RHi ROXAS HOLDINGS, INC.	Document Code:	
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Title : POLICY ON RELATED PARTY TRANSACTION		

RELATED PARTY TRANSACTIONS POLICY

1. **Policies and Procedures**

The company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board are:

a. Parent Company
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

b. Joint Ventures
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

c. Subsidiaries
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

d. Entities Under Common Control
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

e. Substantial Stockholders
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

f. Officers including spouse/children/siblings/parents and relatives within the fourth civil degree
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

g. Directors including spouse/children/siblings/parents and relatives within the fourth civil degree

Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

h. Interlocking director relationship of Board of Directors
Major investments and substantial operational transactions require approval from the Executive Committee subject to confirmation by the Board. Disclosures are always provided in the audited financial statements for transparency.

Moreover, the Company adopts by law, the rules pertaining to interlocking directors, as follows:

a. if the interests of the interlocking director in the corporations are both substantial (stockholdings exceed 20% of capital stock)

- General Rule: A contract between two or more corporations having interlocking directors shall not be invalidated on that ground alone.
- Exception: If the contract is fraudulent or not fair and reasonable.

b. if the interest of the interlocking director in one of the corporations is nominal while substantial in the other (stockholdings at 20% or more), the contract shall be valid provided the following conditions are present:

1. the presence of such director in the board meeting in which the contract was approved was not necessary to constitute a quorum for such meeting;
2. That the vote of such director was not necessary for the approval of the contract;
3. That the contract is fair and reasonable under the circumstances.

Where (1) and (2) are absent, the contract can be ratified by the vote of the stockholders representing at least 2/3 of the outstanding capital stock or by the vote of the stockholders representing at least 2/3 of the members in the meeting called for the purpose. Provided that: (i) Full disclosure of the adverse interest of the directors/trustees involved is made on such meeting, and; (ii) The contract is fair and reasonable under the circumstances.

In addition to the above, the SEC Rules on Material Related Party Transactions (MRPT) are herein adopted:

SECTION 1. Definition of Terms. —

For purposes of this Material RPT Rules, the following definitions shall apply:

Related parties — covers the reporting Publicly-Listed Company (PLC) directors, officers, substantial shareholders and their spouses and relatives within the fourth civil degree of consanguinity or affinity, legitimate or common-law, if these persons have control, joint control or significant influence over the reporting PLC. It also covers the reporting PLC's parent, subsidiary, fellow subsidiary, associate, affiliate, joint venture or an entity that is controlled, jointly controlled or significantly influenced or managed by a person who is a related party.

Substantial Shareholder — any person who is directly or indirectly the beneficial owner of more than ten percent (10%) of any class of its equity security.

Affiliate — refers to an entity linked directly or indirectly to the reporting PLC through any one or a combination of any of the following:

• Ownership, control or power to vote, whether by permanent or temporary proxy or voting trust, or other similar contracts, by a company of at least ten percent (10%) or more of the outstanding voting stock of the PLC, or vice-versa;

• Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations;

• Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the reporting PLC and the entity; or

• Management contract or any arrangement granting power to the reporting PLC to direct or cause the direction of management and policies of the entity, or vice-versa.

Associate — An entity over which the reporting PLC holds twenty percent (20%) or more of the voting power, directly or indirectly, or which the reporting PLC has significant influence.

Significant Influence — The power to participate in the financial and operating policy decisions of the company but has no control or joint control of those policies.

Control — A person or an entity controls a reporting PLC if and only if the person or entity has all of the following:

• Power over the reporting PLC;

• Exposure, or rights, to variable returns from its involvement with the reporting PLC; and

• The ability to use its power over the reporting PLC to affect the amount of the reporting PLC's returns.

Related party transactions — a transfer of resources, services or obligations between a reporting PLC and a related party, regardless of whether a price is charged. It should be interpreted broadly to include not

only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

Material Related Party Transactions — Any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of a company's total assets based on its latest audited financial statement.

Materiality Threshold — Ten percent (10%) of the company's total assets based on its latest audited financial statement. If the reporting PLC is a parent company, the total assets shall pertain to its total consolidated assets.

Related Party Registry — A record of the organizational and structural composition, including any change thereon, of the company and its related parties.

SECTION 2. Duties and Responsibilities. —

A. Board of Directors

The Board shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of the company's shareholders and other stakeholders. Towards this end, the Board shall carry out the following duties and responsibilities:

1. To institutionalize an overarching policy on the management of material RPTs to ensure effective compliance with existing laws, rules and regulations at all times and that material RPTs are conducted on an arm's length basis, and that no shareholder or stakeholder is unduly disadvantaged.

2. To approve all material RPTs that cross the materiality threshold and write-off of material exposures to related parties, as well as any renewal or material changes in the terms and conditions of material RPTs previously approved in accordance with Section 3 (f) of these Rules.

Material changes in the terms and conditions of the material RPT include, but are not limited to, changes in the price, interest rate, maturity date, payment terms, commissions, fees, tenor and collateral requirement of the material RPT.

3. To establish an effective audit, risk and compliance system to:

• Determine, identify and monitor related parties and material RPTs;

• Continuously review and evaluate existing relationships between and among businesses and counterparties; and

• Identify, measure, monitor and control risks arising from material RPTs.

The system shall be able to define the related parties' extent of relationship with the company; assess situations in which a non-related party (with whom a company has entered into a transaction) subsequently becomes a related party and vice versa; and generate information on the nature and

amount of exposures of the company to a particular related party. The said system will facilitate submission of accurate reports to the regulators/supervisors. The system as well as the overarching policies shall be subject to periodic assessment by the internal audit and compliance officers and shall be updated regularly for their sound implementation. The overarching policy and the system shall be made available to the SEC and audit functions for review. Any change in the policy and procedure shall be approved by majority of the board of directors and approved by majority of the stockholders constituting a quorum.

4. To oversee the integrity, independence, and effectiveness of the policies and procedures for whistleblowing. The board should ensure that senior management addresses legitimate issues on material RPTs that are raised. The board should take responsibility for ensuring that stakeholders who raise concerns are protected from detrimental treatment or reprisals.

B. Senior Management

Senior management shall implement appropriate controls to effectively manage and monitor material RPTs on a per transaction and aggregate basis. Exposures to related parties shall also be monitored on an ongoing basis to ensure compliance with the company's policy and SEC's regulations.

SECTION 3. Material Related Party Transactions Policy. —

The Board shall adopt a group-wide material RPT policy encompassing all entities within the conglomerate, taking into account its size, structure, risk profile and complexity of operations.

At a minimum, material RPT policies shall include, but not be limited to the following:

a. Identification of related parties. The policy shall clearly identify persons and companies that are considered as the company's related parties. The policy shall require Management/Board of Directors to quarterly review and update the Related Party Registry to capture organizational and structural changes in the company and its related parties.

b. Coverage of Material RPT policy. The material RPT policy shall cover all transactions meeting the materiality threshold.

Transactions amounting to ten percent (10%) or more of the total assets that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the material RPT to the requirements of this Material RPT Rules. The prospective treatment should, however, be without prejudice to regulatory actions that may be enforced for transactions noted to have not been conducted on an arm's length basis.

c. Adjusted Thresholds. The company shall be allowed to set a threshold lower than the materiality threshold provided under these Rules upon determination by the board of directors of the risk of the RPT to cause damage to the company and its shareholders. The adjusted threshold, when applicable, shall be contained in the company's material RPT policy.

d. Identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs. The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with the material RPTs. Directors and officers with personal interest in the transaction shall fully and timely disclose any and all material facts, including their respective interests in the material RPT and abstain from the discussion, approval and management of such transaction or matter affecting the company. In case they refuse to abstain, their attendance shall not be counted for purposes of assessing the quorum and their votes shall not be counted for purposes of determining majority approval.

e. Guidelines in ensuring arm's length terms.

No preferential treatment shall be given to related parties that are not extended to non-related parties under similar circumstances.

Before the execution of the material RPT, the Board of Directors should appoint an external independent party to evaluate the fairness of the terms of the material RPTs. An external independent party may include, but is not limited to, auditing/accounting firms and third party consultants and appraisers. The independent evaluation of the fairness of the transparent price ensures the protection of the rights of shareholders and other stakeholders.

The policy shall also include guidance for an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the company and its shareholders. The price discovery mechanism may include, but is not limited to, acquiring the services of an external expert, opening the transaction to a bidding process, or publication of available property for sale.

f. **Approval of material RPTs.** All individual material RPTs shall be approved by at least two-thirds (2/3) vote of the board of directors, with at least a majority of the independent directors voting to approve the material RPT. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. For aggregate RPT transactions within a twelve (12)-month period that breaches the materiality threshold of ten percent (10%) of the company's total assets, the same board approval would be required for the transaction/s that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

g. **Self-assessment and periodic review of policy** — The internal audit shall conduct a periodic review of the effectiveness of the company's system and internal controls governing material RPTs to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, shall be communicated directly to the Audit Committee.

The company's Compliance Officer shall ensure that the company complies with relevant rules and regulations and is informed of regulatory developments in areas affecting related parties. He/she shall aid in the review of the company's transactions and identify any potential material RPT that would require

review by the Board. He/she shall ensure that the company's material RPT policy is kept updated and is properly implemented throughout the company.

h. Disclosure requirement of material RPTs. The members of the board, substantial shareholders, and officers shall fully disclose to the Board of Directors all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the company. Such disclosure shall be made at the board meeting where the material RPT will be presented for approval and before the completion or execution of the material RPT.

i. Whistle blowing mechanisms. This policy shall be covered by the existing whistleblowing policy and mechanisms consistent with the corporate values and codes of conduct set by the board of directors. This policy shall encourage all stakeholders to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable material RPTs.

j. Remedies for abusive material RPTs. The Board shall adopt measures that would cut losses and allow recovery of losses or opportunity costs incurred by the company arising out of or in connection with abusive material RPTs and impose the penalties and the manner of imposing the same on personnel, officers or directors, who have been remiss in their duties in handling material RPTs in accordance with company policies.

Abusive material RPTs refer to material RPTs that are not entered at arm's length and unduly favor a related party.

SECTION 4. Disclosure and Regulatory Reporting. —

The reporting PLC shall submit the following to the SEC:

1. A summary of material related party transactions entered into during the reporting year which shall be disclosed in the company's Integrated Annual Corporate Governance Report (I-ACGR) to be submitted annually every May 30;

2. Advisement Report as prescribed by the SEC of any material RPT filed within three (3) calendar days from the execution date of the transaction. The Advisement Report shall be signed by the reporting PLC's Corporate Secretary or authorized representative.

At a minimum, the disclosures in both (1) and (2) above shall include the following information:

i. complete name of the related party;

ii. relationship of the parties;

iii. execution date of the material RPT;

iv. financial or non-financial interest of the related parties;

v. type and nature of transaction as well as a description of the assets involved;

vi. total assets (consolidated assets, if reporting PLC is a parent company);

vii. amount or contract price;

viii. percentage of the contract price to the total assets of the reporting PLC;

ix. carrying amount of collateral, if any;

x. terms and conditions;

xi. rationale for entering into the transaction; and

xii. the approval obtained (i.e., names of directors present, name of directors who approved the material RPT and the corresponding voting percentage obtained).

(Rules on Material Related Party Transactions for Publicly-Listed Companies, SEC Memorandum Circular No. 10-19, [April 25, 2019])

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ROXAS HOLDINGS, INC.

AUDIT AND RISK COMMITTEE CHARTER

The Board of Directors (Board) of Roxas Holdings, Inc. (Company) hereby adopts this Charter of the Audit and Risk Committee (Committee).

Section 1. PURPOSE OF THE COMMITTEE

The Committee shall assist the Board in fulfilling its oversight responsibilities on the Company's:

a. accounting, financial reporting, disclosure processes, and internal controls;

b. compliance with legal and regulatory requirements;

c. overall risk management system, framework, policies and profile; and

d. internal and external auditors.

Section 2. COMMITTEE STRUCTURE

2.1 Composition

a. The Committee shall consist of at least three (3) voting Directors who preferably have accounting and finance backgrounds, one (1) of whom must be an independent director and another with audit experience.

b. The Board shall designate one (1) member of the Committee as its Chairman who shall be an independent director.

c. The Board may appoint one (1) or more persons to serve as advisor(s) to the Committee (Advisor). Advisors shall have the right to attend and speak at any meeting of the Committee, but shall have no right to vote in respect of any action of the Committee.

2.2 Term

The Board shall appoint the members of the Committee at its annual organizational meeting and each member shall serve upon his election until the next organizational meeting of the Board, unless removed or replaced by the Board.

The Board shall take into account succession planning for the Chairman and other members of the Committee in the appointment of independent directors. It shall also ensure that there is an established training and succession plan that is regularly reviewed and updated.

2.3 Vacancy

Any vacancy in the Committee caused by the death, resignation, or disqualification of any member, or by any other cause, may be filled by the Board. The member elected to fill the vacancy shall hold office for the remainder of the term, or until his successor shall have been duly elected and qualified.

2.4 Qualifications and Disqualifications

The Chairman and the Members of the Committee shall possess all of the qualifications and have none of the disqualifications for membership in the Board as provided for in the By-Laws and the Revised Manual on Corporate Governance of the Company, the Corporation Code, the Securities Regulation Code, and other relevant laws. In addition, the Chairman or the Member of the Committee who is an independent director must meet the independence criteria under applicable law or regulation or as determined by the Board or the Nomination, Election and Governance Committee of the Company.

Each member shall be financially literate. The Chairman shall have accounting or related financial management expertise with a good understanding of the generally accepted accounting principles (GAAP). At least one (1) member of the Committee must be an audit committee financial expert or one who, through education and experience, has the following attributes as determined by the Board:

(i) an understanding of the GAAP and financial statements;
(ii) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
(iii) experience in preparing or auditing or reviewing or analyzing financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and level of complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience in actively supervising one or more persons engaged in such activities;
(iv) an understanding of internal controls and procedures for financial reporting; and
(v) an understanding of audit committee functions.

The person with the accounting or related financial management expertise and the audit committee financial expert may be one and the same person.

The Committee members shall have a practical understanding of the business of the Company or should have a previous business experience.

2.5 Training and Education

The members of the Committee shall attend seminars on corporate governance conducted by duly recognized private or government entities.

Section 3. POWERS, DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

3.1 The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to monitor the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

3.2 The following shall be the principal powers, duties and responsibilities of the Committee. These matters are set forth as a guide with the understanding that the Committee may supplement them as appropriate:

3.2.1 General

a. Develop and maintain free and open means of communication among the Board, the Company's external and internal auditors, chief risk officer, and management;

b. Perform any other activities as the Committee deems appropriate, or as requested by the Board, consistent with this Charter, the Company's By-Laws and applicable law;

c. Maintain and update, as appropriate, this Charter, which will be published on the Company's website; and

d. Report regularly to the Board.

3.2.2 With Respect to Financial Reporting and System of Internal Controls

a. Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations;

b. Review the reports submitted by the internal and external auditors;

c. Review the quarterly, half-year and annual financial statements before their submission to the Board and appropriate government and regulatory agencies, with particular focus on the following matters:

   i. Any change/s in accounting policies and practices;
   ii. Significant accounting and reporting issues, including complex or unusual transactions, related company transactions, subsequent events and major judgmental areas, and recent professional and regulatory pronouncements, and their impact on the financial statements;
   iii. Significant adjustments resulting from the audit;
   iv. Going concern assumptions;
   v. Compliance with accounting standards;
   vi. Completeness, consistency and accuracy of disclosures of material information; and
   vii. Compliance with tax, legal and regulatory requirements.

d. Review the management representation letter before submission to the external auditor. The Committee shall recognize that management is responsible for the financial statements.

e. Review and assess, on a quarterly basis, the correspondence between the Company and regulators regarding financial statement filings and disclosures;

f. Review and discuss with management any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting, and any fraud, whether or not material, involving management or other employees who have a significant role in the internal control over financial reporting, and take appropriate actions in a timely manner to address the same;

g. Coordinate, monitor and facilitate compliance with laws, rules and regulations and communicate to the legal counsel any litigation, claim, contingency or other significant legal issue that impact on the financial statements;

h. Provide supervision to management in the formulation of the rules and procedures on financial reporting and internal control in accordance with the following guidelines:

   i. The extent of the responsibility of management in the preparation of the financial statements of the Company with the corresponding delineation of the responsibilities that pertain to the external auditor shall be clearly explained;
   ii. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all stockholders and other stakeholders shall be maintained;
   iii. On the basis of the approved audit plans, internal audit examinations shall cover at the minimum the evaluation of the adequacy and effectiveness of controls that cover the Company's governance, operations and information systems, including the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, protection of assets and compliance with contracts, laws, rules and regulations; and
   iv. The Company shall consistently comply with the financial reporting requirements of the Securities and Exchange Commission (SEC).

i. Monitor and evaluate the appropriateness of the policies addressing codes of conduct for the Board and employees, as set out in the Company's Code of Conduct;

j. Monitor, evaluate, and discuss with internal and external audit the adequacy and effectiveness of the Company's internal control system, including the financial reporting control and information technology security, and any significant findings that have been reported to management including management's responses, and the progress of the related corrective action plans; and

k. Formulate or review antifraud programs and controls implemented by management and discuss any identified or suspected fraud and illegal acts involving senior management and other employees.

