease payments</b>	<b>₱937,018,791</b>	<b>₱822,889,290</b>

### JGSPC

#### *Operating Lease Commitments - Company as a Lessee*

JGSPC has entered into contracts of lease for its Cybergate office and the shuttle bus that transports its employees from Balagtas to Batangas plant with lease term of three years and one year, respectively. Rental expense charged to operations (included under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱45.8 million and ₱35.7 million in 2018 and 2017, respectively.

Future minimum lease payments under the noncancellable lease of JGSPC's office space follow:

	2018	2017
Within one year	<b>₱39,678,682</b>	₱13,337,457
After one year but not more than five years	<b>116,096,379</b>	17,480,912
	<b>₱155,775,061</b>	₱30,818,369

#### *Operating Lease Commitments - Group as a Lessor*

JGSPC has entered into commercial property leases. JGSPC has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases.

Rental income amounted to ₱0.2 million for the years ended December 31, 2019, 2018 and 2017.

Future minimum rentals receivable under the non-cancellable lease as of December 31, 2019 amounted to ₱0.1 million.

### CAI

#### *Operating Aircraft Lease Commitments - Group as a Lessee*

CAI entered into operating lease agreements with certain leasing companies which cover the following aircraft:

#### *A320 CEO aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A320 CEO aircraft:

Date of Lease Agreement	Lessors	No. of Units	Lease Term
March 2008	Lunar Aircraft Trading Company Limited	1	January 2021
March 2008	Aircraft MSN 3762 LLC	1	January 2022
March 2008	APTREE Aviation Trading 2 Co. Ltd	1	October 2021
	Wells Fargo Bank Northwest National Assoc.	1	October 2021
July 2011	SMBC Aviation Capital Limited	2	March 2020
November 2017	JPA No. 78 Co., Ltd	1	August 2020
November 2017	JPA No. 79 Co., Ltd	1	October 2020
November 2017	JPA No. 80 Co., Ltd	1	January 2021



<b>Date of Lease Agreement</b>	<b>Lessors</b>	<b>No. of Units</b>	<b>Lease Term</b>
November 2017	JPA No. 81 Co., Ltd	1	February 2021
July 2018	JPA No. 117 Co. Ltd	1	September 2021
July 2018	JPA No. 118 Co. Ltd	1	December 2021
August 2018	JPA No. 119 Co. Ltd	1	June 2022

From 2007 to 2008, CAI entered into operating lease agreements with Celestial Aviation Trading 17/19/23 Limited for five (5) Airbus A320 which were delivered on various dates from 2007 to 2011. The lease agreements were later on amended to effect the novation of lease rights from the original lessors to current lessors: Inishcrean Leasing Limited for (1) Airbus A320, GY Aviation Lease 0905 Co. Limited for two (2) Airbus A320, APTREE Aviation Trading 2 Co. Limited for one (1) Airbus A320, and Wells Fargo Trust Company, N.A. for one (1) Airbus A320.

In July 2011, CAI entered into an operating lease agreement with RBS Aerospace Ltd. (RBS) for the lease of two Airbus A320 aircraft, which were delivered in March 2012. The lease agreement with RBS was amended to effect the novation of lease rights by the original lessor to current lessor, SMBC Aviation Capital Limited, as allowed under the existing lease agreements.

In 2015 to 2016, CAI extended the lease agreement with Inishcrean for three years and with GY Aviation Lease 0905 Co. Limited for two years.

In 2017, the Group entered into lease agreements with ILL for two Airbus A320 and with JPA No. 78/79/80/81 Co., Ltd for four (4) Airbus A320 (Note 13).

In 2018, CAI separately extended the lease agreements with APTREE Aviation Trading 2 Co. Ltd for two years, with Wells Fargo Trust Company, N.A for four years, and with GY Aviation Lease 0905 Co. Limited for another two years on one aircraft and three years on the other.

In July and August 2018, CAI entered into lease agreements with JPA No. 117/118/119 Co., Ltd for three (3) Airbus A320.

In May and August 2019, the lease agreements of the two aircraft under GY Aviation Lease 0905 Co. Limited were amended to effect the novation of lease rights to their current lessors, Aircraft MSN 3762 LLC and Lunar Aircraft Trading Company Limited.

*A320NEO aircraft*

On July 26, 2018, CAI entered into 8-year lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO for delivery on various dates within 2019.

The first four (4) Airbus A320NEO aircraft were delivered in June, July, September and October 2019 under Avolon Leasing Ireland 1 Limited as lessor. In November 2019, two (2) out of the four A320NEO aircraft were amended to effect the novation of lease rights to their current lessor, Orix Aviation Systems Limited.

*ATR 72-600 aircraft*

On May 10, 2019, CAI entered into a 10-year lease agreement with an early termination option on the 8<sup>th</sup> year with AVAP AIRCRAFT TRADING III PTE. LTD. for one (1) ATR 72-600. The aircraft was delivered in May 2019.



*A330CEO aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A330CEO aircraft:

<b>Date of Lease Agreement</b>	<b>Lessors</b>	<b>No. of Units</b>	<b>Lease Term</b>
February 2012	Wells Fargo Bank Northwest, N.A. (not in its individual capacity but solely as Owner Trustee)	1	12 years with pre-termination option
	Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee)	1	
	CIT Aerospace International	1	
	Avolon Aerospace AOE 165 Limited	1	
July 2013	A330 MSN 1552 Limited and A330 MSN 1602 Limited*	2	12 years with pre-termination option

\*New lessors per Deed of Novation and Amendment signed on August 2014 and March 2015

In February 2012, CAI entered into operating lease agreements with Wells Fargo Bank Northwest, N.A. for the lease of four (4) Airbus A330-300 aircraft. The lease agreements were later on amended to effect the novation of lease rights from the original lessor to their current lessors: Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee), CIT Aerospace International, and Avolon Aerospace AOE 165 Limited.

In July 2013, CAI entered into aircraft operating lease agreements with Intrepid Aviation Management Ireland Limited for the lease of two (2) Airbus A330. The lease agreements have been amended to effect the novation of lease rights by the original lessor to current lessors, A330 MSN 1552 Limited and A330 MSN 1602 Limited.

The first two Airbus A330 aircraft were delivered in June 2013 and September 2013. Three A330 aircraft were delivered in February 2014, May 2014 and September 2014. One A330 aircraft was delivered in March 2015.

As of December 31, 2019, the Group has six (6) Airbus A330 aircraft under operating lease.

Future minimum lease payments under the above-indicated operating aircraft leases follow:

	2019		2018	
	Philippine peso equivalent	US dollar	Philippine peso equivalent	US dollar
Within one year	₱5,886,821,930	US\$116,225,507	₱6,056,939,009	US\$115,194,732
After one year but not more than five years	9,082,979,509	179,328,322	21,014,364,405	399,664,595
Over five years	2,222,083,371	43,871,340	11,445,938,924	217,686,172
	<b>₱17,191,884,810</b>	<b>US\$339,425,169</b>	<b>₱38,517,242,338</b>	<b>US\$732,545,499</b>

Lease expenses relating to aircraft leases (included in 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱0.3 billion and ₱5.7 billion in 2019 and 2018, respectively (see Note 31).

*Operating Non-Aircraft Lease Commitments - Group as a Lessee*

CAI has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.0% to 10.0%.



Future minimum lease payments under these noncancellable operating leases of CAI follow:

	2019	2018
Within one year	<b>₱211,101,521</b>	₱211,928,140
After one year but not more than five years	<b>928,126,925</b>	891,261,764
Over five years	<b>4,514,028,565</b>	4,318,073,237
	<b>₱5,653,257,011</b>	₱5,421,263,141

Lease expenses relating to both cancellable and non-cancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱702.1 million, ₱760.0 million and ₱731.0 million in 2019, 2018 and 2017, respectively.

#### RBC and LSB

##### *Operating Lease Commitments - Group as a Lessee*

RBC leases its head office and branch premises for periods ranging from one (1) to ten (10) years, renewable upon mutual agreement of both parties. LSB also leases the premises occupied by its head offices and most of its branches for periods ranging from five (5) to fifteen (15) years, renewable upon mutual agreement of both parties. Various lease contracts of the Group include escalation clauses, most of which bear annual rent increase ranging from 5.00% to 10.00%.

Rent expense recognized by RBC and LSB (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱110.0 million, ₱340.1 and ₱315.2 million in 2019, 2018 and 2017, respectively.

Future minimum lease payments under these noncancellable operating leases of RBC and LSB follow:

	2019	2018
Within one year	<b>₱258,948,338</b>	₱264,987,929
After one year but not more than five years	<b>525,022,763</b>	493,544,529
Over five years	<b>29,891,105</b>	40,538,482
	<b>₱813,862,206</b>	₱799,070,940

##### *Finance Lease - LSB as Lessor*

LSB has entered to a lease on its investment property portfolio. The lease contract provides an option to purchase the properties the end of the lease term. The lease has a lease term of ten (10) years, from April 30, 2009 to March 31, 2019. The building being leased out has an estimated useful life of ten (10) years.

As of December 31, 2018, the future minimum lease receivable under the finance lease as follows:

	2018		
	Minimum Lease Receivable	Interest	Principal
Within one year	₱10,562,500	₱1,309,117	(₱559,117)
After one year but not more than five years	-	339,868	9,660,132
	<b>₱10,562,500</b>	<b>₱1,648,985</b>	<b>₱9,101,015</b>



### 43. Other Commitments and Contingent Liabilities

#### Parent Company

- JGSOC Loan Accommodation from Private Bank*  
On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Olefins Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.
- JGSPC Loan Accommodation from Private Bank*  
On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Petrochemical Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.
- JGSPC/JGSOC Loan Accommodation from Private Bank*  
On April 8, 2019, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation from the Bank of the Philippine Islands in the aggregate principal amount of ₱17.0 billion including any extension, renewal or modification of such loan or credit accommodation.

#### CAI

##### *Capital Expenditure Commitments*

CAI's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱133.1 billion and ₱130.8 billion as of December 31, 2019 and 2018, respectively, which are payable over the following periods:

	December 31, 2019			December 31, 2018	
	US Dollar	Japanese Yen	Philippine Peso Equivalent	US Dollar	Philippine Peso Equivalent
Within one year	US\$386,807,413	¥1,506,555,004	₱20,294,256,870	US\$427,214,639	₱22,462,945,700
After one year but not more than five years	2,168,887,176	6,259,259,135	112,772,640,221	2,060,860,233	108,360,031,052
	<b>US\$2,555,694,589</b>	<b>¥7,765,814,139</b>	<b>₱133,066,897,091</b>	<b>US\$2,488,074,872</b>	<b>₱130,822,976,752</b>

##### *Aircraft and Spare Engine Purchase Commitments*

In August 2011, CAI entered in a commitment with Airbus S.A.S. to purchase firm orders of thirty-two new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2018 to 2022.

On June 28, 2012, CAI has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 30 firm and ten options A321 NEO aircraft to be delivered beginning 2017. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

On October 20, 2015 CAI entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to 10 additional option ATR 72-600 aircraft. These aircraft are scheduled to be delivered from 2016 to 2020. Two ATR72-600 were received during 2016 and six ATR-600 during 2017.

On June 6, 2017, CAI placed an order with Airbus S.A.S to purchase seven (7) new A321 CEO Aircraft to be delivered starting 2018.





On June 14, 2018, CAI has entered into an Aircraft Conversion Services Agreement with IPR Conversions (Switzerland) Limited to convert two (2) ATR 72-500 aircraft from passenger to freighter. The first converted ATR 72-500 freighter aircraft was delivered in August 2019 while the second will be delivered within 2020.

On July 26, 2018, CAI entered into operating lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO aircraft, four of which were delivered on various dates within 2019.

On October 31, 2019, CAI placed an order with Airbus S.A.S to purchase sixteen (16) Airbus A330 NEO aircraft. Consequently, on November 29, 2019, the Parent Company entered into agreements with Rolls-Royce PLC for the purchase of spare Trent 7000 engines and for the provision of TotalCare life services and other services required in connection with the sixteen (16) A330NEO aircraft.

On December 19, 2019, CAI placed an additional order with Airbus S.A.S for fifteen (15) A320NEO family aircraft which includes up to ten (10) A321XLR.

As of December 31, 2019, the Group is set to take delivery of twenty-seven (27) Airbus A321 NEO, one (1) A320 NEO, three (3) ATR 72-600, one (1) ATR 72-500 freighter, , sixteen (16) A330 NEOs, and fifteen (15) A320NEO family aircraft from 2020 until 2026.

The above-indicated commitments relate to CAI's re-fleeting and expansion programs. These agreements remained in effect as of December 31, 2019.

#### *Service Maintenance Commitments*

On June 21, 2012, CAI has entered into a 10-year charge per aircraft landing (CPAL) agreement with Messier-Bulgatti-Dowty (Safran Group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, CAI has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last A330.

On March 28, 2017, the CAI entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its A319, A320 and A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis and repairs of aircraft parts and components.

#### URC

##### *Milling Contracts*

Milling contracts with various planters provide for a 60%-70% share to the planters (including related parties) and 30%-40% share to the Group of sugar and molasses produced from sugar canes milled. The Sugar Industry Development Act of 2015 provides that, to ensure the immediate payment of farmers and secure their income from sugarcane, farmers may enter into any payment method with the sugar mill.

##### *Sugar under Custody but Not Owned*

As of December 31, 2019 and 2018, the Group has in its custody sugar owned by several quedan holders with volume of 502,903 Lkg and 502,051 Lkg, respectively. The said volume of sugar is not reflected in the statement of financial position since this is not owned by the Group. The Group is accountable to both quedan holders and sugar traders for the value of these trustee sugar or their sales proceeds.



### Off-Balance Sheet Items

In the normal course of RBC and LSB's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying consolidated financial statements. The subsidiary bank does not anticipate material unreserved losses as a result of these transactions.

Following is a summary of RBC and LSB's commitments and contingent liabilities at their equivalent peso contractual amounts:

	<b>2019</b>	2018
Trust and investment group accounts	<b>₱17,739,157,589</b>	₱17,500,291,971
Spot exchange - foreign currency	<b>2,654,047,816</b>	4,857,697,000
Committed credit lines	<b>7,258,540,906</b>	3,858,396,377
Guarantees issued	<b>3,207,412,389</b>	1,957,917,773
Inward bills for collection	<b>984,396,933</b>	1,144,692,773
Outward bills for collection	-	529,964,368
Domestic standby letters of credit	<b>328,561,049</b>	382,180,629
Contingent - foreign currency swap	<b>1,284,358,910</b>	290,189,057
Late deposit/payment received	<b>93,764,025</b>	77,016,740
Items held for safekeeping	<b>79,472</b>	54,874
Other contingent account	<b>183,907</b>	181,357

### Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business from legal proceedings which are either pending decision by the courts, under arbitration or being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsels, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

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## 44. Business Combination

### *Acquisition of Yarra Valley*

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with an extensive product portfolio, agreed to buy 40% of Oceania business (SBA and Griffin's) to leverage on the Group's and Intersnack's know-how from their respective markets. This transaction is expected to yield better manufacturing, supply chain and sustainability practices and will set the groundwork for an even larger and more efficient Oceania operations. Considerations received for the transaction consisted of cash and Yarra Valley net assets amounting to US\$142.0 million (₱7.2 billion) and US\$10.1 (₱0.5 billion), respectively.

On December 23, 2019, the Australian FIRB approved the transaction.

As a result of the sale, the equity interest of URC changed from 100.0% to 60.0%. The excess of the total consideration received over the carrying amount of the equity transferred and call option issued to NCI amounting to ₱1.3 billion is presented under "Equity reserve" in the consolidated statements of financial position.



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#### 45. Subsequent Events

In a move to contain the COVID-19 outbreak in the country, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum on Stringent Social Distancing Measures and Further Guidelines for the Management of the COVID-19 Situation which placed the National Capital Region (NCR) under these measures beginning March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. On March 24, 2020, Republic Act No. 11469 was enacted declaring the existence of a national emergency arising from the COVID-19 situation and a national policy in connection therewith, and authorizing the Philippine President for a limited period and subject to restrictions, to exercise powers necessary and proper to carry out the declared national policy and for other purposes. On April 1, 2020, the Implementing Rules and Regulations (IRR) of Section 4(aa) of Republic Act No. 11469, otherwise known as the “Bayanihan to Heal As One Act” was released. On April 7, 2020, the Philippine President announced that the ECQ throughout the island of Luzon has been extended up to April 30, 2020.

The Group has ensured that it fully complies with all the government-mandated measures to contain the COVID-19 outbreak in the country. These however have caused disruptions to certain areas of the Group’s diverse portfolio of businesses and economic activities as follows:

- Travel restrictions imposed by the Philippine government and other countries have resulted to significant reduction in air travel demand for the Air transportation segment;
- The Real estate and hotels segment has temporarily closed down some of its commercial properties and suspended the construction of its residential properties. Only essential business establishments within its malls such as supermarkets, pharmacies and banks remain open for limited operating hours;
- The Foods, agro-industrial and commodities businesses’ selling operations remain open and currently has sufficient inventory that enables it to operate its business at normal levels across different geographic locations where it has facilities, in both domestic and international markets. But as the situation continues to evolve, the segment nevertheless remains vigilant on the potential impact of the outbreak on its supply chain and consumer demand;
- Identified as an essential business establishment under the government’s ECQ guidelines, the Banking segment has ensured continued operations and uninterrupted services to provide the financial requirements of its clients as well as to support the entire financial system; and
- The Petrochemicals plants continue to operate and deliveries to customers are unhampered to ensure that necessary raw materials are available for the nation’s supply chain.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the effect to its financial position, performance and cash flows. Nevertheless, the Group has implemented several austerity measures to mitigate the impact of this outbreak to the Group’s businesses. In particular, the Group has undertaken the following:

- For its Real estate and hotels, Foods, agro-industrial and commodities, Banking and Petrochemicals segments which are, or a part or parts thereof, considered essential business establishments in accordance with the government’s ECQ guidelines, a skeletal work force and rotation schedules for highly critical functions and activities have been employed. To supplement this, various precautionary measures were also implemented such as strict adherence to personal hygiene



practices, mandatory temperature checks and social distancing protocols, and proper and frequent sanitation and deep disinfection of plant premises, offices, branches and supermarkets.

- For the other employees of the Group, work-from-home arrangements, job reassignment and other flexible personnel resourcing measures have been implemented.
- For its Air transportation segment, prior to the suspension of all flights beginning March 19, 2020, lost capacity due to cancellation of international flights have been redeployed into the domestic network. In addition, various cost saving and cash preservation initiatives were undertaken.
- The Banking segment opens as many branches feasible, ensures cash availability in ATMs, maintains availability of various digital and online products, and has provided its customers 30-day grace period for loan payments.

