| P | W | 0 | 0 | 0 | 0 | 0 | 7 | 2 | 7 |
|---|---|---|---|---|---|---|---|---|---|

S.E.C Registration Number

**CENTRAL AZUCARERA DE TARLAC**
**AND SUBSIDIARY**

(Company's Full Name)

**SAN MIGUEL, TARLAC CITY**

(Business Address: No. Street City/Town/Province)

| | |
|---|---|
| **Wellerita D. Aguas** | **(632) 818-6270** |
| Contact Person | Company Telephone Number |

| **0 6** **3 0** | **SEC 17-A Annual Report for the period ended June 30, 2020** | **0 1** **any** |
|---|---|---|
| Month Day<br>Fiscal Year | | Month Year<br>Annual Meeting |

Secondary License Type, If Applicable

| | |
|---|---|
| **CFD** | |
| Dept. Requiring this Doc | Amended Articles Number/Section |

Total Amount of Borrowings

| | | |
|---|---|---|
| **3 9 2** | | |
| Total No. of Stockholders | Domestic | Foreign |

---

To be accomplished by SEC Personnel Concerned

| | |
|---|---|
| File Number | LCU |
| Document I.D. | Cashier |

STAMPS

**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 **June 30, 2020**

2. SEC Identification Number **727** 3. BIR Tax Identification No. **000-229-931**

4. Exact name of issuer as specified in its charter **CENTRAL AZUCARERA DE TARLAC, INC.**

5. **Manila, Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **San Miguel, Tarlac City, Tarlac** **1231**
Address of principal office Postal Code

8. **(02) 818-6270**
Issuer's telephone number, including area code

9. **n/a**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| COMMON | 238,496,840 |

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

Yes [ **X** ] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:
**PHILIPPINE STOCK EXCHANGE** **COMMON**

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 [ **X** ] No [ ]

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

Yes [ ] No [ **X** ]

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. (See definition of "affiliate" in “Annex B”).

**Not applicable**

**CENTRAL AZUCARERA DE TARLAC**
**TABLE OF CONTENTS**
**SEC FORM 17-A**


| | | | Page |
|---|---|---|---|
| **PART I** | **-** | **BUSINESS AND GENERAL INFORMATION** | |
| | A. | Business | 1-6 |
| | B. | Properties | 7 |
| | C. | Legal Proceeding | 8 |
| | D. | Submission of Matters to a Vote of Security Holders | 8 |
| **PART II** | **-** | **SECURITIES OF THE REGISTRANT** | |
| | A. | Market Price Of and Dividends on Registrant's Common Equity and Related Stockholders Matters | 9-11 |
| | B. | Description of Registrant's Securities | 12 |
| **PART III** | **-** | **FINANCIAL INFORMATION** | |
| | A. | Management's Discussion and Analysis or Plan of Operation | 13-31 |
| **PART IV** | **-** | **MANAGEMENT AND CERTAIN SECURITY HOLDERS** | |
| | A. | Directors, Independent Directors and Executive officers of the Registrant | 32-34 |
| | B. | Executive Compensation | 35-36 |
| | C. | Security Ownership of Certain Record and Beneficial Owners and Management | 37 |
| **PART V** | **-** | **CORPORATE GOVERNANCE** | 37 |
| **PART VI** | **-** | **EXHIBITS AND SCHEDULES** | |
| | A. | Audited Financial Statements | |
| | B. | Sustainability Report | |
| | C. | List of Stockholders | |
| | D. | Current Reports (SEC Form 17-C) | |
| | E | Annex 68.1M | |

## PART I - BUSINESS AND GENERAL INFORMATION

### A. Description of Business

Central Azucarera de Tarlac, Inc. ("Company" or "CAT") was incorporated in 1927 and the Company's life was renewed in 1976. It operates an integrated manufacturing facility that processes sugar and all its by-products. Its business and facilities include the sugar milling and refinery, distillery and carbon dioxide plants located in Barangay San Miguel, Tarlac City. The sugar cane supply is sourced predominately from the Tarlac district and a few in the nearby towns of Pampanga, Nueva Ecija and Bataan.

The Company, in addition to its sugar processing operations, has a one hundred percent (100%) stake in Luisita Land Corporation ("LLC"), a domestic corporation engaged in developing, leasing, and selling real properties and other ancillary services.

**Products and By-Products**

### Raw and Refined Sugar

The Company's sugar milling and refinery facilities have a capacity of 7,200 tons cane and 8,000 50-kg bags per day, respectively. The sugar cane is initially processed to extract sugar of which 31% represents the company's mill share, 69% belongs to the planters. Most of the raw sugar extracted is further processed in the refinery to produce refined sugar. Tolling fees are collected from customers upon withdrawal of refined sugar from the Company's inventory. In addition to raw and refined sugar, the mill and refinery produce molasses, a by-product. The molasses produced in the mill is likewise subjected to the planter-miller share of 31% and 69%, respectively.

The mill's sugar sales and the refinery's tolling fees represent approximately 32% and 11%, respectively, of the Company's total revenues. The raw and refined sugars produced are sold to industrial users through traders. The Company operates within 4 to 5 months while the refinery operates between 5 to 6 months within the crop year.

### Alcohol

The combined captive molasses of the mill and refinery are processed further in the distillery to produce alcohol. The distillery has a production capacity of about 65,000 gauge liters per day. The various types of alcohol regularly produced and sold are rectified spirits (purified alcohol), absolute alcohol and denatured alcohol. These alcohol products are sold to various reputable distillers of wine, manufacturers of alcoholic beverages and to producers of pharmaceutical products.

### Carbon Dioxide

The slops emanating from the distillery are captured by the carbon dioxide plant to produce liquid carbon dioxide. The plant has a capacity of 30,000 kilos per day and operates for 4 to 5 months of the year. Carbon Dioxide sales account for 1-2% of the Company's total revenues in the last three years and are sold to industrial users.

**Industrial Services**

The Company, thru LLC, provides property management, water distribution and wastewater treatment series to locators of Luisita Industrial Park and residents of Las Haciendas de Luisita.

## Industrial Profile

Many experts believed that the world sugar deficit would beat about 9.30 million tons. However, the experts' fundamental view of the world supply and demand situation changed around May 2020 after taking into account the impact of the global Covid-19 pandemic, a reduction in sugar consumption and the higher sugar production in Brazil in recent months. Experts believe that each of these three factors reduced the biggest production shortfall in the last 11 years, 9.93 million tons, to almost neutral at 0.14 million tons.

The latest estimate place world production at 169.58 million tons, lower by 4.46 million tons or 2% from last year. On the other hand, world consumption is projected to be at around 169.72 million tons, close to a million tons lower compared to CY 2018-19. These figures more or less produced an almost balanced demand and supply situation for this season. Thus, ending stocks remained almost unchanged at 96.29 million tons versus 96.71 million tons a year ago. The stock consumption ratio is at 56.7% as against 56.6%. Hereunder are the latest world sugar balance figures:

| | World Sugar Balance (Million Metric Tons, Raw Value) | | | |
|---|---|---|---|---|
| | 2019-20 | 2018-19 | Change | |
| | | | in MMT | in Percent |
| Production | 169.579 | 174.036 | (4.457) | -2.56% |
| Consumption | 169.715 | 170.683 | (0.968) | -0.57% |
| Surplus/(Deficit) | (0.136) | 3.353 | | |
| Import Demand | 60.477 | 57.486 | 2.991 | 5.20% |
| Export Availability | 60.755 | 57.486 | 3.269 | 5.69% |
| End Stocks | 96.295 | 96.709 | (0.414) | -0.43% |
| **Stock/Consumption Ratio, in percent** | **56.74%** | **56.66%** | | |

In the first half of September 2019, world market price for the raw hovered at 11.5 cents per pound in New York. However, by the second half of October 2019 raw values rose to 12.7 cents per pound at the back of the widely-expected significant statistical deficit in 2019/20. Similarly, white sugar prices moved from $309/ton in early September 2019 to $344/ton by the end of the month.

By the second half of December2019, raw prices went up to a high of 13.5 cents per pound and eventually averaged at 13.3 cents per pound, higher by more than 4% from November 2019 average of 12.8 cents per pound. In the same month, the London whites hit a high of $364/ton. The December 2019 average of $355.7/ton is substantially above the November 2019 average of $339.7/ton.

Thereafter, prices began its downward movement largely due to the impact of the Covid-19 pandemic worldwide. From 14.8 cents per pound in February 2020 prices dipped to 11.8 cents in March 2020, then to a much lower 10.2 cents in April 2020 and then slightly up in May 2020 to around 10.9 cents per pound. By July 2020, prices rebounded to 12.3 cents per pound and to 13.1 cents by August 2020. London whites on the other hand, rose from $352.9 per ton in July 2020 to $372.8 per ton in August 2020. In terms of the impact in consumption, the global pandemic which the Covid-19 pulled down demand by 2.1 million tons as of May 2020 and then finally to 3.0 million tons by August 2020.

| CANE TONNAGE - PHILIPPINES - CY 2019-20 & CY 2018-19 | | | | | | |
|---|---|---|---|---|---|---|
| **MILLS** | **TONS CANE MILLED** | | | | **% SHARE IN TOTAL** | |
| | **2019-20** | **2018-19** | **GROWTH** | **%** | **2019-20** | **2018-19** |
| **LUZON** | | | | | | |
| Cagayan | 108,351 | 110,851 | (2,500) | -2.26% | 0.47% | 0.51% |
| Bicol | 133,421 | 107,002 | 26,419 | 24.69% | 0.57% | 0.49% |
| Batangas | 1,070,775 | 1,158,148 | (87,373) | -7.54% | 4.60% | 5.32% |
| Pampanga | - | 112,083 | (112,083) | -100.00% | 0.00% | 0.51% |
| Tarlac | 470,818 | 452,550 | 18,268 | 4.04% | 2.02% | 2.08% |
| **VISAYAS** | | | | | | |
| Panay | 1,770,780 | 1,555,520 | 215,260 | 13.84% | 7.60% | 7.14% |
| Eastern Visayas | 598,911 | 516,537 | 82,374 | 15.95% | 2.57% | 2.37% |
| Negros | 14,743,977 | 13,762,877 | 981,100 | 7.13% | 63.28% | 63.16% |
| **MINDANAO** | 4,402,145 | 4,013,281 | 388,864 | 9.69% | 18.89% | 18.42% |
| | | | | | | |
| **Total** | **23,299,178** | **21,788,849** | **1,510,329** | **6.93%** | **100.00%** | **100.00%** |

The local sugar industry started the year with an expectation of a more or less balanced demand and supply situation. As stated under Sugar Order No.1 s.2019-20, the domestic production was placed at 2.1 million tons with domestic consumption projected to be at around 1.9 million tons. The expected surplus for the year of 112,000 tons is not even enough to cover our US quota commitment of 136,000 tons, raw value. Under the same Sugar Order, the production allocation was pegged at 5% for the US market or "A" sugar and the remaining 95% was allocated for the domestic market.

Given a balanced scenario for the country's supply and demand situation and if only to ensure sufficiency of supply in the domestic market and enhance the value of the domestic "A" sugar for the benefit of the sugarcane planters, the SRA in its Sugar Order No. 4 dated December 20, 2019, and amended by Sugar Order No. 4-A dated January 29, 2020, implemented the "A" sugar replenishment program. These enable sugar exporters to replenish their volumes shipped out to the US with an equivalent volume of cheaper imported sugar from the world market. Let it be mentioned, however, that at the time of the issuance of SO#4 and SO#4-A s.2019-20, there was still a substantial overhang from the previous year's refined sugar importation under SO#5 s. 2018-19 dated August 1, 2019. As of January 6, 2020, the unwithdrawn balance from this importation stood at 113,565 tons and 90,570 tons as of February 10, 2020.

True to the purpose of SO#4 and SO#4-As. 2019-20, the higher prices of the "A" sugar materialized to the benefit of the planters. From a composite price of P1,498.0 per bag of raw sugar in September 2019, the average mill gate price for both the "A" and the "B" sugar rose upon the effectivity of the said SOs. By January 2020, the composite price was posted at P1,510.5 and eventually peaked in May 2020 at P1,569.6 per bag of raw. There even instances in some mills where the prices of the "A" were higher than those of the "B".

As the season ended in August 31, 2020, the country's actual raw sugar production reached 2.14 million tons, higher by 2% or 45,000 tons from the original SRA estimate of 2.10 million tons. Domestic demand however, is placed at 1.96 million tons slightly lower that the SRA-projected 1.98 million tons presumably due to movement restrictions or lockdowns imposed by the government since February 2020 due to the Covid-19. The actual total raw production for the year reached a much lower 2.1 million tons, higher by 71,853 tons or 3.4% from the previous season's 2.07 million tons. The total canes milled reached 23.3 million tons cane, up by 6.9% or by 1,510,329 tons cane from last year. Recovery however was at a slightly lower 1.85 versus 1.91 50-kilogram bags per ton cane milled.

With the exception of the mills in district of Luzon, all other major sugar producing areas posted increase in the total canes hauled. In Negros, the cane tonnage was registered at 14,743,977 tons, higher by 981,100 tons cane or 7.1% than last year. Panay rose by 13.8% or by 215,260 tons cane to a total of 1,770,780 tons cane. Mindanao posted an increase in tonnage of 388,864 tons or by 9.7% to 4,402,145 tons cane. The highest gain was posted by Eastern Visayas which is on its way to full recovery after being devastated by Typhoon Yolanda in November 2013, their tons cane milled rose by 15.6% or by 82,374 tons cane to 598,911 tons cane.

For the second year in a row the total tonnage in Luzon dropped, from 1,940,634 to 1,783,365 tons cane or a drop of 157,269 tons cane equivalent to 8.1%. Most notable is the 16.4% drop in canes hauled in the mills district of Central Azucarera de Don Pedro (CADPI). From the previous 783,310 tons cane their tonnage drop to 654,905 tons cane in CY 2019-20.

**<u>Competition</u>**

The Company is one of the almost thirty sugar mills currently operating in the country and is one of the few with integrated operations: from sugar milling, refinery and alcohol distillery under one contiguous facility. Located in Central Luzon, CAT caters to the milling requirement of the sugar cane planters mostly of Tarlac and nearby provinces of Pampanga, Nueva Ecija and Bataan.

The continued decline in the area devoted to sugarcane farming and the lower than average cane tonnage per hectare in Pampanga contributed to the drop in total tonnage in Central Luzon. This was worsened by the reported lack farm inputs by Pampanga-based planters upon learning of the closure of the milling operations of Sweet Crystal sometime in August 2019. The total canes hauled in Central Luzon dropped by 16.6% or by 93,815 tons to 470,818 tons cane. The total raw sugar production in Central Luzon dropped by 19.9% from 946,560 50-kilogram bags to only 758,080 50-kilogram bags. This year's recovery was at a lower 1.61 vs. 1.67 50-kilogram bags of raw per ton cane milled.

| CANE TONNAGE - CENTRAL LUZON - CY 2019-20 & CY 2018-19 | | | | | | |
|---|---|---|---|---|---|---|
| MILLS | TONS CANE MILLED | | | | % SHARE IN TOTAL | |
| | 2019-20 | 2018-19 | GROWTH | % | 2019-20 | 2018-19 |
| Sweet Crystal | 0 | 112,083 | (112,083) | -100.00% | 0.00% | 19.85% |
| Tarlac | 470,818 | 452,550 | 18,268 | 4.04% | 100.00% | 80.15% |
| **Total** | **470,818** | **564,633** | **-93,815** | **-16.62%** | **100.00%** | **100.00%** |

## Transactions With and/or Dependence on Related Parties

The Company's transactions with related parties are disclosed in Note 25 (pages 50-52) of the Company's audited financial statements. In addition, the Company's operations are not dependent on its related parties. The Company provides working capital support to its related parties.