3.2.3 With Respect to Risk Management

a. Provide oversight over management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include regular receipt from management of information on risk exposures and risk management activities.

b. Discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;

c. Review and discuss risk management-related reports and issues raised by management, internal and external auditors, legal counsel and regulators that impact the Company's risk management framework;

d. Discuss the risks faced by the Company and those of its subsidiaries that may have potential impact on the Company's operations, and ensure that risk awareness culture is pervasive throughout the organization;

e. Review with senior management the Company's overall antifraud programs and controls;

f. Review the risk management infrastructure and culture to ensure that the relevant activities are aligned with the overall goals and strategies of the Company;

g. Review and recommend to management the Company's levels of risk appetite and risk tolerance, and risk exposure allocation for approval by the Board;

h. Review and discuss with management and the internal auditor and/or the external auditor and/or the chief risk officer:

    i. the key policies and processes adopted by management with respect to risk identification, assessment and management, including risk of fraud;
    ii. significant or major risk exposures, if any, and the plans or the steps taken or need to be taken by management to monitor and control such exposures;
    iii. appropriateness of Business Continuity Plan and culture of risk-awareness implemented throughout the Company.

i. Review the Company's risk profile on an ongoing basis and re-evaluate the likelihood of occurrence, severity of impact of risk exposures, and any mitigating measures affecting those risks;

j. Ensure that the Enterprise Risk Management function of management is in place and operating effectively to identify, assess, monitor and manage risks;

k. Appoint and evaluate the qualifications and performance of the chief risk officer at least annually;

l. Establish and identify the reporting line of the chief risk officer to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Committee and administratively to the Chief Executive Officer of the Company.

m. Discuss with the chief risk officer the Company's risk management structure, risk issues and mitigation strategies and its overall effectiveness;

n. Review the results of the annual risk assessment done by the chief risk officer. The assessment shall include material financial and non-financial risks that impact on the Company and its subsidiaries and the corresponding measures in addressing such risks.

o. Evaluate the risk assessment report submitted by the chief risk officer on a quarterly basis. The report shall include existing and emerging risks at the Company and its subsidiaries, and the related risk mitigation strategies and action plans of management.

3.2.4 With Respect to Internal Audit

a. Perform oversight functions over the Company's internal auditors. It shall ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

b. Review and approve the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget necessary to implement it.

c. Review the organization of the internal audit department and consider the appointment of an independent internal auditor and the terms and conditions of his engagement and removal;

d. Review and approve proposals to outsource any internal audit activities;

e. Review and evaluate the qualifications and performance of the internal auditor at least annually;

f. Review the effectiveness of internal audit function, including compliance with the International Standards for the Professional Practice of Internal Auditing;

g. Review the reports prepared by the internal audit team;

h. Establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Committee and administratively to the Chief Executive Officer of the Company. It shall ensure that, in the performance of the work of the internal auditor, he shall be free from interference by outside parties.

i. Conduct an annual review, and if deemed appropriate, cause an update, of the charter of the internal audit.

3.2.5 With Respect to External Audit

a. Perform oversight functions over the Company's external auditors. It shall ensure that the internal and external auditors act independently from each other and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.

b. Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one (1) audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

c. Review the reports submitted by the external auditor;

d. Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Company's annual report.

e. Review and evaluate the independence, professional qualifications, competence and performance of the external auditor at least annually, and recommend to the Board the appointment or discharge of the external auditor;

f. Review and discuss key staffing and lead audit partner rotation plans;

g. Review and timely discuss with the external auditor its report on critical policies, alternative treatments, observations on internal controls, audit adjustments, independence, limitations on the audit work set by management, and other material issues that would affect the audit and financial reporting;

h. Discuss and resolve disagreements between management and the external auditor regarding financial reporting; and

i. Obtain from the external auditor assurance that the audit was conducted in a manner consistent with certain procedures to be followed in any audit of financial statements required under the applicable rules of the relevant stock exchange, the SEC and other regulatory bodies.

3.3 The Chairman of the Committee shall issue certifications on critical compliance issues.

3.4 The findings and recommendations of the Committee shall be submitted to the Board for approval.

3.5 The Committee shall have the resources and authorities appropriate to discharge its responsibilities, including the authority to engage external auditors for special audits, reviews and other procedures and to retain and obtain advice from external counsel and other experts or consultants as it deems appropriate without need for Board approval.

3.6 The Chairman of the Committee and/or any of its Members shall meet separately with management, the internal auditor and/or external auditor and/or chief risk officer of the Company, to discuss any matter that the Committee or any of the foregoing persons believe should be discussed privately. The Committee may also request any officer, executive or employee of the Company or the Company's outside counsel or the external auditor or third party consultants to attend a meeting of the Committee or to meet with any Member, advisor or consultant of the Committee.

3.7 As may be requested by the Committee, functional specialists within the Company shall provide technical support on subject matters relevant to the purposes of the Committee.

3.8 The Committee shall be guided by the Company's mission and vision in the fulfillment of its functions.

Section 4. COMMITTEE PROCEDURES

4.1 Meetings

a. The Committee shall hold meetings at such times and places as it considers appropriate, but not less than quarterly.

b. Meetings of the Committee shall be convened by the Chairman of the Committee as and when he considers appropriate or upon the request of a majority of the Members of the Committee.

c. A Committee meeting shall be convened upon notice in writing at least three (3) days prior to the meeting and specifying the place, date and time of the meeting and the matters to be discussed at the meeting.

d. Notwithstanding that a meeting is called by shorter notice, it shall be deemed to have been duly convened if it is so agreed by the Members present in the meeting at which there is a quorum. A Member may consent to short notice and may waive notice of any meeting of the Committee and such waiver may be retrospective.

e. Each Member/Advisor shall give to the Secretary of the Committee an address, an email address, and a facsimile number for the service of notices of meetings of the Committee.

f. Notice of a meeting of the Committee shall be deemed to be duly served upon a Member/Advisor if it is given to him personally, or sent to him by mail or email or facsimile transmission, to his address, email address, or facsimile number, as appropriate, given by him to the Secretary of the Committee in accordance with the immediately preceding paragraph.

g. The quorum for a meeting of the Committee shall be at least a majority of the Members present throughout the meeting.

h. Resolutions at a meeting of the Committee at which there is a quorum shall be passed by a simple majority of votes of the Members present at such meeting.

i. Each Member, including the Chairman of the Committee, shall have one (1) vote.

j. In case of an equality of votes, the Chairman of the Committee shall not have a second or casting vote.

k. A resolution in writing signed by a majority of the Members of the Committee shall be as valid and effective for all purposes as a resolution of the Committee passed at a meeting of the Committee duly convened, held and constituted.

l. Members and Advisors of the Committee may participate in a meeting of the Committee through teleconference or video conference by means of which all persons participating in the meeting can hear each other.

4.2 Escalation

If the Committee decides to take any action to which any Member objects, such Member shall have the right, by notice in writing to the Chairman of the Committee within ten (10) days after such meeting, to require the Committee to reconsider its decision in a separate meeting. If, after such reconsideration, any Member objects to the action which the Committee has decided to take at the second Committee meeting, then said Member shall be entitled, by notice in writing to the Board (together with any relevant supporting materials) within ten (10) days from the date of the second Committee meeting, to require the particular matter to be considered and finally decided by the Board at its next scheduled meeting, the decision of which is final and binding. Any action proposed to be taken by the Committee which is the subject of the foregoing procedures shall be held in abeyance, and shall be deemed for all purposes not to have been taken, during the pendency of such procedures.

4.3 Minutes and Records

a. The Corporate Secretary or the Assistant Corporate Secretary or his designated representative shall act as secretary for the meetings of the Committee. He shall prepare the minutes of meetings of the Committee and keep records of the Committee.

b. The Committee shall cause records to be kept for the following:

   i. appointments and resignations of the Members/Advisors;
   ii. all agenda and other documents sent to the Members/Advisors; and
   iii. minutes of proceedings and meetings of the Committee.

c. Any such records shall be open for inspection by any Member/Advisor upon reasonable prior notice during usual office hours of the Company.

d. Minutes of any meeting of the Committee, if signed by the Chairman of such meeting, or by the Chairman of the next succeeding meeting, shall be conclusive evidence of the proceedings and resolutions of such meeting.

Section 5. REMUNERATION OF MEMBERS/ADVISORS

No fees or other remuneration shall be payable to the Members/Advisors of the Committee in respect of their services provided in connection with the Committee or in respect of their attendance at meetings of the Committee, save and except fees or remuneration authorized and approved by the Board for such purposes. In the case of a Member who is an independent director, no fees or compensation shall be paid directly or indirectly to such Member or his firm for consultancy or advisory services rendered directly by the Member or indirectly through his firm even if such Member is not the actual service provider. However, this prohibition shall not apply to ordinary compensation paid to such Member or his firm in respect of any other supplier or other business relationship or transaction that the Board has determined to be at arm's length terms and immaterial for purposes of its basic Member's independence analysis.

Section 6. PERFORMANCE EVALUATION

The Committee shall undertake an annual assessment of its performance based, at the minimum, on the parameters prescribed by the SEC and on other relevant regulatory issuances. The results of the assessment shall be validated by the Company's compliance officer and reported to the Board (Refer to Exhibit 1: Performance Evaluation Rating for the rating scale.).

The Committee shall formulate a feedback mechanism to receive comments from management, internal and external auditors, chief risk officer, and general counsel, to facilitate dialogue within the organization about possible ways to improve its performance.

Based on its self-assessment and the comments received, the Committee shall formulate and implement plans to improve its performance. These shall include the identification of relevant training needs intended to keep the members up-to-date with corporate governance best practices, accounting and auditing standards, as well as specific areas of concern.

The entire assessment process shall be documented and shall form part of the records of the Company that may be examined by the SEC from time to time.

Section 7. EXTERNAL AUDITOR

7.1 After consultations with the Committee, the Board shall recommend to the stockholders an external auditor duly accredited by the SEC who shall undertake an independent audit of the Company and shall provide an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders.

7.2 The external auditor shall not at the same time provide internal audit services to the Company.

7.3 Non-audit work may be given to the external auditor, provided it does not conflict with his duties as an independent auditor, or does not pose a threat to his independence.

7.4 The external auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the external auditing firm assigned to the Company, shall be changed with the same frequency.

7.5 If the external auditor resigns, is dismissed or ceases to perform his services, the reason/s for, and the date of effectivity of, such action shall be reported in the Company's annual and current reports. The report shall include a discussion of any disagreement between him and the Company on accounting principles or practices, financial disclosures of audit procedures which the former auditor and the Company failed to resolve satisfactorily. A preliminary copy of the said report shall be given by the Company to the external auditor before its submission.

7.6 If the external auditor believes that any statement made in an annual report, information statement or any report filed with the SEC or any regulatory body during the period of his engagement is incorrect or incomplete, he shall give his comments or views on the matter in the said reports.

7.7 The external auditor shall report directly to the Committee. The Committee has the direct responsibility for the setting of compensation of the external auditor.

Section 8. INTERNAL AUDITOR

8.1 The Company shall have in place an independent internal audit function which shall be performed by an internal auditor or a group of internal auditors through which the Board, management and stockholders shall be provided with reasonable assurance that its key organizational and procedural controls are effective, appropriate and faithfully complied with.

8.2 The internal auditor shall submit to the Committee and the management an annual report on the internal audit department's activities, responsibilities and performance relative to the audit plans and strategies as approved by the Committee. The annual report shall include significant risk exposures, control issues and such other matters as may be needed or requested by the Board and management. The internal auditor shall certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If

he does not, he shall disclose to the Board and management the reasons why he has not fully complied with the said standards.

8.3 The internal auditor shall attend all Committee meetings, except when justifiable causes prevent him from doing so.

Section 9. CHIEF RISK OFFICER

9.1 The chief risk officer shall help the Committee identify various risks and exposures of the Company through periodic assessment and implementation of risk mitigation strategies and controls. He shall discuss with the Committee the risk management structure, risk issues and mitigation strategies and its overall effectiveness.

9.2 The chief risk officer shall perform an annual risk assessment and present the results thereof to the Committee. The assessment shall include material financial and non-financial risks that impact on the Company and its subsidiaries and the corresponding measures in addressing such risks.

9.3 The chief risk officer shall submit to the Committee, on a quarterly basis, a risk assessment report which shall include existing and emerging risks at the Company and its subsidiaries, and the related risk mitigation strategies and action plans of management.

9.4 The chief risk officer shall attend all Committee meetings, except when justifiable causes prevent him from doing so.

Section 10. AMENDMENT

The Committee shall periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Board. This Charter shall not be amended, altered or varied unless such amendment, alteration or variation shall have been approved by a resolution of the Board.

Section 10. EFFECTIVITY

This Charter shall take effect upon approval by the Board.

***

Exhibit 1: Performance Evaluation Rating

Rating	Description (As to compliance with the Audit and Risk Committee Charter)
1-2	Poor
3-4	Satisfactory
5-6	Very Satisfactory
7-8	Outstanding
9-10	Excellent

ROXAS HOLDINGS, INC.
INTERNAL AUDIT GROUP CHARTER
Revision 3, March 7, 2016

Prepared by:

Paul Edwin V. Lazaro
AVP, Internal Audit

Approved by:

SENIOR MANAGEMENT	MR. HUBERT D. TUBIO, President and CEO
ROXAS HOLDINGS, INC. AUDIT COMMITEE	MR. DAVID L. BALANGUE, , Chairman
	MR. OSCAR J. HILADO, Member
	MR. CHRISTOPHER H. YOUNG, Member

I. Introduction

This Charter aims to formally define the **purpose, authority and responsibility** of the Internal Audit activity that is consistent with the *International Standards for the Professional Practice of Internal Auditing (ISPPIA)*, and approved by the Senior Management and the Board.

II. Purpose of Internal Auditing

The Internal Audit function was established to provide an **independent, objective assurance** and **consulting activity** designed **to add value** and **improve** an organization's operations. It is expected to **help the organization accomplish its objectives** by bringing a systematic, disciplined approach to **evaluate and improve** the effectiveness of **risk management, control**, and **governance processes**.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding a process, system or other subject matter. The nature and scope of the assurance engagement are determined by the Internal Auditor in close coordination with members of management. There are generally three parties involved with the process, (1) the person or group directly involved with the process, system, or subject matter – **the process owner**, (2) the person or group making the assessment – **the Internal Auditor**, and (3) the person or group using the assessment – **the user**.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client (may be line or senior management). The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice – **the Internal Auditor**, and (2) the person or group seeking and receiving the advice – **the engagement client. When performing consulting services, the Internal Auditor should maintain objectivity and not assume operational nor management responsibility**.

The Internal Audit Group renders consulting services by serving on task forces to analyze operations and controls built into the systems, and make recommendations.

The Internal Audit Group supplies management at all levels with information to control the operations for which they are responsible. This objective shall be accomplished through the conduct of independent examination and evaluation of the adequacy and effectiveness of the systems of risk management, internal control, and governance processes established by the company to direct operations toward the accomplishment of objectives in accordance with its policies and plans. To this end, the auditing function is expected to furnish members of the organization with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

III. Authority

In carrying out their function, the Chief Audit Executive (CAE) have full and free access to the President and CEO of the company and to the Audit Committee as assigned by the Board of Directors. The CAE is authorized to have full and complete access to all the organization's functions, records (either manual or electronic), physical properties but with equivalent accountability for safekeeping and confidentiality. Documents and information given to the CAE during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them. The CAE shall not use confidential information for any personal gain or in a manner, which would be detrimental to the welfare of the company.

The CAE is authorized to delegate duties, allocate resources, select subjects, determine scope of works and select required techniques to accomplish objectives. At the same time the CAE is also authorized to obtain necessary assistance of personnel in audited units and other specialized services within or outside the organization.

Organization refers to the group of companies under the umbrella of Roxas Holdings, Inc.(RHI).

IV. Responsibilities

The CAE and his/her Internal Auditors shall have no direct responsibilities or any authority over any of the activities or operations that they review. **The internal audit work of reviewing, reporting, and appraising established policies, plans, and procedures do not in any way relieve operations personnel of responsibilities assigned to them**. The Internal Audit function should not develop and install procedures, prepare records, or engage in any other activity, which would normally be reviewed by the function.

However, the Internal Audit function shall further the company's interest with comments and recommendations on loss-of-profit opportunities through non-compliance with authorized policies and practices, uneconomical use of resources, or inefficient methods of operations; protection of the company's assets from loss; investigation of suspected fraudulent activities; or for extensions, modifications, or additions to established policies, procedures and practices. The Internal Audit function shall also bring to the attention of senior management significant deficiencies noted in the existing policies and procedures.

Recommendations on standards of control to apply to a specific activity may be included in the written report of audit comments and recommendations, which is given to operating management for review and implementation and/or for advising the appropriate level of management of the risk it is accepting for non-implementation of the recommendations.

Internal Audit shall develop an Annual Audit Plan and present that plan to the Audit Committee for approval. It shall likewise submit to the Audit Committee and senior management an Annual Report on internal audit's activities and performance relative to the audit plan.

Noted control deficiencies shall be monitored by Internal Audit until action plan is completed as agreed in the Internal Audit report or as agreed with stakeholders if a more effective action plan becomes available.

V. Organizational Independence

The Internal Audit Group is under the office of the Audit Committee of the Board, which defines its responsibilities. The Chief Audit Executive shall functionally report to the Chairman of the Audit Committee and shall report to the President and CEO for administrative purposes.

The results of the reviews made by the auditors, the opinion which they form, and the recommendations which they make shall be communicated through a written report that shall be prepared and issued by the auditor subject to validation by Chief Audit Executive. The report shall include the action plans and commitment date to complete such action plans that will address the noted control deficiencies. The report shall be issued to the head of each operation reviewed or to the process owners with copies sent to other appropriate management personnel.

The members of the Audit Committee shall be given copies of the individual reports which will then be summarized and discussed during quarterly Audit Committee Meetings. The quarterly report will include significant audit findings indicating the major concerns raised, the recommendations provided, and the plan of action to be taken, or taken, by the auditee.

VI. Professional Standards

The Internal Audit staff shall follow the *Code of Ethics of the Institute of Internal Auditors* and shall comply with the *International Standards for the Professional Practice of Internal Auditing*.

ENTERPRISE RISK MANAGEMENT

The Board of Directors is tasked to oversee the risk management system of the Company through the Audit Committee, until such time as the Board sees the necessity to create a separate Board Risk Oversight Committee under its Manual of Corporate Governance.

Information on the Company's Risk Management system is reported on the Annual Corporate Governance Report submitted to the Philippine Securities and Exchange Commission and the Philippine Stock Exchange.

Risks Relating to the Business

Non-availability or any disruption in the supply of raw materials may materially disrupt the Company's operations.

The Company sources its sugar cane and other relevant raw materials requirements primarily from planters in Batangas and Negros Occidental. Volume and quality are among the main considerations in the sources of such products. The risk of supply shortage, however, poses a threat to the continuity of the business operations of the Company.

For its bioethanol business, on the other hand, the Company sources its molasses requirements from CACI and other planters and traders in Negros Occidental. Based on the Biofuels Act of 2006, such feedstock may only be procured from locally-produced sources. The supply of locally-produced molasses however may not be enough to meet the demands of the market. The risk of shortage poses a risk to the Company's bioethanol operations.