#### 46. Supplemental Disclosures to Cash Flow Statements

Changes in liabilities arising from financing activities in 2019 follow:

	January 1, 2019	Cash Flows	Foreign Exchange Movement	Currency Translation Adjustment	Others*	December 31, 2019
Short-term debts	₱35,453,723,993	₱18,822,267,467	(₱286,995,206)	₱58,413,750	₱-	₱54,047,410,004
Long-term debts	210,248,967,348	11,920,449,077	(2,276,354,595)	(1,171,744,302)	214,217,179	218,935,534,707
	₱245,702,691,341	₱30,742,716,544	(₱2,563,349,801)	(₱1,113,330,552)	₱214,217,179	₱272,982,944,711

\*Others consist of amortization of bond issue cost.

The principal noncash activities of the Group are as follows:

- Movements in the cumulative translation adjustment amounted to ₱1.2 billion, ₱1.5 billion and (₱1.2 billion) in 2019, 2018 and 2017, respectively.
- In 2019, 2018 and 2017, the Group foreclosed some assets, which are recorded under 'Investment properties' in the consolidated statements of financial position, amounting to ₱62.0 million, 111.8 million and ₱85.5 million, respectively.
- In 2018, the Group acquired additional investment in UICL through the scrip dividend scheme in lieu of cash dividends amounting to ₱560.4 million.
- Acquisition of aircraft through loan financing amounted to ₱16.8 billion and ₱3.8 billion in 2018 and 2017, respectively.

#### 47. Approval for the Release of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the BOD on April 13, 2020.



**JG SUMMIT HOLDINGS, INC.**  
**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION (ANNEX 68-D)**  
**AS OF DECEMBER 31, 2019**

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The table below presents the retained earnings available for dividend declaration as of December 31, 2019:

Unappropriated Retained Earnings, beginning	P31,864,511,677
Adjustment:	
Unrealized market valuation gains on financial assets at FVPL in prior years	(230,090,585)
<hr/>	
Unappropriated Retained Earnings, as adjusted, beginning	31,634,421,092
Net income during the year	13,208,278,509
Less: Unrealized market valuation gain on financial assets at FVPL	(4,462,799)
Unrealized foreign exchange gain	(17,769,600)
<hr/>	
	44,820,467,202
Less: Dividend declaration during the year	(2,665,051,413)
Less: Appropriations of retained earnings during the period	(25,000,000,000)
Add: Reversals of appropriations	24,500,000,000
<hr/>	
Total Retained Earnings available for dividend declaration as of December 31, 2019	<b>P41,655,415,789</b>

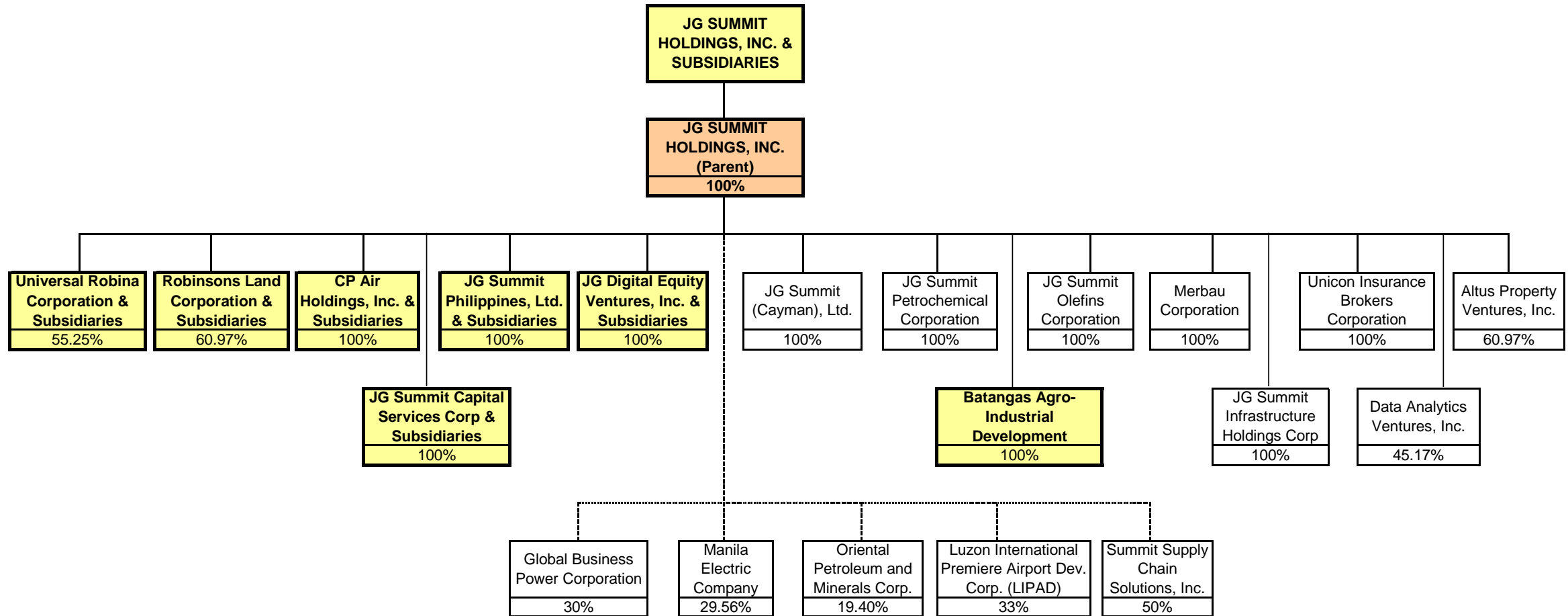
**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATOR (ANNEX 68-E)**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

The following are the financial ratios that the Group monitors in measuring and analyzing its financial soundness:

<b>Ratio</b>	<b>Formula (in millions)</b>	<b>2019</b>	<b>2018</b>
Current ratio	$\frac{\text{Total Current Assets} \quad 234,156}{\text{Divide by: Total Current Liabilities} \quad 245,139}$ Current ratio $0.96$	0.96	0.93
Debt-to-equity ratio/ Gearing ratio	$\frac{\text{Total Debt*} \quad 272,983}{\text{Divide by: Total Equity} \quad 408,647}$ Debt-to-equity ratio $0.67$  <i>* Short-term loans + Long-term loans</i>	0.67	0.67
Asset-to-equity ratio	$\frac{\text{Total Assets} \quad 928,310}{\text{Divide by: Total Equity} \quad 408,647}$ Asset-to-equity ratio $2.27$	2.27	2.23
Operating income margin	$\frac{\text{Operating Income} \quad 56,203}{\text{Divide by: Total Revenues} \quad 301,823}$ Operating income margin $0.19$	0.19	0.16
Return on equity	$\frac{\text{Net income attributable to equity holders of the Parent Company} \quad 31,285}{\text{Divide by: Average Equity attributable to equity holders of the Parent Company} \quad 290,699}$ Return on equity $0.11$	0.11	0.07

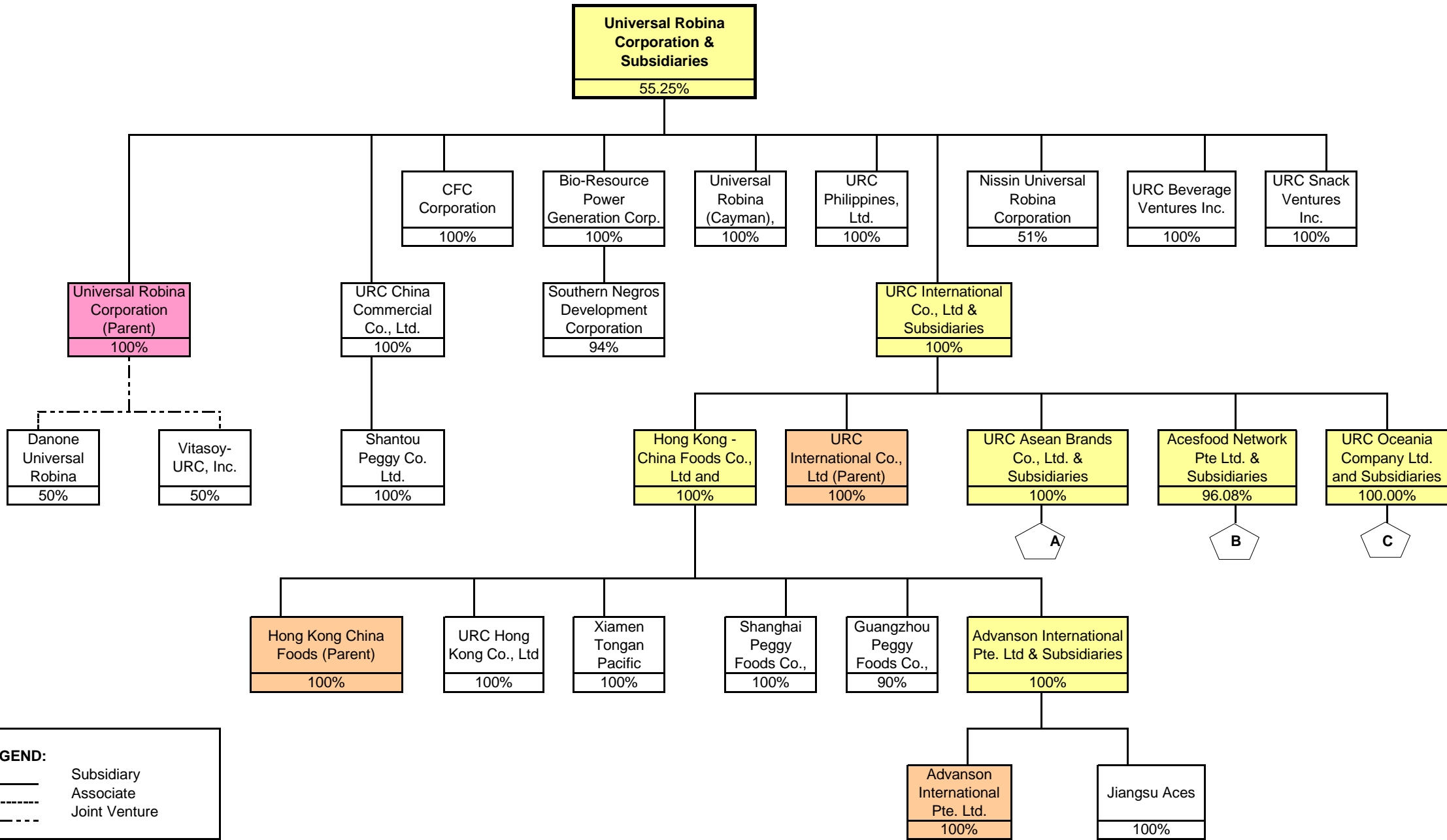
**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
 43rd Floor, Robinsons-Equitable Tower  
 ADB Avenue corner Poveda Road, Pasig City

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**



**LEGEND:**  
 ———— Subsidiary  
 - - - - Associate  
 - . - . - Joint Venture

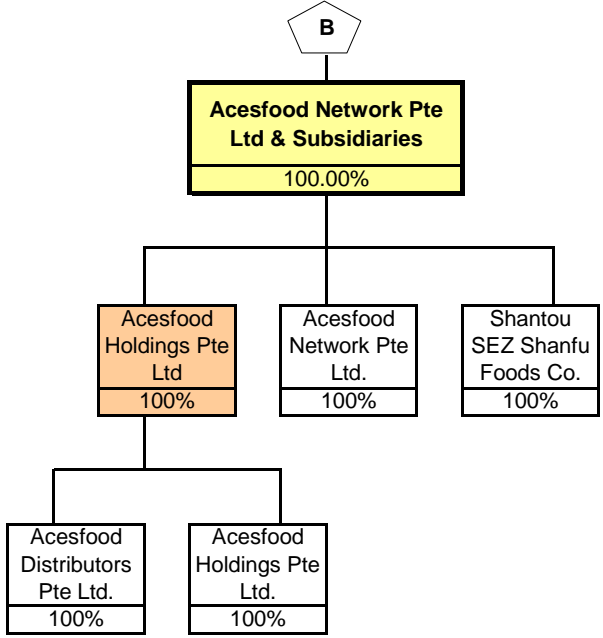
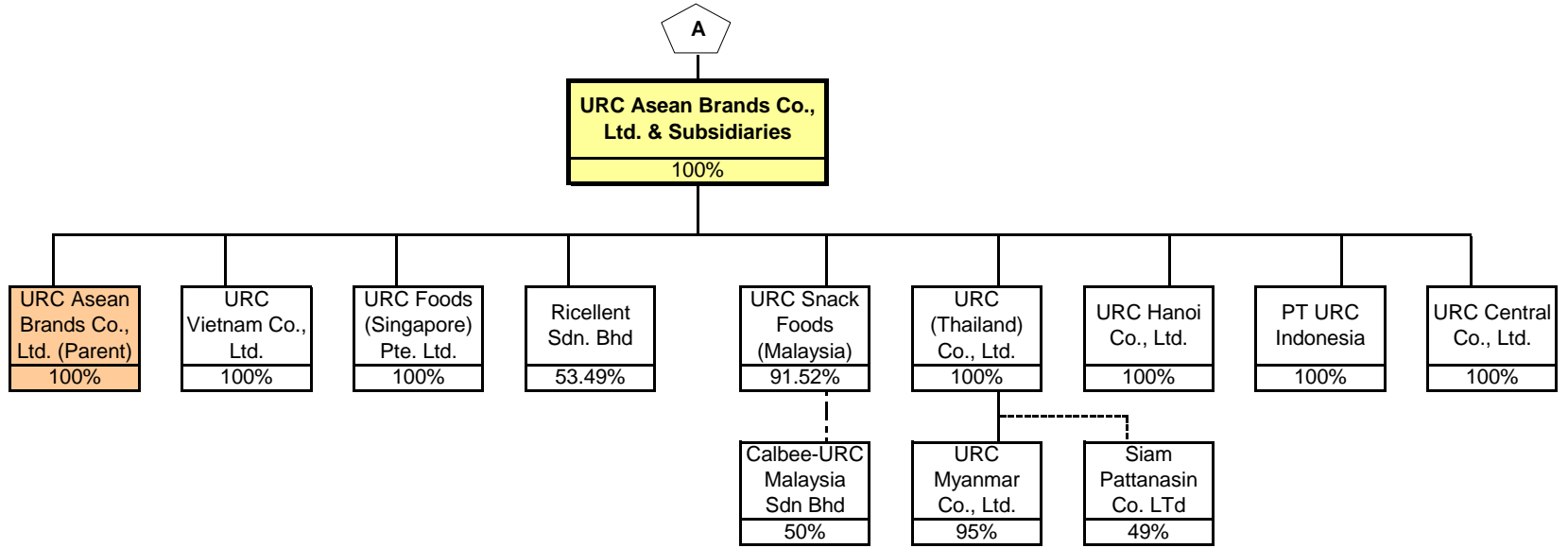
**NOTE:** Please see separate sheets for the organizational structures of the various consolidation groups.



**LEGEND:**

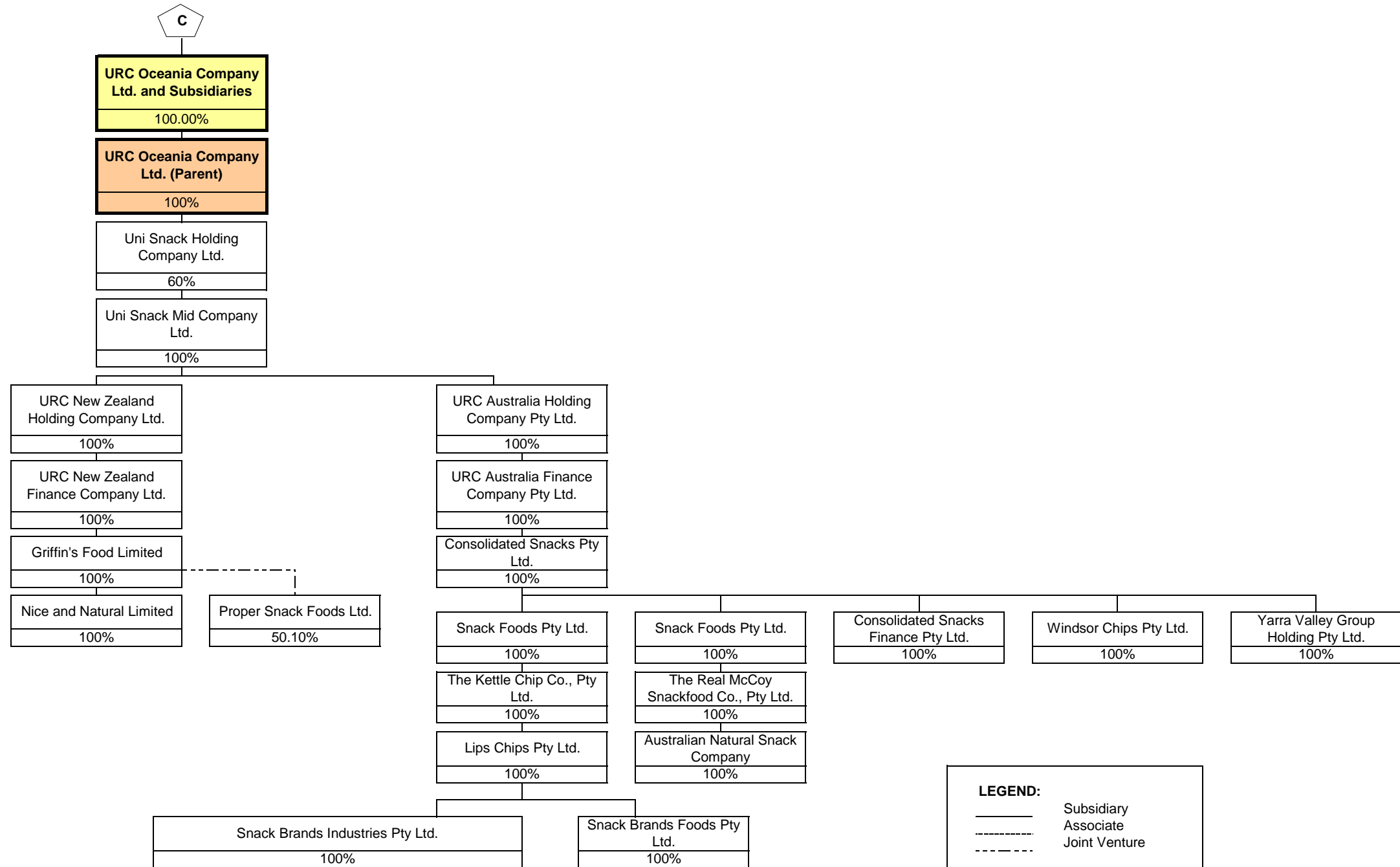
- Subsidiary
- - - - - Associate
- · · · · Joint Venture