## Research and Development Spend

CAT spends approximately 0.05-0.10% for product research and development over the last three (3) years. The Company adheres to its core product, sugar, and finds no need to further conduct product research and development. However, it continuously adopts new production technology to which spending is through capital expenditure amounting to ₱100-120M annually.

## Government Regulations

Other than the Bureau of Internal Revenue ("BIR") and the Securities and Exchange Commission ("SEC"), the Sugar Regulatory Administration ("SRA") is the government regulatory arm that oversees the operation and administration of the sugar industry. One of the most important functions of the SRA is the allocation of the country's sugar production. The SRA determines the quantity of sugar to be sold in the domestic and foreign markets and likewise, regulates importation of sugar, if deemed necessary. Intermittently, the Company seeks approval from the SRA should sugar product change form from one classification to another. This is dependent on the projected sugar supply and demand at a particular period of time.

## Cost and effects of compliance with environmental laws

The Company is compliant with environmental standards set by DENR and is ensured of continued operations. The efforts of CAT to comply with all the regulatory requirements and social obligation are evidenced by the costs and expenses incurred by the Company to ensure that pollution control and environmental standards are upheld.

To date, CAT has incurred between ₱4.0-6.0M annually to maintain its environs safe.

**Employee**

As of June 30, 2020, following is the employee details:

| | Exec./Mgrl./Supv. | | Rank/File | | Retainer/ | Total |
|---|---|---|---|---|---|---|
| | Perm. | Prob. | Perm. | Prob. | Consultant | |
| CAT- TARLAC | 108 | | 208 | | 14 | 330 |
| CAT- MAKATI | 8 | | 3 | | 10 | 21 |
| LLC | 6 | | 3 | | 1 | 10 |
| **TOTAL** | **122** | **0** | **214** | **0** | **25** | **361** |

**Major Risk in the Business of CAT**

The following are the threats and risks that the Company is subjected to:

Operational risk. The Company's main operational threat is the undersupply of sugar cane. Its sources of sugar cane predominately come from Tarlac and the nearby provinces of Pampanga, Nueva Ecija and Bataan. Planters who have become beneficial owners of agricultural land have begun to explore or engage in sugar planting. In addition, the Company continuously augments its planters' programs, incentives, aids and other services to entice planter/land owners to return to sugar crop propagation and engage CAT for its milling and refinery requirements.

Another notable common operational risk is the breakdown of factory facilities resulting to downtime and leading to decreased production output. To mitigate such risks, the Company conducts it preventive maintenance and repair programs during the off-milling season (June to October) in preparation for an uninterrupted subsequent milling, refinery and distillery operations.

Financial risk. The Company is faced with the high volatility of sugar prices, inherent in the sugar industry since sugar is a commodity product. The profitability margins of the Company may be affected should the sugar prices behave erratically. However, this is countered through CAT's strategic management of costs, inventory and operating expenses during the low and high price seasonality of the industry.

A national threat to the sugar industry is the importation of smuggled sugar. The disadvantageous consequence of this unlawful activity includes the weakening of domestic sugar prices. It affects not only CAT but the also the industry players as well. It likewise impacts the local planters creating an imbalance in the domestic sugar supply. The Company addresses this risk by managing its costs to allow competitive pricing should excess sugar enters the market. Moreover, CAT collaborates with the government agencies such as the Sugar Regulatory Administration (SRA), whose purpose is to protect the domestic sugar players, and participates in other government programs to uphold the progression of the sugar industry in the Philippines.

Hazard risk. Due to its agriculturally-based raw materials, extreme changes in weather conditions greatly affect the quantity and quality of sugar canes. Lower supply from the farmers results to lower sugar production output for the Company. Therefore, CAT is currently implementing its expansion and intensification programs to address any adverse effects of weather and environmental hazards.

## B. Properties

The Company owns real estate property consisting of 336.6 hectares located within the Luisita Agro-Industrial Complex in San Miguel, Tarlac City. The property in its entirety is located approximately 3.5 kms west from Luisita Interchange of the SCTEX, or 4.5 kms. East from McArthur Highway/Luisita Business Park; and about 10.0 kms Southeast from the downtown of Tarlac City.

| Areas of Reference on its Existing Use | Area in SQM | Percent |
|---|---|---|
| **Industrial** | | |
| Factory Area | 593,495 | 18% |
| Administrative area | 264,535 | 8% |
| **Not used in business and operation** | 486,003 | 14% |
| **Held for sale and development (thru LLC)** | 2,021,906 | 60% |
| **Total** | **3,365,939** | **100%** |

**Factory Plants/Buildings Used In Business Operations**

The CAT complex is composed of the raw sugar milling, sugar refinery, alcohol distillery and wastewater treatment facilities.

**The Raw Sugar Factory.** The sugar factory was originally built with a milling capacity of 5,000 tons per day (TCD). Over the years, the Company has continuously upgraded its facilities increasing its capacity and efficiency using the latest available technology. CAT has currently excess capacity and can accommodate up to 1.0M tons cane in its milling and refinery operations.

**Refinery Operation.** The sugar refinery, which produces the renowned Luisita Sugar, processes refined sugar employing phosphoric acid-lime clarification and de-colorization. Its average daily output is 7,500 50-kg. bags of refined sugar.

**Alcohol and Ancillary Products.** The distillery presently employs several sets of distilling columns with a combined output of 65,000 liters total alcohol with a grade of 189.0 proof. By-products from the distillery are recovered at the carbon dioxide and yeast plants.

**Other Auxiliary and Support Facilities.** CAT operates its own electrical substation with electrical distribution system. Other facilities include various shops, laboratory, instrumentation and maintenance equipment.

**Water and Wastewater Management.** To support CAT's operations, the water treatment facility re-circulates all process cooling water by spray cooling. In addition, the integrated wastewater treatment plant employs an anaerobic digester and 17 facultative lagoons covering an area of 30 hectares, treating the final effluents to irrigate nearby sugarcane fields.

**Property Management and Utility Distribution**. Thru CAT's subsidiary, LLC, the Company provides property management and water distribution services to locators to commercial and industrial districts within the ten (10) barangays of Tarlac City.

The Company owns all the properties. There are no limitations as to the properties' usage. These are under the Mortgage Trust Indenture as a security to the long-term loan the Company secured from a local bank. Currently, CAT does not lease any of these properties.

## C. Legal Proceedings

The Company is currently not under any legal proceedings.

## D. Submission of Matters to a Vote of Security Holders

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

*--- This space is intentionally left blank.---*

## PART II – SECURITIES OF THE REGISTRANT

### A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders Matters

**Market Information**

Central Azucarera de Tarlac, Inc. is a Company whose common shares are listed in the Philippine Stock Exchange since April 1977. The following tables list the Company's Stock Price for the 3-year period from FY 2018-2021 and its last trading date.

| Market Information | | | | |
|---|---|---|---|---|
| **Year** | **Quarter** | **Period** | **High** | **Low** |
| 2020-2021 | 1Q | July - September | 13.46 | 10.84 |
| 2019 - 2020 | 1Q | July - September | 19.34 | 15.00 |
| | 2Q | October - December | 24.00 | 16.40 |
| | 3Q | January - March | 18.80 | 13.04 |
| | 4Q | April - June | 14.00 | 11.00 |
| 2018 - 2019 | 1Q | July - September | 26.00 | 17.20 |
| | 2Q | October - December | 19.70 | 14.30 |
| | 3Q | January - March | 18.80 | 14.60 |
| | 4Q | April - June | 18.70 | 14.50 |
| 2017 - 2018 | 1Q | July - September | 29.70 | 14.00 |
| | 2Q | October - December | 23.00 | 17.08 |
| | 3Q | January - March | 51.20 | 18.40 |
| | 4Q | April - June | 37.80 | 21.30 |

| Market Information (Last Trading Date) | |
|---|---|
| Date | October 8, 2020 |
| Open | 11.52 |
| High | 11.52 |
| Low | 11.52 |
| Close | 11.52 |
| Volume | 1,000 |

## Holders of Security

The following table enumerates the top 20 shareholders of the Company as of June 30, 2020.

| | Name of Stockholder | Citizenship | Amount Subscribed (Php) | No. of Shares Held | % Total Outstanding |
|---|---|---|---|---|---|
| 1 | PCD NOMINEE CORPORATION (FILIPINO) | Filipino | 217,076,244 | 217,076,244 | 91.02% |
| 2 | PCD NOMINEE CORPORATION (FOREIGN) | Others | 8,772,141 | 8,772,141 | 3.68% |
| 3 | ROMULO, MARILES C. | Filipino | 441,240 | 441,240 | 0.19% |
| 4 | OLLER, MA. MERCE FORMENTI | Spanish | 430,880 | 430,880 | 0.18% |
| 5 | SANTIAGO, O' MARINA SOLDEVILLA | Spanish | 369,040 | 369,040 | 0.15% |
| 6 | SENCHERMES, JUAN GALOBART | Spanish | 326,160 | 326,160 | 0.14% |
| 7 | ALCANTARA, VALERIO | Filipino | 280,160 | 280,160 | 0.12% |
| 8 | DELA RIVA, CARMEN GALOBART | Spanish | 277,440 | 277,440 | 0.12% |
| 9 | IRAGORRI, EDUARDO GALLARZA | Spanish | 272,560 | 272,560 | 0.11% |
| 10 | MENDOZA, NESTOR C. | Filipino | 250,960 | 250,960 | 0.11% |
| 11 | MORTON, CHARLES V. | American | 243,440 | 243,440 | 0.10% |
| 12 | CHUA, WILLINGTON | Filipino | 233,100 | 233,100 | 0.10% |
| 13 | CHEE, LIM BENG | Chinese | 231,840 | 231,840 | 0.10% |
| 14 | RECTOR DEL SEMINARIO MAYOR DE SAN CARLOS | Filipino | 221,480 | 221,480 | 0.09% |
| 15 | DELGADO, NELLIE C. | Filipino | 219,040 | 219,040 | 0.09% |
| 16 | FORD, THOMAS J. | American | 210,320 | 210,320 | 0.09% |
| 17 | MARTIN, FRANCISCO LON | Filipino | 204,400 | 204,400 | 0.09% |
| 18 | GUTIERRES, TERESA MARTINEZ VDA DE | Spanish | 198,160 | 198,160 | 0.08% |
| 19 | HEIRS OF MA. VICTORIA MARFA SATRUSTEGUI | Spanish | 178,720 | 178,720 | 0.07% |
| 20 | SATRUSTEGUI, MA. ISABEL MARFA | Spanish | 178,720 | 178,720 | 0.07% |
| | **TOTAL:** | | **230,616,045** | **230,616,045** | **96.70%** |

The following table lists the security ownership of certain record and beneficial owners the Company owning more than 5% of its Common Shares as of June 30, 2020.

| Title of Class | Name | Number of Shares Held | Name of Beneficial Ownership | Citizenship | % |
|---|---|---|---|---|---|
| Common Shares | PCD Nominee Corporation* | 225,848,385 | PCD Nominee Corporation | Filipino | 94.7% |
| **Beneficial ownership through PCD Nominee Corporation* | | | | | |
| Common Shares | CAT Resource & Asset Holdings Inc. | 201,718,140 | Martin P. Lorenzo<br>102,876,250 shares | Filipino | 84.6% |
| | | | Fernando C. Cojuangco<br>98,841,890 shares | Filipino | |

The following table identifies the shareholdings of Directors and Officers of the Company as of June 30, 2020.

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | | Citizenship | % |
|---|---|---|---|---|---|
| Common | Martin Ignacio P. Lorenzo | 102,876,250 | Indirect | Filipino | 43% |
| | | 200 | Indirect | Filipino | 0% |
| Common | Fernando C. Cojuangco | 98,841,890 | Indirect | Filipino | 41% |
| | | 200 | Indirect | Filipino | 0% |
| Common | Marco P. Lorenzo | 200 | Indirect | Filipino | 0% |
| Common | Vigor D. Mendoza II | 200 | Indirect | Filipino | 0% |
| Common | Fernan Victor P. Lukban | 200 | Indirect | Filipino | 0% |
| Common | Renato B. Padilla | 10 | Direct | Filipino | 0% |
| Common | Benjamin I. Espiritu | 10 | Direct | Filipino | 0% |
| Common | Cecile D. Macaalay | 5000 | Indirect | Filipino | 0% |
| Common | Janette L. Peña | 0 | - | Filipino | 0% |
| Common | Addison B. Castro | 0 | - | Filipino | 0% |
| **Total** | | **201,724,160** | | | **85%** |

## **Dividends**

2019 – 2020 - No dividends declared
2018 – 2019 - No dividends declared
2017 – 2018 - ₱ 0.18 per share – June 28, 2018

## **Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction**

The Company does not have any sale of unregistered or exempt securities.

*--- This space is intentionally left blank.---*

**B. Description of Registrant's Securities**

As of June 30, 2020, the Company's Authorized Capital Stock remains at ₱400,000,000 divided into 400,000,000 Common Shares with a par value of ₱1.00 per share. As of the same date, 238,496,840 shares are outstanding and are held by 392 stockholders.

On April 19, 2016, the Board of Directors approved the change in par value of common shares from ₱10 per share to ₱1 per share and ratified by the stockholders on June 15, 2016. The date of approval by the Securities and Exchange Commission is October 12, 2016. In accordance with the Exchange' Policy on Updating of Stock Certificates, the change in the par value of common shares was reflected on Philippine Stock Exchange Trading System on October 25, 2016.

On March 15, 2020, the Board of Trustees of Luisita Trust Fund (LTF) approved the terms of the Dacion en Pago Agreement (the Agreement) between LTF and CAT which novated the terms of payment of the loan agreement dated October 15, 2015.

In the said Agreement, LTF disposed its CAT shares equivalent to 44,041,920 shares with a total value of ₱369.1 million in favor of CAT. The transaction shall constitute full, complete and final payment of LTF's outstanding obligation under the loan agreement. As a result of the subject transaction, the Company has a total of 44,049,120 treasury shares as of reporting date.

*--- This space is intentionally left blank.---*

**PART III - FINANCIAL INFORMATION**

## A. Management's Discussion and Analysis or Plan of Operation

### Executive Summary

Central Azucarera de Tarlac remains steadfast in its commitment to profitability amidst the economic challenges brought about by the pandemic in the fiscal year 2019-2020.