To mitigate this risk, the Company ensures that it maintains good relationship with planters and traders. At the same time, the Company has adopted an aggressive strategy in sourcing cane and molasses, to ensure independence from any particular source of raw materials.

Cyclicality in the supply of raw materials may adversely affect or materially disrupt the Company's operations.

The milling season for sugar cane in Nasugbu, Batangas runs from December until May, while the milling season in Negros Occidental runs from September until March each year. Any material adverse change in the crop yield, availability of raw materials, and/or disruption in the milling and refining operations of the Company may pose a risk in its financial and business prospects. To address this risk, the Company ensures, to the extent possible, the consistency and timeliness of the supply of raw materials. The Company also implements cost reduction programs, such as but not limited to reducing plant downtime, lower fuel cost by using cheaper alternative sources, and improving plant facilities to enable efficient plant utilization.

Natural or other catastrophes, including severe weather conditions may materially disrupt the Company's operations.

The country has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions, landslides, and earthquakes that may materially disrupt and adversely affect the Company's business operations. Moreover, weather and climate conditions, including its inherent volatility and the occurrence of extreme weather events due to global climate change, impacts the performance and management of the Company's operations and prospects.

The Company's expansion plans and capital expenditure outlays may not result profitably or achieve the expected benefits.

The strategic initiatives of the Company may include the expansion of its sugar milling and bioethanol facilities, development of a co-generation facility, or acquiring assets or businesses. These types of projects require substantial capital expenditures. There can be no assurance however that such projects will be completed on time and at the estimated cost, or at all. In addition, new projects involves a number of other risks, such as the diversion of the Company's attention from the existing business to integrating with the new project, possible adverse effects on the results of operations during the integration process, inability to achieve the intended objectives of the expansion or new project, and the potential unknown liabilities associated with the expansion or new project.

To address this risk, the Company seeks to adopt a business strategy that incorporates a conservative approach as to budget allocation and, at the same time, seeking competent and efficient contractors that can finish the projects on time and at the most reasonable cost.

The Company operates in a competitive market.

The market in which the Company operates is highly competitive and is served by a variety of established companies. Aside from domestic competition, the Philippines has historically had periods wherein there were significant imports of sugar from foreign-based producers. Another imminent risk is the gradual tariff reduction on imported sugar, which will go down to only 5%. This exposes the sugar industry as a whole to global competition. These, as a result, may cause the Company to lose market share, lower revenues, reduce its profit margins and adversely affect its operations and prospects.

To address this risk, the Company seeks to expand its business domestically and also strengthen its competitive position to adapt to the full implementation of the tariff reduction. It is the only sugar company that operates a refinery closest to Metro Manila and boasts of complementary production bases in Batangas and Negros Occidental which enable the Group to reach out to a wider network of customers all over the country and retain its top industrial clients despite stiff competition.

Continued compliance with environmental laws and regulations may adversely affect the results of operations and financial condition of the Company.

The Company's operations and products are subject to environmental laws, regulations and standards set forth by the government and various regulatory agencies, such as but not limited to, the SRA and the DOE, which may introduce new rules and policies or implement changes in the enforcement of existing laws and regulations, which in turn, could directly affect the 23 operations and profitability of the Company. These regulations empower such government authorities to impose penalties on non-compliant companies, including the standard monetary fines and penalties. There can be no assurance that the Company will at all times be in full compliance with the laws and regulations in respect of environmental protection. In addition, the promulgation of any new environmental laws or regulations which require the Company to acquire equipment or incur additional capital expenditure would inevitably increase costs and affect its profitability and prospects. Continued compliance, on the other hand, also entails additional costs for the Company.

To mitigate this risk, the Company adopts a strong compliance culture and maintains good relationship with key regulatory agencies and local government agencies.

The Company's business could be harmed by strikes or work stoppages by its employees.

If a strike or work stoppage were to occur in connection with negotiations of the Company's significant collective bargaining agreements, or as a result of disputes under its collective bargaining agreements with labor unions, the Company's business, financial condition and results of operations could be materially and adversely affected.

To mitigate this risk, the Company seeks to maintain a good relationship with its employees.

The Company may face financial risks with its investments.

The Company and its subsidiaries are exposed to a variety of financial risks in relation to financial instruments that it holds under its investment portfolio. The Company's risk management is coordinated with its Board of Directors and focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The Company's financial investments are largely in the form of short-term time deposits.

The Company's reputation will be adversely affected if its products do not meet customers' requirements.

If any of the Company's customers or clients experience significant delays in supply, quality control issues or otherwise, this could have a negative effect on the Company's reputation and make it more difficult to attract new customers and clients. The Company cannot provide any assurance that such events will not occur in a manner that would adversely affect its results of operations or financial condition.

To address this risk, the Company's overall business strategy is geared to deliver on time and with top quality its products to its clients. The Company also maintains a good feedback mechanism with its clients.

The Company's existing indebtedness could adversely affect its financial health and ability to withstand adverse developments and prevent the Company from declaring dividends.

The Company has a significant amount of indebtedness and substantial debt service obligations.

The Company's substantial indebtedness could have important consequences. For example, it may, among other things:

- require the Company to dedicate a substantial portion of its operating cash flow to making periodic principal and interest payments on indebtedness, thereby limiting the Company's ability to take advantage of business opportunities and placing the Company at a competitive disadvantage compared to competitors that have less debt;

- make it more difficult for the Company to satisfy its obligations with respect to indebtedness;

- restrict the Company's ability to declare dividends;
- require the Company to agree to additional financial covenants; and
- restrict the Company's ability to incur additional capital expenditures, except in pursuance of its sugar expansion and ethanol project.

Any of the above listed factors could materially and adversely affect the Company's results of operations, financial condition, and cash flow.

In order to mitigate this risk, the Company takes a prudent approach in its debt and capital structure. Moreover, it maintains a good relationship with various banks.

ROXAS HOLDINGS, INC.
MINUTES OF THE SPECIAL MEETING OF
THE AUDIT COMMITTEE

Held at the 6th Floor, RUC Conference Room, Ramon Cojuangco Building, de la Rosa St. corner Makati Avenue, Legaspi Village, Makati City on January 14, 2019 at 8:00 o'clock in the morning.

ATTENDANCE:

Present:
Mr. DAVID L. BALANGUE
Mr. CHRISTOPHER H. YOUNG

Absent:
Mr. OSCAR J. HILADO

Others Present:
Mr. HUBERT D. TUBIO
Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Ms. VERONICA C. CORTEZ
Ms. MA. HAZEL L. RABARA-RETARDO

I
CALL TO ORDER

The Chairman, Mr. David L. Balangue (Mr. Balangue), called the meeting to order. The Assistant Corporate Secretary, Ms. Ma. Hazel Rabara-Retardo, certified the existence of a quorum and recorded the Minutes of the meeting.

II
AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2018

Mr. Celso T. Dimarucut (Mr. Dimarucut) updated the Committee that from its initial presentation of the unaudited financial statements (subject to the completion of audit by the external auditors), the long-term debt has been reclassified as current because the DSCR ratio was breached as of September 30, 2018. Thus, there is no unconditional right to defer its settlement as of September 30, 2018. While bank waivers were solicited, the bank waivers on the DSCR were obtained after September 30, 2018 and thus, the long-term debt was reclassified as current, but will revert to noncurrent in the succeeding quarters. The waivers will be disclosed in the notes to the audited financial statements.

PhP millions	Year End FY2018	FY2017	FY2016
Current Assets	**7,186**	**6,198**	**4,484**
Cash	295	571	705
Receivables	3,040	2,258	1,331
Inventories	2,646	2,540	1,602
Others	1,204	829	847
Noncurrent Assets	**18,464**	**17,698**	**17,174**
Property and equipment	15,964	15,399	15,032
Investment and goodwill	1,722	1,686	1,728
Others	777	613	413
Total Assets	**25,650**	**23,896**	**21,658**
Current Liabilities	**13,306**	**7,033**	**4,368**
Short term borrowings	6,211	4,608	2,914
Current portion of long-term debt	4,813	1,235	380
Trade and other payables	2,282	1,190	1,074
Noncurrent Liabilities	**1,497**	**6,319**	**7,516**
Long term borrowings	-	4,821	6,056
Others	1,497	1,498	1,461
Total Liabilities	**14,803**	**13,352**	**11,884**
Equity	**10,846**	**10,544**	**9,774**
Total Liabilities and Equity	**25,650**	**23,896**	**21,658**
Net Debt	**10,729**	**10,093**	**8,645**

Another option for the presentation of the Financial Statements i.e. Balance Sheet and Income Statement is the reclassification of CADPI as Asset Held For Sale from PPE, in accordance with existing accounting standards. Likewise, even if the sale to URC is not closed, the CADPI asset will still be actively marketed to address the Group's current financial position. The standards do not require that there is a ready Buyer.

PhP millions	Year End FY2018	FY2017	FY2016
Current Assets	**13,711**	**6,198**	**4,484**
Cash	295	571	705
Receivables	3,040	2,258	1,331
Inventories	2,646	2,540	1,602
Others	1,204	829	847
Assets held for sale	6,525	-	-
Noncurrent Assets	**11,820**	**17,698**	**17,174**
Property and equipment	9,320	15,399	15,032
Investment and goodwill	1,722	1,686	1,728
Others	777	613	413
Total Assets	**25,531**	**23,896**	**21,658**
Current Liabilities	**13,306**	**7,033**	**4,368**
Short term borrowings	6,211	4,608	2,914
Current portion of long-term debt	4,813	1,235	380
Trade and other payables	2,282	1,190	1,074
Noncurrent Liabilities	**1,462**	**6,319**	**7,516**
Long term borrowings	-	4,821	6,056
Others	1,462	1,498	1,461
Total Liabilities	**14,768**	**13,352**	**11,884**
Equity	**10,763**	**10,544**	**9,774**
Total Liabilities and Equity	**25,531**	**23,896**	**21,658**
Net Debt	**10,729**	**10,093**	**8,645**

While both options are pre-cleared with the external auditors, the second option is more acceptable as it is reflective of the true intention of the Group vis-à-vis CADPI and settling its liabilities.

PhP millions	Year End FY2018	FY2017	FY2016
Revenues			
Sale of goods	4,849	5,471	7,638
Sale of services	48	39	33
	4,898	5,510	7,671
Cost of sales	(4,090)	(4,894)	(7,411)
Gross income	807	616	260
GP Rate	16%	11%	3%
General, administrative and selling expenses	(756)	(769)	(769)
Interest expense	(201)	(173)	(192)
Share in net earnings of an associate	56	68	212
Other income	70	47	34
Income (loss) before income tax	(23)	(212)	(455)
Income tax benefit	128	130	219
NET INCOME FROM CONTINUING OPERATIONS	105	(82)	(236)
NET INCOME FROM DISCONTINUED OPERATIONS	(50)	202	338
NET INCOME	55	120	102
Attributable to:			
Equity holders of parent company	48	120	101
Non controlling interest	7	0	0
Total	55	120	102

As for the Profit and Loss Statement, the Nasugbu operations was likewise classified as discontinued operations following its re-classification as an asset held for sale. As presented to the Committed previously, the disposal of CADPI will have a neutral effect on the Group. The effect of the fuel issue prevented the Group to register revenues from its refinery operations, but instead it incurred a net loss of about PHP50Mn. In the past, the alcohol operations contributed mainly to the losses experienced in 2016-2017, but because of significant improvements to the operations, the alcohol segment can be seen as the driver for the net income for the Group. Net income from continuing operations is PhP150Mn mitigated by loss from discontinued operations of PhP50Mn, bringing net income of PhP55mn compared to last year's PhP 120Mn.

Mr. Balangue noted that there is restatement of the previous year's Profit and Loss Statements for CADPI but this was not done for the Balance Sheet, this was confirmed by Mr. Dimarucut.

Mr. Christopher Young (Mr. Young) asked for developments on the CADPI transaction and the pending review by the PCC. Mr. Dimarucut reported that the PCC is reviewing the revised voluntary commitments to ensure that the planters' interests would not be compromised with the merger-monopoly situation to be created Post-Transaction. A decision on the revised voluntary commitments is expected on or before January 21, 2019.

Mr. Young asked if there is another plan if the sale will not push through. Mr. Tubio replied that the Group has started to operate CADPI as its next viable option. Mr. Dimarucut added that as soon as PCC approval is obtained, CADPI operations would be discontinued for proper accounting prior to closing with URC.

After further discussion, the Committee approved the Audited Financial Statements with CADPI presented as Asset Held for Sale.

ADJOURNMENT

There being no other matters to discuss, the meeting was thereupon adjourned.

ATTEST:

DAVID L. BALANGUE

CHRISTOPHER H. YOUNG

MA. HAZEL L. RABARA-RETARDO
Assistant Corporate Secretary

ROXAS HOLDINGS, INC.
MINUTES OF THE REGULAR MEETING
OF THE AUDIT COMMITTEE
Held on February 12, 2019 at 11:00 in the morning
Room 610, 6th Floor, Ramon Cojuangco Building, cor.
De la Rosa St. and Makati Avenue, Makati City

PRESENT:

Mr. CHRISTOPHER H. YOUNG	-	Acting Chairman of the Meeting
Mr. OSCAR J. HILADO	-	Member

OTHERS PRESENT:
Mr. HUBERT D. TUBIO
Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Ms. VERONICA C. CORTEZ
Atty. MA. HAZEL L. RABARA-RETARDO
Ms. JOSEPHINE LOGROÑO
Ms. FARAH CRIZEL SANTIAGO

I
CALL TO ORDER AND CERTIFICATION OF QUORUM

The Acting Chairman of the meeting, Mr. Christopher H. Young (Mr. Young), called the meeting to order and requested the Secretary of the meeting, Atty. Ma. Hazel L. Rabara-Retardo (Atty. Rabara-Retardo), to record the minutes of the proceedings. Atty. Rabara-Retardo certified the existence of a quorum for the transaction of business.

II
APPROVAL OF THE MINUTES OF THE PREVIOUS MEETING

On motion duly made and seconded, the Audit Committee (Committee) of Roxas Holdings, Inc. (RHI) approved the Minutes of its special meeting held on January 14, 2019.

III
MATTERS ARISING FROM THE PREVIOUS MINUTES

Atty. Rabara-Retardo informed the Committee that there are no matters arising from the previous minutes.

IV
PCC UPDATES

Mr. Dimarucut discussed that Universal Robina Corporation (URC) filed its voluntary commitments with the Philippine Competition Commission (PCC). PCC gave URC opportunity to further improve the revised commitments but URC decided to let the deadline pass. PCC rejected the revised commitments because it is not comfortable that these will address the concerns arising from the lack of competition in the area. URC was urged to follow the structural commitments, but pending this action, the URC transaction cannot be closed. Meantime, the long stop date for the Asset Purchase Agreement, as extended, has also expired. He added that the final PCC decision is not expected to be favorable. While there is a chance that the transaction will be approved, the regulator will probably enforce stringent conditions.

V

PRESENTATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDING DECEMBER 31, 2018

Mr. Celso T. Dimarucut (Mr. Dimarucut) reported on the Operational Highlights of the Sugar Business Units as well as the Alcohol Business Units, as herein presented:

Consolidated Income Statement

- 1Q 2019 vs 1Q 2018
  Lower than last year despite higher sale prices of sugar and alcohol and income contribution from HPCo due to:
  - Higher average cost of cane
  - Lower alcohol gross margin from lower production yield and higher production cost per unit
  - Increased operating and administrative expenses and interest from loans
- 1Q 2019 vs Budget
  Actual performance in 1Q 2019 is behind the budgeted figures mainly due to lower sugar price, yield and increase in cane incentives

	Actual	Budget
Sugar price	1,400	1,345
Yield (kg/TC)	102	103
Cost of cane (per ton)	835	975
Premium sugar produced	560kg	500kg

PHP millions	For the period Ended December 31			Year End	
	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 Budget	FY2018 Actual
Sugar segment	21	268	88	993	679
CACI (Negros plant)	(20)	139	2	344	280
CADPI (Cotabato plant)	35	78	92	589	397
HPCo (40% equity share)	16	35	-	62	56
ADC	(9)	(4)	(4)	3	(28)
Alcohol segment	46	92	54	592	430
SCBI	8	41	20	307	257
RBC	(42)	31	34	285	378
Contribution from operations	66	360	142	1,570	1,109
Operating expenses	(241)	(392)	(220)	(1,064)	(1,024)
Other income (Expense)	8	39	19	77	125
Interest expense	(145)	(132)	(123)	(524)	(502)
Tax benefit	109	56	88	112	146
NET INCOME	(203)	(76)	(110)	171	55
Depreciation	239	235	248	810	775
CORE EBITDA	37	236	197	1,540	1,187

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Mr. Dimarucut started by saying that the first quarter is historically the lowest quarter for the Company because this is where the operation of Central Azucarera Don Pedro, Inc. (CADPI) is not included and due to the undertaking of OSR activities for the alcohol business units. While milling in Central Azucarera dela Carlota, Inc. (CACI) has commenced, the quality of canes and volume are not yet at their peak. These are the reasons why there is net loss.

Mr. Hubert D. Tubio (Mr. Tubio) added that the Company did have operational difficulties. For instance, the non-arrival of some vital equipment like pumps and boilers which had effects on the operations. Although there were boiler tube inspections during the off-season, the problems were not captured by testing. Some boiler tubes burst or became overheated which affected the operating costs for the first quarter. This, however, was already addressed and samples were sent to South Africa for testing. Based on the results, some boilers need to be replaced within the next year because there is no assurance that it will not give. The other thing also are the canes. Last year, trucking allowance was reduced to Forty Pesos (Php40.00). This year, One Hundred Pesos (Php100.00) was given back for competitiveness. Analysis was made on the incentives given by the competitors in Negros – i.e. Southern Negros Development Corp. (SONEDCO), Victorias Milling Corporation (VMC), Lopez Sugar Corporation, First Farmers Holding Corp. and even Binalbagan Isabela Sugar Company, Incorporated (BISCOM). These five sugar mills have refineries and it is impossible for them to make money form raw mill only if they give such incentives. The Management thought that the incentives given were already generous. However, it was later on found out that they were not sufficient because of the guaranteed recoveries given by the other mills. Because of this, some of CACI's planters, even the loyal planters, are beginning to feel bad and they want to bring their canes to these sugar mills. Mr. Dimarucut added that the competitors are utilizing the margins from their other businesses to subsidize getting the canes. Because in effect, like in the case of co-generation, they need the bagasse to feed their co-gen. In the case of refineries, they also need bagasse to feed their refineries. That situation and given that CACI only has milling capabilities, it cannot directly compete with the others. The competitors are targeting the big planters. This consists around Four Hundred to Five Hundred Thousand (400,000-500,000) tons of canes.