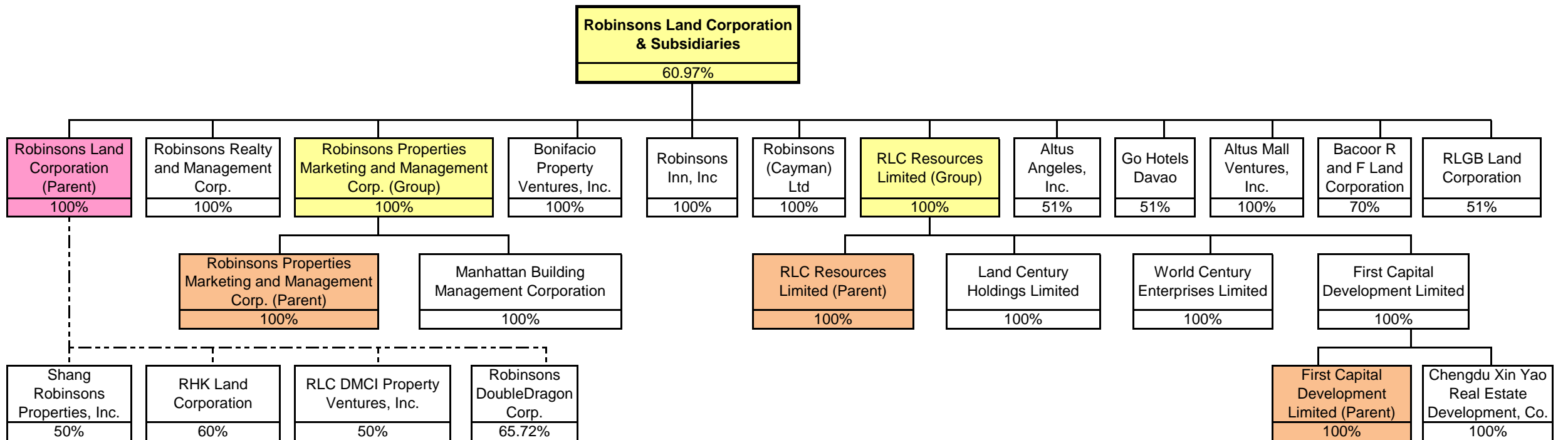




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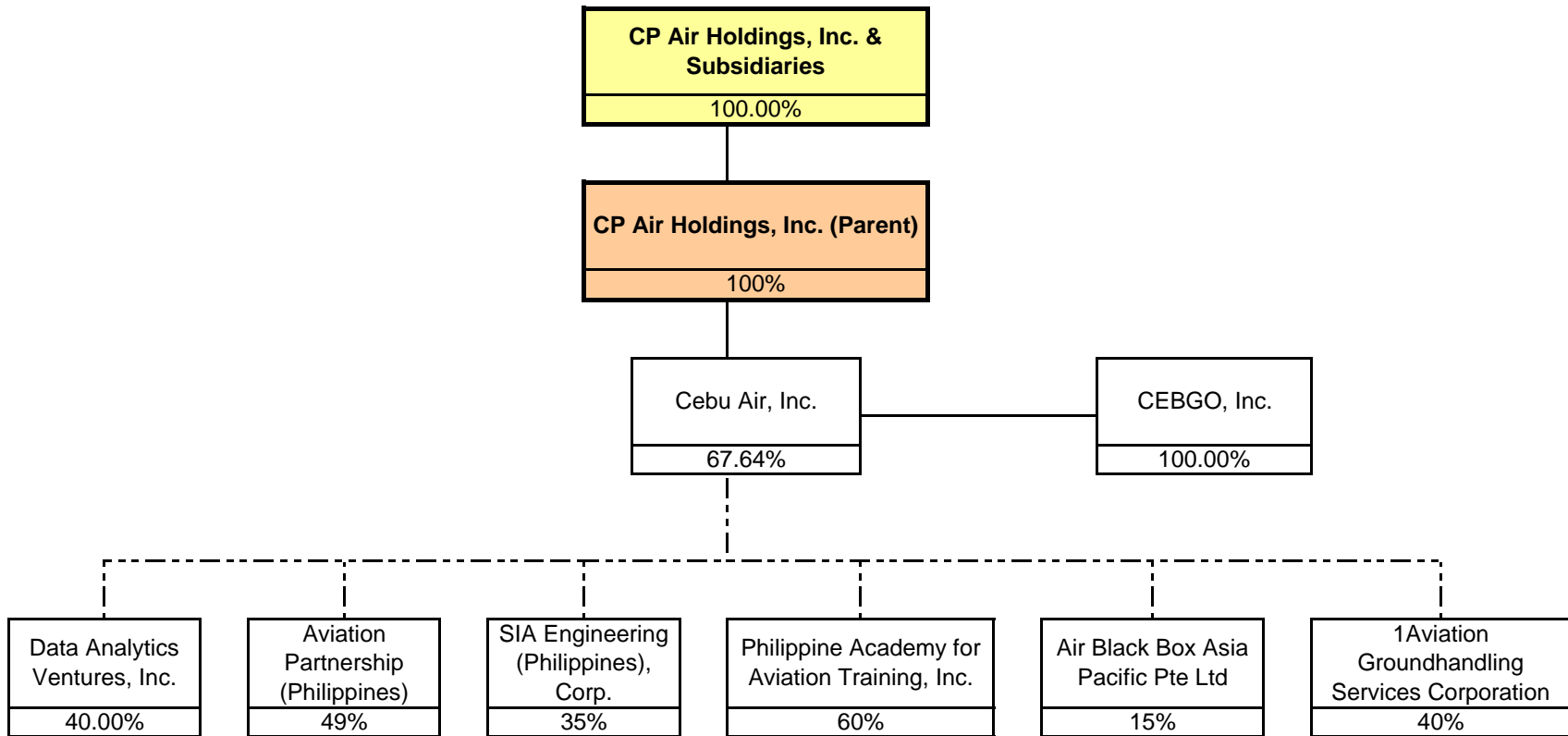
- Subsidiary
- Associate
- - - - - Joint Venture





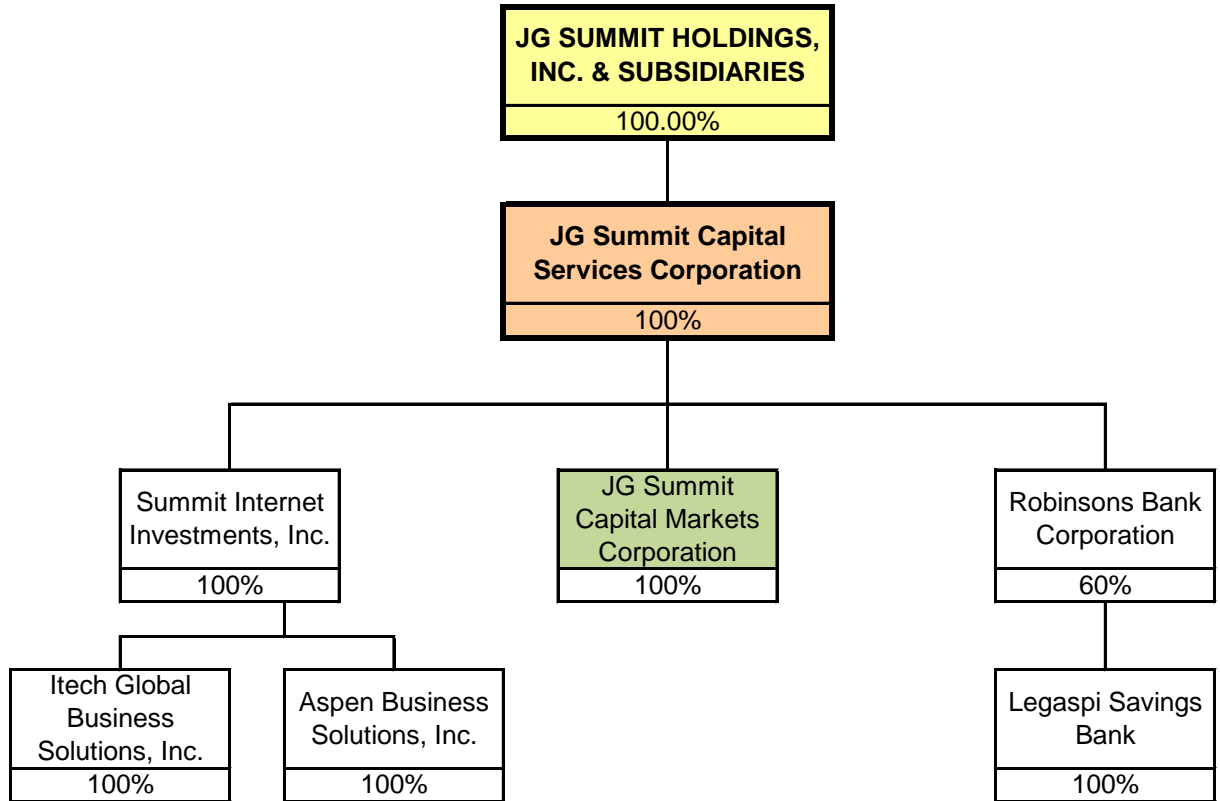
**LEGEND:**

————— Subsidiary  
 - - - - - Associate  
 ······· Joint Venture



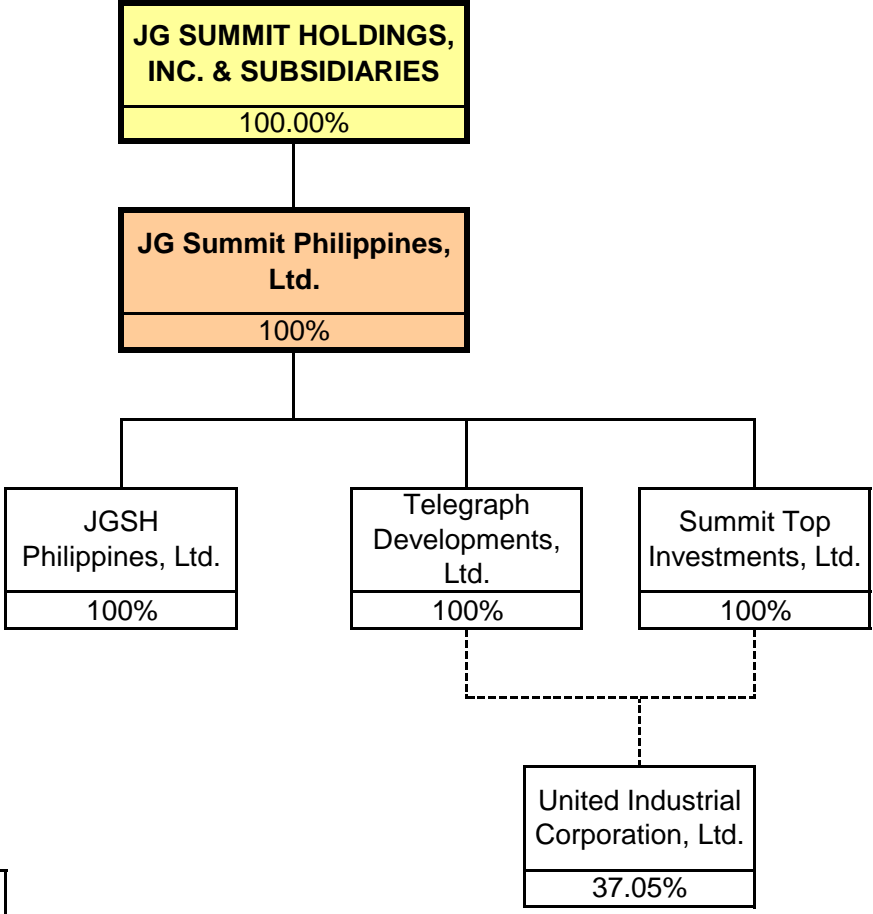
**LEGEND:**

- Subsidiary
- Associate
- ..... Joint Venture



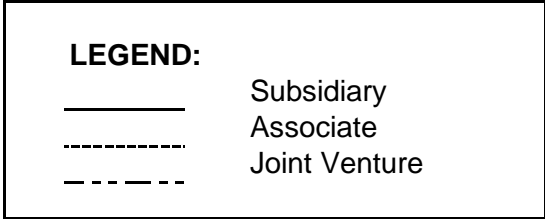
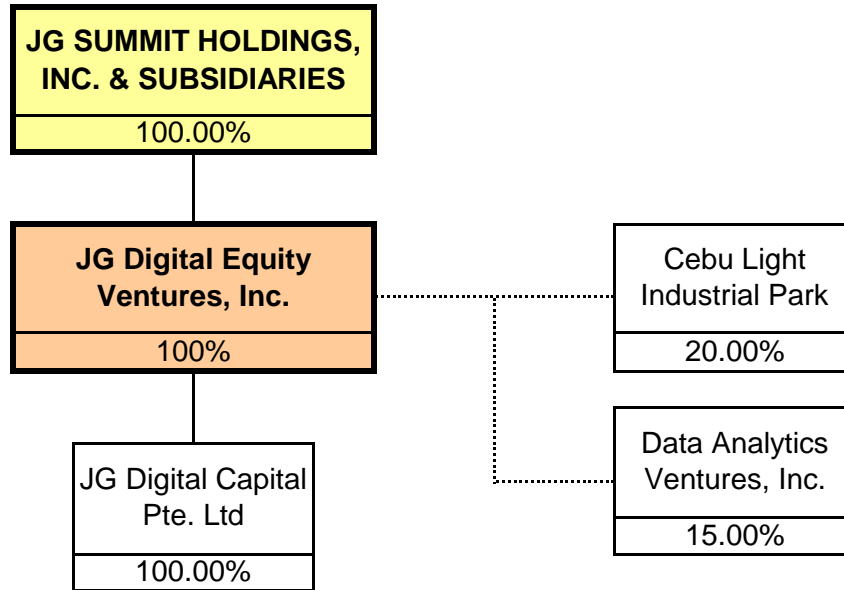
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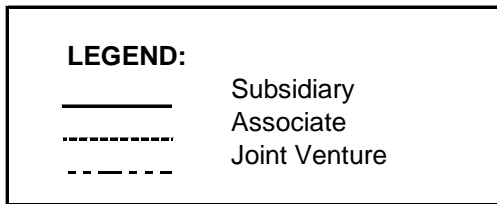
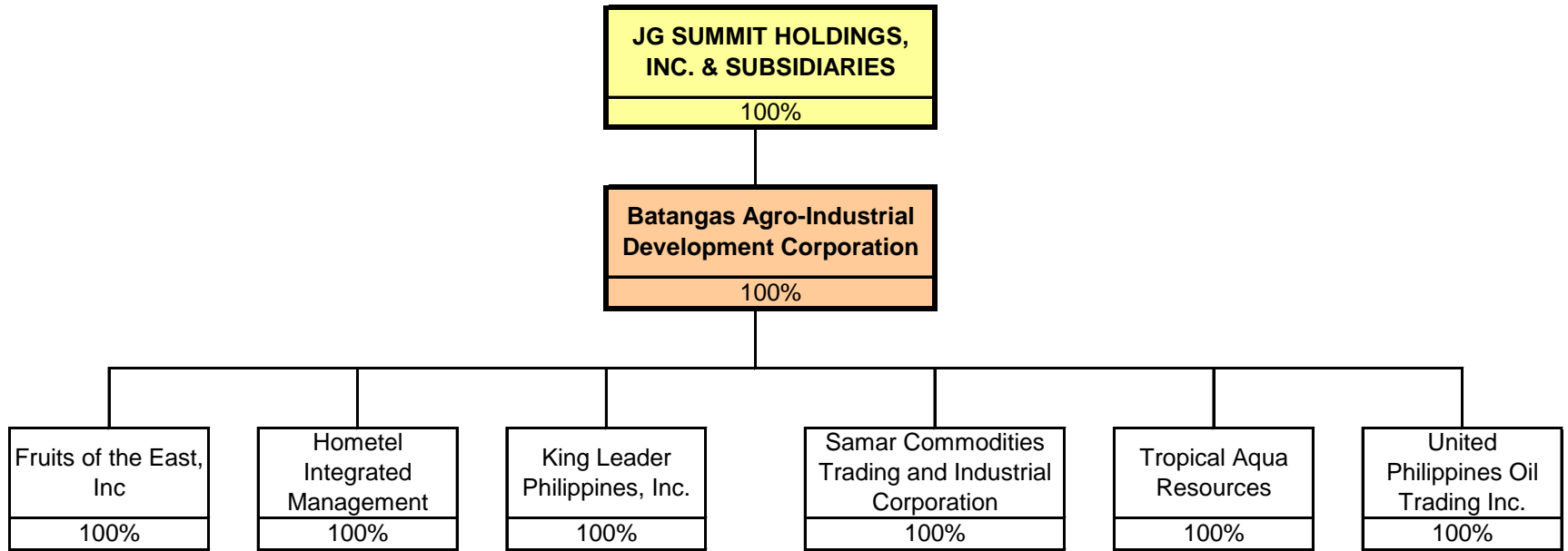
- Subsidiary
- - - Associate
- . - . Joint Venture
- Inactive company



**LEGEND:**

- Subsidiary
- Associate
- - - - - Joint Venture







**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE A - FINANCIAL ASSETS**  
**DECEMBER 31, 2019**

Name of Issuing Entity and Description of Each Issue	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
<b>Financial Assets (Liabilities) at Fair Value Through Profit or Loss</b>			
Various / Government Bonds	P3,943,264	P3,943,264	P13,181,655
Derivatives classified at FVPL (Foreign Currency Swap)	992,618	992,618	-
Investment in Convertible Note	2,661,172,115	2,661,172,115	87,690,303
Various Equity Quoted Securities	1,718,536,973	1,718,536,973	81,222,320
	4,384,644,970	4,384,644,970	182,094,278
<b>Financial Assets at Fair Value Through Other Comprehensive Income</b>			
Various / Private Bonds	11,902,368,238	11,902,368,238	664,109,167
Various / Government Bonds	9,392,806,983	9,392,806,983	363,288,259
Philippine Long Distance Telephone Corp.	24,050,346,528	24,050,346,528	1,245,274,272
Various Equity Quoted Securities	477,659,667	477,659,667	22,215,324
Various Equity Unquoted Securities	487,055,158	487,055,158	-
	46,310,236,574	46,310,236,574	2,294,887,022
<b>Financial Assets at Amortized Cost</b>			
Private debt securities	1,850,398,340	1,850,398,340	80,484,674
Government debt securities	9,506,862,901	9,506,862,901	397,305,424
	11,357,261,241	11,357,261,241	477,790,098
	P62,052,142,785	P62,052,142,785	P2,954,771,398

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES**  
**AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2019**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		
					Current	Noncurrent	Total
- NONE TO REPORT -							