The Company concluded the fiscal year with an EBITDA of ₱308.6 Million and with an EBITDA margin of 20%. Net Income was reported at ₱85.1 Million and Operating Profits at ₱147.8 Million. Operationally, profitability contracted by 18% from ₱180.6 Million in FY 2019, primarily due to the softening of sugar prices and tolling fees as a result of the slowdown in economy and decrease in consumer consumption. However, the demand and consumption of personal care alcohol expanded allowing the rise in alcohol prices contributing to the mitigation of the further erosion in operating margins.

Net income and EBITDA in FY 2020 declined by 76% and 47%, respectively; from the ₱353.9 Million and ₱584.9 Million in the previous year. The reduction of non-operating earnings was predominantly caused by the absence of a non-cash current fair market revaluation of the real estate assets of the Company. The asset fair market revaluation was deliberately not recognized due to the economic uncertainty that may arise during the pandemic.

Despite the contravening effect of the current health crisis, decrease in consumer spending and economic uncertainty, CAT forges ahead with alternative products, and efficient use of resources. As its solid response to the changing economic climate, the Company continuous to be vigilant so it may react swiftly to any threat against its financial profitability.

*--- This space is intentionally left blank.---*

The following table is the Consolidated Statement of Income of the Company and its subsidiary, Luisita Land Corporation ("LLC"), for the fiscal years ending June 30, 2020, 2019 & 2018.

| (In Million Pesos except for Volume, Price & EPS) | FY 2020 | | FY 2019 | | FY 2018 | |
|---|---|---|---|---|---|---|
| | 470,818 | TC | 452,550 | TC | 649,578 | TC |
| | AMT | % | AMT | % | AMT | % |
| **VOLUME AND PRICE MATRIX** | **Vol** | **P** | **Vol** | **P** | **Vol** | **P** |
| Raw Sugar Equivalent | 324,381 | 1,517 | 281,895 | 1,559 | 492,038 | 1,412 |
| Tolling of Refined Sugar | 712,859 | 243 | 1,020,686 | 244 | 975,346 | 244 |
| Alcohol | 7,740,939 | 58 | 9,175,895 | 48 | 5,786,490 | 48 |
| Carbon Dioxide | 1,489,610 | 10 | 739,180 | 6 | 1,689,550 | 9 |
| **REVENUE** | **1,525.65** | **100%** | **1,612.54** | **100%** | **1,308.75** | **100%** |
| Sugar | 491.98 | 32% | 439.37 | 29% | 694.88 | 46% |
| Tolling of Refined Sugar | 173.11 | 11% | 249.13 | 16% | 238.06 | 16% |
| Alcohol | 446.64 | 29% | 443.16 | 29% | 278.74 | 18% |
| Molasses | 2.45 | 0% | 60.08 | 4% | 38.12 | 2% |
| Carbon Dioxide | 14.52 | 1% | 4.44 | 0% | 15.22 | 1% |
| Service Income | 352.50 | 23% | 372.16 | 24% | .00 | 0% |
| Industrial services | 44.46 | 3% | 44.20 | 3% | 42.72 | 3% |
| Real estate sale | .00 | 0% | .00 | 0% | 1.01 | 0% |
| **COST OF GOODS SOLD AND SERVICES** | **1,235.97** | **81%** | **1,276.60** | **79%** | **830.25** | **63%** |
| Costs of goods sold and services | 1,117.78 | 73% | 1,147.13 | 71% | 711.78 | 54% |
| Costs of tolling services | 99.88 | 7% | 108.84 | 7% | 96.95 | 7% |
| Cost of industrial services | 18.31 | 1% | 20.63 | 1% | 21.52 | 0% |
| Cost of real estate | .00 | 0% | .00 | 0% | .00 | 0% |
| **GROSS PROFIT** | **289.68** | **19%** | **335.94** | **21%** | **478.50** | **37%** |
| **OPERATING EXPENSES** | **141.88** | 9% | **155.34** | 10% | **129.85** | 10% |
| **OPERATING PROFIT BEFORE INTEREST AND TAXES** | **147.79** | **10%** | **180.59** | **11%** | **348.65** | **27%** |
| Interest expense and bank charges | **(66.65)** | -4% | **(59.45)** | -4% | **(120.12)** | -9% |
| Interest income | **24.75** | 2% | **29.81** | 2% | **29.72** | 2% |
| Gain on fair value change of investment property | **.00** | 0% | **213.70** | 49% | **33.03** | 5% |
| Gain on factoring of receivables | **.00** | 0% | **.00** | 0% | **36.72** | 3% |
| Gain on sale of investment property | **.00** | 0% | **.00** | 0% | **515.43** | 74% |
| Loss on goodwill impairment | **.00** | 0% | **.00** | 0% | **(199.73)** | -84% |
| Others - net | **22.58** | 1% | **55.76** | 3% | **26.79** | 2% |
| **INCOME BEFORE TAX** | **128.47** | **8%** | **420.41** | **26%** | **670.49** | **51%** |
| **PROVISION FOR INCOME TAX** | **43.37** | **3%** | **66.49** | **4%** | **86.88** | **7%** |
| **NET INCOME** | **85.10** | **6%** | **353.92** | **22%** | **583.61** | **45%** |
| **EBITDA** | **308.60** | **20%** | **584.36** | **36%** | **869.57** | **66%** |
| **EPS** | **₱0.36** | | **₱1.25** | | **₱2.07** | |

## Plan of Operation

### Outlook for FY 2020-2021

Based on the estimates of the International Sugar Organization (ISO) as of August 2020, the global sugar production will reach 173.5 million tons for CY 2020-21, an increase of 2.3% or 3.9 million tons due the higher expected production from Brazil, India and Thailand. On the other hand, the ISO estimates that world sugar consumption for CY 2020-21 at 174.8 million tons which is higher by 4.5 million tons from this year. However, the ISO clarified that no Covid-19 related impact assessment on world sugar demand has been made as yet. Note that for the current year, the estimated drop in world sugar demand due the global pandemic is estimated at around 3.0 million tons.

Experts believe that while it is perceived that the Covid-19 pandemic "will not end until a vaccine is found, the impact on global sugar demand has so far been defined as a function of a restriction in movement and out-of-home consumption, rather than a change in personal consumption habits". In this line, they believe that it is "unwise to pre-judge movement restrictions or their impact" as this point in time, hence they estimated consumption based on the historical trend.

As world production is estimated at 173.5 million tons and consumption at 174.8 million tons, a global production deficit of 0.7 million tons is projected for the coming year. Hereunder is the latest World Sugar Balance estimate for CY 2020-21:

| | World Sugar Balance (Million tons, raw value) | | | |
|---|---|---|---|---|
| | 2020-21 | 2019-20 | Change in mln t | Change in percent |
| Production | 173.462 | 169.579 | 3.883 | 2.29% |
| Consumption | 174.186 | 169.715 | 4.471 | 2.63% |
| Deficit | (0.724) | (0.136) | | |
| Import Demand | 63.301 | 60.477 | 2.824 | 4.67% |
| Export Availability | 60.218 | 60.755 | (0.537) | -0.88% |
| End Stocks | 95.654 | 96.295 | (0.641) | -0.67% |
| **Stock/Consumption Ratio, in percent** | **54.91%** | **56.74%** | | |

Given the above estimates, it appears that the world market prices for sugar will remain flat for the coming year. World sugar demand should react based on the various Covid-19 responses, rules and regulations affecting movement restrictions, discovery of an effective vaccine or cure, and the speed by which world economies will recover. Continued lockdowns or movement restrictions will lower household income that could pull down out-of-home sugar consumption and reduce the retails sales of products containing the sweetener. Experts said that "a slow return to social and economic activities will continue to dampen demand and increase supply and therefor impact prices".

For Crop Year 2020-21, the Sugar Regulatory Administration (SRA) estimates the country's sugar production to reach 2.29 million tons, raw value. This is 2% higher than the current 2.15 million tons. Similar to last year and despite opposing opinions from various sectors to allocate 100% of domestic output for local consumption, the SRA opted to allocate 7% of the total output to the US quota market. This will translate to around 153,300 tons of raws available to fulfill our annual US quota commitment.

| Sugar Classes | Production MMT | % Allocation |
| --- | --- | --- |
| "A" or U.S. Market Sugar | 0.153 | 7% |
| "B" or Domestic Sugar Market | 2.047 | 93% |
| "D" or World Sugar Market | - | 0% |
| | **2.190** | **100%** |

What could probably work against the sugar industry for the coming season is the sizeable amount of carry-over sugar inventory from Crop Year 2019-20 estimated to be at around 700,000 tons, close to double of the more comfortable level ending stock level of around 350,000 tons. Several factors contributed to the accumulation of this inventory foremost of which is the impact of Covid-19 considering that the country is among the top 20 countries with the most confirmed cases of the virus. Travel and movement restrictions adopted as early as mid-February 2020 weakened the demand for sugar, what with the lower household income and reduced economic activities nation-wide. Also, the higher final raw sugar production versus the projection contributed to the overhang.

The continued lobbying by the government's economic managers to liberalize the importation of sugar with the purpose of lowering the price of the commodity in the local market remains a threat to industry.

Given the effects of the Covid-19 pandemic to the domestic consumption, the higher projected output for the season and the sizeable carry-over stock from the previous year will put tremendous pressure in the domestic prices for sugar. Many are saying the composite price for the raw will be lower than last year, not unless the government could come up with a program that could somewhat alleviate the supply glut expected this coming year.

One again, efficiency in all operational areas must be achieved to help us overcome the challenges and adversities the new crop year will bring us. Lastly, it is imperative that we must find way and means to increase the cane tonnage of the Central Luzon mill district, either thru expansion of areas planted to cane but of also increasing the yield of our farms.

*--- This space is intentionally left blank.---*

**Management Discussion and Analysis**

The following identify the top five (5) Key Performance Indicators of the Company, which allow the measure of growth, financial performance and return on investment.

| Revenue | FY 2020 | FY 2019 | FY 2018 |
|---|---|---|---|
| | | | |
| Revenue (in millions) | 1,525.65 | 1,612.54 | 1,308.75 |
| % Growth | -5.4% | 23.2% | 0.3% |
| | | | |

| EBITDA | FY 2020 | FY 2019 | FY 2018 |
|---|---|---|---|
| | | | |
| EBITDA (in millions) | 300.5 | 574.9 | 879.7 |
| % Growth | -48% | -35% | 49% |
| EBITDA Margin | 20% | 36% | 67% |
| | | | |

| Net Income | FY 2020 | FY 2019 | FY 2018 |
|---|---|---|---|
| | | | |
| Net income (in millions) | 85.10 | 353.92 | 583.61 |
| % Growth | -76% | -39% | 103% |
| Net Income Margin | 6% | 22% | 45% |
| | | | |

| Earnings per share | FY 2020 | FY 2019 | FY 2018 |
|---|---|---|---|
| | | | |
| Earnings per share | 0.36 | 1.25 | 2.07 |
| | | | |

| Milling Recovery | FY 2020 | FY 2019 | FY 2018 |
|---|---|---|---|
| | | | |
| Milling recovery (Lkg/TC) | 1.610 | 1.720 | 1.602 |
| | | | |

## FY 2020 Review of Operations

### Revenues

| REVENUES<br>In Million Pesos | 2020 | 2019 | 2018 | Growth % | |
|---|---|---|---|---|---|
| | | | | 2019 vs 2018 | 2018 vs 2017 |
| Sugar | 492.0 | 439.4 | 694.9 | 12% | -37% |
| Tolling of Refined Sugar | 173.1 | 249.1 | 238.1 | -31% | 5% |
| Molasses | 2.5 | 60.1 | 38.1 | -96% | 58% |
| Alcohol | 446.6 | 443.2 | 278.7 | 1% | 59% |
| Carbon Dioxide | 14.5 | 4.4 | 15.2 | 227% | -71% |
| Service Income - Milling Fee | 352.5 | 372.2 | | -5% | 0% |
| Industrial services | 44.5 | 44.2 | 42.7 | 1% | 3% |
| Real estate sale | .0 | .0 | 1.0 | 0% | -100% |
| **TOTAL** | **1,525.7** | **1,612.5** | **1,308.8** | **-5%** | **23%** |

For the Fiscal Year 2019-2020, the gross revenues from the sale of products and services amounted to ₱1,525.7M, lower by ₱86.8M compared with last year's ₱1,612.5M. The 5% decrease in revenue is mainly attributable lesser volume of raw sugar for refining and strategic reduction of volume of molasses sold.

- While the sugar composite price softened at the current reporting year at ₱1,517 from last year's ₱1,559, additional volume of raw sugar bags was sold due to the higher tons cane milled, thus net increasing the sugar sales by ₱52.6M or 12%.
- Refinery operations observed a reduction of ₱76.0M in revenues or 31% as the Company concluded not to import raw sugar for tolling this reporting year.
- Volume sold in alcohol operations significantly dropped by 1.4M liters but was off-set by a favorable increase of 19% in selling price, therefore caused a slight increase in alcohol revenues by ₱3.5M.
- Significant volume of molasses was processed for alcohol production this reporting year caused the molasses revenue to drop by ₱57.6M or 96%.
- A combination of 102% volume increase and 62% price appreciation caused the carbon dioxide sales to grow by ₱10.1M or 227%.
- Carbon dioxide volume and selling price dropped by 56% and 33%, respectively resulted to the decline in carbon dioxide revenues by ₱10.8M or 71%.

## Cost of Goods Sold & Milling Services

Cost of goods sold slightly decreased by ₱29.4M or 3% this year from ₱1,147.1M to ₱1,117.8M. The following table summarizes the breakdown of cost of goods sold:

| COST OF GOODS SOLD AND MILLING SERVICES<br>*In Million Pesos* | 2020 | 2019 | 2018 | Growth % | |
|---|---|---|---|---|---|
| | | | | 2020 vs 2019 | 2019 vs 2018 |
| Salaries, wages bonuses and other benefits | 78.8 | 75.2 | 68.5 | 5% | 10% |
| Repairs & Maintenance | 49.4 | 78.5 | 89.3 | -37% | -12% |
| Inventory cost,spare parts and supplies | 755.8 | 770.9 | 327.6 | -2% | 135% |
| Depreciation and amortization | 116.2 | 113.9 | 99.7 | 2% | 14% |
| Freight and transportation | 32.5 | 34.5 | 39.0 | -6% | -12% |
| Security and outside services | 42.9 | 40.3 | 41.7 | 6% | -3% |
| Power and steam | 17.2 | 5.6 | 15.7 | 205% | -64% |
| Insurance | 4.9 | 7.4 | 4.5 | -34% | 64% |
| Taxes and licenses | 3.2 | 3.6 | 3.4 | -10% | 6% |
| Others | 16.9 | 17.2 | 22.4 | -2% | -23% |
| **TOTAL** | **1,117.8** | **1,147.1** | **711.8** | **-3%** | **61%** |

- Stable spending on capital expenditures over the past years caused the repairs and maintenance expense to decrease by ₱29.1M or 37%.
- Power and steam grew by P11.5M or 205% due to prolonged milling operation this reporting year.
- Insurance on finished goods decreased by ₱2.5M or 34% due to faster and timely withdrawal of sold products by the customers.