Mr. Tubio shared that while the competitors are targeting the big ones, the methodology of their incentives like giving out guarantees, also motivated some of the smaller ones and the medium ones to

go to them. Prices are also another issue because VMC does not do bidding. They just take or benchmark the price of HPCo. sugar. But the price of HPCo. is higher because of their quality. They don't really produce apple to apple raw sugar against the other raw sugar manufacturers. There is actually a One Hundred Peso (P100.00) difference in the price of sugar from HPCo. as against the other raw sugar millers and what VMC and other sugar mills do is to just look at how much HPCo. is bidding and they discount it Twenty (Php20.00), Thirty (Php30.00), or Forty Pesos (Php40.00).

In response to Mr. Young's query as to whether these factors will affect the second and third quarters, Mr. Dimarucut answered that it will be a continuing challenge. CACI may need to really focus on the medium planters to get the canes. To target the big planters may be prohibitive and CACI will incur further losses. There would be a need to focus on next year and for now to contend with One Million Six Hundred Thousand (1,600,000) tons, instead of going after Two Million (2,000,000) tons where the incremental will be the big planters.

In response to Mr. Young's query about the refinery and its problem last year regarding fuel, Mr. Dimarucut informed the Committee that what is being looked at now is utilizing internal fuel. If the market would permit the refinery to use external fuel, there is a need to price tolling services to cover external fuel. Currently, what is being used is internally-generated bagasse. There is a need to bring down the target number of bags in terms of refinery to One Million Five Hundred Thousand (1,500,000). The price of sugar to a certain extent was also not included in the first quarter. There have been importations during the first quarter which softened the sugar price to lower than expected. For instance, the budget was One Thousand Five Hundred Forty-Five (1,545) but the shipment was just One Thousand Five Hundred (1,500).

Alcohol

	For the period Ended December 31									Year End					
	FY2017 Actual			FY2017 Budget			FY2018 Actual			FY2017 Budget			FY2018 Actual		
P in Millions	RBC	SCBI	Total	RBC	SCBI	Total	RBC	SCBI	Total	RBC	SCBI	Total	RBC	SCBI	Total
Revenues	274	369	642	297	530	827	234	184	417	2,090	2,185	4,195	1,242	1,947	3,189
Cost of sales	(232)	(353)	(585)	(266)	(465)	(731)	(200)	(163)	(363)	(1,725)	(1,878)	(3,603)	(1,363)	(1,865)	(3,228)
Gross profit from manufacturing	42	6	48	31	61	92	34	20	54	365	307	592	378	252	630
Gross profit rate	15%	2%	7%	10%	12%	11%	14%	11%	13%	16%	14%	14%	22%	13%	17%
Trading gain (loss)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Gross profit	42	6	48	31	61	92	34	20	54	365	307	592	378	252	630
Gross profit / Cost per liter	9	1	4	5	9	7	13	5	8	7	6	6	16	7	9
Feedstock margin	27	23	28	23	24	24	23	20	20	23	23	16	24	19	19
KEY METRICS															
Ethanol production (000 liters)	5,685	6,024	11,709	7,067	7,200	14,267	3,063	5,281	8,344	40,000	36,580	76,580	35,882	31,292	67,174
From molasses	5,685	6,024	11,709	7,067	7,200	14,267	3,063	5,281	8,344	40,000	36,580	76,580	35,882	30,174	66,056
From rectified spirit	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
From syrup	–	–	–	–	–	–	–	–	–	–	–	–	–	1,144	1,144
Price															
Alcohol	59	56	57	52	53	53	49	47	48	52	53	47	49	50	49
Molasses	8,648	9,540	9,079	8,000	8,000	8,000	4,835	5,691	5,263	8,000	8,000	8,000	4,925	7,035	6,480
Production cost /Liter	49	53	51	44	50	47	38	41	40	44	51	47	37	47	43
Yield (liters ethanol/ton)															
Molasses	275	282	279	280	272	276	280	285	283	280	267	273	280	251	271
Syrup	–	–	–	–	–	–	–	–	–	–	–	300	–	240	240
Sales volume	4,652	5,948	10,600	5,711	7,200	12,911	2,692	3,916	6,608	38,644	36,580	75,224	29,491	31,339	60,830

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Mr. Dimarucut continued on by saying that in terms of the alcohol businesses, Roxol Bioenergy Corporation (RBC) is good. However, it was unfortunate for San Carlos Bioenergy, Inc. (SCBI) because the AD was completed just last November. Because of the bad weather, production needed to be cut down. He added that the completion of the AD last November would help SCBI recover the lost volumes in terms of the alcohol. He notes, however, that what is more challenging for alcohol business units this year is the shortage in the molasses. The target is Seventy-Six Million (76,000,000) liters. There is a shortage of Seventeen Million (17,000,000) molasses.

Mr. Tubio added that it is really a challenge because the estimated production is around Two Million (2,000,000) tons of sugar so there is a reduction of the total Philippine production. This also means that there will be lower molasses production. Other converters, including alcohol manufacturers which added equipment to be able to produce ethanol, are actually getting the domestic supply of molasses.

The possibility of importing feedstock materials for re-export of ethanol was also explored. A team was able to discuss with an oil company to buy the ethanol for re-export to China at domestic prices.

Domestic prices are twice as high as the world market price. With that, registration with the Philippine Economic Zone Authority (PEZA) was explored since SCBI is PEZA-registered Communications have been sent to SRA and the letter to DOE is currently being drafted. A letter was sent to PEZA yesterday asking for guidelines because this is the first time there will be importation of feedstock. This is to increase capacity and utilization, in addition to taking advantage of foreign currency. Moreover, based on an information from Mr. Cheung, Sea Oil is still onto the project. If this will push through, feed stock can be imported from wherever. It does not have to be molasses, it can be glucose which is even better than molasses. There were tests using high fructose before and the results are good.

In response to Mr. Young's query regarding the need for re-export, Mr. Tubio said that it will be like Customs Bonded Warehouse System (CBW). He added that he talked to the SRA Administrator about this and they advised to write to the DOE as well because this has something to do with oil. Once the guidelines from PEZA are received, costing will be done.

In response to Mr. Young's query regarding overcapacity in the alcohol, Mr. Dimarucut answered that there is in terms of feedstock but not in terms of the requirements for ethanol to comply with the requirement of E-10. But because of the shortage on the feedstock then there is excess capacity in terms of production. In the past, the government had allowed potable alcohol to shift to ethanol. There is a better yield in RBC to utilize most of the domestic molasses to create some capacity in SCBI so it can accommodate the export of ethanol. Most likely to China. There is a window right now because of the trade war between US and China, creating a gap in the supply of ethanol in China. Mr. Tubio added that there is no assurance of the sustainability in the long term but in the meantime, this may be explored to find other markets as well for ethanol.

Mr. Tubio answered Mr. Young's clarification as regards the country being able to meet the E-10 requirement by saying that the country will not be able to meet the requirement. In fact, the country is still importing ethanol. That is why the oil companies prefer imported ethanol because they are cheaper. But because of the bioethanol law, which requires oil companies to first exhaust the local production of ethanol, they are really required to follow that but this has to be monitored well.

Mr. Dimarucut added that this gap can exist for only a year or two depending on China's action. If the response of China is to put up ethanol plants then it will probably take up some time. He stated that the biggest problem of China is also feedstock. Most of their corns come from the US. He also said that at a certain point there is a need to revisit and present a more realistic outlook for 2019. Because of this development, a lot of things have changed so the budget is no longer realistic.

Sugar

	For the period Ended December 31									Year End					
	FY2017 Actual			FY2017 Budget			FY2018 Actual			FY2017 Budget			FY2018 Actual		
In Millions	CADPI	CACI	Total	CADPI	CACI	Total	CADPI	CACI	Total	CADPI	CACI	Total	CADPI	CACI	Total
Revenues	1,377	1,307	2,684	1,375	737	2,112	940	517	1,457	3,481	2,126	5,611	4,380	3,305	7,685
Cost of sales	(1,305)	(1,330)	(2,634)	(1,297)	(621)	(1,918)	(870)	(511)	(1,381)	(2,872)	(1,771)	(4,643)	(3,874)	(3,046)	(6,920)
Gross profit from manufacturing	52	(23)	30	78	116	194	92	6	98	609	344	953	506	259	765
Gross profit %	4%	(2%)	1%	6%	16%	9%	10%	1%	7%	17%	16%	17%	12%	7%	10%
Trading gain/loss	(18)	(4)	(22)	-	-	-	-	(4)	(4)	-	-	-	(69)	30	(39)
Gross profit	35	(27)	8	78	116	194	92	2	94	589	344	933	437	289	726
Gross profit/loss per ton	36	(44)	5	119	257	182	145	3	72	603	294	298	135	332	141
KEY METRICS															
Tons Cane Milled (MT) - crop	-	859	859	-	890	890	-	903	903	1,275	2,000	3,421	1,123	1,868	2,991
Bag/ton cane	-	1.82	1.82	-	1.75	1.75	-	1.81	1.81	1.85	1.94	1.94	1.63	1.82	1.75
Cost of cane per ton	-	433	433	-	376	376	-	282	282	595	393	494	175	282	228
Sugar produced (bag)	-	1,517	1,517	-	1,736	1,736	-	1,609	1,609	2,053	3,876	5,929	4,511	3,484	7,995
Raw sugar	-	1,461	1,461	-	1,419	1,419	-	1,590	1,590	2,053	3,274	5,326	1,234	3,403	4,637
Premium raw	-	56	56	-	316	316	-	19	19	-	600	600	-	81	81
Refined sugar	-	-	-	-	-	-	-	-	-	2,700	-	2,700	2,977	-	2,977
Sales volume	980	617	1,597	656	402	1,058	619	698	1,317	1,326	1,363	2,691	3,466	1,119	4,585
Production cost/unit															
Raw sugar	-	1,697	1,697	-	1,387	1,387	-	1,260	1,260	1,336	1,362	1,349	1,314	1,340	1,327
Premium raw	-	-	-	-	1,477	1,477	-	-	-	-	1,482	1,482	-	1,543	1,543
Refined sugar	-	-	-	-	-	-	-	-	-	165	-	165	280	-	280
Sugar price															
Refined	2,063	-	2,063	2,097	-	2,097	1,919	-	1,919	2,019	-	1,890	1,944	-	1,944
Raw	-	1,514	1,514	-	1,329	1,329	1,144	1,212	1,178	1,100	1,405	1,276	1,332	1,309	1,324

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As for the sugar businesses, in terms of the margin, the biggest cost erosion in the profit is the cost of the cane. In the full year last year in terms of CACI, the cost of cane per ton is only about Two Hundred Eighty-Two (282). It was actually increased to Four Hundred Thirty-Three (433) just to be competitive. This was based on the expectation that the price would still hold at One Thousand Five Hundred Pesos (Php1,500.00) so there will still be margins. However, the price went down to One Thousand Four

Hundred Pesos (Php1,400.00). At the same time, the big planters were not captured. There are shortfalls to the TCM as well. In terms of price, last year it was One Thousand Two Hundred Pesos (Php1,200.00). During the first quarter last year for CACI, B sugar was not being sold and only D sugar was sold, which is cheaper. While this quarter, our sugar has already been liquidated at a lower price. Even lower than manufacturing cost that is why there is a gross loss of about Twenty-Three Million Pesos (Php23,000,000.00) during the first quarter for CACI. Even if the alcohol businesses are ahead in terms of production compared to last year, given all these factors, the Group is behind the budget.

Mr. Dimarucut further discussed that while the prices of molasses increased, the good thing is that in terms of the feedstock margin which is the difference between the selling price and our cost, we were able to maintain this at above Twenty Pesos (Php20.00) level. But again, the issue there is the supply of molasses. The next slide shows how the income statement is presented externally.

Consolidated Income Statement

	For the period Ended December 31			Year End	
PhP millions	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 Budget	FY2018 Actual
Revenues	2,267	1,346	996	6,159	4,898
Cost of Sales	(2,252)	(1,141)	(938)	(5,219)	(4,090)
Gross Profit	16	205	57	939	807
GP Rate	1%	15%	6%	15%	16%
Operating Expenses	(186)	(244)	(164)	(787)	(756)
Other Operating Income (Expense)	(3)	10	7	42	70
Operating Profit (Loss)	(174)	(29)	(99)	194	122
Equity in Net Earnings - HPCo	16	15	-	62	56
Finance Cost	(56)	(59)	(51)	(182)	(201)
Income (Loss) Before Income Tax	(214)	(73)	(150)	75	(23)
Income Tax Benefit	104	38	59	107	128
NET INCOME FROM CONTINUING OPERATIONS	(109)	(35)	(90)	182	105
NET INCOME FROM DISCONTINUED OPERATIONS	(88)	(41)	(20)	(11)	(50)
NET INCOME	(197)	(76)	(110)	171	55
Attributable to:					
Equity holders of parent company	(197)	(78)	(111)	157	48
Non controlling interest	(1)	2	1	14	7
Total	(197)	(76)	(110)	171	55

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CADPI was shown as part of discontinued operation. The Eighty-Eight Million Pesos (Php88,000,000.00) also includes the interest on loans that are booked under CADPI.

Consolidated Balance Sheet

- Nasugbu assets classified as assets held for sale
  - Will be reclassified as PPE if the sale will not push through within one year
- Long term debt classified as current
  - DSCR ratio were breached as of September 30
  - Bank waivers received on December 17, 2018 to January 14, 2019, however group security includes cross default provision

	For the period Ended December 31			Year End	
PhP millions	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 Budget	FY2018 Actual
Current Assets	[illegible]	11,003	[illegible]	11,747	13,711
Cash	480	234	261	445	395
Receivables	[illegible]	2,757	1,929	2,974	3,010
Inventories	2,018	946	2,657	1,089	2,446
Asset held for sale	6,825	6,525	-	6,825	6,825
Others	1,093	1,392	414	1,397	1,204
Non-current Assets	[illegible]	11,477	17,854	11,538	11,819
Property and equipment	[illegible]	8,940	15,251	8,989	9,300
Investment and goodwill	1,298	1,490	1,606	1,662	1,792
Others	886	820	920	875	777
Total Assets	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Current Liabilities	[illegible]	11,148	4,714	12,067	14,331
Short term borrowings	7,044	3,998	4,395	5,961	6,211
Current portion of long-term debt	4,902	4,505	1,248	3,566	4,919
Trade and other payables	2,938	2,423	1,142	1,480	2,292
Liabilities directly associated with assets held for sale	1,024	1,024	-	1,024	1,024
Noncurrent Liabilities	497	526	4,010	526	457
Long term borrowings	-	-	4,497	-	-
Others	497	526	1,513	526	457
Total Liabilities	[illegible]	12,474	12,863	12,593	14,788
Equity	[illegible]	10,807	10,434	10,767	10,765
Total Liabilities and Equity	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net Debt	10,975	8,244	9,846	9,082	10,722

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In terms of the Balance Sheet, the net debt level is still high. It is around Eleven Billion Pesos (Php11,000,000,000.00). In the past, since margin from institutional customers is a bit significantly higher than selling to traders, the Group has changed its mix of customers in favor of institutional buyers. But lately, we have seen that the margins are getting lower. It used to have a difference of Three Hundred Pesos (Php300.00) to Three Hundred Fifty Pesos (Php350.00) between the trader and institutional customers, but now it's becoming closer to One Hundred Pesos (Php100.00) to One Fifty Pesos (Php150.00). The reason being, in the past, the manufacturer or institutional buyers buy the sugar and are willing to pay a higher premium just to make sure that there is a consistent supply. But with the liberalization, they know that supply will be there so there seems to be a reduction in the premium they are willing to pay directly from the dealers. Given that, we know that as of December we still have a high receivable from inventory. Total is around Five Billion Pesos (Php5,000,000,000.00). There will be a shift to the traders to cut down the receivables in inventory so that the net debt position can be reduced effectively. If these receivables in inventory are liquified then the net debt of Eleven Billion Pesos (Php11,000,000,000.00) can be effectively reduced to roughly around Nine Billion Pesos (Php9,000,000,000.00) which is supposed to be the normal level for RHI.

In response to Mr. Young's query as to whether there are impairment issues on inventory, Mr Dimarucut answered that roughly around Twelve Million Pesos (Php12,000,000.00) was booked for inventories of CACI.

In response to Mr. Young's query as regards the other Two Billion Pesos (Php2,000,000,000.00), Mr Dimarucut answered that Six Hundred Million Pesos (Php600,000,000.00) of the Two Hundred Billion Pesos (Php200,000,0000,000.00) is really molasses. There's roughly around Five Hundred Million Pesos (Php500,000,000.00) of sugar. On corporate receivables, of the Three Billion Pesos (Php3,000,000,000), One Billion Pesos (Php1,000,000,000.00) has already been collected in January and collection is ongoing. Thus, subsequent to December, the net debt level can be brought down.

Mr. Dimarucut expressed that waiver is still needed in relation to Mr. Young's query on the need to re-obtain bank waivers on certain debt covenants. For next year, the debt amortization is a bit lower. But even with that, the long-term debt needs to be refinanced given that the 2021 amortization is quite significant which is almost Two Billion Pesos (Php2,000,000,000.00). There is a big bulk of maturing debts close to Two Billion Pesos (Php2,000,000,000.00). With the sale of CADPI, Management is hoping to wipe out all the long-term debts and a meeting can be arranged with the creditor-banks and program well our residual short-term debt to be amortized at reasonable amounts over a period of Five (5) years. There is still a need to find ways to liquidate the long-term debt, as the CADPI sale will not likely happen in the near term.