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written-Off	Balance at End of Period		
					Current	Non-current	Total
Batangas Agro-Industrial Development Corporation ( <i>Subsidiary</i> )	₱81,117,939	₱188,360,264	₱-	₱-	₱269,478,203	₱-	₱269,478,203
Cebu Air, Inc. ( <i>Subsidiary</i> )	22,660,657	20,277,018	(25,831,793)	-	17,105,882	-	17,105,882
Digital Analytics Ventures, Inc. ( <i>Subsidiary</i> )	-	38,521,789	(8,566,254)	-	29,955,535	-	29,955,535
Express Holdings, Inc. ( <i>Subsidiary</i> )	158,017,097	-	(153,720,485)	-	4,296,612	-	4,296,612
JG Summit Holdings, Inc. ( <i>Parent</i> )	2,817,801,977	555,558,300	(166,780,885)	-	3,206,579,392	-	3,206,579,392
JG Summit Infrastructure Holdings Corporation ( <i>Subsidiary</i> )	-	39,214	-	-	39,214	-	39,214
JG Summit Petrochemical Corporation ( <i>Subsidiary</i> )	23,913,618	-	(23,913,618)	-	-	-	-
Robinsons Bank Corporation ( <i>Subsidiary</i> )	54,408,336	43,767,911	(3,015,618)	-	95,160,629	-	95,160,629
Robinsons Land Corporation and Subsidiaries ( <i>Subsidiary</i> )	174,234,971	51,907,437	(10,771,516)	-	215,370,892	-	215,370,892
Summit Internet Investments, Inc. and Subsidiaries ( <i>Subsidiary</i> )	95,348,299	9,306,483	(11,842,307)	-	92,812,475	-	92,812,475
Unicon Insurance Brokers Corporation ( <i>Subsidiary</i> )	6,536	218,965,464	(218,972,000)	-	-	-	-
Universal Robina Corporation and Subsidiaries ( <i>Subsidiary</i> )	419,792,981	195,284,492	(331,521,597)	-	283,555,876	-	283,555,876
	<b>₱3,847,302,411</b>	<b>₱1,321,988,372</b>	<b>(₱10,050,287,743)</b>	<b>₱-</b>	<b>₱4,214,354,710</b>	<b>₱-</b>	<b>₱4,214,354,710</b>

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE D - LONG-TERM DEBT**  
**DECEMBER 31, 2019**

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown under Caption "Current Portion of Long Term Debt" in Related Balance Sheet	Amount Shown under Caption "Long-Term Debt" in Related Balance Sheet	Remarks
Guaranteed Notes Due 2023	–	(P29,723,454)	P32,484,745,257	
Fixed Rate Retail Bonds Due 2021 and 2024	–	(8,331,355)	5,487,464,079	
Fixed Rate Term Loans Due 2022, 2023 and 2024	–	(30,111,391)	24,861,412,517	
Floating Rate Term Loans Due 2022 and 2024	–	(16,945,518)	11,941,153,512	
CAI - Commercial Loans	–	6,885,155,619	50,259,365,657	See
RLC - Fixed Rate Retail Bonds Due 2022 and 2025	–	(16,742,849)	11,975,266,745	Notes
RLC - Fixed Rate Term Loans	–	137,373,804	22,619,374,476	Below
URC - Term Loans	–	(101,581,214)	30,487,658,822	
Petrochem - Fixed Rate Term Loans	–	–	22,000,000,000	
		P6,819,093,642	P212,116,441,065	

*NOTES:*

*1) The terms, interest rate, collaterals and other relevant information are shown in the Notes to Consolidated Financial Statements.*

*2) The negative amounts represent debt issuance costs to be amortized the following year.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**  
**DECEMBER 31, 2019**

<b>Name of Related Party</b>	<b>Balance at Beginning of the Period</b>	<b>Balance at End of the Period</b>
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- NONE TO REPORT -

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**DECEMBER 31, 2019**

<b>Name of issuing entity of securities guaranteed by the Company for which this statement is filed</b>	<b>Title of issue of each class of securities guaranteed</b>	<b>Total amount guaranteed and outstanding</b>	<b>Amount owned by person for which this statement is filed</b>	<b>Nature of guarantee</b>
---------------------------------------------------------------------------------------------------------	--------------------------------------------------------------	------------------------------------------------	-----------------------------------------------------------------	----------------------------

- NONE TO REPORT -

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE G - CAPITAL STOCK**  
**DECEMBER 31, 2019**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Affiliates	Directors, Officers and Employees	Others
Common Shares at ₱1 par value	12,850,800,000	7,162,841,657	–	270,730,500	1,248,918,285	5,643,192,872
Preferred Voting Shares at ₱0.01 par value	4,000,000,000	4,000,000,000	–	–	–	4,000,000,000
Preferred Non-voting Shares at ₱1 par value	2,000,000,000	–	–	–	–	–

# **JG Summit Holdings, Inc.**

2019 Sustainability Report in compliance with the SEC  
Sustainability Reporting Guidelines for Publicly Listed  
Companies



## Contextual Information

Company Details	
Name of Organization	JG Summit Holdings, Inc.
Location of Headquarters	Robinsons Equitable Tower
Location of Operations	<p>The parent company and its subsidiaries conduct businesses throughout the Philippines, in and around Metro Manila (where it is based) and in the regions of Luzon, Visayas, and Mindanao. It also has presence in several regions in the Asia Pacific. A more detailed map of the company's geographic presence is available at <a href="https://www.jgsummit.com.ph/annualreport2018/about-the-company.php">https://www.jgsummit.com.ph/annualreport2018/about-the-company.php</a></p> <p>Subsidiaries</p> <ul style="list-style-type: none"> <li>- <b>Universal Robina Corporation (URC)</b> has manufacturing facilities in the Philippines, Myanmar, Thailand, Vietnam, Indonesia, Malaysia, Australia and New Zealand; distribution facilities in Laos and Cambodia; and sales offices in Hong Kong and Singapore.</li> <li>- <b>Cebu Pacific</b> and subsidiary <b>Cebgo, Inc.</b> currently offers flights to 41 Philippine and 24 international destinations, spanning Asia, Australia, and the Middle East. A list of Cebu Pacific sales offices is available at <a href="https://cebupacificaircorporate.com/Pages/contact-us.aspx">https://cebupacificaircorporate.com/Pages/contact-us.aspx</a></li> <li>- <b>JG Summit Petrochemicals Group (JGSPG)</b>, headquartered in Pasig City, operates its manufacturing plant in Batangas City.</li> <li>- <b>Robinsons Land Corporation (RLC)</b> has properties distributed in 47 cities and 10 municipalities in 29 provinces.</li> <li>- <b>Robinsons Bank Corporation (RBank)</b> and its subsidiary has 168 branches in 42 provinces in the Philippines.</li> </ul>
Report Boundary	<p>This report covers JG Summit Holdings, Inc. (JGSHI) including its five strategic business units (or subsidiaries):</p> <p><b>Universal Robina Corporation</b></p> <ul style="list-style-type: none"> <li>• Branded Consumer Foods (BCF) Philippines and International</li> <li>• Consumer Foods - Sugar and Renewables (SURE) and Flour</li> <li>• Agro-Industrial and Commodities (AIC)</li> </ul> <p><b>Cebu Air, Inc.</b></p> <ul style="list-style-type: none"> <li>• Cebgo, Inc.</li> </ul> <p><b>Robinsons Land Corporation</b></p> <ul style="list-style-type: none"> <li>• Robinsons Malls</li> <li>• Robinsons Hotels and Resorts</li> <li>• Robinsons Offices</li> <li>• Robinsons Residential</li> <li>• Robinsons Industrial and Integrated Developments</li> </ul> <p><b>Robinsons Bank Corporation</b></p> <ul style="list-style-type: none"> <li>• Legazpi Savings Bank, Inc.</li> </ul> <p><b>JG Summit Petrochemicals Group</b></p> <ul style="list-style-type: none"> <li>• JG Summit Olefins Corporation</li> <li>• JG Summit Petrochemical Corporation</li> </ul> <p>Data from these groups for the calendar year 2019 are consolidated where they are applicable and available. Specifically, URC's disclosure in the economic section covers all URC; disclosure in the environment section covers BCF and Flour under the Consumer Foods group; disclosure in the social section includes all URC.</p> <p>Data collection have been limited, and so the boundaries are</p>

	further specified per disclosure.
Business Model, including Primary Activities, Brands, Products, and Services	JG Summit Holdings, Inc. is a holding company for a group of companies with substantial business interests in foods, agro-industrial and commodities, real estate and hotel, air transportation and petrochemicals. It also has core investments in telecommunications, and power generation and distribution.
Reporting Period	January 1, 2019 to December 31, 2019
Highest Ranking Person responsible for this report	Renato Salud Senior Vice President Corporate Affairs  Michael P. Liwanag Senior Vice President Investor Relations, Office of the Chief of Staff

## Materiality Process

<p>With the understanding that sustainability is critical for the conglomerate, JGSHI Corporate Affairs started the conglomerate’s sustainability journey through the following steps:</p> <p><b>Setting Objectives.</b> Sustainability topics are first understood in the context of current societal needs during a GRI Standards Training and a series of Materiality Courses held in 2018 for more than 50 data handlers, supervisors, and managers in the subsidiaries. These sessions helped widen the business perspective in the group across different functions, and identify what truly matters for the company and its stakeholders.</p> <p><b>Identification and Categorization of Sustainability Issues.</b> Publicly-listed companies in the group released their inaugural sustainability reports in 2018 (URC) and 2019 (RLC and CEB) in order to take an inward look on the issues affecting their respective industries and their business. Through the sustainability reporting exercise, sustainability is taken to management committee discussions. Data collection of non-financial data was also activated alongside the usual yearly financial data collection.</p> <p><b>Stakeholder Engagement.</b> To engage the group’s internal stakeholders, a Sustainability Leads Team was created in 2018 to coalesce the key people that best understand the needs of the business units’ stakeholders. The same Sustainability Leads drove the business units’ stakeholder engagement for their sustainability reports. Through the Leads Team, the business units are able to exchange best practices and communicate their needs in championing sustainability. JGSHI is also able to directly communicate to the business units’ its future priority areas around sustainability, and identify possible areas of synergy within the conglomerate’s ecosystem.</p> <p>To engage JGSHI’s external stakeholders, Corporate Affairs works hand in hand with Investor Relations to capture investor expectations around sustainability.</p> <p><b>Prioritization.</b> Also in 2019, Corporate Affairs initiated a CEO-level roundtable to exchange priority areas and provide a platform for strategic discussion on the conglomerate sustainability imperatives. In this initial meeting, the business units presented their respective five-year business strategy vis-à-vis their sustainability framework to show how sustainability is integrated in their strategic plans.</p> <p>In the same forum, the sustainability topics that are common across the group as well as those sought by critical stakeholders were presented to top management for review and prioritization. This was a result of the materiality exercise by each business unit.</p> <p><b>Process Review.</b> With a complete suite of inputs from the data owners all the way to CEOs, JGSHI started obtaining baseline data for the calendar year 2019 as basis for measuring performance on each of the material topics identified. The GRI Reporting Standards and the SEC Guidelines were closely followed. Aside from data, existing management approaches – from operational targets to corporate policies – are also captured to complete the picture of how JGSHI and its subsidiaries move to improve the performance in these areas.</p> <p>An analysis of data gaps in each material topic was also done. With this complete understanding of where the group is, non-financial performance monitoring will be improved, and a more deliberate target setting will be done in the identified priority areas.</p>
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## ECONOMIC

### Economic Performance

#### Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	303,918.78	million PhP
Direct economic value distributed:	281,126.42	million PhP
a. Employee wages and benefits	31,425.98	million PhP
b. Payments to suppliers, other operating costs	212,737.01	million PhP
c. Dividends given to stockholders and interest payments to loan providers	28,020.84	million PhP
d. Taxes given to government	8,904.97	million PhP
e. Investments to community (e.g. donations, CSR)	37.62	million PhP

#### **Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected**

**Impacts.** 93% of JGSHI's revenue flows back society. The remaining 7% is reinvested in the organization for business growth.

**Risks.** JGSHI recognizes that internal gaps in processes such as non-collection of receivables, over/under/unbilled charges, incomplete disbursement documents, and overpayment to suppliers could compromise its capability to equitably flow the economic value to the right stakeholders. Corruption incidence when dealing with external parties could also disrupt the equitable flow of value. Additionally, operational and strategic risks such as fluctuations in prices of raw materials, political, reputational, and competition could affect the company's ability to meet its economic value generation target.

#### **Management Approach for Impacts and Risks**

The business units have put in place mitigation plans to protect them from the above financial risks. These include operational improvements such as: enhanced processes and regular review and follow up for accounts receivables, retraining of employees, regular audits, ensuring that third party service providers understand the processes regarding billing, mitigating declining market value of assets, managing FOREX impacts, establish risk limits for lending, among many others.

#### **Opportunities & Management Approach:**

JGSHI also understands that non-financial risks could affect its bottom line, thus affecting its economic value distribution. Based on previously scoped risks, a more comprehensive approach at consolidating and understanding these risks is being done in the short to mid-term horizon. This will include risk identification from a non-financial standpoint of JGSHI as a parent company; development of mitigation plans and testing them; and integration to JGSHI's business continuity plan.

## Climate-related risks and opportunities

### **Governance**

JGSHI has identified climate-related risks in its current risk management processes, as mentioned in the Strategy and Risk Management sections below.

As the top management recognizes the importance of further qualifying climate-related risks in its operations, JGSHI Board, through Corporate Affairs and Sustainability, consolidates climate-related impacts of the company in order to identify opportunity areas for mitigation and reduction. Known climate-related impacts such as operational cost implications are managed directly by the business units. Energy reduction efforts are consolidated and managed directly by Corporate Energy.

### **Strategy**

In the conglomerate's current risk scoping, climate-related risks are recognized under Hazards, Supply Chain, and Procurement. The following risks were recognized: damages to its assets including malls, office buildings, banks, as well as plant equipment due to natural disasters and Acts of God, most of which are brought about by climate change. Ageing material and inventory due to slow movement of goods along the company's supply chain could be aggravated by limited road access. There could be shortage in raw material supply if agriculture is disrupted, thus causing drastic price fluctuations. Flights and real estate development could increasingly be delayed or cancelled due to typhoons and other calamities. In terms of market risks, JGSHI also recognizes economic downturn and slowing down of demand for its products and services as an important risk that could be brought about by climate change events.

In the business planning of each subsidiary, the results of this scoping is used as inputs to their financial planning.

As the group progresses in its journey in the next 2-3 years, JGSHI will be coming up with a more deliberate strategy and commitment towards climate action. This is mainly driven by the company's investors that demand a more focused action towards climate change along with actionable plans, programs, and more transparency.

### **Risk Management**

The aforementioned climate-related risks are embedded in JGSHI's current risk management process of identification, assessment, and management. These are mostly implicit under Hazards, Supply Chain, and Procurement.

As the group finds that the impacts of climate change are becoming increasingly material in its operations, JGSHI is looking into identifying the risks around it more explicitly, fully understanding the group's exposure to climate-related risks and their financial implications, and developing mitigation plans that are tailored to specifically address them. JGSHI is also looking into taking advantage of opportunities around the topic with the help of its business development team and the strategic business units' operations, while considering synergies across the business units.

## Metrics and Targets

**Metrics.** Metrics to measure JGSHI’s performance around climate-related risks and opportunities are found in the Environment > Environmental Impact > Air Emissions section of this report.

**Targets.** JGSHI has started baselining during this reporting season, and is now looking into defining targets around climate action.

## Procurement Practices

### Proportion of spending on local suppliers

Disclosure	Quantity	Units	Boundaries
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	-	%	no available data <sup>1</sup>

<sup>1</sup>JGSHI is still in the process of consolidating this data from subsidiaries. The company aims to provide this data in the next three years.

## Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected

**Impacts.** Supplier Accreditation contributes in achieving JGSHI’s sustainability goals as the process helps ensure continuous supply of quality goods and services by reputable and reliable suppliers who are compliant with applicable government rules and regulations like environmental, labor, health and safety, etc. To the extent possible, the company promotes inclusive business in its value chain by getting supply from farmers and cooperatives to provide employment and revenues to low income communities.

Apart from the accreditation process, suppliers and contractors also undergo orientation on Company policies and ethical practices to ensure that all companies that JGSHI engages maintain the highest level of ethical standard for transparency as part of good corporate governance.

**Risks.** The accreditation process mitigates the risks of late or non-delivery of products and services resulting to losses in sales and revenues. Moreover, supplier accreditation also helps maintain the integrity of the procurement process thus providing transparency.

## Management Approach for Impacts and Risks

JGSHI’s subsidiaries are required to comply with the Enterprise Accreditation Policy. The policy defines the minimum standards to guide the subsidiaries in their supplier selection and accreditation process. In view of the intricacies of JGSHI subsidiaries operating in various industries, subsidiaries may further customize the accreditation criteria and parameters based on their requirements as long as compliant with the minimum standards set by JGSHI. Business units may observe more detailed accreditation criteria on quality, reliability, timeliness, price competitiveness, etc. Moreover, they are responsible for performing the technical evaluations as their technical expertise puts them in the best position to assess the quality required to deliver their products and services. The subsidiaries also have their own Quality Management Systems to ensure good industry practices are implemented in their facilities. Regular testing is done on raw materials, in-process goods, and finished products to ensure product quality.

JGSHI engages best-in-class suppliers and service providers providing the best quality products and reliable services. These suppliers provide trainings and knowledge transfers to the company’s employees, building in-house talents and capabilities.

The business units’ Procurement Teams are also trained in Purchasing Ethics, Strategic Purchasing, and Supplier Relationship Management to overcome ethical dilemmas and make sound purchasing decisions without compromising the vendor-buyer relationship.

To ensure that existing suppliers remain compliant to JGSHI’s policies, monitoring processes (e.g. audit assessment), random on-site visits and performance evaluations are performed periodically.

**Opportunities & Management Approach:**

JGSHI sees an opportunity in tapping the local SME industry to reduce operational cost across the supply chain, without sacrificing the product and service delivery of its business units. JGSHI, in turn, could further boost local economic growth.

Local SMEs are currently subjected to the same JGSHI accreditation policy, and are approved if they meet the set standards, while foreign suppliers that provide specific items such as aircraft are currently subjected to outsourced due diligence processes. There is no policy to preferentially accommodate local SMEs where it is applicable, however, this is something that can be considered by JGSHI.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units	Boundaries
Percentage of employees to whom the organization’s anti-corruption policies and procedures have been communicated to	100	%	This total accounts for new employees in JGSHI Corporate Center Units (CCU) and suppliers to whom the Code of Business Conduct, the Code of Discipline, and related Offenses Subject to Disciplinary Actions (OSDA) have been communicated to during the onboarding and orientation processes.
Percentage of business partners to whom the organization’s anti-corruption policies and procedures have been communicated to	100	%	
Percentage of directors and management that have received anti-corruption training	5	directors	The Board of Directors were all on-boarded on the Anti-Corruption Policy of the Group. Five out of 11 of RBank’s board of directors were given a seminar on Anti-Money Laundering. <sup>1</sup>
Percentage of employees that have received	62.69	%	All RBank and URC employees <sup>2</sup>

anti-corruption training			
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<sup>1</sup> The company organized an in-house Corporate Governance Training on January 29, 2019. The Leadership Training was conducted by John Clements with topics on *Empowering Frontline Workers to Make it Right, The Future of Work, Ernest Shackleton’s Journey to the Endurance, and Unbossing the Organization and Leading with Purpose*. This was applied to SEC as Corporate Governance Training Program for the Company and the Commission approved and granted the request for Corporate Governance Training accreditation on January 24, 2019.