## Cost of Tolling Services

Cost of tolling moderately decreased by ₱9.0M or 8% this year from ₱108.8M to ₱99.9M. The table summarizes the breakdown of cost of tolling:

| COST OF TOLLING SERVICES<br>*In Million Pesos* | 2020 | 2019 | 2018 | Growth % | |
|---|---|---|---|---|---|
| | | | | 2020 vs 2019 | 2019 vs 2018 |
| Salaries, wages bonuses and other benefits | 11.0 | 11.1 | 10.4 | -1% | 7% |
| Repairs & Maintenance | 9.7 | 12.9 | 9.6 | -25% | 35% |
| Spare parts and supplies | 8.5 | 11.6 | 10.7 | -27% | 9% |
| Depreciation and amortization | 8.1 | 9.4 | 10.1 | -14% | -7% |
| Freight and transportation | 6.1 | 7.3 | 5.0 | -17% | 45% |
| Security and outside services | 2.8 | 3.9 | 5.2 | -30% | 0% |
| Power and steam | 49.5 | 48.3 | 41.5 | 2% | 16% |
| Insurance | .6 | .8 | .6 | -25% | 24% |
| Taxes and licenses | 2.5 | 2.4 | 2.5 | 5% | -3% |
| Others | 1.1 | 1.0 | 1.2 | 3% | -16% |
| **TOTAL** | **99.9** | **108.8** | **97.0** | **-8%** | **12%** |

- Repairs and maintenance declined by ₱3.2M or 25% as a result of improvements in the refinery equipment made last year.

- Spare parts and supply declined by ₱3.1M or 27% due to lower raw sugar bags put into process.
- Freight and transportation decreased from ₱7.3M to ₱6.1M or 17% as a result of fewer refine sugar inventory handled and moved.
- Security and outside services diminished to ₱1.2M or 30% as a result of continued reduction in the manpower and security requirements allocated to the refinery operations.
- Power and steam amplified to ₱1.2M or 2% due to the extended operating refinery days.

## Cost of Industrial Services

Cost of industrial services declined by ₱2.3M or 11% from last year's ₱20.6M to ₱18.3M. The table below summarizes the breakdown of operating expenses.

| **COST OF INDUSTRIAL SERVICES** *In Million Pesos* | **2020** | **2019** | **2018** | **Growth %** | |
|---|---|---|---|---|---|
| | | | | **2020 vs 2019** | **2019 vs 2018** |
| Salaries, wages bonuses and other benefits | .3 | .3 | .3 | 10% | 6% |
| Service Cost | 4.2 | 4.8 | 4.7 | -12% | 2% |
| Repairs & Maintenance | .9 | 1.3 | 2.2 | -31% | -40% |
| Materials | 1.2 | 1.2 | 1.4 | 2% | -18% |
| Depreciation and amortization | 2.2 | 2.0 | 2.0 | 10% | -3% |
| Security and outside services | 3.7 | 3.8 | 3.6 | -4% | 6% |
| Retirement | .2 | 1.0 | .1 | -78% | 557% |
| Utilities | 5.1 | 5.7 | 5.7 | -10% | 1% |
| Taxes and licenses | .3 | .3 | .4 | -7% | -10% |
| Others | .2 | .3 | 1.1 | -21% | -77% |
| **TOTAL** | **18.3** | **20.6** | **21.5** | **-11%** | **-4%** |

- Repairs and maintenance declined by ₱0.4M or 31% due to the lesser occurrence of water pump rehabilitation.
- Lesser accrual of future benefit obligation caused the retirement cost to decrease by ₱0.8M or 78%.
- ₱0.6M or 10% reduction in Utilities is brought about by the effective cost management measures implemented by the Subsidiary.

*--- This space is intentionally left blank.---*

## Operating Expenses

Operating expenses decreased by ₱13.5M or 9% from last year's ₱155.3M to ₱141.9M. The table below summarizes the breakdown of operating expenses:

| **OPERATING EXPENSES** *In Million Pesos* | **2020** | **2019** | **2018** | **Growth %** | |
|---|---|---|---|---|---|
| | | | | **2020 vs 2019** | **2019 vs 2018** |
| Salaries, wages bonuses and other benefits | 39.1 | 41.7 | 38.1 | -6% | 10% |
| Repairs & Maintenance | 3.5 | 6.0 | 6.2 | -42% | -2% |
| Management fees and bonuses | .2 | .2 | .2 | 0% | -9% |
| Taxes and licenses | 15.8 | 28.5 | 15.2 | -45% | 87% |
| Depreciation and amortization | 11.8 | 9.0 | 6.9 | 31% | 30% |
| Transportation and travel | 7.2 | 10.1 | 9.1 | -28% | 11% |
| Security and outside services | 7.2 | 7.9 | 8.1 | -8% | -2% |
| Rentals | 3.1 | 3.6 | 2.9 | -12% | 23% |
| Light and water | 1.6 | 1.2 | .8 | 32% | 50% |
| Entertainment, amusement and recreation | 10.5 | 1.1 | 1.9 | 876% | -45% |
| Professional fees | 29.8 | 28.9 | 30.0 | 3% | -3% |
| Dues and advertisements | 1.7 | 2.6 | 2.6 | -35% | 1% |
| Postage, telephone and telegram | 2.1 | .4 | .5 | 407% | -9% |
| Bank Charges | .3 | .1 | .9 | 310% | -93% |
| Provision for doubtful accounts | .0 | .0 | 1.2 | 0% | -100% |
| Provision for losses | .0 | .0 | .6 | 0% | -100% |
| Others | 8.0 | 14.1 | 4.6 | -43% | 204% |
| **TOTAL** | **141.9** | **155.3** | **129.8** | **-9%** | **20%** |

- Taxes and licenses declined by ₱12.7M or 45% due to one-time tax settlements made last year.
- Depreciation and amortization grew to ₱11.8M from P9.0M due to capitalizable repair spending done over the past years.
- Transportation and travel decreased by ₱2.9M or 28% as a result of fewer travels and movements made during the year.
- Postage, telephone and telegram cost increased by ₱1.7M or 407% due to additional internet and data subscription for office and employee usage.

*--- This space is intentionally left blank.---*

## Balance Sheet Accounts

The table below presents the Balance Sheet Statements of the Company as of fiscal years dated June 30, 2020, 2019 and 2018.

| (In Million Pesos) | FY 2020 | | FY 2019 | | FY 2018 | | GROWTH % | |
|---|---|---|---|---|---|---|---|---|
| | AMT | % | AMT | % | AMT | % | 2020 vs 2019 | 2019 vs 2018 |
| **ASSETS** | | | | | | | | |
| **Current Assets** | | | | | | | | |
| Cash and cash equivalents | 261.26 | 5% | 213.61 | 4% | 355.18 | 6% | 22% | -40% |
| Receivables | 881.38 | 16% | 1,074.95 | 20% | 921.30 | 16% | -18% | 17% |
| Inventories | 237.08 | 4% | 168.96 | 3% | 235.73 | 4% | 40% | -28% |
| Real estate held for sale and development | 988.49 | 18% | 988.49 | 18% | 988.40 | 17% | 0% | 0% |
| Other current assets | 206.64 | 4% | 179.50 | 3% | 219.62 | 4% | 15% | -18% |
| | **2,574.86** | **48%** | **2,625.51** | **49%** | **2,720.23** | **46%** | **-2%** | **-3%** |
| **Non-current Assets** | | | | | | | | |
| AFS financial assets | 112.68 | 2% | 118.74 | 2% | 173.95 | 3% | -5% | -32% |
| Property, plant and equipment | | | | | | | | |
| Land- at revalued amount | 996.79 | 19% | 996.79 | 19% | 810.55 | 14% | 0% | 23% |
| Property and equipment- at cost | 501.20 | 9% | 560.59 | 10% | 565.63 | 10% | -11% | -1% |
| Investment property | 437.26 | 8% | 437.26 | 8% | 223.56 | 4% | 0% | 96% |
| Retirement asset | .00 | 0% | 377.95 | 7% | 709.45 | 12% | -100% | -47% |
| Goodwill | 502.42 | 9% | 502.42 | 9% | 502.42 | 9% | 0% | 0% |
| Other non-current assets | 233.11 | 4% | 235.17 | 4% | 227.89 | 4% | -1% | 3% |
| **Total Non Current Assets** | **2,783.46** | **52%** | **3,228.93** | **60%** | **3,213.46** | **55%** | **-14%** | **0%** |
| **TOTAL ASSETS** | **5,358.32** | **100%** | **5,854.44** | **109%** | **5,933.69** | **101%** | **-8%** | **-1%** |
| **LIABILITIES AND EQUITY** | | | | | | | | |
| **Current Liabilities** | | | | | | | | |
| Trade and other liabilities | 461.73 | 9% | 294.31 | 5% | 551.04 | 9% | 57% | -47% |
| Current portion of notes payable | 1,007.84 | 19% | 992.89 | 19% | 945.38 | 16% | 2% | 5% |
| Deposits | 14.24 | 0% | 11.95 | 0% | 9.20 | 0% | 19% | 30% |
| Income tax payable | 17.04 | 0% | 15.67 | 0% | 29.35 | 1% | 9% | -47% |
| Other current liabilities | 14.92 | 0% | 11.69 | 0% | 5.16 | 0% | 28% | 126% |
| **Total Current Liabilities** | **1,515.78** | **28%** | **1,326.52** | **25%** | **1,540.14** | **26%** | **14%** | **-14%** |
| **Non-current liabilites** | | | | | | | | |
| Retirement liability | 22.35 | 0% | .00 | 0% | .00 | 0% | 100% | |
| Deferred tax liability | 375.44 | 7% | 494.74 | 9% | 539.96 | 9% | -24% | -8% |
| Other noncurrent liabilities | 3.81 | 0% | 14.52 | 0% | 13.28 | 0% | -74% | 9% |
| **Total Non Current Liabilities** | **401.60** | **7%** | **509.26** | **10%** | **553.24** | **9%** | **-21%** | **-8%** |
| **Equity** | | | | | | | | |
| Capital stock | 282.55 | 5% | 282.55 | 5% | 282.55 | 5% | 0% | 0% |
| Retained earnings (deficit) | 2,633.08 | 49% | 2,547.98 | 48% | 2,195.30 | 37% | 3% | 16% |
| Revaluation increment | 889.43 | 17% | 889.43 | 17% | 759.06 | 13% | 0% | 17% |
| Remeasurement gains on defined benefit liability | -68.21 | -1% | 220.39 | 4% | 478.16 | 8% | -131% | -54% |
| Unrealized cumulative gain on AFS financial assets | 73.17 | 1% | 78.33 | 1% | 125.25 | 2% | -7% | -37% |
| Less cost of 44,049,120 shares of stock in treasury | -369.08 | -7% | -.01 | 0% | -.01 | 0% | 5125990% | 0% |
| **Total Equity** | **3,440.94** | **64%** | **4,018.67** | **75%** | **3,840.31** | **66%** | **-14%** | **5%** |
| **TOTAL LIABILITIES AND EQUITY** | **5,358.32** | **100%** | **5,854.44** | **109%** | **5,933.69** | **101%** | **-8%** | **-1%** |

**Cash**

The increase in cash by ₱47.7M or 22% is due from net cash provided by operating activities of ₱268.5M, net cash used in investing activities by ₱158.5M and net cash used in financing activities by ₱62.3M.

**Receivables**

The decrease in receivables by ₱193.6M or 18% from ₱1,074.9M to ₱881.4M is due to the settlements of advances made by affiliated companies.

**Inventories**

The surge of inventory balance amounting to ₱68.1M or 55% as of the balance sheet date is due to the unsold pharmaceutical-grade alcohol and unprocessed molasses.

**Other current assets**

The increase of ₱27.1M or 15% in other current assets is caused by advances made to suppliers for off-season maintenance requirements.

**Property, Plant and Equipment**

The depreciation for the year totaled ₱138.2M while additions to Plant Equipment amounted to ₱78.8M, thus causing the PPE account a net decline of ₱59.4M or 11% in Plant Equipment

**Retirement asset**

The retirement assets of the LTF's Retirement Fund were used to settle the outstanding obligation of the Fund in favor of the Company. As a result of the transaction, the liability of LTF was fully extinguished.

**Trade and other liabilities**

The Company, to effectively manage its cash flows during occurrence of COVID-19 pandemic, minimized and postponed the payment of trade payables thus causing this account to increase by ₱167.4M or 57%.

**Retirement liability**

Retirement liability of P22.4M is recognized to setup the computed benefit obligation of the Company for the retiring employees.

## Total Stockholders' Equity

The net decrease in Stockholders' Equity of ₱577.7M or 14% is brought about by the reported consolidated net income of ₱85.1M, remeasurement losses on retirement plan by ₱288.6M, reduction in cumulative gain on AFS of P5.1M and the increase in treasury shares by ₱369.1M.

## FY 2019 Review of Operations

## Revenues

For the Fiscal Year 2018-2019, the gross revenues from the sale of products and services amounted to ₱1,240.4M, lower by ₱68.4M compared with last year's ₱1,308.8M. Significant drop in tonnage is experienced this year, causing the total raw sugar production for the season to drop by 25% or 262,309 50-kilogram bags to a total of 778,562 50-kilogram bags. The increase of 7% in recovery however, from 1.602 to 1.720 50-kilogram bags per ton cane milled failed to negate the effect of a lower tonnage. The higher recovery rate is attributed to the better quality of canes milled and the improvements in the various aspects of operations. Consequently, mill's share reached 243,966 50-kilogram bags, lower by 25% from the previous 325,910 50-kilogram bags of raw sugar.

- Sugar sales declined by ₱255.5M or 37% due to the drop in tonnage despite the increase in the composite price of about P147.00 per bag.
- Tolling of refined sugar improved by ₱11.0M or 5%, as a result of refining 18,000 tons or 360,000 L-Kg bags of imported raw sugar.
- Alcohol sales grew by ₱164.5M or 59% driven by the combination of increased volume from current year's production and inventory carry-over from last year.
- Carbon dioxide volume and selling price dropped by 56% and 33%, respectively resulted to the decline in carbon dioxide revenues by ₱10.8M or 71%.
- Sustained volume growth in the water sales resulted to the Subsidiary's revenue growth by ₱1.5M or 3%.

## Cost of Goods Sold

Cost of goods sold went up by ₱79.0M or 11% this year from ₱711.8M to ₱790.8M.

- Salaries and wages grew by ₱6.7M or 10% as a result of the appointment of key positions and continuous regularization of manpower structure.
- Capital expenditure intensification which provides long term benefits caused the repairs and maintenance to decrease by ₱10.8M or 12%.
- The increase of ₱87.2M or 27% in inventory cost, spare parts and supplies are caused by cane purchase as a strategy for continuous and efficient operation.
- Depreciation and amortization increased by ₱14.2M or 14% as a result of continuous focus on spending in strategic capital expenditures.
- Power and steam decreased by P10.1M or 64% due to shorter milling operation.
- Widened insurance coverage instigated the increase in insurance cost by P2.9M or 64%.

## Cost of Tolling Services

Cost of tolling moderately decreased by ₱11.8M or 12% this year from ₱97.0M to ₱108.8M.