Replying to Mr. Hilado's query as to whether the balance sheet was prepared on the assumption that there was no deal, Mr. Young answered by saying that not quite at the moment because the balance sheet has asset held for sale. He added that at the moment there is still an assumption that there is a transaction. If the Board reaches a decision, probably not today but in the next quarter, then focus must be on managing the business moving forward. Therefore, there is really a need to re-classify. But hopefully if we do it on March or quarter end, it might be a little bit better because it was a bit difficult quarter up until December. There is short term borrowing of Seven Billion Pesos (Php7,000,000,000.00) and there is no long-term debt anymore. There is about Eleven Billion Five Million Pesos (Php11,500,000,000.00) effectively short- term liabilities which will be offset by the assets held for sale.

Mr. Dimarucut added that the classification of assets held for sale is not driven by the transaction with URC but the intention to sell the asset. Until that direction is changed, there is one year until there is a decision to revert back to the usual presentation of normal fixed assets.

Mr. Dimarucut said that a portion of the long-term debt, about Three Billion Six Million Pesos (Php3,600,000,000.00) will be re-classified to long term borrowing next quarter. The reason why it was presented in this way is because the waivers from the banks were only obtained as late as last January 14, 2019. Technically, some can be presented under long term borrowing if we do not have the cross-default provision in our loans. But because we have the cross-default provision, we need to follow the later date which is January 14 as an effective date to re-classify the long-term.

In response to Mr. Hilado's query regarding the short-term lenders, Mr. Dimarucut answered that the biggest ones are BDO, BPI and Landbank. There is about Two Billion Pesos (Php2,000,000,000.00) from Landbank, Three Billion Pesos (Php3,000,000,000.00) in BPI and Two Billion Pesos (Php2,000,000,000.00) in BDO.

In response to Mr. Hilado's queries whether the loans have just been rolled over from year to year and who the long-term lenders are, Mr. Dimarucut stated that the loans have just been rolled over form year to year and that the long-term lenders are BDO and BPI. He added that due to the Hanjin default last month, most big banks were affected and most of their exposures are in short-term borrowing without collateral. Because of the transaction, the banks have already sounded that in terms of short-term borrowings, they will start to look for cover or collaterals. And because of that, there is really a need to bring down the debt levels because there won't be enough assets to back up these liabilities. In most cases, they won't request for One Hundred Thirty Percent (130%) over. If the debt level can be brought down to Seven Billion Pesos (Php7,000,000,000.00), even with the One Hundred Thirty Percent (130%) cover that's probably around close to Ten Billion Pesos (Php10,000,000,000.00), it will still be covered with most of our assets.

Mr. Hilado mentioned that the bankers might be a little nervous because of the liberalization of imports of sugar. He said that we really need to bring the debts down.

In response to Mr. Hilado's query on what has to happen for the PCC to approve the sale. Mr. Dimarucut answered that Phase II will technically end tomorrow. They have already disapproved the voluntary commitments to address the concerns of the PCC. So, there is no expectation of a positive outcome.

In response to Mr. Hilado's query on the voluntary commitments that the PCC will probably want, Mr. Dimarucut answered that the primary issue is the merger to monopoly in Batangas. In the past, some benefit was offered to the planters to compensate for the merger. PCC thinks that it is not enough. And URC is no longer willing to increase the offer of additional benefit to the planters. The way to fix it is to do a structural commitment which in effect we initially agreed to do with URC. This is where Balayan will be purchased and URC continues to buy CADPI. But unfortunately, URC decided not to pursue the arrangement. That commitment never got to PCC's evaluation because URC decided not to submit it and withdrew from the discussion on how to address PCC's concern.

Consolidated Cash Flows

- Negative free cash flow in 1Q 2019 due to working capital build-up and higher capital expenditures
- Higher loan availment in 1Q 2019 and PhP0.3 billion payment of long term loan principal

	For the period Ended December 31			Year End	
PhP millions	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 Budget	FY2018 Actual
EBITDA	37	238	197	1,540	1,187
Working capital	(546)	2,606	261	2,198	(445)
Capital expenditures	(124)	(245)	(100)	(800)	(1,185)
FREE CASH FLOW	(633)	2,599	358	3,137	(443)
Debt servicing					
Principal	833	(2,528)	(527)	(2,874)	349
Interest expense	(148)	(137)	(122)	(409)	(193)
CASH BALANCE					
Beginning	295	295	571	571	571
End	530	234	281	445	295

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He continued to discuss the cashflow saying that this is a negative one because we continue to really fund the working capital and CAPEX. He added that there is a need to forego some margins between the price of sugar between institutional buyers and traders and liquify so we can reduce our debt.

Replying to Mr. Hilado's query as to whether the milling will be finished in April in La Carlota, Mr. Tubio answered that there are some feedbacks that it will be extended a bit.

In response to Mr. Hilado's query regarding the outlook on the possible figures at the end of the year, Mr. Tubio answered about One Million Seven Hundred Thousand (1,700,000.00) or One Million Six Hundred Thousand (1,600,000) tons for last year.

VI
INTERNAL AUDIT PRESENTATION

Ms. Josephine Logroño (Ms. Logroño) presented for the Internal Audit Group and started with the scope of her report which includes updates on audit plans, those which are completed and the status of the ongoing audits. According to her, two audits have already been completed which are the Environment audit with SCBI and the core sampling with CACI.

She added that there is an ongoing audit with RBC on fuel efficiency and labor outsourcing with SCBI. These audits are all under the audit plan. There are also audits under management discussion. One is the disbursement process and the finished goods warehousing and withdrawal, both are under the IA plan, and one management request audit which is the off-season repairs audit.

a. Audit Report on Environment

The audit of Environment is in relation to the compliance review of the conditions of the Environment Compliance Certificate (ECC) validity of existing permits.

Based on the key audit findings, out of the Twenty-Two (22) ECC conditions, there are Two (2) non-compliant. One of which is the bund wall which must cover at least Fifty Percent (50%) of the total capacity of the tank. The bund wall of the sulfuric tank could only accommodate Thirty Four Percent (34%) of the total capacity. SCBI has Eleven (11) storage tanks and particularly for this tank, it is not compliant with the requirement of the ECC. The tank had a leak last November so right now there are investigations on the effect of the leak on the foundation of the tank. If there are no damaging effects, they will repair the leak and increase the bund wall. If the foundation is no longer sound, tank may be moved to another location. The remedy will depend on the investigation. But the Management has agreed to comply with the Fifty Percent (50%) capacity requirement. Secondly, there are no installed censors in the ethanol tanks as required by the ECC. There should be censors to monitor the leakages of the ethanol storage tanks. What Plant Management is doing right now is that they are doing daily visual inspections on the perimeter, and gas leak testing during the schedule of lifting and this is done through side glass monitoring. The management of SCBI agrees with the recommendation of installation of censors. Right now, they have already requested for purchase specifications. Potential suppliers will be submitted by February 15, 2019.

She continued by saying that there is a pending implementation of a program for the solid waste chemicals resulting to crowded material recovery facility and presence of drums for disposal. During the physical inspection, drums, galloons, tire exteriors, valves, computers, accessories and used oil were found outside the facility. During the audit, the implementation of a disposal program has just started. As of November 2018, the disposal of the solid waste to eco-center or sanitary landfill, which is a facility in San Carlos, has already started. The heads of Regulatory and EMS are already finalizing the program on proper segregation, storage, labeling and disposal of hazardous waste. As of January 2019, the treatment of hazardous waste has already been awarded to Cleanway Environmental Management Solutions, Inc. which is a treatment facility.

In response to Mr. Hilado's query as to whether SCBI has been subjected to fines or penalties by the DENR, Ms. Logroño answered that there have been no sanctions so far. She continued the presentation by saying that there is a problem with the calibrated level indicator or transmitter at the warehouse storage tank. The level indicator has not been calibrated and there is also no record of last calibration. Additionally, there is also no side glass installed to check the volume content of the tank. What the management of SCBI did last November 2018 is to install a clear hose in the tank and this will be the reference tool for inventory instead of the level transmitter. So, instead of calibrating the level transmitter, installing that hose shall be the basis of the level of the tank which is according to them better than calibrating the level indicator.

She continued the presentation on the outdated calibration table for depot 1 and 2. The calibration table should be updated once the storage tanks are calibrated. Depot 1 and 2 were calibrated on September 2016, and the calibration table from SGS was only received on November 2017. But this table was not used. The table being used was the one issued in 2009. When they compared the two tables, they found that there was a difference in the bidding. What the Management decided to do is to recalibrate again the tanks this 2019. Right now, they have already submitted a purchase request and the awarding to the winning bidder is expected to be on February 15, 2019.

There is also a pending renewal of the Certificate of Registration and Permit to Operate issued by the Philippine Ports Authority (PPA). The Permit is pending due to the Foreshore Lease Application (FLA)

with DENR. This FLA is under the name of the former SCBI Resident Manager and pending transfer to the name of SCBI. The cancellation of the FLA under the name of the former Resident Manager and the application in the name of SCBI are already ongoing with DENR. This is handled by Regulatory Affairs.

Based on the audit on Environment in relation to compliance with the ECC, SCBI is compliant with respect to the ECC conditions and environmental related permit as of audit except those exceptions noted. The management of SCBI is aware of the compliance violations cited, and the actions taken to correct the deficiencies are recognized.

Mr. Young asked if there is also an external group which checks for compliance. Ms. Logroño answered that the DENR checks. Mr. Dimarucut added that they normally come in if there is a violation. There is a requirement for the company to report the violation immediately and if a company fails to do that and DENR sees it then the penalty is steeper. It is better to report the violation and the measures that have been undertaken to correct it.

b. Audit Report on Core Sampling

Ms. Logroño presented the report on core sampling with CACI. What was reviewed was the effectiveness of control in the core sampling in the laboratory. The samples checked were from September 17 to December 17, 2018.

Based on the key audit findings, there was an altering of components in the apparent purity from the core lab results. The main lab system rejects results that are below Seventy Percent (70%) apparent purity for burned canes and below Sixty Five Percent (65%) for fresh canes. The QA Supervisor can override this control in order to accept the eighty (80) without affecting the theoretical sugar. There were fifteen (15) instances noted and the change is approved by the representative of the Planters Association and by the CACI VP-GM. No approval was made from the EVP Sugar or AVP QA. QA submitted a ticket request to IT to create a menu bar in the main lab system to accept cases below standard through online approval. IT will implement this request in the AX system upon transition. And for the meantime, exception reporting will be done. This report will reflect the actual results and the proposed corrected data. This will be approved by the VP-GM of CACI and should be noted by the AVP QA and the CMO.

Mr. Tubio added that for the information of the Committee, there is no alteration in terms of actual Lkg/TC. The intervention insofar as the core lab is concerned is for the system to accept the canes of the three biggest planters for canes below Seventy Percent (70%) purity and Sixty-Five Percent (65%) for fresh canes to accommodate their canes in our mills. Ms. Logroño further clarified that the resulting Lkg/TC is the same.

Ms. Logroño continued by saying that this will go through the AVP QA and CMO. She added that there is lack of audit trail in the NRI machine. The NRI machine, which does the core sampling, does not maintain audit trail or tracking of the testing since it is eliminated once final result has been accepted. This has been raised to the supplier of the NRI machine and they confirmed that they can also provide the data for traceability. The supplier will program the system during off-season as agreed with the QA so as not to interfere with the operations. The conclusion for this audit is that are areas which need improvement. Except for the control weaknesses noted, the controls are satisfactory, in effect to provide that assurance that objectives are met. Moreover, the Planter Association representative is present in core sampling. The CCTVs are also working. The recommendations for controls are agreed upon by the management.

VII
ADJOURNMENT

There being no other matters to discuss, on motion made and seconded, the meeting was thereupon adjourned.

ATTEST:

CHRISTOPHER H. YOUNG
Chairman

OSCAR J. HILADO
Member

MA. HAZEL L. RABARA-RETARDO
Secretary

ROXAS HOLDINGS, INC.
MINUTES OF THE REGULAR MEETING OF
THE AUDIT & RISK COMMITEE

Held at the MPIC BoardRoom, 10th Floor MGO Building, Legaspi cor. de la Rosa St. , Legaspi Village, Makati City on May 08, 2019 at 3:00 in the afternoon.

ATTENDANCE:

Present:

Ms. ARLYN S. VILLANUEVA
Mr. CHRISTOPHER H. YOUNG

Absent:
Mr. OSCAR J. HILADO

Others Present:

Mr. HUBERT D. TUBIO
Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Ms. VERONICA C. CORTEZ
Atty. MA. HAZEL L. RABARA-RETARDO
Ms. JOSEPHINE LOGROÑO
Atty. AIMEE E. PEDAYO

I
CALL TO ORDER

The Chairperson, Ms. Arlyn S. Villanueva (Ms. Villanueva), called the meeting of the Committee to order. The Asst. Corporate Secretary, Atty. Hazel R. Retardo, certified the existence of a quorum and recorded the Minutes of the meeting.

II
APPROVAL OF THE MINUTES OF PREVIOUS MEETING AND ORGANIZATIONAL BOARD MEETING, AND MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS MEETING

Ms. Villanueva presented the Minutes of the last Audit Committee held on 12 February 2019 and stated that the Minutes of the meetings was circulated to all members of the Committee prior to the meeting for their review.

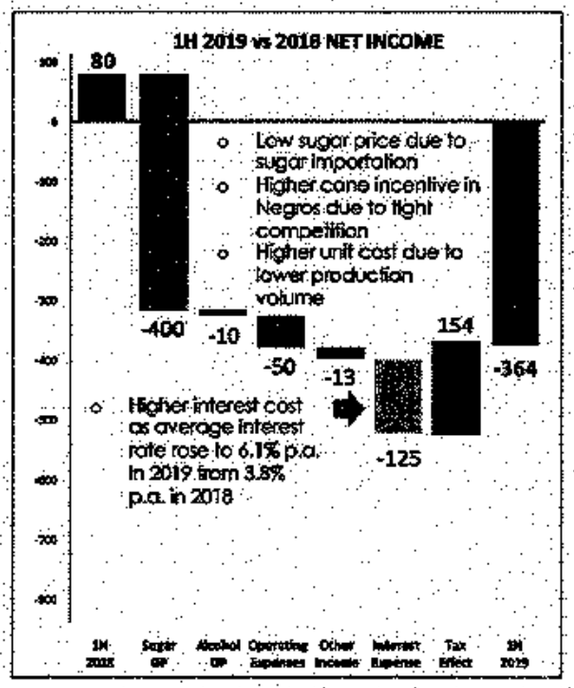
On motion duly made and seconded, the Committee approved the Minutes as presented.

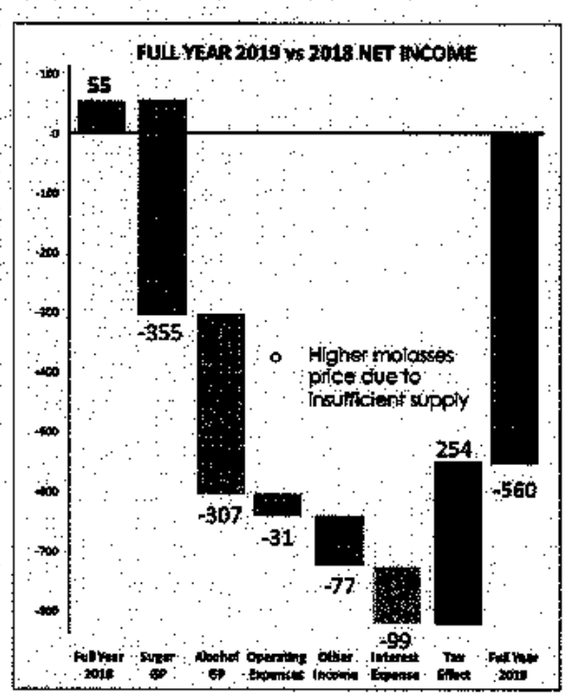
There were no matters arising from the minutes of the previous meetings.

III
PRESENTATION AND APPROVAL OF THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST HALF ENDING MARCH 31, 2019 OF FISCAL YEAR 2018-2019

The Executive Vice-President- Chief Finance Officer, Mr. Celso T. Dimarucut (Mr. Dimarucut) discussed the overall results of the operation. Mr. Dimarucut reported that for the first half of 2019, the Group's operation resulted in a net loss of PhP364 million as against PhP80 million in the first half of 2018. He presented the slide which shows the components of the PhP364 million net loss.

Net Income





The major factors which contributed to the net loss are: (1) low sugar price due to sugar importation; (2) higher cane incentive in Negros due to tight competition; (3) higher unit cost due to lower production volume; and higher interest cost as average interest rates rose to 6.1% per annum in 2019 from 3.8% per annum in 2018.

In the full year, the Group expects an even bigger loss of about PhP560Mn versus an income of PhP55Mn for FY 2018, principally incurred by the alcohol business units and driven by the higher prices of molasses due to insufficient supply. He presented the below slide to show the gross profit impact of the high cost of ethanol feedstock.

Ethanol Feedstock Margin

												Gross Profit Impact (in millions)				
	Molasses Price	Equivalent Feedstock Cost due Molasses (Php/liter)	Sugar Price	Equivalent Feedstock Cost due Sugar Cane (Php/liter)	Equivalent Feedstock Cost (Php/liter)	Conversion Cost (Php/liter)	$RP	Selling Price	Molasses Subsidy	Volume Sold	$RP Discount	Molasses Subsidy ($RP vs Molasses Equivalent Feedstock Cost)	Molasses Yield	Average Molasses Acquisition Price	Discount	Total
Oct	8,308	35	1,616	30	32	22	55	54	3	2,346,375	1	6 -	10		2 -	2
Nov	8,396	35	1,524	28	32	22	54	53	3	3,334,277	1	11 -	15		3 -	1
Dec	9,044	37	1,548	29	33	22	55	54	4	4,969,677	1	21 -	24		5	1
Jan	9,736	40	1,509	28	34	22	56	55	6	6,033,559	1	36 -	32		6	10
Feb	10,857	44	1,521	28	36	22	59	58	8	4,981,560	1	40 -	29 -	9	5	7
Mar	11,790	48	1,460	27	38	22	60	59	11	7,530,523	1	60 -	46 -	43	8 -	3
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	11,200	46	1,460	27	36	22	59	58	9	7,000,000	1	65 -	26	-	7	46
May	11,200	46	1,460	27	36	22	59	58	9	7,000,000	1	65 -	26	-	7	46
June	11,200	46	1,460	27	36	22	59	58	9	7,000,000	1	65 -	26	-	7	46
July	10,500	43	1,460	27	35	22	57	56	8	7,000,000	1	55 -	25	-	7	38
Aug	10,000	41	1,460	27	34	22	56	55	7	6,400,000	1	44 -	22	-	6	29
Sept	9,500	39	1,460	27	33	22	55	54	6	6,400,000	1	38 -	20	-	6	24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The PCEO, Mr. Hubert D. Tubio (Mr. Tubio) reported on the progress of the plan to move on the possibility of importing feedstock materials for re-export of ethanol. Mr. Christopher H. Young (Mr. Young) cautioned Management of some unintended effects that may result in carrying out the plan, such as reopening of discussions of whether it would be better to allow the importation of ethanol, rather than feedstock. Mr. Tubio added that the Group is very mindful as well and treads carefully, as it would like to avert any opposition that may come from the sugarcane planters and incur the latter's ire.