The Board sets the tone and makes a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Conduct. Every Director receives an appropriate orientation when he/she is first appointed to the Board of Directors in order to ensure that incoming Directors are appropriately apprised of their duties and responsibilities before beginning their Directorships. The orientation program includes SEC-mandated topics on Corporation Governance and an introduction to the Company’s business, Articles of Incorporation, and Code of Business Conduct and Ethics.

<sup>2</sup> All RBank employees are required to take the Anti-Money Laundering Act training annually. URC will also roll-out an E-Module of the Code of Business Conduct where URC employees shall be asked to watch and take the exam to gauge comprehension and retention of the Company policies and guidelines. The Anti-Corruption policies and programs are made available online for all employees for their easy access, reference and guidance.

#### Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	0	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected
<p><b>Impacts.</b> Corruption could compromise JGSHI’s ability to equitably distribute economic value to the right stakeholders. If rampant, it could erode a culture of integrity, transparency and trust that is necessary in ensuring collaboration between employees, innovation, and synergy between business units.</p> <p><b>Risks.</b> Any incidence of corruption could pose a reputational risk to JGSHI. This could affect the company in multiple ways such as reduction in share price and market share.</p>

Management Approach for Impacts and Risks
<p>JGSHI is committed to promoting fairness, accountability and transparency to all stakeholders. The Board sets the tone and makes a stand against corrupt practices by adopting anti-corruption policies and programs. Some of the Company’s Anti-Corruption programs are embodied in the Code of Business Conduct and Ethics, Conflict of Interest, Offenses Subject to Disciplinary Action (OSDA), among others. The same are disseminated to all employees across the Company through trainings to embed them in the Company’s culture. New employees are oriented regarding policies and procedures related to Business Conduct and Ethics and similar policies. All employees are given periodic reminders</p>

and these policies and programs are made available in the Company Website and Employee Portal for easy reference. Further, all concerned employees of the Conglomerate are required to comply with the Annual Self-Disclosure Activity on an annual basis.

The Company also has an established suitable framework for whistleblowing and ensure its enforcement to allow employees and other stakeholders to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to any member of the Board or a unit created to handle whistleblowing concerns.

The anti-corruption programs and procedures of the Company are summarized below:

- **Conflict of Interest** - The Company's Code of Business Conduct and Conflicts of Interest Policy require employees to make a conscious effort to avoid conflict of interest situations; that his judgment and discretion are not influenced by considerations of personal gain or benefit. A conflict of interest may also occur because of the actions, employment, or investments of an immediate family member of an employee.
- **Conduct of Business and Fair Dealings** - The Company's employees that recommend, endorse, or approve the procurement or sale of goods and services should make a conscious effort to avoid any conflict of interest situation in transactions that they are involved in.
- **Receipt of Gifts from Third Parties** - The Company discourages the acceptance of gifts. However, gifts like advertising novelties maybe given or accepted during the Christmas season. There is no restriction in the value of the gift accepted. However, accepted gift with estimated value over Php2,000.00 must be disclosed to the Conflicts of interest Committee
- **Compliance with Laws and Regulations** - The Company ensures that all transactions comply with relevant laws and regulations. Any deficiencies are immediately rectified.
- **Respect for Trade Secrets/Use of Non-public Information** - The Company has policies that ensure proper and authorized disclosure of confidential information. Disclosures to the public can only be done after the disclosure to SEC and PSE by the Company's authorized officers.
- **Use of Company Funds, Assets and Information** - Employees are required to safeguard the Company resources and assets with honesty and integrity. Employees must ensure that these assets are efficiently, effectively, and responsibly utilized.
- **Employment and Labor Laws and Policies** - The Company ensures the observance, strict implementation and compliance with employment and labor laws and policies with regards to recruitment, employment, retention and benefits of the employees.
- **Disciplinary Action** - Violation of any provision of the Code of Business Conduct may result to disciplinary action, including dismissal and reimbursement for any loss to the Company that result from the employee's action. If appropriate, a violation may result in legal action against the employee or referral to the appropriate government authorities.
- **Whistleblowing** - The stakeholders may discuss or disclose in writing any concern on potential violation of the Code of Business Conduct with the Conflicts of Interest Committee (CICOM). Reports or disclosures can be made in writing or by email. All information received in connection with the reports or disclosures shall be strictly confidential and shall not be disclosed to any person without prior consent of CICOM. The Company commits to protect those who report in good faith from retaliation, harassment and even informal pressures. It will take the necessary and appropriate action to do so in enforcing the policy.



- **Conflict Resolution** - The Conflicts of Interest Committee (CICOM) submits recommendations on courses of action to be taken on conflicts of interest situations. The decision is done by the Executive Committee.

#### **Opportunities & Management Approach:**

JGSHI sees an opportunity in developing platforms where updates in anti-corruption policies can be cascaded internally, through retraining and numerous communication channels. There is also an opportunity to evaluate the effectiveness of JGSHI's anti-corruption policy, especially the channels through which complaints may be filed.

## ENVIRONMENT

### Resource Management

#### Energy consumption within the organization:

Disclosure	Quantity	Units	Boundaries
Energy consumption (renewable sources)	47,558	GJ	Biomass energy consumed by URC (BCF-PH, BCF-INT, and Flour) and solar energy consumed by RLC
Energy consumption (gasoline)	11,819	GJ	CEB, JGSPG, RBank
Energy consumption (LPG)	651,662	GJ	URC (BCF-PH, BCF-INT, and Flour), JGSPG
Energy consumption (diesel)	575,958	GJ	URC (BCF-PH, BCF-INT, and Flour), RLC, CEB, RBank
Energy consumption (bunker)	2,954,167	GJ	URC (BCF-PH, BCF-INT, and Flour), JGSPG
Energy consumption (coal)	1,753,167	GJ	URC (BCF-PH, BCF-INT, and Flour)
Energy consumption (CNG)	841,304	GJ	
Energy consumption (LNG)	105,084	GJ	
Energy consumption (jet fuel)	27,448,651	GJ	
Energy consumption (electricity)	4,622,326	GJ	URC (BCF-PH, BCF-INT, and Flour) , RLC, CEB, JGSPG, and RBank

#### Reduction of energy consumption

Disclosure	Quantity	Units	Boundaries
Energy reduction (gasoline)	(337)	GJ	JGSPG only; the other subsidiaries have started baselining consumption in 2019 only.
Energy reduction (LPG)	(80,934)	GJ	URC (BCF-PH, BCF-INT, and Flour), JGSPG
Energy reduction (diesel)	4,469	GJ	URC (BCF-PH, BCF-INT, and Flour) only; the other subsidiaries have started baselining consumption in 2019 only.
Energy reduction (bunker)	607,225	GJ	URC (BCF-PH, BCF-INT, and Flour), JGSPG
Energy reduction (coal)	16,130	GJ	URC (BCF-PH, BCF-INT, and Flour)
Energy reduction (CNG)	10,039	GJ	
Energy reduction (LNG)	1,737	GJ	
Energy reduction (jet fuel)	(2,048,442)	GJ	
Energy reduction (electricity)	45,780	GJ	RLC, URC (BCF-PH, BCF-INT, and Flour), CEB, JGSPG; RBank started baselining consumption in 2019 only.

#### Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected

**Impacts.** JGSHI recognizes that the use of electricity and other fuels have an impact on the environment in terms of greenhouse gas emissions and air pollutants released as a result of generating energy.

**Risks.** Energy is critical to the value creation of JGSHI. The company recognizes the risks to energy insecurity due to increased competing demands from energy intensive sectors, including domestic

consumption. The company also recognizes that energy generation from traditional sources can create negative impacts to air quality, health, and contributes to climate change. Overdependence on fossil fuels also exposes the country to fluctuations in energy prices, which has financial implications to our business. Hence, whenever JGSHI is able, the company opts to source from renewable sources. Like for real estate, business units invest in renewable power generation to meet some of their energy requirements.

**Management Approach for Impacts and Risks**

JGSHI monitors energy efficiency and targets improved utilization of various energy sources. Based on this monitoring, the company provide recommendations for energy efficiency improvement, which the business units implement considering their own operational challenges. Since 2011, Corporate Energy recommends a target of 5% reduction in energy across our business units. Based on where the SBU’s are in terms of their performance in energy management, targets are developed by leading the SBUs to a process through channels provided by Corporate Energy, Corporate EHS, and Corporate Affairs and Sustainability. JGSHI recognize those that have performed well in energy efficiency and provide incentives and token to encourage continuous improvement. Also, JGSHI conducts spot audits and provides recommendations to SBUs to correct any non-compliance to environmental regulations.

Specifically, CEB manages its operational efficiency and closely tracks its fuel consumption, hence, has put in place a fuel management and fleet expansion plan to increase overall fuel efficiency. This resulted to a 5% increase in fuel efficiency (kilometers traveled by passenger per liter of fuel burned, 29.06 pax-km/L in 2018 vs. 30.79 pax km/L in 2019).

**Opportunities & Management Approach:**

JGSHI’s business units take advantage of their facilities and materials to produce and/or consume clean energy whenever possible. JGSHI will also review the possibility of increasing energy reduction targets on a per SBU basis. The company is open to explore opportunities in retail electricity supply agreements as the prices of purchased clean energy becomes more economical.

Water consumption within the organization

Disclosure	Quantity	Units	Boundaries
Water withdrawal	14,557,195.66	m <sup>3</sup>	URC (BCF-PH, BCF-INT, and Flour), RLC, CEB, JGSPG, and RBank
Water consumption	5,930,174.21	m <sup>3</sup>	URC (BCF-PH, BCF-INT, and Flour), CEB, JGSPG, and RBank
Water recycled and reused	35,429.00	m <sup>3</sup>	JGSPG (as measured) and CEB (capacity of wastewater system). URC and RLC also recycle water are still in the process of developing their monitoring systems.

**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** Water consumption impacts the water supply of communities adjacent to where some subsidiaries operate. Conserving water is important not only to reduce operational costs but also in being mindful of the company’s impact to communities and the local ecosystem, both of which derive their water from the same sources as JGSHI’s business units derive theirs.

**Risks.** Water is an essential component in many of JGSHI’s operations. The Company recognizes risks to water shortages due to increased competing demand from agriculture, energy, industrial, domestic, and other sectors. El Niño and climate change also plays a role. JGSHI’s business units may be exposed to these risks as they operate across several regions in the Philippines, a few of which may be located in water stressed areas.

**Management Approach for Impacts and Risks**

Wastewater recycling systems and rainwater harvesting units are running in the facilities of most business units. Monitoring protocols are in place for some business units to track how much water is being saved in order to scale up efforts. Water is withdrawn from different sources wherein the maximum allowable extraction rate is followed. Investments are also made to equip facilities with water saving fixtures and wastewater treatment systems. In JGSPG, a desalination system is used to process seawater which provides the cooling water and potable water for various requirements of the complex.

**Opportunities & Management Approach:**

There is opportunity to further reduce water consumption for JGSHI’s business units by improving monitoring of water usage. Technologies such as rainwater harvesting, water catchment, and impounding can be applied in more areas of operations. Increasing usage of recycled water can allow lesser usage of unrecycled or virgin water. URC, in particular, rolled out LEAN Manufacturing to all Philippine facilities to drive the reduction of their water use ratio. Other business units may opt to follow suit if applicable for their needs.

Materials used by the organization

Disclosure	Quantity	Units	Boundaries
<i>Renewable</i>			
<ul style="list-style-type: none"> <li>Coffee grounds and tea leaves</li> </ul>	7,241,858	kg	URC’s (BCF-PH) reused materials as fuel for boiler
<ul style="list-style-type: none"> <li>Reground PET flakes</li> </ul>	568,734	kg	URC (BCF-PH) mixes 2-10% reprocessed PET resin with virgin resin to create new bottles
<i>Non-renewable materials</i>			
<ul style="list-style-type: none"> <li>Cement</li> </ul>	192,545,412	kg	RLC raw materials
<ul style="list-style-type: none"> <li>Rebar</li> </ul>	27,631,105	kg	
<ul style="list-style-type: none"> <li>Naphtha</li> </ul>	703,284	tonnes	JGSPG raw materials
<ul style="list-style-type: none"> <li>LPG (as raw material)</li> </ul>	49,153	tonnes	
Percentage of recycled input materials used to manufacture the organization’s primary products and services	5.82	%	URC (BCF-PH)

**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** Effective use of these materials reduces both costs and the GHG emissions created in their production for all business units.

**Risks.** JGSHI’s subsidiaries are dependent on raw materials to process and deliver its products and services. The company recognizes that the unchecked use of both renewable and non-renewable materials can lead to material scarcity in the long run. Scarce materials become more expensive which could have significant financial implications to our business. Extracting materials is energy intensive. It also impacts biodiversity and disrupt natural biogeochemical cycles. These negatively impact livelihood and quality of life of surrounding communities.

**Management Approach for Impacts and Risks**

JGSHI’s business units take responsibility in measuring material consumption and intensity to monitor the scale of our activities. The company works with service suppliers and engineers to ensure that facilities and processes are all sustainably optimized in terms of material usage.

For its manufacturing processes, JGSPG uses best-in-class technologies that are known for their safety, environment-friendliness, efficiency, simplicity, operational stability, cost-effectiveness and versatility. For its products, design of products with eco-efficiency as framework, and reduction of raw material usage without compromising safety, quality and performance are guiding principles. And for its waste, responsible management of internal waste, and partnership with various stakeholders to advocate solid waste management are espoused.

URC focused on finding solutions that lead to seamless and efficient operations. The responsible use of natural resources — intrinsic to our business — entails that we minimize our environmental impacts and optimize synergies where possible, whether in the careful sourcing of raw materials from select suppliers, or in the proper use, reuse, or disposal of these same materials and the material by-products generated from our operations.

**Upcycling:** URC’s commitment to quality usually entails rejecting packaging materials that do not pass inspection; however, small the blemish or dent. Added to which, scrap plastics remain after the materials have been cut and folded or shaped into the desired packaging. Rather than dispose of these materials in a landfill, URC has found ways to reincorporate them into new products. For one, URC’s scrap polyethylene terephthalate (PET) material – including bottle rejects – is reground into PET flakes and mixed with virgin PET resin to create new containers. We only upcycle materials within our system to ensure that the products are clean and don’t impose a threat towards safety and quality.

**Opportunities & Management Approach:**

There are opportunities to design better facilities, extract resources using better technology, and incorporate the use of recycled materials that JGSHI can take advantage of by ensuring that the company keeps abreast of the latest information and applying them across business units when ready. Additionally, there are opportunities for circularity in terms of creating and reinforcing material loops within and among business units.

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units	Boundaries
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity	1	-	JGSPG Batangas plant operates in a city-designated heavy industrial zone along Batangas Bay, along with

value outside protected areas			several other industries such as the Batangas port, a refinery, several power plants, food manufacturing facilities and other similar companies. Batangas Bay is within a Key Biodiversity Area located in the Verde Island Passage
Habitats protected or restored	1.8 312.5	Ha m <sup>2</sup>	JGSPG Wetland No. 8 in Boracay; and Artificial reef in Batangas Bay
IUCN Red List species and national conservation list species with habitats in areas affected by operations	(list)	-	

### Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected

**Impacts.** Any irresponsibility in terms of business operations within or adjacent to high biodiversity areas can lead to a scarcity of food and materials, displacement of indigenous peoples and local communities, and reemergence of diseases due to imbalances in animal populations such as insects or bats. Businesses can influence how key biodiversity areas are managed.

**Risks.** Although located in an industrial zone within the city fronting Batangas Bay, JGSPG recognizes that operations without mitigating controls could have adverse impacts on the marine ecosystem, which could lead to regulatory and social license implications against the Company. As such, JGSPG strictly monitors and maintains all facilities and machinery to ensure compliance to all applicable laws and standards.

### Management Approach for Impacts and Risks

JGSPG has partnered with DENR-BMB to rehabilitate and restore Wetland No. 8, a 1.8-hectare swamp and marshland located in Brgy. Manocmanoc in Boracay Island that is home to 39 species of trees and 20 faunal species of birds, fish, mammals and gastropods. Dubbed as *Para sa Atong Cagban Bobon*, JGSPG launched in July 2019 the initiative aimed to restore the environmental sustainability of Wetland No. 8 and prevent further degradation of its ecosystem, espousing a private-public sector collaborative approach with active involvement of other stakeholder communities.

In addition, for 17 years JGSPG has been maintaining a marine biodiversity project along the Brgy. Simlong coast in Batangas Bay. To date, JGSPG has deployed a total of 683 artificial reef blocks that cover an area of 312.5 square meters. Based on the latest monitoring survey of the faunal communities of the area conducted in January 2019 by the Batangas Coastal Resources Management Foundation (BCRMF), fish species richness of 38 species/20m<sup>2</sup> and fish biomass of 13.9 kg/20m<sup>2</sup> were recorded, proof of remarkable positive changes in diversity and abundance. Total number of fish species is distributed among 19 families, and composed of 24 major species and 14 target species

### Opportunities & Management Approach:

The management of biodiversity areas provides increased opportunity for business units to share

monitoring data to civil and scientific groups and cooperate with indigenous or local communities for community-driven conservation efforts thereby increasing social license to operate. There is also an opportunity to manage biodiversity areas with internationally recognized identifications thus increasing the good reputation among business units.

Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units	Boundaries
<b>GHG Emissions<sup>1</sup></b>			
Direct (Scope 1) GHG Emissions	2,501,878.42	tonnes CO <sub>2</sub> e	URC, RLC, CEB, JGSPG, and RBank, corrected for JGSHI's percentage of effective ownership stakes
Energy indirect (Scope2 ) Emissions	477,722.02	tonnes CO <sub>2</sub> e	
<b>Other substances</b>			
Emissions of ozone-depleting substances (ODS)	0.48	tonnes	RLC's R-22 related emissions

<sup>1</sup> The total greenhouse gas emissions of JGSHI is calculated using the equity approach as recommended by the GHG Protocol Corporate Accounting and Reporting Standard.

**Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected**

**Impacts.** GHG emissions from all of JGSHI's business units contribute to the overall amount of greenhouse gases sourced from anthropogenic activity which is the single most significant driver of climate change.

**Risks.** Tracking GHG emissions helps the company better understand its contribution to climate change. This also affects the company's assessment of its climate-related risks. The efficient usage of electricity and fuel reduces operational costs for all business units.