- Repairs and maintenance rose by ₱3.3M or 35% as a result of improvements in the refinery equipment in anticipation of the intensified production.
- Freight and transportation increased to ₱2.3M or 45% due to handling and movements of refined sugar inventory.
- Security and outside services decreased to ₱1.3M or 24% as a result of reduction in the manpower and security requirements allocated to the refinery operations.
- Power and steam increased to ₱6.8M or 16% due to the extended operating refinery days.

## Cost of Industrial Services

Cost of industrial services slightly declined by ₱0.9M or 4% from last year's ₱21.5M to ₱20.6M.

- Repairs and maintenance declined by ₱0.6M or 22% due to the lesser occurrence of water pump rehabilitation.
- ₱0.4M or 37% rise in spare parts and supplies is brought about by the increase in consumables in the water processing.

## Operating Expenses

Operating expenses grew by ₱25.5M or 20% from last year's ₱129.8M to ₱155.3M.

- Taxes and licenses grew by ₱13.2M or 87% due to tax settlements of the Subsidiary.
- Depreciation and amortization increased to P9.0M from P6.9M due to capitalizable repair spending accumulated in the previous years.
- Office rental in the head office caused this account to increase by P0.7M or 23%.
- Light and water consumption of the various office locations increased to 1.2M from P0.8M.

## Balance Sheet Accounts

### Cash

The decrease in cash by ₱141.5M or 40% is due from net cash provided by operating activities of ₱181.7M, net cash used in investing activities by ₱271.4M and net cash used in financing activities by ₱51.8M.

**Receivables**

The increase in receivables by ₱141.9M or 15% from ₱921.3M to ₱1,063.2M is due to the advances made to affiliated companies.

**Inventories**

The decrease amounting to ₱82.6M or 35% of the reported ending inventory is due to the decrease in the alcohol inventory.

**Other current assets**

The decrease of ₱60.6M or 28% in other current assets is due to realized advances made to suppliers for off-season maintenance requirements in the past period.

**AFS financial assets**

The decrease of ₱55.2M or 32% in available-for-sale assets is due to the drop in the fair valuation of proprietary golf shares owned by the Company.

**Property, Plant and Equipment and Investment Property**

The Company reported a net growth of ₱181.2M or 22% in PPE and ₱213.7M or 96% in Investment Property due to the increase in fair valuation of the Company's land.

**Retirement asset**

Significant change in the fair value of the financial assets held by the Company's Retirement Fund caused the retirement asset to drop by ₱331.5M or 47%.

**Other non-current assets**

Other non-current assets increased by ₱27.7M or 12% from ₱227.9M to ₱255.6M due to advances for land maintenance, which includes land preparation, cultivation and planting in conjunction with the Company's massive long term plan to increase the tons cane.

**Trade and other liabilities and Deposits**

The Company settled considerable trade and other liabilities for the fiscal year, causing this account to decrease by ₱268.4M or 49% from ₱551.0M to ₱282.6M.

**Income tax payable**

Taxable income decreased in the current year, thus causing the tax payable to decrease by 100% or ₱13.7M, from ₱29.3M to ₱15.7M.

**Other current liabilities**

Other current liabilities increased from ₱5.2M to ₱11.7M or ₱6.5M mainly because of the Company's availment of vehicle loan and other mortgages.

**Total Stockholders' Equity**

The net increase in Stockholders' Equity of ₱162.5 or 4% is brought about by the reported consolidated net income of ₱336.8M, movements in the revaluation increment of ₱130.4M, remeasurements gains on defined benefit liability of ₱257.8M and unrealized cumulative loss on AFS of ₱46.9M.

## FY 2018 Review of Operations

### Revenues

For the Fiscal Year 2017-2018, the gross revenues from the sale of products and services amounted to ₱1,308.8M, slightly higher by ₱4.0M compared with last year's ₱1,304.8M. While sugar production declined due to lower recovery, the volume of tons cane milled increased by 32,436 TC or 5%. The downtrend in the sugar recovery is attributed to the inferior quality of canes harvested brought by unfavorable weather conditions and operational challenges during the season. Meanwhile, prices of alcohol and carbon dioxide both weakened while composite sugar price enjoyed preferential rate posting a 2% increase.

- Sugar sales improved by ₱52.4M or 8% due to a combination of volume and composite price increases.
- Tolling of refined sugar decreased by ₱20.3M or 8% due to lower available raw sugar for refining.
- Lower average selling price of alcohol mainly contributed the reduction of alcohol revenues by ₱23.2M or 8%.
- Carbon dioxide volume and selling price dropped by 42% and 7%, respectively resulted to the decline in carbon dioxide revenues by ₱12.9M or 46%
- Continued volume increases in the water sales resulted to the Subsidiary's revenue growth by ₱3.5M or 9%.

### Cost of Goods Sold

Cost of goods sold slightly went up by ₱19.5M or 3% this year from ₱692.3M to ₱711.8M.

- Further appointment of key positions to oversee Company initiatives and continuous regularization of manpower structure caused the salaries and wages to increase by ₱7.4M or 12%.
- Repairs and maintenance grew by ₱21.5M or 32% as the Company remains to intensify capital expenditures that will provide long term benefits.
- Depreciation and amortization increased by ₱12.4M or 14% as a result of continuous focus on spending in strategic capital expenditures
- Power and steam grew by ₱9.6M or 155% due to higher electricity consumption.
- Non-recurring insurance costs were incurred last year, thus decreasing this year's total by ₱4.0M or 46%

**Cost of Tolling Services**

Cost of tolling moderately decreased by ₱5.5M or 5% this year from ₱102.4M to ₱97.0M.

- Repairs and maintenance declined by ₱12.4M or 57% as a result of the Company's shift in allocation of capital spending to raw sugar production.

- Spare parts and supplies expanded to ₱6.4M or 147% due to the increase of raw materials used in refining.
- Depreciation grew by ₱4.5M or 80% as a result of last year's increased investment in capital expenditures which provide long term benefits.

**Cost of Industrial Services**

Cost of industrial services slightly declined by ₱0.4M or 2% from last year's ₱21.9M to ₱21.5M.

- Repairs and maintenance declined by ₱0.6M or 22% due to the lesser occurrence of water pump rehabilitation.
- ₱0.4M or 37% rise in spare parts and supplies is brought about by the increase in consumables in the water processing.
- Power and steam grew by ₱1.0M or 22% due to higher electricity consumed by the Subsidiary's water generation services, installation of street lights and security postings.

**Operating Expenses**

Operating expenses diminished by ₱29.1M or 18% from last year's ₱158.9M to ₱129.8M.

- Salaries and wages increased by ₱6.0M or 19% as a result of continuous regularization of manpower structure of the outside-plant offices.
- One-time office repairs and renovation were concluded last year, thereby decreasing this year's repairs by ₱3.4M or 36%.
- Depreciation and amortization jumped by ₱3.1M or 80% due to amplified spending in various outside-plant offices.
- Last year's taxes and licenses include one-time transactions, thus decreasing this year's by y ₱7.9M or 34%.
- Security and outside services dropped by ₱3.1M or 28% due to the rationalization of security requirements in the Company's facilities.

**Balance Sheet Accounts**

**Cash**

The increase in cash by ₱117.0M or 49% is due from net cash provided by operating activities of ₱634.4M, net cash used in investing activities by ₱383.7M and net cash used in financing activities by ₱133.8M.

**Receivables**

The increase in receivables by ₱158.5M or 21% from ₱762.8M to ₱921.3M is due to the advances made to affiliated companies.

**Inventories**

The decrease amounting to ₱157.4M or 40% of the reported ending inventory is due to the decrease in the raw sugar inventory.

**Other current assets**

The increase of ₱66.8M or 44% in other current assets is due to widened advances to suppliers for off-season maintenance requirements.

**Property, Plant and Equipment**

The Company reported a net growth of ₱62.2M or 12% due to the increase in capital expenditures in line with the Company's expansion projects.

**Investment Property**

The Company sold parcels of land resulting to the reduction of investment property as of the reporting date by ₱1,262.8M or 85%, which contributed to P552.1M gain.

**Retirement asset**

The fair value of plan assets managed by the Parent Company's Retirement Fund grew by ₱370.1M or 109%, causing the retirement asset to increase from ₱154.1M to ₱706.5M.

**Other non-current assets**

Other non-current assets increased by ₱29.1M or 15% from ₱198.8M to ₱227.9M due to advances for land maintenance, which includes land preparation, cultivation and planting in conjunction with the Company's massive long term plan to increase the tons cane.

**Trade and other payable**

Trade and other payables increased by ₱64.2M or 13% from ₱486.8M to ₱551.0M due to strategic cash management efforts.

**Current portion of notes payable**

Current portion of notes payable increased from ₱772.9M to ₱945.4M or ₱172.5M primarily due to availments of short-term loan from a reputable local bank.

**Long term notes payable**

Long term notes payable was fully settled during the reporting period from the proceeds of investment property sale.

## Total Stockholders' Equity

The increase in Stockholders' Equity of ₱764.0M or 25% is brought about by the reported consolidated net income of ₱583.6M, movements in the revaluation increment, and remeasurements gains on defined benefit liability of ₱251.2M and unrealized cumulative loss on AFS of ₱13.8M .

## LIQUIDITY & SOLVENCY RATIO

### Current Ratio

The current ratio indicates a company's ability to meet short-term debt obligations. The Company's current ratio has improved because of increased in cash levels, receivables and inventory.

### Asset to Equity Ratio

The asset to equity ratio indicates the relationship of the total assets of the company to its stockholder's equity. The Company's assets have been slightly financed more by debt than equity as a result of the acquisition of the Company and its subsidiary.

### Debt to Equity Ratio

Debt-to-Equity ratio is the ratio of total liabilities of the company to its stockholder's equity. The Debt to Equity ratio slightly diminished due to the increased availment of a loan from a local bank.

### Debt Service Coverage Ratio

This ratio is a measure to determine the company's ability to service its outstanding debt. The Company's debt service coverage had improved due to higher earnings during the current year.

| LIQUIDITY & SOLVENCY RATIO | FY 2020 | FY 2019 |
|---|---|---|
| Current ratio | 1.69 | 1.96 |
| Asset-to-equity ratio | 1.56 | 1.46 |
| Debt-to-equity ratio | 0.44 | 0.33 |
| Debt Service Coverage Ratio | 0.28 | 0.55 |

### Plans, Commitments, and events that have material impact on the issuer's liquidity

To the best of our knowledge, there are no known trends, demand, commitments, events or uncertainties that will have a material impact on our liquidity.

We do not foresee any event that will trigger direct or contingent financial obligations including default or acceleration of any obligations.

We do not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the company with consolidated entities or other persons created during the reporting period.

We do not see, at this point, any known trends, uncertainties that have had or that are reasonably expected to have a material impact on net sales/revenues/income from continuing operations.

We do not have any elements of income or loss that did not arise from our continuing operations.

We do not see at this point any seasonal aspects that have a material effect on the financial condition or result of operations.

## Changes in and Disagreements with Accountants On Accounting and Financial Disclosures

There have been no disagreements with the Company's auditor, Sycip Gorres, Velayo and Co., for the last three fiscal years on accounting, financial concerns and disclosures in the Financial Statements, which is attached hereto as Exhibit "A".

The consolidated fees, net of VAT billed for the last two fiscal years by the Company's external auditor for the Company's annual financial statements audit were ₱1,200,000 for FYs 2020 and 2019.

The Audit Committee has the function of, among other things, reviewing the performance of the external auditor and of recommending to the Board of Directors the appointment or discharge of external auditors as well as reviewing and approving audit-related and none audit services to be rendered by external auditors.

## PART IV - MANAGEMENT AND CERTAIN SECURITY HOLDERS

### A. Directors, Independent Directors and Executive Officers Of The Registrant

Directors, Independent Directors and Executive Officers

The following are the Directors, Independent Directors and Corporate Officers of the registrant. The Directors were elected during the Annual Meeting of Stockholders held on January 21, 2020 to hold office for one (1) year and until their successors are elected and qualified.

| Name | Position | Membership in the Corporate Governance Committee |
|---|---|---|
| Martin Ignacio P. Lorenzo | Chairman of the Board & CEO | Chairman of Executive Committee |
| Fernando Ignacio C. Cojuangco | President & COO | Member of Executive Committee |
| Marco P Lorenzo | Director | |
| Vigor D. Mendoza II | Director | Member of Audit Committee |
| Fernan Victor P. Lukban | Director & Treasurer | Member of Executive Committee<br>Member of Audit Committee<br>Member of Corporate Governance Committee |
| Renato B. Padilla | Independent Director | Chairman of Corporate Governance Committee |
| Benjamin I. Espiritu | Independent Director | Chairman of Audit Committee<br>Member of Corporate Governance Committee |
| Cecile D. Macaalay | Chief Finance Officer | |
| Janette L. Peña | Corporate Secretary | |
| Addison B. Castro | Asst. Corp. Secretary | |

**Martin Ignacio P. Lorenzo**, age 55, Filipino, is currently the Chairman & Chief Executive Officer of CAT. Concurrently, he is also the Chairman and Chief Operating Officer of CAT Resource & Asset Holdings Inc. He holds the same position in the investment holding company of CAT, First Lucky Holdings Corporation, and its subsidiaries, namely, Restaurants Concepts Group, Inc., Amang Rodriguez Holdings, Inc. Cocosorbetero Holdings, Inc., Hospitality School Management Group, Inc. Mr. Lorenzo is likewise the Chairman and Chief Executive Officer of Marlor Investments Corporation and holds the same position in its subsidiaries: Blue Mountains Corporation and LAC-DC. He is also the Chairman and President of First Lucky Property Corporation. He currently holds position in other investment companies, namely, St. Tropez Holdings Corporation and Sierra Madre Capital. He is a Director in Familia Lorenzo Foundation, Incorporated. Mr. Lorenzo has over 20 years of extensive experience in investments and operations in various industries including agriculture, manufacturing and food retail. He obtained his BS Management Engineering degree at Ateneo de Manila University in 1986. He obtained his Masters in Business Administration in Wharton Graduate School, University of Pennsylvania, in 1990.

**Fernando C. Cojuangco**, age 58, Filipino, is currently the President and Chief Operating Officer of the Company. He holds the same position in CAT Resource & Asset Holdings Inc. and is also the Chairman and President of Liberty Insurance Corporation. He is the Chairman

& Chief Operating Officer of North Star Estate Holdings. A lawyer by profession, he is a principal partner in MALCOLM Law Offices. Mr. Cojuangco has extensive experience in agriculture, real estate and insurance industries. He is a holder of a Bachelor of Arts degree in Economics from the University of California and Member of the Omicron Delta Epsilon Honors Society. He obtained his Bachelor of Laws degree with honors from the Ateneo de Manila University.