In terms of production, the combined tons cane milled (TCM) of CACI and CADPI is the lowest in 31 years. CADPI milled 783,309.59 TCM or 30% lower as against last year. These affected CADPI's milling and refinery operations. The start of CADPI's milling operation was likewise intentionally delayed because of the pendency of the release of the PCC decision. Milling operation was effectively decreased to 15 weeks as there was no available canes. As a result, the resumption of CADPI's refinery operation was also affected due to a shortage in bagasse or fuel. CADPI incurred higher fuel cost because CADPI has to source fuel from outside to be able to meet its commitment to customers. Mr. Dimarucut reported that the Group is looking at coal as an alternative fuel source, and plans to implement this strategy in the re-opening of refinery operations next year.

In addition, CACI also experienced operational issues. CACI's JTA boiler had critical down times which resulted in an estimated PhP50 million loss, in so far as the productivity and loss of canes going to the other sugar mills are concerned. CACI also operated for only 29 weeks as against 31 weeks last year. CACI decided to stop due to the inability to compete with other competitors who offered additional incentives in the form of guaranteed incentives and subsidizing sugar prices. This resulted to a reduction of market share in Negros, as shown in this slide.

NEGROS MILLS PERFORMANCE REPORT (YEAR - TO -DATE)

CY 2017 - 2018 VS CY 2018 - 2019

NEGROS OCCIDENTAL	START OF MILLING	DISTANCE	CY 2017 - 2018			CY 2018 - 2019			VARIANCE						MARKET SHARE	
		30	[illegible]	1-Apr-18		[illegible]	7-Apr-19								CY 2017 - 2018	CY 2018 - 2019
		CACI	GROSS TCM	LKG SUGAR[1]	LKG/TC	GROSS TCM	LKG SUGAR[1]	LKG/TC	GROSS TCM	%TCM	LKG SUGAR	%LKG	LKG/TC	%LKG/TC		
VMC	4-Sep-18	79	2,328,915	4,305,783	1.85	2,476,662	4,672,714	1.89	147,746	6%	366,931	9%	0.04	2%	23.68%	22.91%
BISCOM	19-Sep-18	37	1,770,806	3,301,919	1.75	1,876,429	3,413,336	1.82	106,623	6%	111,417	10%	0.07	4%	17.95%	17.97%
LA CARLOTA	27-Sep-18	0	1,796,[illegible]	3,[illegible]	1.83	1,6[illegible]	3,[illegible]	1.97	[illegible]	-9%	[illegible]	-1%	0.15	8%	17.[illegible]	14.[illegible]
SOMBECO	4-Sep-18	79	1,345,210	2,424,515	1.84	1,601,302	3,086,220	1.93	256,092	19%	661,705	25%	0.08	5%	13.64%	14.82%
LOPEZ	8-Oct-18	117	1,026,808	1,896,007	1.83	1,248,865	2,317,913	1.86	221,282	22%	421,906	24%	0.03	2%	10.41%	11.55%
BIPCO	29-Sep-18	65	923,517	1,773,726	1.92	1,134,516	2,317,101	2.04	210,999	23%	543,375	31%	0.12	6%	9.36%	10.58%
FIRST FARMERS	6-Sep-18	54	761,098	1,320,654	1.74	949,043	1,556,177	1.63	187,945	12%	235,523	18%	0.10	6%	7.72%	7.86%
Total			9,962,307	17,972,909	1.80	10,804,825	19,353,660	1.79	940,286	10%	2,380,951	13%	0.07	4%		
CACI % SHARE			17.31%	17.34%		14.98%	14.81%									

[1] LKG SUGAR = Calculated based on submitted Lkg/TC

In terms of the Group's Consolidated Revenue, Mr. Dimarucut presented the below slide:

CONSOLIDATED REVENUE

		For the period ended March 31									Year Ended								
		1H 2019 Actual			1H 2019 Budget			1H 2018 Actual			FY2019 Latest Estimate			FY2019 Budget			FY2018 Actual		
		Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)
Refined sugar	Kg	0.919	2,033	1,868	1.051	2,039	2,139	1.392	1,861	2,591	1.676	2,050	3,351	1.328	2,019	2,682	2.866	1,944	5,575
Premium sugar	Kg	0.199	1,530	305	0.000	1,700	1,020	0.067	1,493	101	0.199	1,530	305	0.600	1,700	1,020	0.061	2,018	123
Raw sugar	Kg	1.893	1,496	2,832	0.528	1,453	768	1.325	1,261	1,670	2.009	1,501	3,015	0.600	1,478	887	1.657	1,319	2,189
		3.011	1,642	5,006	2.387	1,804	4,047	2.784	1,567	4,362	3.874	1,710	6,671	2.528	1,815	4,590	4.585	1,714	7,864
Molasses	MT	0.034	9,259	315	0.014	8,000	115	0.022	6,270	140	0.046	9,500	430	0.020	8,000	230	0.074	7,377	544
Tolling fees		0.167	255	43	0.761	260	198	0.029	235	7	0.713	249	177	2.028	260	527	0.365	265	96
				5,362			4,270			4,509			7,448			6,347			8,504
Alcohol	liters	29,169	56	1,639	33,974	52	1,772	22,486	42	947	70,003	57	3,995	75,224	52	3,946	66,830	49	3,245
Milling Revenues				2,328									2,328			-			-
Others				22			509			22			22			346			58
TOTAL				9,351			6,571			5,359			14,034			10,640			11,847

Mr. Dimarucut reported that the 1H 2019 revenue of PhP9.335Bn is 74% higher compared to 1H2018 at about PhP5.359Bn. This is brought about by the recognition of PhP2.3Bn milling service revenue as a requirement (or adoption) of a new financial reporting standard -PFRS 15 "Revenue Recognition", effective October 1, 2018. Also, there is a marked increase in raw sugar sales volume of 2.092M LKg, or 58% higher than same period last year. The Group's mill share as well as planters' share bought were sold as raw sugar to generate cash, as there was uncertainty that the raw sugar can be milled because of the impending sale of CADPI. The rise in revenues is also driven by higher alcohol selling price and sales volume.

As for the Consolidated Income Statement, he presented the below:

CONSOLIDATED INCOME STATEMENT

	Half year ended March 31			Year End		
PhP millions	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 LE	FY2019 Budget	FY2018 Actual
Sugar segment	**144**	**684**	**547**	**326**	**998**	**651**
CACI (Negros plant)	(2)	316	34	11	344	260
CADPI (Batangas plant)	140	331	476	249	589	397
HPCo (45% equity interest)	37	31	30	62	62	56
Alcohol segment	**137**	**271**	**147**	**323**	**592**	**630**
RBC	84	116	69	239	285	378
SCBI	53	155	78	84	307	252
Contribution from operations	**283**	**955**	**695**	**648**	**1,590**	**1,311**
Operating expenses	(514)	(579)	(464)	(1,058)	(1,084)	(1,024)
Other income	27	39	40	48	77	125
Interest expense	(337)	(266)	(212)	(601)	(524)	(502)
Tax benefit	176	10	22	399	112	146
NET INCOME (LOSS)	**(364)**	**159**	**80**	**(560)**	**171**	**55**
Depreciation	446	405	491	810	977	775
EBITDA	**242**	**820**	**761**	**451**	**1,560**	**1,185**

As earlier explained, net income is lower than same period last year due to: (a) higher average cost of cane; (b) lower alcohol gross margin from high molasses cost and higher energy cost; and (c) increased operating expenses and interest from loans. Likewise, actual performance in 1H2019 is behind budget, mainly due to lower sugar production and higher cane incentives.

In terms of the Group's Balance Sheet, Mr. Dimarucut showed the below slide:

CONSOLIDATED BALANCE SHEET

	Half year ended March 31			Year End		
	1H 2019 Actual	1H 2019 Budget	1H 2018 Actual	FY2019 LE	FY2019 Budget	FY2018 Actual
Current Assets	13,308	5,375	7,673	3,650	11,767	13,711
Cash	667	422	389	500	445	295
Receivables	1,515	2,327	1,941	1,300	2,376	3,040
Inventories	3,128	1,234	3,810	1,050	1,029	2,646
Asset held for sale	6,525	-	-	-	6,525	6,525
Others	1,473	1,392	1,533	800	1,392	1,204
Noncurrent Assets	11,703	18,028	17,324	18,121	11,526	11,819
Property and equipment	8,994	15,554	15,221	15,606	8,989	9,320
Investment and goodwill	1,759	1,690	1,718	2,070	1,662	1,722
Others	950	784	385	445	875	777
Total Assets	25,011	23,402	24,997	21,771	23,293	25,530
Current Liabilities	11,059	7,050	8,659	8,452	12,009	14,331
Short term borrowings	7,034	5,001	5,699	5,166	5,961	6,211
Current portion of long-term debt	1,248	312	1,248	848	3,566	4,813
Trade and other payables	1,753	1,737	1,712	2,438	1,458	2,282
Liabilities directly associated with assets held fo	1,024	-	-	-	1,024	1,024
Noncurrent Liabilities	3,383	5,429	5,708	3,117	526	437
Long term borrowings	2,943	3,879	4,185	2,717	-	-
Others	450	1,550	1,523	400	526	437
Equity	10,569	10,922	10,630	10,203	10,757	10,763
Total Liabilities and Equity	25,011	23,402	24,997	21,771	23,293	25,530
Net Debt	10,558	8,770	10,743	8,230	9,082	10,729

Mr. Dimarucut reported that the CADPI assets are continuously classified as "assets held for sale". Long-term debt was reclassified back as non-current debt - it was classified as current, because of the breach of DSCR ratio as of September 30, 2019. Bank waivers for 2018 were received on December 17, 2018 to January 14, 2019. In managing the Consolidated Net Debt of Group, receivables and inventories shall be used to finance the PHP1.156Bn maturing long-term debt as well as PhP534Mn short-term loan from MIB. Also, there is a plan to generate a minimum of PhP3.5Bn from N asset sale to prepay residual long-term debt. A possible restructuring of about PhP5Bn of the residual PhP6.5Bn short-term debt, to long-term is also planned. With the current condition of the Group, DSCR is projected to be again breached by the end of the current year-end 2019.

He continued to report that free cash flow is higher in 1H2019 compared to same period last year due to liquidation of receivables and lower capital expenditures.

	Half year ended March 31			Year End		
	1H 2019 Actual	1H 2019 Budget	1H 2018 Actual	FY2019 LE	FY2019 Budget	FY2018 Actual
EBITDA	242	820	761	451	1,560	1,185
Working capital	385	1,891	(221)	3,247	2,589	(135)
Capital expenditures	(119)	(489)	(313)	(600)	(600)	(1,185)
Free cash flow	507	2,222	226	3,098	3,548	(134)
Debt Availments (Servicing)						
Long Term principal payments	(621)	(621)	(622)	(1,248)	(1,247)	(1,242)
Short term availments	823	(1,208)	426	(1,045)	(1,627)	1,602
Interest expense	(337)	(266)	(212)	(601)	(524)	(502)
Cash balance						
Beginning	295	295	571	295	295	571
End	667	422	389	500	445	295

IV INTERNAL AUDIT PRESENTATION

Ms. Josephine Logroño (Ms. Logroño) presented for the Internal Audit Group and started with the scope of her report which includes active audit engagements, as follows:

Audit Engagements

Audit No.	Audit Title	Company	Status
IAG-1718-09	Audit of Receiving, Warehousing, and Withdrawal of Product	SCBI	Audit Completed; Report issued
IAG-1819-02	Audit of Fuel Handling and Steam Generation	RBC	Fieldwork completed; For report issuance
IAG-1819-03	Audit of Receiving and Warehousing of Materials	CACI	Fieldwork completed; For discussion with Procurement
IAG-1819-04	Audit of Outside Service Contractors	SCBI	Fieldwork ongoing
IAG-1819-05	Audit of Cane Acceptance, Acquisition and Quedanning	CACI	Fieldwork completed; For discussion with CACI management
IAG-1819-MR01	Review of Offsetting Services to Other Materials	CADPI	Audit Completed; Report issued
IAG-1819-MR02	Review of Clinic Medicine Liquidation	CACI	Fieldwork completed; For discussion with HO-HR
IAG-1819-MR03	Buying and Selling of Molasses Audit	CACI,RBC, SCBI,CADPI	Planning and Fieldwork started
IAG-1819-MR04	Off-Season Repair Audit (Labor only contracted)	CACI	Planning

According to her, two audits have already been completed which are the Audit of Receiving, Warehousing and Withdrawal of Product in SCBI and Review of Offsetting Services to Other Materials in CADPI.

She added that there is an ongoing audit with RBC on fuel efficiency and labor outsourcing with SCBI. These audits are all under the audit plan. There are also audits for management discussion. One is the audit of receiving and warehousing of materials and review of clinic medicine liquidation, both in CACI.

As for the Audit of Receiving, Warehousing and Withdrawal of Product, the Audit concluded that controls are generally found to be in place and working as intended except for the weaknesses noted. Some of observations indicative of adherence to controls are: no withdrawal of denatured AHA below 96.90% purity which may result to product return, and the tanker valve is sealed with control number every hauling. She likewise reported on Management actions taken as a result of the audit: 1) Calibration of tanks done last April 6, 2019, waiting for the SGS report/tank calibration table θIn-house fabrication and installed ladder and clear hose at the side of the warehouse tank. The clear hose will be the reference for the tank height instead of level transmitter (done by November 2018); (2) Materials and Control Division started recording flow meter reading every lifting to have comparison with shore tank measurement; (3) MCD to monitor variances in all lifting and to observe average to determine tolerable variance. This will be started upon completion of tank calibration table.

On the other hand, the Review on Offsetting Services to Other Materials in CADPI yielded the following observations: (1) Plant Admin. 'goods receipt' in the system while services and supplies were not completely rendered by the contractors ; (2) Plant Admin received items from the contractors that is not what is specified in the purchase order or agreement with them; and (3) Plant Admin. did not report to Finance or to IT department the items on hand for reporting in the books and for asset accountability recording. The matter was discussed with HR, Procurement, Head Office- Administration and Legal, and notice to explain shall be issued to the accountable employees.

She then ended her report with a presentation on updates on the current manpower resources of the Internal Audit Group, both at the Head Office and respective plants. She also discussed that there will be a self-assessment review that needs to be completed by the members of the Committee for AC performance for FY 2017-2018.

VII ADJOURNMENT

There being no other matters to discuss, on motion made and seconded, the meeting was thereupon adjourned.

ATTEST:

ARLYN S. VILLANUEVA
Chairperson

CHRISTOPHER H. YOUNG
Member

MA. HAZEL L. RABARA-RETARDO
Secretary

ROXAS HOLDINGS, INC.
MINUTES OF THE REGULAR MEETING OF
THE AUDIT & RISK COMMITTEE

Held at the Mancom Room, 6th Floor of the PLDT/Ramon Cojuangco Building, Makati City on July 26, 2019 at 12:30 in the afternoon.

ATTENDANCE:

Present:

Ms. ARLYN S. VILLANUEVA
Mr. CHRISTOPHER H. YOUNG
Mr. OSCAR J. HILADO

Others Present:

Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Ms. VERONICA C. CORTEZ
Atty. MA. HAZEL L. RABARA-RETARDO
Ms. JOSEPHINE LOGROÑO
Ms. FARAH CRIZEL SANTIAGO

I
CALL TO ORDER

The Chairperson, Ms. Arlyn S. Villanueva (Ms. Villanueva), called the meeting of the Committee to order. The Asst. Corporate Secretary, Atty. Hazel R. Retardo, certified the existence of a quorum and recorded the Minutes of the meeting.

II
APPROVAL OF THE MINUTES OF PREVIOUS MEETING AND ORGANIZATIONAL BOARD MEETING, AND MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS MEETING

Ms. Villanueva presented the Minutes of the last Audit Committee held on 8 May 2019 and stated that the Minutes of the meetings was circulated to all members of the Committee prior to the meeting for their review.

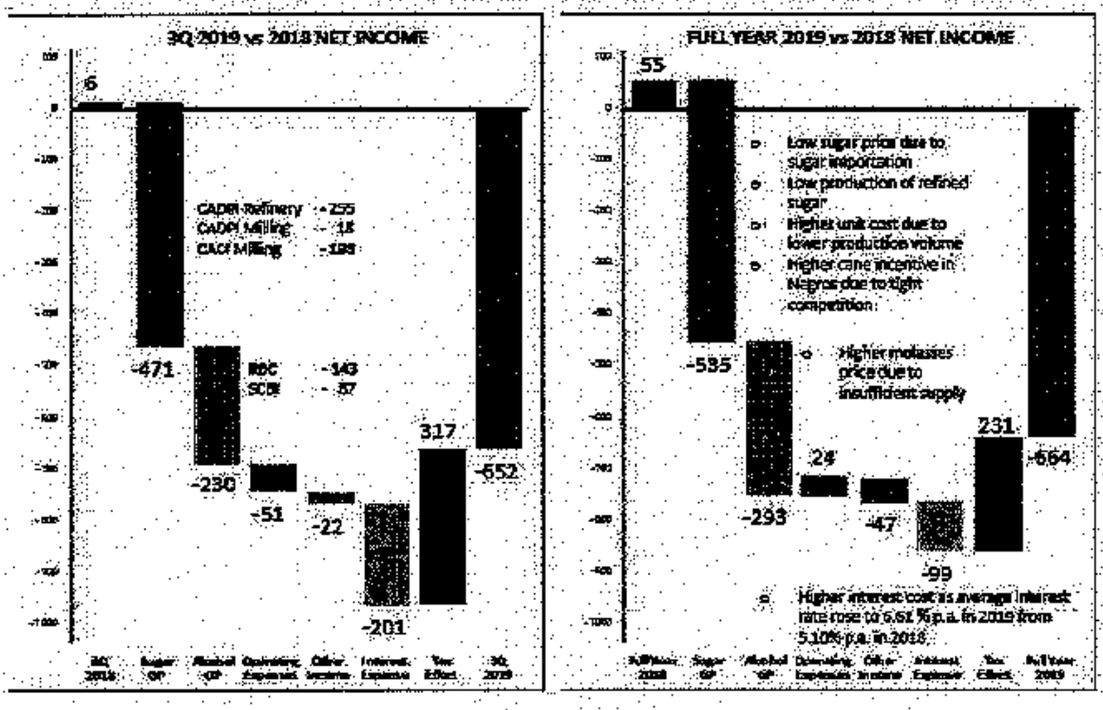
On motion duly made and seconded, the Committee approved the Minutes as presented.