**Management Approach for Impacts and Risks**

The largest component of JGSHI's emissions come from the subsidiary, CEB. To manage this, CEB closely tracks its fuel consumption and has set up a fleet expansion plan that would increase CEB's aircrafts fuel efficiency by transitioning to modern, fuel efficient aircraft that reduces fuel burn of at least 15% per ASK (Available Seat Kilometers). New planes are bigger and fitted with more seats, allowing CEB to grow its customer base without increasing the number of flights. With these approaches, GHG emissions (CO<sub>2</sub>e) intensity per kilometer that a passenger traveled (gCO<sub>2</sub>/pk) decreased by 5.6% from 85.21 gCO<sub>2</sub>/pk in 2018 to 80.42 gCO<sub>2</sub>/pk in 2019.

**URC:** The business unit's imperative towards LEAN Manufacturing under its Supply Chain Transformation strategy aims to lower production, reduce waste, GHG emissions, and optimize the use of our natural resources. In 2019 LEAN manufacturing was piloted in key manufacturing facilities in the Philippine operations under the Branded Foods Business. URC is on the verge of doing a supply network redesign for mobility across the Philippines and some facilities in the region, and this will affect the company's roadmap towards completing its Scope 1 and Scope 3 carbon footprint. Its roadmap to complete Scope 1 emissions management is until 2025, while Scope 3 will be until 2030.

Along with this strategy, URC is infusing capabilities in GHG accounting to elevate its practice towards Science Based Targets (SBT).

**RLC:** Since the business unit's biggest emissions is generated at the power generation, the options for emission reduction is limited to choosing where to buy power while ensuring efficiency is continually improved. One initiatives is in solar rooftop where impacts are measured to reduce Scope 2 emissions. Most of the emissions that occur in RLC's facilities are contributed by its suppliers. In 2019, RLC has started collecting consumption data from its suppliers. The same data will be used to map the strategies that will be implemented in partnership with suppliers to reduce overall emissions at the construction stage.

**Opportunities & Management Approach:**

JGSHI subsidiaries such as URC and RLC have identified opportunities where they can use renewable energy in the operations, such as biomass and solar. JGSHI can further explore opportunities to influence power generation facilities to provide more competitive prices for renewably produced energy.

*Air pollutants*

Disclosure	Quantity	Units	Boundaries
NO <sub>x</sub>	9,662	tonnes	URC BCF-PH and CEB aircraft and vehicle emissions
SO <sub>x</sub>	869	tonnes	
Persistent organic pollutants	-	tonnes	no available data
Volatile organic pollutants	-	tonnes	
Hazardous Air Pollutants	-	tonnes	
Particulate Matter	76	tonnes	URC BCF-PH

The topic on air pollutants is relevant for JGSHI's business units. JGSHI ensures that the company complies with the standards set forth by the Department of Environment and Natural Resources through the Clean Air Act.

**Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected**

**Impacts.** Air pollution can impact the health of both employees of all business units and the public thereby decreasing productivity of the population.

**Risks.** Monitoring air pollutants from vehicles is important as it could impact the health of surrounding communities where our employees also live. The company also recognizes that employee productivity could be compromised if affected by health problems due to air pollution. Efforts toward ensuring compliance are currently being implemented so as not to pose risks on the company's social license to operate.

**Management Approach for Impacts and Risks**

JGSHI complies with the standards mandated by the Clean Air Act. Gensets, fuel-burning vehicles, and other machinery used by all business units are regularly maintained and checked to ensure there are no leakages and potential air pollutants are reduced to levels not detrimental to health and the environment.



**Opportunities & Management Approach:**

Improving the efficiency of JGSHI’s subsidiaries’ processes via better technology and management approaches can provide continuous opportunities to offset our air pollution.

**Solid and Hazardous Wastes***Solid Waste*

Disclosure	Quantity	Units	Boundaries
Total solid waste generated	25,842,519	kg	URC, RLC, CEB, JGSPG, RBank
Reusable	500	kg	RLC
Recyclable	5,270,252	kg	URC (BCF-PH), RLC, JGSPG
Composted/Biodegradable	7,321,321	kg	
Residuals	13,250,446	kg	URC (BCF-PH), RLC, capacity of CEB haulers, JGSPG

*Hazardous Waste*

Disclosure	Quantity	Units	Boundaries
Total weight of hazardous waste generated (uncategorized)	4,275,872	kg	URC (BCF-PH), RLC, CEB, JGSPG
Used oils	5,677	L	RLC
Busted light bulb	3,022	pcs	RLC
Total weight of hazardous waste transported	4,196,474	kg	URC (BCF-PH), CEB, and JGSPG

**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** JGSHI ensures that the waste generated by each of their business units are properly treated or disposed of. The company recognizes that improperly handled waste can result in regulatory sanctions for all business units.

**Risks.** JGSHI recognizes that leakages in the waste management system could create a variety of hazards, from being a source of odor and aesthetic nuisance to being a source of ecosystem contamination. There is a need to ensure that third-party contractors do not resort to unlawful discharges of hazardous wastes which could potentially pollute the water table and affect the drinking water supply of many communities living within the vicinity. Moreover, these could result in fines or sanctions for business units. Other stakeholders that may be affected include the government, waste pickers, and the environment.

**Management Approach for Impacts and Risks**

JGSHI’s SBU’s manage hazardous waste in line with compliance to local government regulations and their social responsibilities within the communities where they operate. Waste haulers are properly screened to ensure that they are DENR accredited before their services are engaged. Designated staff, pollution control officers, and key employees are trained and tasked to manage waste in all aspects

including facilities, equipment, and employee engagement. Hazardous waste is transported and treated by DENR accredited services. Hazardous waste kept on site are ensured to be in proper holding systems. URC and RLC, in particular, started profiling their waste through a Waste Analysis and Characterization Study (WACS) with the aim of pushing zero waste to landfill in the near future as well as extracting more value from waste for circular economy purpose.

**Opportunities & Management Approach:**

Proper waste management not only encourages cost-efficiency, but also ensures sanitary operations. Ensuring proper waste management affords each SBU the opportunity to maintain high standards in safety as well as ensuring local government and community approval. Furthermore, increasing pressure to clean up marine litter provides JGSHI’s business units the opportunity to look at their waste management systems to see how segregation and recovery can be improved. The company can seek out collaborative projects on waste management that include community engagement and linking with local recyclers to seize opportunities in scaling up partnerships with these stakeholders. Some business units have pilot projects that target each component of the solid waste that they produce in order to reduce, recover, or upcycle waste as much as possible.

Effluents

Disclosure	Quantity	Units	Boundaries
Total volume of water discharged	3,491,765.19	cubic meters	URC (BCF-PH, BCF-INT, and Flour), CEB, and JGSPG
Percent of wastewater recycled	5.63	%	CEB, and JGSPG. URC is in the process of developing its measuring system for its recycled water.

**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** Effluents can contaminate water supply if ineffectively treated or improperly disposed.

**Risks.** The Company recognizes that discharge of untreated wastewater adversely affect the environment through increased load of Biological Oxygen Demand (BOD) and Chemical Oxygen Demand (COD), and other water pollutants in receiving bodies of water. This harms the delicate ecosystem balance that fosters biodiversity and productivity. It contributes regulatory and social acceptability risks to the Company.

**Management Approach for Impacts and Risks**

JGSHI’s business units have wastewater treatment facilities to treat effluents before discharging them. Business units also employ the use of recycled water and rainwater harvesting when possible. Conservation efforts by improving employee practices are also practiced within business units.

**Opportunities & Management Approach:**

JGSHI sees an opportunity in upgrading water facilities through more comprehensive water metering

## Environmental compliance

### Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units	Boundaries
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	380,077.33	PhP	RLC – minor non-compliances to DENR and National Water Regulatory Board (NRWB) regulations in 9 out of 210 properties CEB – LLDA sanctions due to water discharge contamination, but were eventually cleared upon further investigation
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	none	#	
No. of cases resolved through dispute resolution mechanism	1	#	CEB – same case as above

#### Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected

**Impacts.** Any sanctions can impact JGSHI's business units if they remain unresolved through fines, litigation, or reputational risks. JGSHI recognizes that environmental compliance is important to ensure that affected stakeholders including employees, surrounding communities, and the environment are not exposed to an unnecessary amount hazard due to our business operations.

**Risks.** JGSHI acknowledges that environmental compliance should be part of its day-to-day operations. Non-compliance with any environmental law or regulation could have financial implications to the business from fines and stoppage of operations.

#### Management Approach for Impacts and Risks

Compliance to environmental laws is non-negotiable across all business units. Each allegation is thoroughly examined and negotiated. Necessary action points are employed at each stage of the process. Business units monitor and maintain all facilities and machinery to ensure that they are in accordance with standards and laws. Additionally, business units have a dedicated team to ensure compliance.

#### Opportunities & Management Approach:

Improving in-house audits and other internal capabilities can mitigate the risk of non-compliance. Investing in training and monitoring capabilities not only of designated compliance teams but all employees can help correct any issues faced by business units. Employing third-party consultants can also help JGSHI improve their overall compliance system.

## SOCIAL

### Employee Management

#### Employee Hiring and Benefits

##### Employee data

Disclosure	Quantity	Units	Boundaries
Total number of employees	22,361		URC, RLC, CEB, JGSPG, RBank
a. Number of female employees	9,480	#	
b. Number of male employees	12,881	#	
Attrition rate <sup>1</sup>	2.23%	rate	
Ratio of lowest paid employee against minimum wage	1:1	ratio	URC, RLC, CEB, RBank

<sup>1</sup>This is computed based on SEC formula: Attrition rate = (no. of new hires – no. of turnover)/(average total no. of employees of previous year and total no. of employees of current year). Using this formula, CEB showed negative attrition due to reorganization. A number of posts were transferred upon the formation of 1Aviation, an independent ground handling company where CEB has a minority stake.

##### Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year	Boundaries
SSS				This covers JGSHI CCU employees only. Benefits not mandated by government are specifically allocated by the business units based on what is most suitable to their industry and their employees' needs. While JGSHI ensures that 100% of eligible employees are given government-mandated and company benefits, tracking of their availment by female and male is still in
• Salary Loan	Y	11%	9%	
• Parental Benefit	Y	2%	-	
• Sickness Benefit	Y	1%	1%	
PhilHealth	Y	7%	6%	
Pag-ibig	Y	8%	3%	
Parental leaves	Y	1.54%	1.76%	
Vacation leaves	Y	37.67%	23.35%	
Sick leaves	Y	34.36%	17.40%	
Medical benefits (aside from PhilHealth))	Y (HMO)	70.20%		
Housing assistance (aside from Pag-ibig)	Y	no data available		
Retirement fund (aside from SSS)	Y			
Further education support	Y	7%	2%	
Company stock options	N	-	-	
Telecommuting	N	-	-	
Flexible-working Hours	Y	43.17%	26.65%	
Others:		100%	100%	
• Rice Subsidy	Y			
• Medicine Allowance	Y			
• Uniform Allowance	Y			
• Sportsfest Subsidy	Y			
• Summer Outing Subsidy				

<ul style="list-style-type: none"> <li>• RBank Cash Card or RWallet</li> <li>• URC Marketing Activations and Sales Promotions</li> <li>• Other Employee Perks and Partnerships</li> </ul>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>				progress.
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**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** Through hiring and provision of competitive benefits, JGSHI employees are better able to cover their cost of living, perform their roles outside the workplace, afford a better quality of life, hence, stay longer in the company.

**Risks.** As with any company, there is always a risk of employee attrition which could have some effect on company productivity and ability to retain talents.

**Management Approach for Impacts and Risks**

JGSHI abides by the standards and policies set by the Department of Labor and Employment for hiring and compensation. The parent company and its subsidiaries comply with and go beyond the mandatory benefits as required by the law. Conglomerate-wide Human Resources and Administrative Policies are communicated well to employees through the Employee Handbook, including:

- **Annual Merit Increase** – one-time annual performance-based salary adjustment given to qualified employees to reward and recognize individual contributions, competencies and performance
- **Promotion Increase and Salary Adjustment** – given to employees who have shown consistent outstanding performance based on performance evaluation, have the capability to assume more complex duties, have been adequately trained through formal and informal training. Such movement also includes a salary adjustment commensurate to the promotion.
- **Leave Benefits** – including law-mandated benefits such as Service Incentive Leave and Parental Leaves (Paternity and Maternal Leaves) and company-provided benefits such as Vacation Leave, Sick Leave, Nuptial Leave, and Emergency/Bereavement Leave
- **Medicine Allowance**
- **Overtime Policy**
- **Retirement and Separation Pay Benefits**
- **Government-Mandated Policies** – including 13<sup>th</sup> month pay, Special Leave Benefit for Women, SSS Benefits, HDMF Benefits, and PhilHealth Benefits

**Opportunities & Management Approach:**

JGSHI sees the opportunity to differentiate itself as an employer from other desirable companies in the country. Grievance mechanisms and numerous communication channels, such as town hall meetings, are made available to employees. This allows the company to capture the other dimensions of employee satisfaction, such as professional development.

### Employee Training and Development

Disclosure	Quantity	Units	Boundaries
Total training hours provided to employees	656,182.40	hours	URC (no female-male breakdown), RLC, CEB, JGSPG, and RBank. For CEB, training hours covers Human Resources-led soft skill trainings such as behavior, management, and leadership.
a. Female employees	95,994.00	hours	RLC, CEB, JGSPG, and RBank. For CEB, training hours covers HR-led trainings only.
b. Male employees	67,799.40	hours	
Average training hours provided to employees	31.65	hours/employee	URC (no female-male breakdown), RLC, CEB, JGSPG, and RBank. For CEB, training hours covers HR-led trainings only.
a. Female employees	10.68	hours/employee	RLC, CEB, JGSPG, and RBank. For CEB, training hours covers HR-led trainings only.
b. Male employees	5.78	hours/employee	

#### Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected

**Impacts.** JGSHI and its subsidiaries improve the competencies of its employees. In turn, competent employees become more productive in the workplace. Additionally, a well-trained workforce also encourages innovation and continuous improvement in the company.

**Risks.** Adequate training drives employee engagement. When employee's training needs are unmet, productivity and quality of work is compromised. It make employees feel disempowered which could push them to seek opportunities elsewhere, resulting to higher attrition.

#### Management Approach for Impacts and Risks

JGSHI continuously provides learning and development opportunities for its employees through the John Gokongwei Institute for Leadership and Enterprise Development or JG-ILED, the leadership platform for systematic and sustained development programs across the conglomerate. Its mission is to enable a high performing organization that will facilitate the learning process and develop the intellectual and personal growth of all employees through targeted and customized trainings and development programs.

JGSHI's subsidiaries also have their own training programs that address their need for specific skills. Highly technical industries such as air transportation and petrochemicals provide highly specialized trainings to their employees. This includes the cabin crew and pilot trainings of Cebu Pacific, operations trainings for JGSPG and URC, as well as safety and security trainings across the subsidiaries. The Human Resources of each business unit plans, manages, and facilitates the implementation of programs geared towards the enhancement of its employees' skills. HR also evaluates and determines the allocation of training slots for a particular training program to ensure equity, fairness and cost effectiveness.

JGSHI also implements its Inter-BU Employee Transfer policy to facilitate the lateral movement of its

employees across its subsidiaries and to allow employees to grow professionally and perform better within the conglomerate.

**Opportunities & Management Approach:**

JGSHI sees the opportunity to differentiate itself as a company that equips its employees with skills and work experience that make them competent, as well as opportunities to practice these skills within the conglomerate.

Labor-Management Relations

Disclosure	Quantity	Units	Boundaries
% of employees covered with Collective Bargaining Agreements	14.69%	%	URC and RLC. RLC includes rank-and-file employees of two properties.
Number of consultations conducted with employees concerning employee-related policies	30 dialogues	#	URC, CEB, and JGSPG. This includes large townhall meetings, and Kapihan and Salu-salo sessions, involving 20 to 1000 employees.

**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** Employee unions allow JGSHI employees to collectively communicate with employees on governance and compensation. JGSHI is also able to effectively gather employee concerns.

**Risks.** JGSHI fosters a safe environment for labor unions to freely communicate their concerns to the management. This is key to arriving at a mutually beneficial Agreement. When disagreements are not addressed immediately, the company runs the risk of labor unrest, which can disrupt the company’s operations and ability to meet its customer’s needs.

**Management Approach for Impacts and Risks**

JGSHI does not limit its employees their right to organization. JGSHI proactively listens to employee concerns during negotiations in order to reach agreements.

**Opportunities & Management Approach:**

JGSHI will continue to develop and evaluate platforms to foster productive communication with our employees through formal and informal meetings. JGSHI will create a more systematic approach to address concerns raised by its employees.

Diversity and Equal Opportunity

Disclosure	Quantity	Units	Boundaries
% of female workers in the workforce	42%	%	URC, RLC, CEB, JGSPG, RBank
% of male workers in the workforce	58%	%	

Number of employees from indigenous communities and/or vulnerable sector	-	#	no available data
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<b>Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected</b>
<p><b>Impacts.</b> Companies that employ a diverse workforce is beneficial to the success of business. By gathering employees with different backgrounds, JGSHI also creates a large pool of strengths, ideas, and perspectives that can provide better, innovative solutions which can also cater a wider range of market.</p> <p><b>Risks.</b> A less diverse workforce could result to blind spots in the way the company assesses the needs of its stakeholders. This limits the opportunity to innovate to better serve the needs of its stakeholders. This could lead to exclusion of certain segments of the population and high opportunity cost from untapped markets.</p>

<b>Management Approach for Impacts and Risks</b>
<p>JGSHI’s Engagement Philosophy is created such that all the aspects of its employee welfare are promoted, and this is achieved through programs that do not discriminate or differentiate between organized groups. The JGS CARES, launched in 2008, stands for the five (5) key elements to guide the parent and its subsidiaries in all its initiatives: Communication, Advocacy, Recognition, Engagement and Social Responsibility.</p> <p>JGSHI strictly hires based on competencies required of the position, and does not discriminate on race, color, religion, sexual orientation, disabilities. To operationalize non-discrimination, Corporate HR is also up-to-date on societal trends influencing the workforce demographic, and is positioned to open discussions on complements to hiring based on competencies.</p>

<b>Opportunities &amp; Management Approach:</b>
<p>JGSHI sees an opportunity in providing reasonable preferential hiring to the vulnerable sector, staying through to the company commitment to creating shared success. JGSHI can look into developing a policy that enables hiring of competent individuals from vulnerable sectors.</p>

## Workplace Conditions, Labor Standards, and Human Rights

### Occupational Health and Safety

Disclosure	Quantity	Units	Boundaries
Safe Man-Hours	92,301,393	hours	URC, RLC, CEB, JGSPG, RBank. JGSPG includes both employees and contractors.
No. of work-related injuries	569	#	URC, RLC, CEB, JGSPG, and RBank
No. of work-related fatalities	2	#	
No. of work related ill-health	0	#	
No. of safety drills	158	#	



**Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected**

**Impacts.** An effective environmental, health and safety (EHS) system in JGSHI ensures the wellbeing of its employees as well as the productivity of its workforce.