**Marco P. Lorenzo**, age 59, Filipino, is currently Director and Consultant of the Company handling the Cane Supply Operations. He is also currently engaged by Del Monte Philippines as consultant for Plantation Operations. He was the Managing Director of the Wallco Pastoral NT in Australia. He also served as the Senior Vice President for Operations of the Del Monte Philippines for nine years. He held the position of Senior Group Manager of Lapanday Agricultural Development Corporation for seven years. He graduated from Ateneo de Manila University in 1982 with a Bachelor of Arts degree in Interdisciplinary Studies. He obtained his Bachelor Degree in Agricultural Science and Management from the University of California in 1985.

**Vigor D. Mendoza II**, age 58, Filipino, a Director of the Company. He is a lawyer by profession and is a principal partner in MALCOLM Law Offices heading the Practice in Public Utility and Property and Energy Law. He is likewise a Director of CAT Resource & Asset Holdings Inc. Mr. Mendoza was a former Commissioner of the Land Transportation Franchising & Regulatory Board under the Department of Transportation and Communication. He was a former Congressman representing the 1-Utak Party List under the 4th Congress of the Republic of the Philippines. He graduated with a degree of Bachelor of Arts in Economics from the Ateneo de Manila University in 1983. He obtained his Bachelor of Laws degree from the Ateneo de Manila University in 1988.

**Fernan Victor P. Lukban**, age 59, Filipino, is the Treasurer of the Company. He is one of the top Strategy and Family Business consultants in the Philippines. He is a founding fellow at the Institute of Corporate Directors in Manila and is also an International Fellow of the Australian Institute of Company Directors. He holds undergraduate degrees in Engineering from De La Salle University and graduate degrees in Industrial Economics from the Center for Research & Communication, now University of Asia & the Pacific, Manila. He also has a Master's degree in Business Administration from IESE, Barcelona, Spain.

**Renato B. Padilla,** age 74, Filipino, is an Independent Director of the Company. He is a lawyer by profession and is currently the General Manager of the Philippine International Convention Center (PICC) in Manila. He was formerly an Undersecretary of the Department of Agrarian Reform from 1989-1995.

**Benjamin I. Espiritu Ph. D**, age 67, Filipino, is an Independent Director of the Company. He is a practicing Certified Public Accountant, President & CEO of Change Management International, Inc. and Chairman of Banco de Mindoro, Inc. He was Dean of Far Eastern University Makati, and Chair of the Accounting, Finance, Business and Governance Department of the De La Salle University Graduate School of Business. He served as Governor of the Province of Oriental, Mindoro. He earned his Ph.D., Major in Public Administration from the University of Santo Tomas, Master in National Security Administration from the National Defense College of the Philippines, Master of Business

Administration and Bachelor of Science in Commerce, Major in Accounting degrees from De La Salle University.

**Cecile D. Macaalay**, age 52, Filipino, is the Chief Finance Officer of the Company. She is a practicing Certified Public Accountant. She is also the Chief Finance Officer of First Lucky Holdings Corporation and the Director of its subsidiaries such as RestaurantConcepts Group, Inc., LAC -DC and Cocosorbetero Holdings, Inc. She is also the Treasurer of CAT Resource & Asset Holdings, Inc. and Assistant Treasurer of Amang Rodriguez Holdings, Inc.. She obtained her Bachelor of Science Degree in Business Administration and Accountancy at University of the Philippines in 1990.

**Janette L. Peña**, age 60, Filipino, is the current Corporate Secretary the Company. She is also the Corporate Secretary of CAT Resource & Asset Holdings Inc. and First Lucky Holdings Corp. Ms. Peña is an Independent Director of The Manufacturer's Life Insurance Co. (Phils), Inc. Manulife Financial Plans, Inc., Manulife Chinabank Life Assurance Corporation, China Oceans Philippines, Inc., and Corporate Secretary for Macondray Philippines Co., Inc., other subsidiaries, among others. Ms. Peña graduated from the University of the Philippines with a Bachelor of Science degree in Business Economics (Cum laude). She received her Bachelor of Laws from the University of the Philippines College of Law (Cum laude) and ranked first in the 1985 Philippine Bar Exams. She completed her Master of Laws in Harvard Law School.

**Addison B. Castro**, age 57, Filipino, is the Assistant Corporate Secretary of the Company. Atty. Castro is a practicing lawyer and a Principal Partner of Gatchalian Castro & Mawis Law Offices. He is a professor of the Lyceum of the Philippines University, College of Law since 2008. He graduated with a degree of Bachelor of Science in Applied Economics at the De La Salle University in 1983. He obtained his Bachelor of Laws degree from the Ateneo de Manila University in 1988.

*--- This space is intentionally left blank.---*

## Family Relationships

Mr. Martin Ignacio P. Lorenzo and Mr. Marco P. Lorenzo are brothers.

## Identification of Significant Personnels

Mr. Noel M. Payongayong, Resident Manager and Mr. Oliver Timbol, General Manager are some of the key personnel who are expected to make significant contribution to the business of the registrant.

## Involvement in Certain Legal Proceedings

None of the directors and officers was involved during the past five years in any bankruptcy proceedings. Neither have they been convicted by final judgment in any criminal proceeding or being subject to a pending criminal proceeding, or being subject to any order, judgment or decree of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; nor being found in a civil action to have violated a securities or commodities law, and the judgment has not been reversed, suspended or vacated. As of the years ended June 30, 2020 and June 30, 2019, the Company is not involved in any litigation it considers material.

## B. Executive Compensation

The following table summarizes the compensation of key management personnel of the Company for the fiscal years June 30, 2020, 2019 and 2018.

| FY 2019-2020 | | | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Position** | **Salary & Professional fees** | **Bonus** | **Transportation** | **Per Diem** | **Total** |
| **July 1, 2019 - June 30, 2020** | | | | | | |
| Martin Ignacio P. Lorenzo | Chairman of the Board & CEO | | | | | |
| Fernando Ignacio C. Cojuangco | President & COO | | | | | |
| Marco P Lorenzo | Director | ₱17,560,647 | ₱6,960,859 | ₱1,784,659 | ₱220,000 | ₱26,526,165 |
| Cecile D. Macaalay | Chief Finance Officer | | | | | |
| Marcelo P. Karaan II | VP for Human Resources | | | | | |
| All Other Officers & Directors as a group | | | | | | |
| **TOTAL** | | **₱17,560,647** | **₱6,960,859** | **₱1,784,659** | **₱220,000** | **₱26,526,165** |

| FY 2018-2019 | | | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Position** | **Salary & Professional fees** | **Bonus** | **Transportation** | **Per Diem** | **Total** |
| **July 1, 2018 - June 30, 2019** | | | | | | |
| Martin Ignacio P. Lorenzo | Chairman of the Board & CEO | | | | | |
| Fernando Ignacio C. Cojuangco | President & COO | ₱17,871,550 | ₱4,797,467 | ₱2,629,828 | ₱220,500 | ₱25,519,345 |
| Marco P Lorenzo | Director | | | | | |
| Marcelo P. Karaan II | VP for Human Resources | | | | | |
| All Other Officers & Directors as a group | | | | | | |
| **TOTAL** | | **₱17,871,550** | **₱4,797,467** | **₱2,629,828** | **₱220,500** | **₱25,519,345** |

| FY 2017-2018 | | | | | | |
|---|---|---|---|---|---|---|
| **Name** | **Position** | **Salary & Professional fees** | **Bonus** | **Transportation** | **Per Diem** | **Total** |
| **July 1, 2017 - June 30, 2018** | | | | | | |
| Martin Ignacio P. Lorenzo | Chairman of the Board & CEO | | | | | |
| Fernando Ignacio C. Cojuangco | President & COO | | | | | |
| Marco P Lorenzo | Director | ₱16,318,185 | ₱3,962,425 | ₱2,261,675 | ₱198,500 | ₱22,740,784 |
| Wellerita D. Aguas | VP for Finance | | | | | |
| Marcelo P. Karaan II | VP for Human Resources | | | | | |
| All Other Officers & Directors as a group | | | | | | |
| **TOTAL** | | **₱16,318,185** | **₱3,962,425** | **₱2,261,675** | **₱198,500** | **₱22,740,784** |

The Directors Compensation consists of per diem and transportation allowance. There are no any other arrangement including consulting control. Further, there are no warrants and options outstanding as well as no warrants and options repriced.

## C. Security Ownership of Certain Record and Beneficial Owners and Management

### Security Ownership of Certain Record and Beneficial Owners

The following table identifies the security ownership of certain record and beneficial owners the Company owning more than 5% of its Common Shares as of June 30, 2020.

| Title of Class | Name | Number of Shares Held | Name of Beneficial Ownership | Citizenship | % |
|---|---|---|---|---|---|
| Common Shares | PCD Nominee Corporation* | 225,848,385 | PCD Nominee Corporation | Filipino | 94.7% |
| **Beneficial ownership through PCD Nominee Corporation* | | | | | |
| Common Shares | CAT Resource & Asset Holdings Inc. | 201,718,140 | Martin P. Lorenzo 102,876,250 shares | Filipino | 84.6% |
| | | | Fernando C. Cojuangco 98,841,890 shares | Filipino | |

*--- This space is intentionally left blank.---*

## Security Ownership of Management

The following table identifies the security ownership of Management as of June 30, 2020.

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | | Citizenship | % |
|---|---|---|---|---|---|
| Common | Martin Ignacio P. Lorenzo | 102,876,250 | Indirect | Filipino | 43% |
| | | 200 | Indirect | Filipino | 0% |
| Common | Fernando C. Cojuangco | 98,841,890 | Indirect | Filipino | 41% |
| | | 200 | Indirect | Filipino | 0% |
| Common | Marco P. Lorenzo | 200 | Indirect | Filipino | 0% |
| Common | Vigor D. Mendoza II | 200 | Indirect | Filipino | 0% |
| Common | Fernan Victor P. Lukban | 200 | Indirect | Filipino | 0% |
| Common | Cecile D. Macaalay | 5000 | Direct | Filipino | 0% |
| Common | | | | | |
| **Total** | | **201,724,140** | | | **85%** |

## PART V - CORPORATE GOVERNANCE

The Company's directors, officers and employees complied with all the leading practices and principles on good corporate governance as embodied in its Manual on Corporate Governance.

The Company also complied with the appropriate self-rating assessment and performance evaluation system to determine and measure compliance with its Manual on Corporate Governance.

None of the Company's directors, officers or employees has deviated from the Manual on Corporate Governance.

A continuing review of the Company's Audit Committee Charter is being undertaken to ensure faithful compliance with and further improve its corporate governance.

The Company's Annual Corporate Governance Report is filed separately.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on ______________ 2020.

By:

MARTIN P. LORENZO
Chairman of the Board and CEO

FERNANDO C. COJUANGCO
President and COO

JANETTE L. PEÑA
Secretary

CECILE D. MACAALAY
Chief Finance Officer

LORA MAY M. CADA
Finance Manager

**SUBSCRIBED AND SWORN** to before me this day of 2 1 OCT 2020 2020 affiant (s) exhibiting to me their PASSPORT ID's as follows:

| NAME | ID No | EXPIRING ON |
|---|---|---|
| Martin Ignacio P. Lorenzo | EC6023262 | Dec. 1, 2020 |
| Fernando C. Cojuangco | P2304918A | Mar. 14, 2022 |
| Janette L. Pena | P5811162A | Jan. 28, 2028 |
| Cecile D. Macaalay | P5371888A | Dec. 17, 2022 |
| Lora May M. Cada | P7254581A | May 21, 2028 |

Doc. No. 176
Page No. 37
Book No. II
Series of 2020

KARA MAE AURORA R. CHUA
Notary Public
Appointment No. M-238/ until December 31, 2020
4th Floor Jose Cojuangco ... Bldg.,
119 Dela Rosa ... Sts.,
Legaspi Village, ... City

NOTARY PUBLIC ROLL NO. 65559

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | P | W | 0 | 0 | 0 | 0 | 0 | 7 | 2 | 7 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY

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

SAN MIGUEL, TARLAC CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| N/A | 8818-6270 | N/A |
| **No. of Stockholders** | **Annual Meeting (Month / Day)** | **Fiscal Year (Month / Day)** |
| 392 | 01/21 | 06/30 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Ms. Cecile D. Macaalay | cdmacaalay@icloud.com | 8818-6270 | N/A |

**CONTACT PERSON's ADDRESS**

3/F First Lucky Place, 2259 Pasong Tamo Extension, Makati City 1231

***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.*

# Central Azucarera de Tarlac, Inc.

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

The Management of **Central Azucarera de Tarlac, Inc. and Subsidiary** (the Group) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended June 30, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as Management determines is necessary to enable the preparation of 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 to do so.

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

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

SyCip Gorres Velayo & Co the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

| | | |
|---|---|---|
| **MARTIN P. LORENZO** | **FERNANDO C. COJUANGCO** | **CECILE D. MACAALAY** |
| Chairman and CEO | President and COO | Chief Finance Officer |

**SUBSCRIBED AND SWORN** to before me this day of 21 OCT 2020 2018 affiant(s) exhibiting to me their PASSPORT ID's as follows:

| NAME | ID No | EXPIRING ON |
|---|---|---|
| Martin Ignacio P. Lorenzo | EC6023262 | Dec. 1, 2020 |
| Fernando C. Cojuangco | P2304918A | Mar. 14, 2022 |
| Cecile D. Macaalay | P5371888A | Dec. 17, 2022 |

Doc. No. 173
Page No. 36
Book No. II
Series of 2020

KARA MAE AURORA R. CHUA
Notary Public
Appointment No. M-238/ until December 31, 2020
4th Floor Jose Cojuangco & Sons Bldg.,
119 Dela Rosa corner Palanca Sts.,
Legaspi Village, Makati City
PTR No. 8121278/01.06.20/Makati City
IBP Lifetime No. 014843/05.17.16/Ilocos Norte
MCLE Compliance No. VI-0015898/ 12.13.18/Pasig City
Roll No. 65559

KARA MAE AURORA R. CHUA NOTARY PUBLIC ROLL NO. 65559 MAKATI CITY, PHILIPPINES

BUREAU OF INTERNAL REVENUE
RECEIVED
OCT 22 2020
EXCISE LT REGULATORY DIVISION

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

## INDEPENDENT AUDITOR'S REPORT



The Board of Directors and the Stockholders
Central Azucarera de Tarlac, Inc. and Subsidiary
San Miguel, Tarlac City

### Opinion

We have audited the consolidated financial statements of Central Azucarera de Tarlac, Inc. and its subsidiary (the Group), which comprise the consolidated balance sheets as at June 30, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended June 30, 2020, 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 balance sheets of the Group as at June 30, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended June 30, 2020 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.

**Valuation of Land**

The Group carries land in its consolidated balance sheet as property, plant and equipment and investment property and accounts for these using the revaluation and fair value model, respectively. Land represents 26.76% of the total consolidated assets of the Group as at June 30, 2020. The determination of the revalued amount and fair value of these parcels of land involves significant management judgments and estimations. The valuation also requires the assistance of the external appraiser whose calculations also depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors. Thus, we considered the valuation of land as a key audit matter.

The disclosures relating to land are included in Note 15 to the consolidated financial statements.

*Audit Response*
We obtained an understanding of the Group's valuation process and the related controls. We evaluated the competence and objectivity of the external appraiser by considering its qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of land. We assessed the methodology adopted by referencing common valuation models and independently comparing the relevant information in the valuation to external factors, such as sales and listings of comparable properties. We also inquired from the external appraiser the basis of adjustments made to the sales price.