There were no matters arising from the minutes of the previous meetings.

III
PRESENTATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE THIRD QUARTER ENDING JUNE 30, 2019

The Executive Vice-President- Chief Finance Officer, Mr. Celso T. Dimarucut (Mr. Dimarucut) discussed the overall results of the operations:

Executive Summary



Mr. Dimarucut mentioned that, as earlier reported in the last meeting, the Group will be reporting a net loss for the cumulative three quarters and it is expected that almost the same level of loss will be reported for the full year of 2019. This is mostly driven by the weakness in the gross profit of both major businesses – Alcohol and Sugar. Significant reduction comes from the Sugar businesses where, for the third quarter, gross margin went down by 471 and would further expand to 535 for the full year of 2019. The major setbacks are on the reduction on the margins derived from the refinery business in Central Azucarera Don Pedro, Inc. (CADPI). As explained, the Group was scheduled to close the sale of CADPI to Universal Robina Corporation (URC) last December 2018. Because of this, the Group anticipated that there would be no refinery operations. Thus, most of the sugar produced during the first quarter were sold as raw sugar. So, the Group lost the benefit of the refined sugar margins. The reduction in the gross margins for refinery is larger compared to the last two years of performance wherein CADPI would report as high as PhP800 million gross margins per annum. It went down to PhP500 million last year. Now, it is even lower. The primary reason for that is that the refinery business is highly dependent on the availability of fuel. Almost 80-85% of the cost to refine is really fuel and to a certain extent, there was reduction in the volume of fuel generated from milling operation and the availability of external fuel in as much as 30%. Moreover, the cane produced was shorter due the change in weather pattern. The amount of bagasse or the fuel produced from the milling operation is much less than previous years. In addition, in the past CADPI used bunker fuel when the price was just PhP12.00. Now, it is about PhP32/liter. It is no longer profitable to use external fuel because the tolling fees range to about PhP250.00 per bag and every bag of sugar would require about roughly 80 liters of fuel. On the fuel alone, it is no longer viable to run the refinery.

On the Central Azucarera dela Carlota (CACI) side, there are also reductions in the volume because the competitors are quite aggressive in terms of their campaign to get canes, to the extent of offering guaranteed incentives or yield to certain big planters. Actually, the Group increased the incentives across the board this year, but even with that, CACI was not able to hit its targeted cane volumes.

On the Alcohol side, as explained during the last meeting, while the Alcohol businesses are hitting their target efficiencies and volumes, because of the structure on the pricing mechanism, the Group is in effect subsidizing a certain portion of the price brought about by lower cost of sugar. The price of ethanol is fixed based on a 50-50 ratio between the price of sugar and

molasses. There is continued increase in runaway cost of molasses from an average of about PhP8,000.00 last year to roughly around PhP10,500.00-11,000.00 this year. The price of the other component, which is sugar, stayed very low. While this is included in the formula, the feedstock is really molasses so the plants are running the production of alcohol with higher molasses but the Group is only being compensated to recover 50% of it because the other 50%, which is pegged at the price of sugar, was relatively low. To a certain extent, for a full year basis, that is roughly around PhpP300 million reduction in the Group's gross profit.

Answering the query of Mr. Christopher H. Young (Mr. Young) if there are losses in the Alcohol businesses, Mr. Dimacurut explained that margins are being generated but not at the level targeted. Ideally, the target is at least PhP9.00/liter so if the total output for the two plants is PhP17.00, the Alcohol businesses should be hitting PhP600-650 million per year. But because of this issue on the high price of molasses and low price of sugar, the Group is losing half of that. So as for the gross margin, the Group is still earning but not at the PhP9.00 level. Currently, the Alcohol businesses are averaging PhP4.00-5.00/liter.

Mr. Oscar J. Hilado (Mr. Hilado) clarified if the high price of molasses and low price of sugar affected the price of ethanol. Mr. Dimarucut explained that in effect, the Alcohol businesses were not able to completely recover the higher price of molasses and this eats up the margin. Mr. Arcadio S. Lozada, Jr. (Mr. Lozada) added that there was a big drop in the price of sugar from PhP1,900.00 last year to PhP1,600.00-1,500.00. Mr. Dimarucut continued by saying that most of the yields are at around PhP1,450.00. This explains the big loss on the reported net income.

Mr. Dimarucut proceeded to report on actions sought to be done to restore profitability of the Group:

Initiatives to Restore Profitability

Batangas

Refinery

- Use of cost efficient fuel for sustainable and profitable refinery operations
  - Convert boilers (fixed to travelling grate) to allow the use of coal
  - Develop alternative fuel (Reuse Derived Fuel) through partnership with MPIC
- Completion of affination centrifugal baskets conversions to increase output
- Completion of CBA boiling scheme to improve quality and yield

Cane Supply

- Assisted Batangas planters in improving productivity by shipping High Yielding Variety (HYV) cane points such as PSR 01-105, Phil 99-1973 and 84-524 from Negros to Batangas
- Initiate a summit with the Sugar Regulatory Administration for stakeholders in Batangas to address the alarming concern on declining farm productivity

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According to Mr. Dimarucut, it is critical to maximize the use of the refinery in Batangas. Before, the Group used to produce 3.5 million bags of refined sugar in the CADPI Plant. So far, this year, it is just 1.1 million bags. Refinery operations have already restarted. Assuming everything goes well, CADPI will hit about 1.6 million bags, that is 2 million short of what it used to produce. As mentioned earlier, the key really is to be able to find cheaper fuel so that CADPI can continue to sustain profitable refinery operations. There are two things being looked at right

now, the more immediate that can be done is to use coal which has higher heating value and this will be more efficient. There are no restrictions in Batangas for the use of coal. Most of the plants that are operating in Batangas right now are using coal as their primary fuel.

Mr. Hilado added that powerplants are also using tremendous amounts of coal. Mr. Dimarucut affirmed, and continued on by saying that this is one of the identified solutions. Unfortunately, with the current structure of the boiler, it cannot use coal because the density is higher than normal bagasse. Thus, it would clog the system. There is a need to convert the boiler from a current fixed one to a travelling grate type. A refurbished unit has already been pre-identified which can be used immediately. The focus really is to make sure that in the next refinery operations, CADPI would have the capability to continuously produce refined sugar. Assuming everything goes well with the plans, it can be put in place before the next refinery operations. The Group is in the process of converting some of the boilers from a fixed to travelling grate to allow the use of coal.

Mr. Hilado asked if the conversion will be ready for the coming year. Mr. Dimarucut affirmed and mentioned that the target right now is by June next year because by that time bagasse will have probably run out. At the least, the operations can continue from June onwards with this kind of fuel.

Mr. Dimarucut continued on to say that the Group is currently in discussion with Metro Pacific Investment Corporation (MPIC). MPIC had plans of buying a company in Cebu producing Refused Derived Fuel. Unfortunately, they ran into some problems particularly in the land ownership of the company. There is now an intention to put up their own. They are initially looking at Bacolod but because of the Group's requirement of fuel in Batangas, they were encouraged to look at Batangas. This is the conversion of the municipal garbage into fuel as a substitute. GPPC is already using this as a substitute to coal. At least, this is an alternative if the environmentalists oppose and there is a move to tighten up on the use of coal, as this is recycling.

Mr. Hilado inquired if the refinery uses only our sugar or does it buy sugar to refine or is there a tolling arrangement. Mr. Dimarucut answered that the refinery does all three. He added that to a certain extent that CADPI needs raw, it would buy the planters' share through some of the traders or directly, or even bring CACI raw sugar to CADPI. It is a function of the cost of fuel. Using coal, based on table calculations, it would give CADPI enough margin to continuously produce. Now, there were also corrections that have been undertaken which are already in place. In the past, the average output that was hit on a daily basis was 80% which is the capacity to make sure it is efficient. Efficiency is important because CADPI is consuming the same amount of fuel whether it produces 18,000, 15,000 or 12,000 bags. It is important to hit the maximum which is 18,000. In the past, there were issues with the centrifugal baskets. The Group has completed the conversion of these centrifugal baskets to allow CADPI to hit an efficient level of production. The same way, while this is not directly on the refinery side, the output of the milling, CADPI has actually improved its processes and converted to a different scheme.

Mr. Lozada explained that the scheme is the CBA boiling scheme. Previously, CADPI produced commercial sugar, the first boil from the virgin syrup and the molasses. From that, sugar is also produced. Now, sugar from molasses will not be used anymore. Instead, it is converted into A-sugar. This is high quality raw sugar and would facilitate ease in production, faster boiling and lesser fuel for the refining input. There will also be less impurities to remove.

Mr. Dimarucut reiterated that there are two major issues in Batangas: maximizing the use of the refinery and being able to get enough cane supply. On the cane supply side, since this is outside of the Group's control, nevertheless certain initiatives have been undertaken to make sure that the Group can provide certain interventions to help the planters. As discussed with Mr. Hilado, on the issue of the harvesting cycle in Batangas, the plants need certain amount of water, rain or sunshine during its growth period. Unfortunately, due to the change in weather pattern and the changes in the opening of the mill, the cycle now between the weather and the requirement of the plant is no longer in sync. For it to be corrected, there is a need to plant earlier. But this entails earlier harvesting and milling. However, the natural tendency of the mill is to mill later because the canes are not yet mature. This cannot be corrected in one year. Otherwise, the Group will be milling immature canes and there is no output of sugar and that would hit both the planter and the mill. There is a need, in coordination with the planter partners, to find a way to progressively

correct this cycle so that proper balance is restored. Mr. Hilado opined that the Group cannot control the weather patterns but the Group must just adjust to it.

Mr. Dimarucut continued on by saying that a summit has already been organized with the Sugar Regulatory Administration (SRA) to address the problems. The Group will sit down with them to check on how a roadmap can be developed to make those adjustments. While this is important, the refinery operation is a lot more important. Because if you have the refinery, the source of raw sugar become irrelevant even if it is an imported one. Even if there is a cane issue in the location, if there is not enough raw sugar in Batangas then CADPI can easily get from Negros or import. In the priority list, the focus really is on the refinery. Nevertheless, the Group has also started initiatives in the cane supply side so that at least, at a certain point, the Group can get some benefit from the improvements in the cane supply. The Group also assisted the Batangas planters and have distributed a much better variety of plants coming from Negros. This would help the productivity of the Batangas plant.

The hectarage is not really shrinking in terms of the planting areas. What is being affected heavily is the yield per hectare. Mr. Hilado inquired whether the yield per hectare issue is much worse than CACI. Mr. Dimarucut answered that it is a lot less and explained that Batangas is about 40 tons per hectare while Bacolod's average is 65 tons per hectare. But there are other planters hitting 80-85 tons per hectare. If the Group can make interventions there, improve the output then that would help in the cane supply side.

Mr. Hilado asked how many tons are allowed to be imported in the Philippines. Mr. Dimarucut answered that the target is about 200,000 tons which is equivalent to 400,000 bags. These imported sugars mostly come from Thailand because it is the nearest and optimum in terms of price and quality. But right now, the target is just to bring in refined for the purpose of beverage companies. The reason for the apparent shortage of sugar right now, is because beverage companies used to utilize High Fructose Corn Syrup (HFCS) but went back to sugar because it is no longer cost efficient for them to use HCFS due to the TRAIN Law. This is what is being addressed by the importation of bottler's grade sugar.

Initiatives to Restore Profitability

Negros

Sugar Mill

- Increase production of improved raw sugar (IRS) by focusing on sugar extraction yields and plant efficiency
- Completion of affination centrifugal baskets conversions to increase output
- Completion of CBA boiling scheme to improve quality and yield

Ethanol

- Source alternative feedstock for bioethanol production
- Continuous improvement in methane fuel displacement of Anaerobic Digesters

Cane Supply

- Expanded in-house farms and contract growing areas
- Leverage on ADC's mechanized harvesting and extension services

Integration of South Negros plans (CACI and RBC)

- Finalized power sharing and integration
- Organization integration on-going

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On the Negros side, the issue on sugar is that during the earlier period, CACI had some issues in its operations, particularly in the JTA boiler. It is currently being fixed. It is anticipated

that the repairs will be done by next season. The Group made some improvements in the processes so that a much more improved sugar can be produced. This would help bring the price of raw sugar to a higher level. In response to an inquiry, Mr. Dimarucut stated that the Group is not yet targeting to sell it at the price of HP Co. because HP Co. produces SRF which is a special kind of premium raw sugar. In the initial analysis, the Capital Expenditure (CAPEX) required vis-à-vis the additional value added, may not be justifiable at this time because in those cases it is as if you are creating a new section which is the refinery operation. For the Group to be able to sell, it needs to make product commitments in terms of certain quality level and controls. This requires a lot of manpower and resources. While that can be an option in the future, right now, the Group would want to elevate it to the next level first. As soon confidence is gained on getting the process done, then the Group can target the next level which is the special raw sugar. To do a direct consumption special raw right now, may be challenging in terms of manpower and the CAPEX requirement. Similarly, corrections were made on the centrifugal baskets and also implemented the CBA boiling scheme. All of these are targeted to be completed before the next season.

On the Ethanol side, the primary problem is really the feedstock. While there is a margin right now, the Group is in continued search of an alternative feedstock for ethanol so that increasing molasses cost can be addressed and mitigated. There has been some discussion on using corn as what the other countries are using right now. It is just a matter of whether the Group can find a stable source of corn. The challenge with corn is that because this is also used as food, shifting this to ethanol may also be an issue. Again, the Group continues to see good improvements on fuel displacement because one of the biggest costs of producing ethanol is fuel. The Group is also trying to focus on further improving fuel displacement with the use of methane produced by the Anaerobic Digesters (AD). Right now, the highest hit is about 50% which is quite good. But on a full year basis, the Alcohol business is averaging around 30-35% displacement. If this can be further maximized, \then that would help improve the margins to compensate for the high feedstock cost.

In terms of Negros, cane supply continues to be a challenge. While in the past CACI tried to target a 2 million level from canes outside, the challenge is that a big portion of that is cane owned by big planters and they are the ones demanding more incentives and that is actually bringing the cost to very high level. The focus right now is to be contented with 1.7 million canes minus the big planters and start developing the Group's own plantation to fill up the 300,000 gap. Mr. Hilado asked if this is the mandate of Mr. Jose Manuel Mapa of RHI Agri-Business Development Corporation. Mr. Dimarucut said yes and that for the Meeting of the Board, a presentation of what the Group has acquired so far will be discussed. The Group is getting good tractions and margins on the development of these farms through in-house farms and contract growing agreements. The Group will also use as leverage ADC's mechanized and extension services to get consistent supply of cane. The Group has undertaken some restructuring of the operations in Negros. Before, the operation of ethanol and sugar was organizationally and legally separate. Now, the operations of these two will be integrated which was the intention when Roxol Bioenergy Corporation (RBC) was put up. Because of the high dependencies on each other, it is better to operate it that way. The first focus is the power integration which is already ongoing. The Group hopes that it would get savings this year, in fact there are some excess power during the time the Group was only running one mill that the ethanol plant can actually use. The plan is to export that power to the alcohol business unit so that cost can be reduced further. Organizationally, since they are located in one compound, it would also make sense to build an integrated organization. There will only be one support group rather than two separate groups. The integration project is ongoing, and hopefully, this would bring down cost. The challenge is that with the banks, the loans are housed in different legal entities. It is better to actually consolidate them in the future. There is no really prohibition in putting them together. Most of the other competitors are structured that way. Only one business entity for all the multiple products and services. If the Group is successful, then next year, profitability will be restored. Details of it will be presented to the Board during the budget presentation.

Consolidated Revenues

		For the periods ended June 30									Year Ended								
		FY2019 Actual			FY2019 Budget			FY2018 Actual			FY2019 Latest Estimate			FY2019 Budget			FY2018 Actual		
		Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)	Total (millions)	Sales Price	Total (millions)	Quantity (millions)	Sales Price	Total (millions)
Refined sugar	kg	1.330	1.985	2.640	1.325	2.019	2.682	2.311	1.891	3.971	1.500	1.977	2.976	1.328	2.019	2.682	2.846	1.944	5.575
Premium sugar	kg	0.251	1.545	.388	0.600	1.700	1.020	0.023	1.79	.41	0.231	1.545	.358	0.600	1.700	1.020	0.051	2.018	.103
Raw sugar	kg	2.016	1.491	3.005	0.546	1.519	.828	1.439	1.531	2.149	2.040	1.491	3.042	0.600	1.49	.893	1.657	1.309	2.167
		3.597	1.676	6.033	2.473	1.832	4.530	3.772	1.838	6.930	3.771	1.696	6.376	2.529	1.815	4.590	4.555	1.716	7.844
Molasses	MT	0.041	9.759	.404	0.028	8.000	.225	0.066	7.193	.474	0.085	9.500	.80750	0.029	8.000	.231	0.074	7.377	.544
Tailings/Lees		0.522	.242	.163	1.936	.269	.516	0.513	.254	.131	0.713	.240	.171	2.008	.260	.522	0.349	.245	.086
				4.571			5.242			4.734			7.394			5.347			8.507
Alcohol	liter	51.230	.57	2.935	34.454	.52	1.852	47.247	.42	2.022	70.000	.57	3.993	35.224	.52	1.846	46.037	.49	2.265
Milling Revenue				2.540									2.540			-			-
Others				.48			.756			.40			.46			.265			.58
TOTAL				12.992			8.896			8.991			13.955			9.149			13.661

3Q 2019 Revenues 34% higher than 3Q 2018.