**Risks.** Health and safety culture must become second nature to all of JGSHI’s employees, not just in the workplace but everywhere else. The Company continues to work towards this goal because we understand the risks to life and property if this is not done well. Failure to meet health and safety standards and regulations could cost JGSHI penalties from regulators, suspension of operations, attrition, and damage to reputation.

**Management Approach for Impacts and Risks**

JGSHI established its company-wide EHS management to ensure that safety protocols are in place in the company. Designated EHS managers in the business units lead and ensure that they meet the primary compliance requirements of DOL, DOH, BFP, DENR-EMB, and LLDA. JGSHI’s Corporate EHS conducts monthly monitoring of LTA, MTC, and FAC as well as periodic site visits, inspections, and assessment. The parent company also conducts regular EHS Trainings for the employees. In 2019, JGSHI held its first Safety Milestone (SMile) Awards where JGSHI recognized the efforts of the various strategic business units who contributed significantly in establishing the culture of safety at work. Regular conduct of EHS 101 Learning Sessions increases the awareness levels of the EHS Officers and Managers not only on best practices but on regulatory requirements as well.

**Opportunities & Management Approach:**

JGSHI seeks to improve its EHS system by studying to install additional safety features within its facilities. JGSHI is looking at optimizing the EHS Council, and developing EHS Policy and Programs.

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	Y	The Company adopts and complies with the rules and regulations issued by the Department of Labor and Employment. Moreover, the Company ensures that engaged Service Providers comply with the same.
Child labor	Y	The Company adopts and complies with the rules and regulations issued by the Department of Labor and Employment. Moreover, the Company ensures that engaged Service Providers comply with the same.
Human Rights	Y	<ul style="list-style-type: none"> <li>Policy on Sexual Harassment</li> </ul>

		<ul style="list-style-type: none"> <li>• Policy on Health, Safety and Welfare</li> <li>• Corporate Environment, Health and Safety Policy</li> <li>• Drug-Free Workplace Policy</li> <li>• Workplace Policy on Prevention Control of HIV and AIDS, Hepatitis B and Tuberculosis</li> <li>• Special Benefits for Women/Magna Carta for Women</li> <li>• Solo-Parent Leave Policy</li> <li>• Whistleblowing Policy</li> <li>• Data Privacy Policy</li> </ul>
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<b>Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected</b>
<p><b>Impacts.</b> Human rights compliance in the workplace ensure that JGSHI’s workforce experiences no unlawful activities and that employees can exercise their right to decent work. Compliance or violation of these rights will impact JGSHI’s productivity, employee retention, and employee engagement.</p> <p><b>Risks.</b> As in any instance, cases of human rights and labor violations could have regulatory implications against the Company which could further tarnish the Company’s reputation and brand.</p>

<b>Management Approach for Impacts and Risks</b>
JGSHI implements the aforementioned company-wide to ensure that human rights are protected when employees are within the office premises.

<b>Opportunities &amp; Management Approach:</b>
JGSHI will continue to adhere to the highest ethical and lawful conduct in the way it handles its employees.

### Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:  
 Yes. See Annex 1.

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite reference in the supplier policy
Environmental performance	Y	Procurement employees are trained on Responsible Sourcing to ensure compliance with the Company’s Policies as well as government rules and regulations.
Forced labor	Y	
Child labor	Y	
Human rights	Y	
Bribery and corruption	Y	

<b>Impacts and Risks: Where they occur, JGSHI’s involvement, stakeholders affected</b>
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**Impacts.** To ensure delivery of committed goods and services, JGSHI's partners across the supply chain will employ measures on time delivery of suppliers.

**Risks.** The accreditation process mitigates the risks of late or non-delivery of products and services resulting to losses in sales and revenues. Moreover, supplier accreditation also helps maintain the integrity of the procurement process thus promoting transparency and good corporate governance. Moreover, terms and conditions are defined in the Purchase Order to ensure compliance and protection on agreed upon contract terms.

**Management Approach for Impacts and Risks**

JGSHI trains its Procurement employees on Responsible Sourcing that covers procurement ethics like corruption and bribery and government regulations on the environment, child labor, forced labor, and human rights.

**Opportunities & Management Approach:**

JGSHI has in place the necessary accreditation process and procurement policies to ensure fairness, accountability and transparency for the best interest of all stakeholders. This considers both financial and environmental impacts and promotes sustainable shared growth with our suppliers both big and small.

Relationship with Community

Significant Impacts on Local Communities

**1. Operations with significant impacts on local communities: Transforming places to destinations through low-cost air transport (CEB)**

**Location:** Basco, Batanes

**Vulnerable groups:** Ivatan

**Impact on Indigenous peoples:** Additional source of income from boost of tourism in the area

**Community rights and concerns of communities:** After commencement of CEB flights in the area, the local community expressed its concerns about the adequacy of food supply and maintenance of peace and order brought by high volume of tourists.

**Mitigating measures:** In response to the community concerns, CEB agreed to the following measures:

- Inflight announcement to remind passengers to respect the culture of the IPs
- Implementation of #JuanEffect sustainable tourism program
- Extension of favorable fares to the Ivatans

**2. Operations with significant impacts on local communities: PWD and senior citizen discounts for flights (CEB)**

Cebu Pacific implements a 20% discount and VAT exemptions on flight tickets for senior citizens and person with disabilities. In 2019, flight discounts were given to 108,260 senior citizens and 1,162,793 PWDs.

**Location:** Available in all Cebu Pacific over-the-counter ticketing office, official website, and mobile application.

**Vulnerable groups:** Elderly (senior citizens 60 years of age or more) and persons with disabilities

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** This service allows the elderly and PWDs to exercise their right to discounts and VAT exemptions in domestic air travel.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

### 3. Operations with significant impacts on local communities: Lingkod Pinoy Centers (RLC)

The Lingkod Pinoy Centers emerged from the RLC's desire to ease the delivery of essential government services to every Filipino. It is a one stop shop where people can access a variety of public services. Started in 2011, the Lingkod Pinoy Center is now present nationwide to provide convenience and comfortable venues to make transactions. The Malls provides the area at no cost to the government, saving the state an estimate of PhP 15.80 million a month. The centers average daily transaction in 2019 is at 58,788. It hosts 19 Government Agencies and offices.

By hosting select government satellite offices RLC reduces the need for people to take multiple trips and in process reduce carbon emissions from vehicle use.

**Location:** Available in 44 malls around the country

**Vulnerable groups:** Everyone including vulnerable groups are served.

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** It allows the citizens to exercise their rights to access government services.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

### 4. Operations with significant impacts on local communities: Transport Hubs (RLC)

RLC presence in several communities makes it a strategic hub for transport connectivity. By providing terminal spaces for public utility vehicles, the malls improve accessibility to several destinations for commuters. Robinsons Malls host a variety of transport services: from P2P buss, UV Express Services and vans, electric and regular jeepneys and tricycles. Some of the malls also provide loading bays to

ensure a safe and systematic way for commuters to board and alight from public transport vehicles. In total, 58,257 sqm of space in Robinsons Malls were allotted for public transport terminals

**Location:** Available in 21 malls around the country

**Vulnerable groups:** Everyone including vulnerable groups are served.

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** It allows the citizens to exercise their rights to access government services.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

**5. Operations with significant impacts on local communities: Financial access to the underserved (RBank)**

To promote financial inclusion, Robinsons Bank launched Simplé Savings which has a simpler and easier way of getting a savings account.

**Location:** Available in 146 branches of RBank and accessible online

**Vulnerable groups:** underserved market

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** This service allows the underserved segment to exercise their rights to be served by a financial institution.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

**6. Operations with significant impacts on local communities: Financing small businesses through Legazpi Savings Bank, Inc. (RBank)**

Legazpi Savings Bank, Inc. provides financial assistance to programs associated with SDGs. About 24% of our loans were disseminated to micro and small-scale businesses. LSB distributed its other loans to various programs such as food and agriculture, education, electrification, water and sanitation systems, among others. In 2019, LSB gave loans amounting to Php 326 million to about 5,470 outstanding small farm and businesses loans, and Php 197 million to 4,474 past and non-accrual loans.

**Location:** Available in all branches of Legazpi Savings Bank, Inc. nationwide

**Vulnerable groups:** underserved market

**Impact on Indigenous peoples:** No identified negative impacts to indigenous groups.

**Community rights and concerns of communities:** This initiative allows to start up SDG programs to be able to meet the rights of those in the underserved sectors in the country.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

#### **7. Operations with significant impacts on local communities: Sustainable Potato Farming (URC)**

URC partnered with the Department of Agriculture to implement Sustainable Potato Program to help the local farmers increase their yield and scale-up productivity. URC provided high quality Granola potato seeds from Canada as farm inputs to selected potato farming communities.

The Miarayan farmers from Bukidnon were able to harvest around 250,000 metric tons (MT) of table potatoes from more than 5,000 seeds per hectare. If they can sell their produce at the farm gate price of P45 per kilo, a farmer can earn up to P2.2 million per hectare in three months.

Aside from the farmers of Miarayan, seven other cooperatives from Bukidnon, Benguet, Mountain Province, and Davao were able to receive potato seeds under the program. In the Cordillera region, farmers reported harvesting an average of 20 metric tons. This could earn them up to P600,000 if they could sell their produce up to P30 per kilo.

In Sitio Balutakay and Barangay Alegre, Bansalan, Davao Del Sur, farmers reported harvesting up to 600 kilograms of potato tubers.

**Location:** Benguet, Mt. Province, Bukidnon and Davao del Sur

**Vulnerable groups:** local small-scale farmers

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** The program allows the stakeholders to exercise their rights to have access to a means of livelihood. It delivers long-term impact to the lives of our local Potato farmers in different regions. The Program put into action the Conglomerate's mission of "making the Filipino lives better".

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

#### **8. Operations with significant impacts on local communities: Sagana Sustansya (URC)**

In alignment with URC's commitment on working towards zero hunger, URC started a program that will support the elimination of malnutrition. This project builds on the success of URC and Molave Development Foundation's implementation of our first Community Nutrition Program in Metro Manila (Pasig City) and Laguna (San Pablo), and an institutionalization of the feeding program into

URC's overall CSR Strategies. This feeding program is now called "SAGANA SUSTANSYA". This innovative program that integrates training and advocacies on fighting hidden hunger amongst school children, and building capacity of schools, communities and URC volunteers in preparing Sagana Sustansya, the highly-nutritious food fortification technology that was key to impressive results.

We have conducted the program at the Del Rosario Elementary School in San Fernando, Pampanga between August to December 2019. Among the 163 undernourished children who participated in the program, 155 have improved their nutritional status which led to a 95% overall improvement rate.

**Location:** For the year 2019, the Program was introduced to partner schools of URC Plants in San Fernando, Pampanga, Cagayan de Oro City and Cebu City.

**Vulnerable groups:** elementary students and their families

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** The program allows the stakeholders to increase knowledge on how to prevent malnutrition amongst children.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

**9. Operations with significant impacts on local communities: Flourish Pilipinas (URC)**

The Flour and Pasta Division of the company has developed Flourish Pilipinas in 2018, a Multimedia Toolkit on Bread and Pastry Production. The programs aims to provide support to the teachers and student in public schools by increasing the accessibility of a wide range of multimedia tools that are more interactive, standardized, and cost-effective. URC partnered with the Department of Education to further the coverage of our initiative. This is serves as part of the company's initiative of supporting education in communities.

Thanks to the support of our management, we're proud to say that since we started six months ago, we've already had 40 class sessions and we've reached over 700 participants, of which around 200 were teachers from the education sector. We anticipate training even more teachers from the other remaining regions.

**Location:** Baking Demo for DepEd Teachers - Baker John Academy in Quezon City

**Vulnerable groups:** teachers and students in public schools across the Philippines

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** The training of these teachers under the Flourish Pilipinas Project is the next step of the pioneering efforts to support the country's baking industry and enhance the skills of bakers and would-be bakers.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

**10. Operations with significant impacts on local communities: Local community engagement (JGSPG)**

JGSPG engages with its host local barangays in Batangas City through its corporate social responsibility programs which have evolved to encompass education, environment and community development in the hope of improving the lives of the surrounding communities. JGSPG brought the *Abot Kamay* initiative to local elementary schools by conducting Brigada Eskwela, feeding programs, outreach activities, and by donating school supplies and personal computers. JGSPG also conducted environment-related activities through tree planting activities, protection of forests and reef sanctuary, rehabilitation of wetland no. 8 in Boracay island, and participation in annual International Coastal Clean-up activity. Finally, community-based programs of JGSPG include medical and disaster relief missions, emergency aid training, and donations of equipment and facilities such as container vans (to serve as office and clinic of the barangay) and basketball court; repair of barangay ambulance, and improvement of local water system.

**Location:** Batangas

**Vulnerable groups:** marginalized community

**Impact on Indigenous peoples:** No particular negative impacts to indigenous groups.

**Community rights and concerns of communities:** These programs provided goods and services to the marginalized community.

**Mitigating Measures:** The operations have no significant negative impact, hence it requires no mitigating measures.

Free and Prior Informed Consent (FPIC) and Certification Preconditions (CPs) for operations affecting Indigenous People (IP):

Certificates	Quantity	Units	Boundaries
FPIC process is still undergoing	1	#	CEB have completed requirements for FPIC and now awaiting issuance of CP. CEB was granted permit to operate pending CP issuance.
CP secured	0	#	

**Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected**

**Impacts.** JGSHI's operations impact to the communities could be positive or negative and may range from physical to social and economic. Delivering positive benefits to the community strengthen JGSHI's partnerships such as improving accessibility and mobility of public services, and transportation.

**Risks.** JGSHI follows a strict protocol in obtaining social license to operate whenever it enters a certain community. Communities are important stakeholders who help the company succeed. JGSHI



recognizes risks related to poor community engagement, where communities' concerns are not properly addressed, could push the community to act against the company's interest. It is crucial for JGSHI that the community understands the value that it brings to the community, and that the company is open to hearing their feedback and doing what is best to address their concerns.

#### **Management Approach for Impacts and Risks**

To manage the impact to the community, JGSHI ensures that it conducts its business while complying to all the necessary regulatory bodies.

#### **Opportunities & Management Approach:**

A social or community impact and risk assessment will aide JGSHI in managing its subsidiaries' operations. This will help the company identify current and potential impacts/risks within a particular community. Such information will help develop a more structured and coherent approach to managing the identified risks.

## Customer Management

### Customer Satisfaction

JGSHI'S customer-centricity is essential in achieving the group's purpose to provide better choices. While some of the business units have already been doing customer satisfaction studies and have invested in digital systems to capture customer perception, JGSHI is in the process of coordinating with the whole group to fully operationalize its approach to customer centricity.

### Health and Safety, Marketing and Labelling, and Customer Privacy

The focus on customer health and safety, marketing and labelling, and customer privacy is managed directly by the business units. Due to the specificity of concerns on product and service delivery of each JGSHI's business unit, the subsidiaries define, manage, and evaluate their own communication channels to capture customer concerns; process and resolve customer complaints by feeding these into their corporate decision making; and engage more closely its most important stakeholders to develop and improve their products and services.

#### **Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected**

**Impacts.** JGSHI, being a parent company, has no direct customers. However, customer satisfaction of the subsidiaries affects JGSHI's reputation. When customers are satisfied with the subsidiaries' products and services, subsidiaries are assured of customer loyalty and retention. Otherwise, when customers' needs are not met or are dissatisfied with the quality of the products or services, customers would easily explore other options from other brands.

**Risks.** JGSHI recognizes that unresolved customer complaints, especially when these reach digital platforms, could negatively influence wider customer perception on the quality of our product and service. Issues surrounding product safety and quality, customer privacy and advertising if remained unresolved could lead to a decrease in customer satisfaction. Unmet customer satisfaction could result in decline in sales, and eventual loss of market share.

### **Management Approach for Impacts and Risks**

Customer management is fundamental to corporate success and sustainability. JGSHI's subsidiaries' ability to keep its customers satisfied is at the core of its performance. Ensuring their health and safety in the use of the business units' products, and protecting their information are ways to deliver customer satisfaction.

The subsidiaries employ different strategies that ensure customer satisfaction are met and managed.

URC monitors and improves operational efficiency to ensure timely delivery of goods (for fast moving consumer goods). There is a customer care group dedicated to communicating directly with its consumers, and a sales account management team dedicated to respond to the needs and concerns of its accounts. For Health and Safety, URC consumer feedback regularly provides input on product and process improvements. The company is continuously upgrading its Quality and Food Safety Standards based on updated global guidelines while LEAN manufacturing will be scaled across our facilities in the Philippines this year. For Marketing and Labeling, URC ensures that it fully complies with regulatory labeling and product information requirements and implement the required analysis for nutritional facts and claims.

RLC conducts a periodic market research to gauge customer expectations and build the right products and services to meet their expectations, needs, and capabilities. The customer satisfaction surveys tell the company whether the products and services as designed have indeed met their requirements. RLC continually iterates and improves its performance through these processes. For Health and Safety, RLC adheres to the highest building standards from construction to operation to ensure properties are resilient to any structural threats. Periodic audits are done to ensure compliance to the standards. For Customer Privacy, RLC ensures customer details from its transactions are accessed by limited, duly authorized personnel only.

CEB uses a mixture of digital and traditional channels to communicate with customers. These tools are used to listen to customers' feedback and concerns, resolve their complaints, and identify pain points in the whole customer experience. CEB is among the first airline companies to Asia to invest in an integrated facility with technology for social intelligence and customer engagement.

All of JGSPG's EVALENE® polyethylene and polypropylene grades have been Philippine FDA-certified since 1999 and Halal-certified since 2014. Likewise, EVALENE® PE and PP is compliant with Model Toxics in Packaging Legislation (since Sept 2003), ROHS Directive (since January 2007), and EU 10/2011 Overall Migration (October 2012).

### **Opportunities & Management Approach:**

At the parent level, JGSHI puts focus on digitalization activities that will help subsidiaries improve customer experience, from building closer relationship with its business-to-business customers, to stronger customer insighting to find ways to understand changing customer expectations.

## Data Security

Disclosure	Quantity	Units	Boundaries
No. of data breaches, including leaks, thefts and losses of data	1	#	1 CEB incident in April 2019

### Impacts and Risks: Where they occur, JGSHI's involvement, stakeholders affected

**Impacts.** As JGSHI increasingly adapts digitalization to improve customer experience and increase efficiency in internal operations, there is greater need to invest in securing our network from cyberattacks.

**Risks.** Notwithstanding the regulatory impacts, instances of data breaches could place the Company's sensitive or confidential information at risk of being used against it or used to gain unfair advantage over it. Leaks of personal information (e.g. employees and customers) could also pose threats on the person's safety and security.

### Management Approach for Impacts and Risks

JGSHI implements cyber-security capability increase and preventive measures to ensure the security of confidential company data. As of to date, the Data Privacy Policy and Information Security (InfoSec) Policies applicable to the whole conglomerate are in place.