**Impairment Testing of Goodwill**

Under PFRS, the Group is required to test the amount of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at June 30, 2020, the Group's goodwill attributable to its investment in Luisita Land Corporation (LLC) amounted to ₱502.4 million, which is net of the allowance for impairment of ₱199.7 million. These amounts are considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically growth rate, discount rate and selling price of LLC's real estate inventory.

The Group's disclosures about goodwill are included in Note 12 to the consolidated financial statements.

*Audit Response*
We involved our internal specialist in evaluating the methodology and the assumptions used in determining the recoverable amount. These assumptions include growth rate, discount rate and selling price of LLC's real estate inventory. We compared the key assumptions used, such as growth rate against the historical performance of LLC and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We compared the selling price used in the assumptions against comparable properties within the vicinity. 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. We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes in key assumptions. We performed our own independent sensitivity calculations to quantify the downside changes to management's models that will result in impairment.

**Sugar Revenue Recognition**

For the year ended June 30, 2020, the Group adopted the new revenue recognition guidance for sugar millers under Philippine Interpretations Committee (PIC) Questions and Answers (Q&A) No. 2019-03 effective July 1, 2018. The adoption of this new guidance is significant to our audit because it involves application of significant management judgment and estimation in (1) identifying output sharing and cane purchase agreements; (2) determining whether criteria for recognizing revenue on output sharing arrangements are met; (3) determining whether there are other promises in the contract that are separate performance obligations; and (4) determining the timing of the satisfaction of each performance obligation.

The Group's disclosures on the adoption of PIC Q&A No. 2019-03 are included in Note 3 to the consolidated financial statements.

*Audit Response*

We obtained an understanding of the Group's process in implementing the new revenue recognition guidance. We reviewed the Group's adoption papers and accounting policies prepared by management, including revenue stream identification and scoping, and contract analysis. We also obtained an understanding of the Group's milling and purchase arrangements with its customers. We reviewed whether the accounting policies appropriately apply the five-step model and recognition and measurement requirements of PFRS 15 to these milling arrangements.

In addition, we checked whether management has identified and estimated all components of the transaction price, including variable consideration and consideration payable to a customer, and applied the constraint on variable consideration. We evaluated management's assumptions in estimating the transaction price, specifically the fair value of raw sugar against historical trend of purchases from planters and sugar prices.

We also reviewed the application of the accounting policy in relation to the adoption of the new standard, as well as the related disclosures.

**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 June 30, 2020, 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 June 30, 2020 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 group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

SGV
Building a better
working world

BUREAU OF INTERNAL REVENUE
RECEIVED
OCT 2 2 2020
EXCISE LT REGULATORY DIVISION



The engagement partner on the audit resulting in this independent auditor's report is Maria Veronica Andresa R. Pore.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-3 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-71-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125281, January 7, 2019, Makati City

October 14, 2020

# CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
## CONSOLIDATED BALANCE SHEETS



| | June 30 | |
|---|---|---|
| | **2020** | 2019 (As Restated; Note 3) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Note 7) | **₱261,264,563** | ₱213,611,501 |
| Receivables (Note 8) | **881,379,643** | 1,074,945,135 |
| Inventories (Note 9) | **237,075,288** | 168,962,435 |
| Real estate held for sale and development (Note 10) | **988,494,374** | 988,494,374 |
| Other current assets (Note 11) | **206,642,106** | 179,500,358 |
| **Total Current Assets** | **2,574,855,974** | 2,625,513,803 |
| **Noncurrent Assets** | | |
| Financial assets at fair value through other comprehensive income (FVOCI) (Note 13) | **112,678,500** | 118,744,572 |
| Property, plant and equipment: | | |
| Land - at revalued amount (Note 15) | **996,790,400** | 996,790,400 |
| Property, plant and equipment - at cost (Note 14) | **501,198,970** | 560,593,511 |
| Investment property (Note 15) | **437,264,080** | 437,264,080 |
| Retirement plan asset (Note 24) | – | 377,954,879 |
| Goodwill - net (Note 12) | **502,418,570** | 502,418,570 |
| Other noncurrent assets (Note 16) | **233,111,457** | 235,165,062 |
| **Total Noncurrent Assets** | **2,783,461,977** | 3,228,931,074 |
| **TOTAL ASSETS** | **₱5,358,317,951** | ₱5,854,444,877 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 17) | **₱461,731,811** | ₱294,313,539 |
| Short-term notes payable (Note 18) | **1,007,841,467** | 992,890,816 |
| Income tax payable | **17,043,114** | 15,674,340 |
| Deposits | **14,236,719** | 11,949,589 |
| Other current liabilities | **14,923,150** | 11,691,250 |
| **Total Current Liabilities** | **1,515,776,261** | 1,326,519,534 |
| **Noncurrent Liabilities** | | |
| Deferred income tax liabilities - net (Note 26) | **375,439,732** | 494,735,564 |
| Retirement plan obligation (Note 24) | **22,354,153** | – |
| Other noncurrent liabilities | **3,806,232** | 14,523,388 |
| **Total Noncurrent Liabilities** | **401,600,117** | 509,258,952 |
| **Total Liabilities** | **1,917,376,378** | 1,835,778,486 |
| **Equity** | | |
| Capital stock (Note 28) | **282,545,960** | 282,545,960 |
| Retained earnings (Note 28) | **2,633,078,103** | 2,547,980,016 |
| Revaluation increment (Note 15) | **889,431,214** | 889,431,214 |
| Remeasurement gains (losses) on retirement plan (Note 24) | **(68,207,253)** | 220,388,201 |
| Unrealized cumulative gains on financial assets at FVOCI (Note 13) | **73,172,039** | 78,328,200 |
| | **3,810,020,063** | 4,018,673,591 |
| Treasury stock (Note 28) | **(369,078,490)** | (7,200) |
| **Total Equity** | **3,440,941,573** | 4,018,666,391 |
| **TOTAL LIABILITIES AND EQUITY** | **₱5,358,317,951** | ₱5,854,444,877 |

*See accompanying Notes to Consolidated Financial Statements.*

# CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended June 30 | | |
|---|---|---|---|
| | **2020** | 2019 (As Restated; Note 3) | 2018 |
| **REVENUES** | | | |
| Sale of sugar and by-products | **₱955,589,931** | ₱943,873,439 | ₱1,026,965,440 |
| Milling income | **352,498,567** | 372,158,213 | – |
| Tolling fees | **173,108,091** | 252,305,009 | 238,062,452 |
| Industrial services | **44,456,920** | 44,204,438 | 42,715,201 |
| Real estate sale | – | – | 1,009,250 |
| | **1,525,653,509** | 1,612,541,099 | 1,308,752,343 |
| **COST OF GOODS SOLD AND SERVICES** | | | |
| Cost of goods sold and milling and tolling services (Note 19) | **1,217,664,884** | 1,255,972,987 | 808,735,445 |
| Cost of industrial services (Note 20) | **18,309,486** | 20,631,436 | 21,518,324 |
| Cost of real estate sale | – | – | 1 |
| | **1,235,974,370** | 1,276,604,423 | 830,253,770 |
| **GROSS INCOME** | **289,679,139** | 335,936,676 | 478,498,573 |
| **OPERATING EXPENSES** (Note 21) | **(141,884,874)** | (155,341,884) | (129,847,438) |
| **OTHER INCOME (EXPENSE)** | | | |
| Interest income (Notes 7, 8 and 25) | **24,745,714** | 29,808,168 | 29,720,850 |
| Interest expense (Note 18) | **(66,648,750)** | (59,454,953) | (120,123,188) |
| Gains on fair value change of investment property (Note 15) | – | 213,702,700 | 33,029,220 |
| Other income - net (Notes 12, 15 and 23) | **22,578,458** | 55,755,595 | 379,220,397 |
| **INCOME BEFORE INCOME TAX** | **128,469,687** | 420,406,302 | 670,498,414 |
| **PROVISION FOR INCOME TAX** (Note 26) | | | |
| Current | **38,099,061** | 48,364,408 | 77,517,016 |
| Deferred | **5,272,539** | 18,125,002 | 9,359,385 |
| | **43,371,600** | 66,489,410 | 86,876,401 |
| **NET INCOME** | **₱85,098,087** | ₱353,916,892 | ₱583,622,013 |
| **Basic/diluted earnings per share** (Note 28) | **₱0.32** | ₱1.25 | ₱2.07 |

*See accompanying Notes to Consolidated Financial Statements.*

## CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended June 30 | | |
|---|---|---|---|
| | **2020** | 2019 (As Restated; Note 3) | 2018 |
| **NET INCOME** | **₱85,098,087** | ₱353,916,892 | ₱583,622,013 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Item that may be reclassified to profit or loss - net of income tax effect:* | | | |
| Unrealized loss on available for sale (AFS) financial assets | – | – | (13,816,725) |
| *Items that will not be reclassified to profit or loss - net of income tax effect:* | | | |
| Remeasurement gains (losses) on retirement plan (Note 24) | **(288,595,454)** | (257,767,034) | 251,225,769 |
| Unrealized losses on financial assets at FVOCI (Note 13) | **(5,156,161)** | (46,924,968) | – |
| Revaluation increase (decrease) on land (Note 15) | – | 130,368,000 | (6,130,070) |
| | **(293,751,615)** | (174,324,002) | 245,095,699 |
| | **(293,751,615)** | (174,324,002) | 231,278,974 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **(₱208,653,528)** | ₱179,592,890 | ₱814,900,987 |

*See accompanying Notes to Consolidated Financial Statements.*

RECEIVED
OCT 22 2020
EXCISE LT REGULATORY DIVISION

# CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED JUNE 30, 2020

| | Capital Stock (Note 28) | Retained Earnings (Note 28) | | | Revaluation Increment (Note 15) | Remeasurement Gains (Losses) on Retirement Plan (Note 24) | Unrealized Cumulative Gains (Note 13) | | Treasury Stock (Note 28) | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Unappropriated | Appropriated | Total | | | Financial Assets at FVOCI | AFS Financial Assets | | |
| Balances at June 30, 2017 | ₱282,545,960 | ₱280,932,349 | ₱200,000,000 | ₱480,932,349 | ₱1,946,793,293 | ₱226,929,466 | ₱– | ₱139,069,893 | (₱7,200) | ₱3,076,263,761 |
| Total comprehensive income (loss) | – | 583,622,013 | – | 583,622,013 | (6,130,070) | 251,225,769 | – | (13,816,725) | – | 814,900,987 |
| Sale of land at revalued amount (Note 15) | – | 1,181,600,009 | – | 1,181,600,009 | (1,181,600,009) | – | – | – | – | – |
| Dividend declaration (Note 28) | – | (50,856,977) | – | (50,856,977) | – | – | – | – | – | (50,856,977) |
| Appropriation (Note 28) | – | (2,300,000,000) | 2,300,000,000 | – | – | – | – | – | – | – |
| Reversal of appropriation (Note 28) | – | 200,000,000 | (200,000,000) | – | – | – | – | – | – | – |
| Balances at June 30, 2018 | 282,545,960 | (104,702,606) | 2,300,000,000 | 2,195,297,394 | 759,063,214 | 478,155,235 | – | 125,253,168 | (7,200) | 3,840,307,771 |
| Effect of adopting PFRS 9 (Note 5) | – | (1,234,270) | – | (1,234,270) | – | – | 125,253,168 | (125,253,168) | – | (1,234,270) |
| Reversal of appropriation (Note 28) | – | 2,300,000,000 | (2,300,000,000) | – | – | – | – | – | – | – |
| Appropriation (Note 28) | – | (2,350,000,000) | 2,350,000,000 | – | – | – | – | – | – | – |
| Total comprehensive income (loss), as restated (Note 3) | – | 353,916,892 | – | 353,916,892 | 130,368,000 | (257,767,034) | (46,924,968) | – | – | 179,592,890 |
| Balances at June 30, 2019, as restated (Note 3) | 282,545,960 | 197,980,016 | 2,350,000,000 | 2,547,980,016 | 889,431,214 | 220,388,201 | 78,328,200 | – | (7,200) | 4,018,666,391 |
| Total comprehensive income (loss) | – | 85,098,087 | – | 85,098,087 | – | (288,595,454) | (5,156,161) | – | – | (208,653,528) |
| Treasury shares (Note 28) | – | – | – | – | – | – | – | – | (369,071,290) | (369,071,290) |
| Reversal of appropriation (Note 28) | – | 2,350,000,000 | (2,350,000,000) | – | – | – | – | – | – | – |
| Appropriation (Note 28) | – | (2,000,000,000) | 2,000,000,000 | – | – | – | – | – | – | – |
| Balances at June 30, 2020 | ₱282,545,960 | ₱633,078,103 | ₱2,000,000,000 | ₱2,633,078,103 | ₱889,431,214 | (₱68,207,253) | ₱73,172,039 | ₱– | (₱369,078,490) | ₱3,440,941,573 |

*See accompanying Notes to Consolidated Financial Statements.*

# CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended June 30 | | |
|---|---|---|---|
| | 2020 | 2019 (As Restated; Note 3) | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱128,469,687** | ₱420,406,302 | ₱670,498,414 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 14, 19, 20, 21 and 22) | **138,224,895** | 134,306,447 | 118,817,488 |
| Interest expense (Note 18) | **66,648,750** | 59,454,953 | 120,123,188 |
| Provision for credit losses (Notes 5 and 8) | **13,110,210** | – | – |
| Provision for inventory losses (Notes 5 and 9) | **623,111** | 209,355 | 615,078 |
| Net unrealized foreign exchange losses (gains) | **23,430** | (615,442) | – |
| Interest income (Notes 7, 8 and 25) | **(24,745,714)** | (29,808,168) | (29,720,850) |
| Net retirement income (Notes 22, 23 and 24) | **(11,885,835)** | (36,739,383) | (11,190,093) |
| Gains on reversal of provision for credit losses (Notes 5 and 8) | **(123,654)** | (1,844,245) | – |
| Gains on fair value change of investment property (Note 15) | – | (213,702,700) | (33,029,220) |
| Loss on impairment of goodwill (Notes 12 and 23) | – | – | 199,727,679 |
| Loss on early retirement of long-term notes payable (Notes 18 and 23) | – | – | 10,515,236 |
| Provision for doubtful accounts (Note 8) | – | – | 1,206,817 |
| Gain on sale of investment property (Note 15) | – | – | (515,432,932) |
| Gain on factoring of receivable (Note 15) | – | – | (36,716,288) |
| Gain on disposal of property, plant and equipment | – | (11,437) | (8,571) |
| Operating income before working capital changes | **310,344,880** | 331,655,682 | 495,405,946 |
| Decrease (increase) in: | | | |
| Receivables | **12,075,594** | (7,960,567) | 80,318,427 |
| Inventories | **(68,735,964)** | 66,561,183 | 156,773,688 |
| Real estate held for sale and development | – | (96,039) | – |
| Other current assets | **(62,970,250)** | 42,488,994 | (93,603,503) |
| Increase (decrease) in: | | | |
| Trade and other payables | **96,843,449** | (210,294,459) | 19,097,117 |
| Deposits | **2,287,130** | 2,744,708 | 2,253,174 |
| Net cash generated from operations | **289,844,839** | 225,099,502 | 660,244,849 |
| Income tax paid | **(21,380,313)** | (44,015,988) | (25,801,850) |
| Net cash provided by operating activities | **268,464,526** | 181,083,514 | 634,442,999 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | **89,024** | 377,949 | 969,456 |
| Net changes in accounts with related parties (Note 25) | **(226,754,797)** | (144,170,041) | (211,218,675) |
| Additions to property, plant and equipment (Note 14) | **(78,830,354)** | (129,278,381) | (195,152,227) |
| Net proceeds from sale of investment property | – | – | 36,716,288 |
| Decrease (increase) in other noncurrent assets | **147,041,457** | 1,641,240 | (15,012,799) |
| Net cash flows used in investing activities | **(158,454,670)** | (271,429,233) | (383,697,957) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net availment of short-term notes payable (Note 31) | **15,000,000** | 47,510,712 | 171,666,667 |
| Payments of: | | | |
| Interest (Note 31) | **(63,095,531)** | (54,220,896) | (114,252,942) |
| Notes payable (Note 31) | **(791,189)** | – | (2,058,000,000) |
| Dividends (Notes 28 and 31) | – | (49,815,765) | – |
| Increase in other noncurrent liabilities | **(13,446,644)** | 4,688,429 | 17,011,402 |
| Net proceeds from factoring of receivables (Note 15) | – | – | 1,849,814,272 |
| Net cash flows used in financing activities | **(62,333,364)** | (51,837,520) | (133,760,601) |
| **NET INCREASE (DECREASE) IN CASH** | **47,676,492** | (142,183,239) | 116,984,441 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | **(23,430)** | 615,442 | – |
| **CASH AT BEGINNING OF YEAR** | **213,611,501** | 355,179,298 | 238,194,857 |
| **CASH AT END OF YEAR** (Note 7) | **₱261,264,563** | ₱213,611,501 | ₱355,179,298 |

*See accompanying Notes to Consolidated Financial Statements.*

# CENTRAL AZUCARERA DE TARLAC, INC. AND SUBSIDIARY
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information
Central Azucarera de Tarlac, Inc. (CAT; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1927. On January 27, 1976, the Board of Directors and the stockholders approved the extension of the corporate life of the Parent Company for another 50 years. The Parent Company and its wholly owned subsidiary, Luisita Land Corporation (LLC), collectively referred to as "the Group", are engaged in the production and sale of sugar and by-products, developing, leasing and selling real properties and other ancillary services.

As at June 30, 2020 and 2019, the Parent Company is 84.58% and 71.40% owned by CAT Resource & Asset Holdings, Inc. (CRAHI), respectively. The ultimate parent is First Lucky Holdings Corporation.

LLC was incorporated and registered with the Philippine SEC on May 11, 1977. Currently, the subsidiary maintains and operates Luisita Industrial Park (LIP) and Luisita Business Park (LBP) in Tarlac and provides water distribution and wastewater treatment services to locators in LIP, LBP and residents of Las Haciendas de Luisita (LHDL).

The registered office address and place of business of the Parent Company is San Miguel, Tarlac City.

Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements as at and for each of the three years in the period ended June 30, 2020 were authorized for issue in accordance with a resolution by the Board of Directors (BOD) on October 14, 2020.

## 2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

Basis of Preparation
The consolidated financial statements have been prepared using historical cost basis, except for land under "Property, plant and equipment" account that has been measured at revalued amount, land under "Investment property" and investment in listed shares of stock under "Financial asset at FVOCI" (AFS financial assets in 2018) accounts that have been measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso) unit, which is the Parent Company's functional and presentation currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements include the financial results of the Parent Company and its subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, 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
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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(s) 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 consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit and loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in the consolidated statements of income. Any investment retained is recognized at fair value.

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary.

## 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new standards and amendments for the year ended June 30, 2020:

PFRS 15, *Revenue from Contracts with Customers*
With the effectivity of PFRS 15 on July 1, 2018, as approved by Financial Reporting Standards Council (FRSC), the Philippine Interpretations Committee (PIC) issued Q&A 2019-3, Revenue Recognition Guidance for Sugar Millers, to assist companies operating in the sugar industry in the adoption of PFRS 15. PIC Q&A 2019-3 states that a miller should recognize revenue arising from its sugar milling operation under either output sharing agreement (OSA) or cane purchase agreement (CPA), and that providing free storage constitutes a separate performance obligation in the case of an output sharing agreement.

In response to concerns raised by the sugar industry on the implementation and adoption of PIC Q&A 2019-3, the Philippine SEC issued Memorandum Circular No. 06 on April 4, 2019, allowing the deferral of the application of the provisions of the above-mentioned PIC Q&A 2019-3 for a period of one (1) year.

The Group availed of the deferral of adoption of the above specific provisions. For the year ended June 30, 2020, the Group retrospectively adopted PIC Q&A No. 2019-3 effective July 1, 2018. In accordance with the modified retrospective approach under PFRS 15, the Group elected to apply the standard to all contracts that are not completed as at July 1, 2019. The Group assessed that the impact of the adoption on the July 1, 2018 consolidated financial statements is not significant to the consolidated financial statements taken as a whole. Accordingly, no adjustments were made in the July 1, 2018 opening balances. As of June 30, 2020, 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 consolidated financial statement line items are affected. The adoption of PFRS 15 resulted to the following adjustments:

Consolidated statements of income:

| | Years Ended June 30 | |
|---|---|---|
| | **2020** | 2019 |
| Increase in: | | |
| Milling income | **₱352,498,567** | ₱372,158,213 |
| Cost of goods sold and milling and tolling services | **363,396,706** | 356,293,235 |

Consolidated balance sheets:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Increase (decrease) in: | | |
| Inventories | **(₱10,898,139)** | ₱15,864,978 |
| Retained earnings | **(10,898,139)** | 15,864,978 |

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.

PFRS 16, *Leases*
PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Standards Interpretation Committee (SIC) 15, *Operating Leases - Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from PAS (Philippine Accounting Standards) 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

The Group has no material lease agreements, accordingly, the adoption of this standard did not have significant impact on the consolidated financial statements.

Amendments to PFRS 16, *COVID-19-related Rent Concessions*
The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments upon its effectivity on June 1, 2020. The Group has no material lease agreements and no COVID-19 related rent concessions have been given, accordingly, the application of the amendments did not have an impact on the consolidated financial statements.

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, *Income Taxes*. It 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 entity 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 entity 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 judgement in identifying uncertainties over its income tax treatments. It assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax compliance review, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements.

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.

These amendments have no impact on the consolidated financial statements since the Group does not have similar transactions.

Amendments to PAS 19, *Employee Benefits, Plan 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 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

- Determine 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).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in statements of income. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in statement of comprehensive income.

These amendments have no impact on the consolidated financial statements since the Group does not have similar transactions.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (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, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

Since the Group does not have such long-term interests in an associate and joint venture, the amendments had no impact on its consolidated financial statements.

*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.

  These amendments have no impact on the consolidated financial statements of the Group as there is no similar transaction entered into by the Group during the year.

- 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 statements of income, statement of comprehensive income or equity according to where the entity originally recognized those past transactions or events.

  These amendments have no impact on the consolidated financial statements as it has no financial instruments that are classified as equity.

- 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.

  These amendments have no impact on the consolidated financial statements of the Group as there are no other qualifying assets that would warrant borrowing costs capitalization.

<u>New Accounting Standards, Interpretation and Amendments to Existing Standards Effective Subsequent to June 30, 2020</u>

Pronouncements issued but not yet effective are listed below. 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 July 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
- Amendments to PFRS 7 and PFRS 9: *Interest Rate Benchmark Reform*
- The Conceptual Framework for Financial Reporting

*Effective beginning on or after July 1, 2021*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

## 4. Summary of Significant Accounting and Financial Reporting Policies

<u>Business Combinations and Goodwill</u>

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with the changes in fair value recognized in the consolidated statement of income.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
The Group measures financial instruments such as financial assets at FVOCI (AFS financial assets in 2018) and nonfinancial assets such as land carried at revalued amount and investment property, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 29. Fair values are determined based on an annual evaluation performed by an accredited external appraiser applying a valuation model approved by the International Valuation Standards Committee.

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 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 best economic interest.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs at the close of business on the reporting date. When current bid prices and asking prices are not available, the prices of the most recent transaction provide evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group measures fair value on its land, recognized as property, plant and equipment and investment property and financial assets at FVOCI (AFS financial assets in 2018).

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

Cash
Cash includes cash on hand and in banks.

Financial Instruments - Classification and Measurement in Accordance with PFRS 9 (applicable in 2020 and 2019)

*Classification of financial assets*
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss (FVTPL)
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

*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 SPPI on the principal amount outstanding.

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. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. 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 terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI on the principal amount outstanding.

*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.

The Group's business model 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 business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

*Financial Assets at Amortized Cost*
A 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 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 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 'Provision for credit and impairment losses' in the consolidated statement of income.

The Group's debt financial assets as at June 30, 2020 and 2019 consist of "Cash" and "Receivables" in the consolidated balance sheet. The Group assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Group concluded these debt financial assets to be measured at amortized cost.

*Financial Assets at FVOCI*
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in consolidated statements of income until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to consolidated statements of income. This reflects the gain or loss that would have been recognized in consolidated statements of income upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to consolidated statements of income. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in consolidated statements of income, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in consolidated statements of income only when:
- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

*Financial Assets at FVTPL*
Financial assets at FVTPL are measured at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity 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 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 financial investments.

*Classification of Financial Liabilities*
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at FVTPL
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement
- financial guarantee contracts
- commitments to provide a loan at a below-market interest rate
- contingent consideration recognized by an acquirer in accordance with PFRS 3

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:
- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVTPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities measured at amortized cost as at June 30, 2020 and 2019 include "Trade and other payables" and "Short-term notes payable".

*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.

The Group does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and

- There is a change in measurement on credit exposures measured at FVTPL.

Financial Instruments - Initial Recognition and Subsequent Measurement in Accordance with PAS 39 (applicable in 2018)

*Date of Recognition*

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

*Initial Recognition of Financial Instruments*

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date.

*'Day 1' Difference*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

(a) Financial assets or financial liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded at the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payments has been established.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

(d) AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the consolidated statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established.

(e) Other financial liabilities
This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the EIR method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Derecognition of Financial Assets and Liabilities

*Financial Assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when, and only when:

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

When the Group retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

*Modification of Contractual Cash Flows*
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

*Financial Liabilities*
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of income.

<u>Impairment of Financial Assets in Accordance with PFRS 9 (applicable in 2020 and 2019)</u>
PFRS 9 introduces the single, forward-looking "expected loss" impairment model. The Group recognizes ECL for the following financial assets that are not measured at FVTPL:
- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

*Stage 1: 12-month ECL*
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

*Stage 2: Lifetime ECL - not credit-impaired*
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

*Stage 3: Lifetime ECL - credit-impaired*
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the balance sheet date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

*Determining the Stage for Impairment*
At each balance sheet date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the balance sheet date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to trade receivables. The Group has established a provision matrix for customer segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of Financial Assets in Accordance with PAS 39 (applicable in 2018)

*Loans and Receivables*

The Group assesses at each reporting date whether there is an objective evidence that a financial or group of financial assets is impaired. Objective evidences of impairment may include indications that the debtor 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. If there is objective evidence that an impairment loss on financial assets carried at amortized cost 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.

*AFS Financial Assets*

The Group assesses at each reporting date whether there is objective evidence that the AFS financial assets are impaired. If there is objective evidence that an impairment loss 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 current market rate of return for a similar financial asset.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet 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. This is generally not the case with master netting agreements, and the related assets and liabilities are presented at gross in the consolidated balance sheet.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average method for raw and refined sugar, alcohol, yeast, molasses and carbon dioxide, and using the moving average method for spare parts and supplies. NRV for raw sugar, alcohol, yeast, molasses and carbon dioxide is the selling price in the ordinary course of business less costs of conversion, marketing and distribution. NRV of spare parts and supplies is the current replacement cost.

Real Estate Held for Sale and Development

Real estate held for sale and development are carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business, less costs of completion and estimated costs to make the sale. Costs include acquisition cost of land, expenditures for development and improvements of the property and borrowing costs, if any.

Advances to Supplier

Advances to suppliers represent advance payment on goods or services to be purchased in connection with the Group's operations. These are recognized as an asset or charged against consolidated statements of income upon actual receipt of goods or services, which is normally within twelve months or within the operating cycle.

Advances for Land Maintenance

Advances for land maintenance pertains to costs advanced for future land preparation, planting and harvesting.

Property, Plant and Equipment
The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

Cost also includes any asset retirement obligation and interest on borrowed funds used, if any. When assets are sold or retired, their costs and accumulated depreciation and amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income of such period.

Subsequently, property, plant and equipment, except for land, are stated at cost, less accumulated depreciation and amortization and impairment in value, if any. Land is carried at revalued amount, which is the fair value at the date of the revaluation. Valuations are performed annually which management believes is sufficient enough to ensure that the fair value of revalued assets does not differ materially from its carrying amount.

Any revaluation surplus, net of tax, is credited to the "Revaluation increment" account included in the equity section of the consolidated balance sheet. Revaluation increase, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of income, is recognized in the consolidated statement of comprehensive income. A revaluation decrease, except to the extent that it reverses a revaluation increase of the same asset previously recognized in the consolidated statement of comprehensive income, is recognized in the consolidated statement of income.

The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by the Group. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through the consolidated statement of income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

| Category | Number of years |
|---|---|
| Machinery and equipment | 2-40 years |
| Agricultural machinery and equipment | 5-20 years |
| Buildings and improvements | 2-50 years |
| Transportation equipment | 2-25 years |
| Land improvements | 5-15 years |
| Furniture, fixtures and equipment | 2-10 years |
| Communication and utility systems | 2-10 years |
| Roads and bridges | 5-30 years |

The useful life of each of the property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets.

The assets' residual values, useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end.

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 the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income in the year the item is derecognized.

Fully depreciated and amortized property, plant and equipment are retained in the accounts until they are no longer in use.

Construction in progress is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and become available for operational use.

Investment Property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gain or loss arising from changes in the fair values of investment properties is included in the consolidated statement of income in the period in which they arise, including the corresponding tax effect, if any.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset, at the beginning of the year when the disposal is made, is recognized in the consolidated statement of income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. In the case of an owner-occupied property becoming an investment property, previously recognized revaluation surplus is retained until such time that the property is disposed. On subsequent disposal, the revaluation surplus may be transferred to retained earnings; note that this transfer is not made through the consolidated statement of income.

Impairment of Nonfinancial Assets

*Property, Plant and Equipment and Advances*

The Group assesses at each reporting date whether there is an indication that these nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. The asset's or cash generating unit's 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 group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset 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 assessment of the time value of money and the risks specific to the asset. Any