The Company established the Information Security Management Systems (ISMS) Policies that institutionalized information security as part of the Conglomerate's enterprise risk management, protect the Company's information assets and reputation, and to comply with relevant laws and regulations.

The ISMS consists of the following:

1. **Core Information Security Policies** drive the primary objectives of the ISMS: establish, maintain, and improve information security
  - 1.1. **Information Security Policy** aims to establish, maintain, and continuously improve the ISMS to protect information assets, maintaining competitive advantage and increasing stakeholders' confidence.
  - 1.2. **Information Asset Management Policy** aims to define and classify information assets in both physical and electronic formats and provide guidance on how to appropriately handle information assets according to classification.
  - 1.3. **Information Security Incident Management Policy** aims to mandate a structured approach in managing incidents that compromise corporate information and personal data of the business units' customers.
  - 1.4. **Compliance Policy** aims to ensure that Business Units comply with applicable legal, regulatory requirements and contractual obligations, when conducting business activities.

2. **Organizational Policies** aim to establish Information Security organization, roles and responsibilities as well as accountability of those who have access to corporate information
  - 2.1. **Information Security Internal Organization Policy** aims to establish the appropriate internal organization that ensure security of information assets
  - 2.2. **Human Resource Security Policy** aims to protect the company's business interests by ensuring that employees and contractors understand and fulfill their roles and responsibilities to preserve information security before, during, and after employment
  - 2.1. **Supplier Relations Policy** aims to mandate controls that protect information assets exposed to suppliers and preserve the integrity of supplier selection activities
3. **Access and Use Policies** enforce controls for access and authorization, as well as acceptable use of information assets
  - 3.1. **Access Control Policy** aims to Implement adequate measures to regulate access to different information assets and facilities, ensuring that facilities and equipment are only accessed by authorized personnel
  - 3.2. **Acceptable Use of Assets** Policy aims to ensure that employees understand how corporate assets should and should not be used, ensuring that the BU gets the most value out of its corporate assets and networks to avoid unintended security breaches.
  - 3.3. **Physical and Environmental Security Policy** aims to protect corporate assets and information by mandating controls that prevent unauthorized physical access to company premises, as well as equipment that support business operations
  - 3.4. **Mobile Device and Teleworking Policy** aims to establish rules for the use, management and security of all mobile devices that process company information and establish rules for conducting official business outside the work premises
4. **Operational Security Policies** refer to the implementation of technical controls to maintain the target level of security
  - 4.1. **Cryptographic Controls Policy** aims to apply cryptographic controls (i.e. encryption) on confidential electronic information (e.g. files, databases), to add another layer of protection and prevent unauthorized use or disclosure.
  - 4.2. **Operations Security Policy** aims to apply appropriate controls to ensure that day to day operations are carried out in a controlled and a secure manner.
  - 4.3. **Communications Security Policy** aims to implement measures that will protect information as it moves both within the corporate network and outward.
  - 4.4. **Data Security Policy** aims to implement measures to protect corporate information from possible loss and leakage, avoiding breaches to legal, statutory or contractual obligations.

4.5. **Secure Development Policy** aims to protect corporate information and minimize breaches by ensuring that information security is taken into consideration when developing or acquiring systems and services.

In the event of data breach, such as in the case of CEB, affected servers and applications were shutdown, risk assessment was conducted, the National Privacy Commission and affected subjects were notified and provided with guidance on how to handle. CEB developed a Data Privacy Manual incorporating data privacy principles and protocols.

**Opportunities & Management Approach:**

JGSHI aims to continue improving data privacy protection through continuous development of technology solutions, conduct of periodic risk assessment and personnel trainings in the future.

## U.N. SUSTAINABLE DEVELOPMENT GOALS

### Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Office Space	<p>RLC provides a suitable location where businesses can operate and grow contributing to job creation and increased economic activity in the areas where we locate.</p> <p>To date RLC have 666,448 square meters of gross floor area.</p>	<p>Apart from the environmental, social, and economic impacts identified above, RLC sees no further material negative impacts of this product to SDGs.</p>	<p>Nothing material that RLC could identify</p>
Mall Space	<p>RLC provides a space where its customers (merchants) benefit from the foot traffic to the malls. It allows foreign and local enterprises to access key markets and scale their businesses. People around RLC's locations can access quality products that meets their needs from food, medicine, clothing, and other needs that improve their quality of life.</p> <p>To date, RLC has a total of 3,009,511 square meters of gross floor area. In addition, 18 of our malls offer low-carbon malls spaces, as they're fitted with solar panels that meets a significant part of their power requirement.</p>	<p>Current businesses could be negatively affected through reduced customers. Increased consumerism could reduce savings of citizens. It may also cause traffic congestion that reduces productivity of the population.</p>	<p>When RLC enters a location, the company maps which local enterprises could be negatively affected by our entry. RLC assesses the impact and provides opportunities for the affected parties to locate in its mall, or their household members to be given employment opportunities.</p>
Hotel Rooms	<p>RLC provides affordable, quality accommodation options for tourists who contribute economic value to the local areas where RLC's hotels operate. People who travel to offsite locations on business are also able to access quality rooms that meet their budget.</p>	<p>Apart from the environmental, social, and economic impacts identified above, we see no further material impacts of this product to SDGs.</p>	<p>Nothing material that RLC could identify</p>

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
	Currently, RLC has 2,368 rooms in the Go Hotels and Summit Hotels Brands.		
Vertical and Residential Products	RLC help families achieve their dreams of owning a home. We have a deep understanding of the needs of our customers and build for them a house that meets their needs wherever they are in their journey towards financial freedom. In 2019, we have a total of 5,272 residential units.	Apart from the environmental, social, and economic impacts identified above, RLC sees no further material impacts of this product to SDGs.	Nothing material that RLC could identify
Logistics (Storage)	<p>RLC provides storage space that helps product-based businesses make their distribution system more efficient, ensuring that their goods are well secured.</p> <p>To date RLC has 77,000 square meters of warehouse space.</p>	Apart from the environmental, social, and economic impacts identified above, RLC sees no further material impacts of this product to SDGs.	Nothing material that RLC could identify
Master planned mixed-use developments and townships	<p>RLC’s master-planned properties are designed to foster resilience, mobility, security, connectivity, and comfort. With well-designed combination of office space, commercial and residential areas, RLC creates an urban environment that supports economic growth in a manner that protects the environment and puts people’s needs at the heart of it.</p> <p>With efficient master-planning, innovative designs, and quality construction, the townships will raise the standard of mixed-use developments in the country. Overall, the locations and design will attract foreign investments that will increase the country’s overall economic pool.</p> <p>The compact communities built by RLC also help</p>	Apart from the environmental, social, and economic impacts identified above, RLC sees no further material impacts of this product to SDGs.	Nothing material that RLC could identify

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
	<p>reduce the need to travel by car, foster walkability, creating long-term benefits to air quality, health, and climate change mitigation.</p> <p>Currently, RLC has a total of 256 hectares of township developments.</p>		
Provider of low cost air transport	<p>CEB's commitment to provide an accessible network (65 destinations, 119 routes, 143,897 flights in 2019), safe and reliable travel, best value flight experience contributes to improved connectivity, which helps build economic development, which in turn lifts standards of living. Greater mobility also creates more job opportunities, expands business reach, and encourages tourism.</p> <p>CEB is also able to extend free flights to those who need support on a case-to-case basis.</p>	<p>Low cost travel has also increased the demand and ability of people to fly. This also means:</p> <p>Increased GHG emissions from flights</p> <p>Increased exposure to safety and health risks while flying</p> <p>Increased volume of flights and passengers may increase probability of transmission of viruses and disease</p>	<p>CEB operates one of the youngest fleets in the world. The company implements our Safety Management System through an integrated Quality, Safety, and Security policy – a company-wide commitment to ensure that flying and all its support operations are conducted in a manner that meets aviation regulations and industry standards.</p> <p>Aircraft are equipped with HEPA filter for air filtration to ensure safety of air quality within the aircraft. Aircraft interiors are cleaned regularly.</p>
Branded snack foods and beverage	<p>URC produces high quality snack foods &amp; beverage driven by convenience, on-the-go, ready-to-eat, ready-to-drink, indulgence, and play.</p> <p><b>Snack foods:</b> URC provided access to high quality snacks at a more competitive price.</p>	<p>Health impact compared to nutritional requirements, as manifested by new regulations concerning wellness such as excise tax on sweetened beverages</p>	<p>URC is operationalizing its 2030 commitment to improve 70% of the products in its portfolio to meet the URC Wellness Criteria. The URC wellness criteria tackles the following areas of product</p>



Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
	<p><b>Coffee:</b> When URC launched Great Taste White Coffee, it shifted the market significantly from instant to coffee mixes.</p> <p><b>Ready-to-drink Beverage:</b> When C2 was introduced as alternative to soft drinks, consumers have started to shift towards better choices. C2 is made from real tea leaves that is brewed and bottle the same day.</p> <p><b>Noodles:</b> URC's joint venture with Nissin, as well as the Payless brand, provided the working class meal substitute on the go especially workers and millennials in tier 1 cities. It also provided an option that could address hunger especially in times of calamity and other enduring times like inflation.</p>		<p>renovation:</p> <ol style="list-style-type: none"> <li>1.) Reduction of Sugar</li> <li>2.) Reduction of Sodium</li> <li>3.) Substitution of colors</li> <li>4.) Reduction &amp; Substitution of Transfat and PHO</li> <li>5.) Substitution of Saturated fat</li> </ol> <p>To-date, 85% of total Snack SKUs which covered 150 SKUs passed 1 or more than of the URC Wellness Criteria while 50% of the active SKUs which reformulated 89 SKUs passed 2 or more of the criteria. In Beverage, 86% or 72 SKUs passed 1 or more of the URC Wellness criteria while 73% or 61 SKUs passed more than 2 of the criteria.</p>

Key Products and Services	Societal Value / Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
		Marine pollution from single-use packaging	<p>URC is operationalizing its 2030 commitment to reduce its packaging footprint and make 99% of its packaging recyclable. This includes</p> <ol style="list-style-type: none"> <li><b>1. Reduction of Packaging footprint</b> – URC looks for opportunities in renovating packaging materials especially in snackfoods, such as using mono- material layer in packaging while optimizing schemes for packaging and logistics efficiency.</li> <li><b>2. Increase the proportion of packaging materials that’s recyclable</b> – as technologies becomes available and feasible, URC continues to look for opportunities in making its packaging as recyclable as possible.</li> </ol>

# Annex 1.

	<b>SUPPLIER ACCREDITATION POLICY</b>	Page 1 of 5
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**POLICY STATEMENT** The Company shall purchase only from duly accredited suppliers endorsed by the Business Unit Supplier Accreditation Team (BUSAT) and approved for accreditation by the Corporate Supplier Accreditation Team (CORPSAT).

- OBJECTIVES**
1. To manage and administer a common system for the accreditation of suppliers.
  2. To ensure that the Company’s suppliers are capable of providing the highest quality products or services and possess other important measures such as reliability of products and services, competitive prices, financial and technical capabilities.
  3. To establish a system of disciplinary action, whether suspension or debarment of suppliers, to protect the Company’s interest, to discourage unethical business practices, and to encourage expected performance by the suppliers.

- SCOPE AND COVERAGE**
1. This document defines the policies and procedures on accreditation and maintenance of suppliers particularly on:
    - 1.1. Supplier Application
    - 1.2. Supplier Appraisal
    - 1.3. Accreditation Approval
    - 1.4. Supplier Maintenance
    - 1.5. Supplier Review and Evaluation
    - 1.6. Suspension
    - 1.7. Debarment
    - 1.8. Appeal Process
    - 1.9. Reinstatement
  2. The policy is applicable to suppliers of JG Summit Holdings, Inc. (JGSHI), its subsidiaries and affiliates.

- GENERAL POLIIES**
1. Only accredited suppliers can provide the goods and service requirements of the company. Only those products or services that received accreditation shall be supplied by an accredited supplier.
  2. All potential suppliers shall undergo the accreditation process to ensure that only qualified suppliers are selected to supply the goods and services requirements of the company. Inclusion of additional commodity/ies from an existing supplier shall require accreditation.
  3. Inspection, evaluation and accreditation of potential suppliers shall be carried out by two (2) Supplier Accreditation Teams, (i.e., the BUSAT and the CORPSAT).The SATs shall be composed of individuals who have the qualifications and capabilities to evaluate the eligibility of the suppliers to be accredited.

4. The BUSAT and CORPSAT shall appraise all suppliers applying for accreditation using a rating system  
  
The rating system shall include both product and company evaluation.
  - 4.1. Supplier rating shall be documented through the Supplier Accreditation Rating Sheet (SARS).
  - 4.2. Supplier with Overall rating equal or above seventy-five (75%) shall qualify for accreditation approval.
  - 4.3. In cases when certain criteria for accreditation is deemed not applicable, the passing requirement of 75% shall be computed based on the **total applicable criteria**.
  - 4.4. A premium or additional five (5%) points shall be added to the rating of supplier who are Sole Distributors of products provided that the Sole Distributorship Certification has been obtained and verified.
  - 4.5. An additional three (3%) points shall be added to the rating of supplier if distributorship of the product is limited to two (2) suppliers only. Certification from the manufacturer on the limited distributorship has to be obtained and verified.
  - 4.6. The Rating System for each accreditation criteria may vary by commodity group and may be customized by the BU according to strategic importance.
  - 4.7. Supplier with a total rating below seventy five percent (75%) may still be recommended for accreditation provided:
    - 4.7.1. The product or service is needed to comply with regulatory requirements
    - 4.7.2. Supplier is a sole distributor; and
    - 4.7.3. Other justified reasons.
5. The Supplier Accreditation Evaluation Sheet (SAES) shall be accomplished to document the results of the rating and assessment of the supplier's capability to deliver the required products or services.
6. The SAES shall be approved by the following authorized approvers:
  - 6.1. BU GM or the Group BU GM for BUSAT
  - 6.2. CORPSAT Chairman for CORPSAT
7. CORPSAT shall inform all BU Purchasing Heads, Treasury Heads, Bills Processing Heads and IT Heads of the suppliers who have been granted accreditation through the CORPSAT Bulletin. The CORPSAT Bulletin shall include all changes in the supplier's accreditation status.
8. All accredited suppliers shall be included and maintained in the supplier information database for easy access and management of supplier information.

The supplier information database shall contain the contact information and product listings of all accredited suppliers where all purchases will be sourced.

9. CORPSAT and BUSAT shall update the Accredited Suppliers List (ASL) based on the weekly bulletins issued/received.
  - 9.1. BUSAT shall maintain the BU ASL. Certain suppliers may be present in two or more BU ASL.
  - 9.2. CORPSAT shall maintain the Corporate ASL.
  - 9.3. The ASL shall be used to determine suppliers for the solicitation of Invitations to Bid, Requests for Proposal, and Invitations to Negotiate.
  - 9.4. The ASL shall be made available to the BU Procurement and Treasury Departments.
10. An updated Accredited Suppliers Masterlist (ASM) shall be provided by CORPSAT to the BUSAT thirty days after the end of each quarter.
  - 10.1. The ASM shall have a version number and revision date to guide users in determining most recent updates.
  - 10.2. Accredited suppliers in the ASM shall be categorized by products and services, and then by supplier groups.
11. CORPSAT shall maintain and provide the BUSAT with the Open List that contains the commodity groups or services that are not required to undergo accreditation.
  - 11.1. CORPSAT has the prerogative to add or delete commodity/ies, commodity groups, or services in the Open List. BUSAT may recommend the addition or deletions of commodity/ies, commodity groups, or services in the Open List.
  - 11.2. CORPSAT shall distribute to all BUSATs an updated Open List in case of any approved changes.
  - 11.3. The Open List shall always have a version number or date/time of update to guide copy distribution lists of the most recent listing implemented.
12. On a periodic basis, the BUSAT and CORPSAT shall conduct a complete re-assessment of the supplier similar to the initial accreditation conducted or based on a supplier performance evaluation system.
  - 12.1. Key performance metrics may be used to evaluate the performance of an accredited supplier
  - 12.2. CORPSAT may impose re-assessment of certain suppliers as the need arises
13. BUSAT has the primary responsibility for tracking supplier performance for the BU. BUSAT shall inform CORPSAT through a complaint report of any problem encountered by the BU with the accredited suppliers and recommend disposition of suppliers who failed to deliver as required and/or comply with the standards.
14. The BUSAT shall inform all accredited suppliers of company's Code of Business Conduct, the policy on Conflict of Interest (COI) and the Policy on Supplier Conduct.



## SUPPLIER ACCREDITATION POLICY

Page 4 of 5

15. In cases of violations by the supplier, the BU concerned shall prepare an Incident Report and submit to the BUSAT for initial investigation.
16. If a case is warranted based on the initial investigation, the BUSAT shall prepare a Case Report to be noted by the BU GM and submitted to CORPSAT for deliberation and disposition.
  - 16.1. The CORPSAT shall form an Investigation Team that shall assess the Case Report filed by the BU.
  - 16.2. CORPSAT may use the assistance of other departments (e.g., Corporate Audit Department, Corporate Legal Department, etc.) who will act as experts and consultants to the case being presented.
  - 16.3. Administrative hearing shall be called by CORPSAT if duly warranted, to assess the explanations of the parties concerned.
17. CORPSAT shall inform the BUs regarding its decision. Application of suspension of a particular supplier shall cover enterprise-wide.
  - 17.1. A suspended supplier shall be duly categorized in the ASM and shall not be given any procurement transactions by the BU.
  - 17.2. The suspension of the supplier shall be for an indefinite period of time until the suspended supplier formally requests reinstatement through the BUSAT.
18. CORPSAT may reinstate a suspended supplier only when it has demonstrated that the cause for the suspension has been resolved, subject to the required documentation and processes for accreditation.
19. The BUSAT shall request for debarment of a particular supplier if such have not met the required standards during evaluation.
  - 19.1. The debarred supplier shall also be delisted in the ASM and shall not be included in all solicitation mailing lists and any bid proposals by the supplier shall not be considered.
  - 19.2. The debarment of a supplier shall be for an indefinite period of time. It shall be the responsibility of the supplier to apply for re-accreditation, provided that the cause of debarment has been sufficiently resolved.
20. Suppliers may request for reinstatement coursed through the BUSAT, if they have already satisfactorily resolve the cause of the initial suspension.
21. The supplier shall submit an explanation for the request, indicate the cause of suspension and the actions rendered in order to resolve the incident.
22. The supplier shall be required to submit necessary documents to substantiate resolution. BUSAT shall conduct an initial assessment of the request prior to endorsement to CORPSAT.
23. CORPSAT shall set a date for the conduct of a deliberation conference after the supplier's request has been received.



## SUPPLIER ACCREDITATION POLICY

Page 5 of 5

24. Based on the submitted documents, CORPSAT may rescind the suspension and reinstate the supplier or affirm the suspension.

This Policy shall take effect and shall continue to be in full force unless superseded by new policies and guidelines.

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