- Recognition of PhP2.5 billion milling service revenue due to adoption of PFRS 15, "Revenue Recognition" effective October 1, 2018
- Higher raw sugar sales volume of 2.016M LKg, 23% higher than 1.439M LKg bags from same period last year
  - Miller's share and planter's share bought were sold as raw sugar to generate cash and due to uncertainty that the same cannot be refined with the impending sale of CADP to URC
- Higher alcohol selling price and sales volume

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The consolidated revenue is higher but it does not mean that it translated to higher margins because of several things. One, this year the Group included the recognition of milling revenue as required by accounting standards. That is about PhP2.5 million recognized this quarter and on a full year basis. This accounting standard requires the Group to recognize revenue and inventory at the time the Group gets its milling share from the milling operations. Then another revenue is recognized once the inventory is sold. There is an apparent double up in the revenue side. There is no real margin because the same cost is recognized again in the cost of sale. On the other revenues, there are some changes in the mix as explained earlier. In the past, the Group had higher sales of refined sugar, resulting to higher margins. Now, because the Group actually sold raw sugar before it is refined, there is a higher sale of raw sugar which has less margin. The increase in price of molasses also increased the selling price of alcohol. Likewise, with the improvements in the operations of the alcohol business, there is also an increase in the total volume from 47 to about 51 million liters this year.

Consolidated Income Statement

- **3Q 2019 vs 3Q 2018**
  Lower than last year due to:
  - Higher average cost of cane
  - Lower alcohol gross margin from high molasses cost and higher energy cost
  - Increased operating expenses and interest from loans
- **3Q 2019 vs Budget**
  Actual performance in 3Q 2019 is behind the budgeted figures mainly due to lower sugar production and higher cane incentives

	Period ended June 30			Year End		
PhP millions	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 EE	FY2019 Budget	FY2018 Actual
Sugar segment	41	963	491	144	998	686
CACI (Negros plant)	(2)	322	193	(2)	344	235
CADPI (Batangas plant)	28	582	251	74	589	456
HFCo (45% equity interest)	41	49	40	75	52	56
ADC	2	3	(3)	(3)	3	(61)
Alcohol segment	212	451	482	338	592	630
SCBI	78	252	160	109	285	252
RBC	134	199	282	229	307	378
Contribution from operations	273	1,412	973	482	1,590	1,316
Operating expenses	(708)	(632)	(674)	(1,000)	(1,084)	(1,024)
Other income	54	56	76	76	77	125
Interest expense	(326)	(393)	(325)	(493)	(524)	(500)
Tax benefit	315	24	(2)	377	112	146
NET INCOME (LOSS)	(392)	267	6	(558)	171	55
Depreciation	666	730	738	810	977	775
EBITDA	224	1,348	1,071	370	1,580	1,185

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As for the consolidated income statement, on a per company basis, CACI is almost breakeven on the gross margin level compared to PhP196 million last year for the third quarter and about PhP215 million for the full year. This is brought about by lower volumes and higher incentives. The additional incentives incurred this year is roughly about PhP300 million. If the incentives can be corrected that would restore the usual level of margins in CACI before other improvements are undertaken. As for CADPI, the gross margin level is also at breakeven. This is far from what was budgeted at PhP600 million. This is lower than 2017 wherein the gross margin of CADPI was close to PhP900 million. That is the level that the Group intends to restore with all the initiatives undertaken on the refinery side. On the Alcohol segment, the target is 70 million liters and the original plan was to hit close to 600 million of fuel gross margin that is an average of P9.00/liter. However, the alcohol businesses are only hitting half of that.

Consolidated Income Statement

PhP millions	Period ended June 30			Year End		
	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 LE	FY2019 Budget	FY2018 Actual
Revenues	6,515	5,425	3,856	8,577	6,159	4,898
Cost of Sales	(6,348)	(4,642)	(3,090)	(8,330)	(5,219)	(4,090)
Gross Profit	167	783	766	247	939	807
GP Rate	3%	14%	20%	3%	15%	16%
Operating Expenses	(570)	(516)	(528)	(806)	(787)	(756)
Other Operating Income	27	32	61	23	42	70
Operating Profit (Loss)	(375)	298	299	(535)	194	122
Equity in Net Earnings - HPCo	41	47	40	75	62	56
Finance Cost	(348)	(141)	(101)	(432)	(182)	(201)
Income (Loss) Before Income Tax	(682)	204	238	(892)	75	(23)
Income Tax Benefit (Expense)	229	19	(71)	370	107	128
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(453)	224	167	(522)	182	105
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(200)	44	(161)	(142)	(11)	(50)
NET INCOME (LOSS)	**(652)**	**267**	**6**	**(664)**	**171**	**55**

RHi

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9

The Group is trying to contain the Operating Expense (OPEX) level but interest expense continues to be high because of the increasing interest rates. From the previous average, in terms of the interest, of 4.2%, the Group is hitting about 6%. On a full year basis, that is about 5.10% last year compared to 6.61%. That is a 1.5% difference. Mr. Hilado inquired if there is an increase in debt stock at the end of the year as compare to last year. Mr. Dimarucut answered that the net debt is almost the same.

Consolidated Balance Sheet

- Nasugbu assets continues to be classified as assets held for sale as of June 30
- Long-term debt reclassified as noncurrent
  - DSCR ratio was breached as of September 30, 2018. 2019 also likely to be breached
  - Bank waivers for 2018 received on December 17, 2018 to January 14, 2019

	Period ended June 30			Year End		
	FY2019 Actual	FY2019 Budget	FY2018 Actual	FY2019 LE	FY2019 Budget	FY2018 Actual
Current Assets	12,951	13,326	7,078	5,105	11,767	13,711
Cash	492	890	147	504	445	295
Receivables	1,551	2,437	2,247	1,296	2,376	3,040
Inventories	2,504	1,082	3,313	2,905	1,029	2,346
Assets held for sale	6,525	6,525	-	-	6,525	6,525
Others	1,379	1,392	1,290	1,400	1,392	1,204
Noncurrent Assets	11,618	11,421	17,496	18,232	11,524	13,819
Property and equipment	8,805	8,547	15,129	15,349	8,909	9,930
Investment and goodwill	1,714	1,690	1,543	1,797	1,692	1,722
Others	1,095	784	724	1,095	875	777
Total Assets	24,569	24,747	24,574	23,336	23,293	25,530
Current Liabilities	10,270	8,391	8,684	9,034	12,009	14,331
Short-term borrowings	7,034	5,482	5,463	6,554	5,961	6,217
Current portion of long-term debt	848	812	1,248	848	3,386	4,813
Trade and other payables	1,363	1,373	1,712	1,652	1,438	2,282
Liabilities directly associated with assets held for sale	1,024	1,024	-	-	1,024	1,024
Noncurrent Liabilities	3,474	4,025	5,313	4,205	526	437
Long-term borrowings	3,033	3,500	3,875	2,717	-	-
Others	441	525	1,538	1,488	526	437
Equity	10,825	11,331	10,577	10,099	10,757	10,762
Total liabilities and Equity	24,569	24,747	24,574	23,336	23,293	25,530
Net Debt	10,425	8,904	10,338	9,594	9,082	10,728

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The Balance Sheet is almost the same as last year but the intention is to further bring this down from various initiatives. CADPI is continued to be shown as discontinued operations and its assets are classified as asset held for sale. But at the end of the year if nothing happens, because the Group is only required to do this for a 12-month period, then there will be a need to restore it back to original presentation.

Consolidated Net Debt

30-Jun-19

	TOTAL	2019	Maturity - Ending 30 September 2020	2021	2022	2023	2024
Long-term Debt	3,881	311	848	1,399	596	397	330
BDO	1,832	182	331	328	330	330	330
BPI	1,765	115	463	854	266	67	-
RCBC	285	13	54	217	-	-	-
Short-term Debt	7,034						
BPI	2,000						
Landbank	2,000						
BDO	1,500						
BOC	1,000						
MIB	534						
		Cash	Net Debt				
TOTAL	10,915	492	10,423				

- PhP0.845 billion maturing long-term debt and MIB short-term debt shall be financed by proceeds from working capital (reduction in receivables and inventories)
- Generate a minimum of PhP3.5 billion to prepay residual long-term debt from asset sale
  - Very likely to breach 30 Sept 2019 loan covenant - DSCR
- Term out PhP5.0 billion of residual PhP6.5 billion short-term debt

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The current net debt is at PhP10.4 billion. The Group has enough cash to address the balance for the year through liquidation of our inventories.

IV INTERNAL AUDIT PRESENTATION

Ms. Josephine Logroño (Ms. Logroño) presented for the Internal Audit Group (IAG) and started with the agenda, as follows:

Agenda

- Audit Reports
  - Audit Engagements
  - Final Reports Issued
  - Status of Management Actions
- AC Self-Assessment
- Internal control and risk management review (Interim)
- IA Manpower

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2

She continued on to discuss the status of the Audit Engagements for Crop Year 2018-2019:

Audit Engagements

- CY 1819 IA Plan

Audit No.	Audit Title	Company	Status
Completed			
IAG-1819-02	Audit of Fuel Handling and Steam Generation	RBC	Audit Completed; Report issued
IAG-1819-04	Audit of Outside Service Contractors	SCBI	Audit Completed; Report issued
Ongoing			
IAG-1819-03	Audit of Receiving and Warehousing of Materials	CACI	Draft report for management comments
IAG-1819-05	Audit of Cane Acceptance, Acquisition and Quedanning	CACI	Draft report for management comments
IAG-1819-06	Audit of Buying and Selling of Sugar	CACI	Fieldwork

RHI

In response to an inquiry, the items tagged as completed are those which have been completed from May to date.

Mr. Hilado inquired whether there are significant findings from the completed audits. Ms. Logroño answered none. She added that the findings are mostly on internal processes which need improvement. She continued to discuss the following Audit Engagements which were requested by the Management:

Audit Engagements

- Management Requests

Audit No.	Audit Title	Company	Status
Completed			
IAG-1819-MR02	Review of Clinic Medicine Liquidation	CACI	Audit Completed; Report issued
Ongoing			
IAG-1819-MR03 A	Buying and Selling of Molasses Audit	CACI,RBC, SCBI,CADPI	Fieldwork
IAG-1819-MR03 B	Receiving and Issuance/Usage of Molasses Audit		Fieldwork
IAG-1819-MR04	Off-Season Repair Audit (Labor only contracted)	CACI	Fieldwork

RHI

IA Report

Audit of Fuel Handling & Steam Generation - RBC

- Objective:
  - ❑ assess if controls to ensure adequate supply and quality of fuel and steam utilization are effective
- Scope:
  - ❑ Procedures in handling fuel, measures taken to meet targets and compliance, compliance to processes
  - ❑ Period reviewed: Oct. 1, 2017 to December 31, 2018

RHI

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As for the audit of fuel handing & stem generation in RBC, the objective was to assess the controls to ensure adequate supply and that quality of fuel and steam utilization are effective. The scope of the report is the procedure in handling fuel, measures taken to meet targets and compliance to process. The period of the review was from October 1, 2017 to December 31, 2018.

IA Report

- Key Audit Findings:

  1. Possible misstatement in reporting of fuel consumption due to unadjusted conversion factor
     - The conversion factor used on moisture of all fuel is within 50-55% and 3-cubic meter payloader for quantity. This has not been adjusted considering the following:
       a. Average moisture for CY1718 for bagasse and wood chips is 62 and 42, respectively. Actual QA analysis of biomass before is done
       b. Capacity of payloader varies, from 2.5 to 3.5 cu.m

  2. Less than 1.8 steam/fuel ratio indicating more fuel was consumed
     - Target was 2.1 and not met, no specific analysis done for not meeting the target

  Management actions: Recalibrate/ analyse the fuel moisture

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The IAG found that there is possible misstatement in reporting of fuel consumption due to the unadjusted conversion factor. The conversion factor used on moisture of all fuel is within the 50-55% and 3-cubic meter payloader for quantity. This has not been adjusted considering the following scenarios: average moisture for Crop Year 2017-2018 for bagasse and wood chips is 62 and 42, respectively. The actual QA analysis done for biomass was not used and the capacity

of payloader varies, from 2.5 to 3.5 cubic meter. As a result, there is less than 1.8 steam or fuel ratio indicating more fuel was consumed. It is to be noted that in Crop Year 2017-2018, the target was 2.1 steam fuel ratio but it was not met. There was no specific analysis done for not meeting such target. The first action was to recalibrate and analyze the fuel moisture for this audit finding.

IA Report

- Key Audit Findings:

  3. Increase in excess steam produced from Aug. to Sep. 2018 as compared to earlier months

  Due to:

  - Unavailability of the turbine since its breakdown in Aug. 2018. Excess steam without turbine was 12k tons.
  - Visible leaks in Boiler area and from steam traps
    a. Average moisture for CY1718 for bagasse and wood chips is 62 and 42, respectively. Actual QA analysis of biomass before is done
    b. Capacity of payloader varies, from 2.5 to 3.5 cu.m

  Management actions:

  a. Repair of Turbine. Done and expected to be operational on November 2019
  b. Survey of all leaks and audit of steam recovery was conducted. Repair and replace of safety valves and steam traps to be done.

Next, there was increase in excess steam produced from August to September of 2018 compared to earlier months. This is due to the unavailability of the turbine since its breakdown in August 2018. Excess steam without turbine was 12,000 tons. Visible leaks were also noted in the Boiler area and from steam straps. What has been done was to repair the turbines and it is expected to be operational by November 2019. A survey of all leaks and audit of steam recovery was conducted. Repair and replacement of safety valves and steam traps to be done.

Mr. Young inquired the reason why it took so long. Mr. Lozada answered that it took some quite to find qualified contractors and as a background, revealed that the same incident happened two years ago. Some of the blades were not reconditioned anymore. The rotor was just balanced and the plates were not returned so the turbine itself was de-rated. They are now looking for a qualified contractor to make sure the integrity will still allow the Group to re-use the turbine for some time. Now, a qualified contractor has already been nominated. The commitment is until November 2019.

Ms. Villanueva inquired whether regular maintenance is usually conducted. Mr. Lozada answered that the Group does regular maintenance. Unfortunately, this one is an abnormal occurrence. There was a carryover from the boiler. Water was not supposed to be carried over. There were upsets in the operations. Mr. Dimarucut added that adjustments are needed on the operation side. There are certain practices that need to be improved to prevent this kind of incident. At the same time, because it is very difficult right now to get qualified people to man certain portions of the operation, there is a need to rely on consultants. The Group is now building resources on that side. For the operation of major equipment, the Group makes sure that it taps qualified consultants which is not really done in the past due cost considerations.

IA Report

- Key Audit Findings:

  4. Fuel quality in PO not aligned with the QA standard
  - QA standard, the moisture should be =/< 35, above 35, subject to penalty
  - PO standard, moisture is between 30 to 40, exceeding 40 is subject to penalty

  5. Penalty not consistently imposed for biomass/fuel deliveries with high moisture content
  - 1,500 out 2,400 deliveries with high moisture were without penalty

  Management actions:

  a. QA revised a new moisture parameter and aligned this with the PO.

  b. RBC management agreed to impose penalty of above 40%. The penalty will be imposed through quantity adjustment.

Fuel quality in the Purchase Order is not aligned with the QA standard. This refers to the moisture. The QA standard states that the moisture of bagasse and woodchips should be equal to or less than 35, above 35, it will be subject to penalty. The PO standard is that moisture should be between 30 to 40, exceeding 40 will be subject to penalty. The penalty is not also consistently imposed for biomass and fuel deliveries with high moisture content. 1,500 out of 2,400 deliveries with high moisture were without penalty. Mr. Dimarucut explained that this was last year. The biggest challenge last year was the scarcity of the fuel. Unlike this year, fuel is now sufficient. Ms. Logroño continued on and stated that QA revised a new moisture parameter and aligned this with the PO. RBC management agreed to impose penalty for those found to be above 40%. The penalty will be imposed through quantity adjustment. They will just reduce the quantity received for the biomass.

IA Report

Audit of Labor Contracting Services - SCBI

- Objective:

  ☐ assess if controls for labor requirement request, assignment of work and monitoring, approvals of timesheets are effective

- Scope:

  ☐ Time charges of outside services assigned to factory operations.

  ☐ Period reviewed: June 2018 to January 2019

Next is the audit of labor contracting services in SCBI. The IAG checked the labor requirement request, assignment of work and monitoring and approvals of timesheets. The scope of the audit is from June 2018 to January 2019. The IAG also checked the time charges of outside services assigned to factory operations.

IA Report

- Key Audit Findings:

  1. Assignment of contract employees to different tasks
     - OSR workers hired for purpose of repair of turbine was deployed to other work tasks
     - QA samplers performs the task of the Sampling Analyst who is a regular employee.

  2. Insufficient monitoring of work done by contract employees
     - Encoders were hired during OSR where no encoding activity is being done. Reassigned to Maintenance Dept. but none in the Maintenance monitor their work
     - Drivers during OSR were retained to repair truck. Assigned in Maintenance but not able to monitor their work

RHI

The key audit findings are first, the assignment of contract employees to different tasks. Off-Season Repair (OSR) workers were hired for the purpose of repair of turbine but they were deployed to other work tasks. Apparently, during the time of the OSR, the turbine was not repaired because they were still waiting for materials. Second is that the QA samplers also perform the task of the Sampling Analyst who is a regular employee. The IAG also noted insufficient monitoring of work done by contractual employees. For example, encoders were hired during OSR where no encoding activity is being done. They were reassigned to the Maintenance Department but none in the Maintenance group monitored their work. Drivers were also tasked to repair trucks and they were assigned to the Maintenance Department but their work is not monitored. No relievers were provided which contributed to higher overtime charges. There is also a need to improve on the process for approval and recording of overtime work wherein overtime approvals are done every 2 weeks instead of during the time overtime is requested. There is also a lack of justification for overtime, details are no recorded and approval is sometimes made by a different department supervisor.

Mr. Dimarucut explained that this is really the challenge in the plant level. That is the reason why the IAG was requested to come in, so that the plant would start to feel that the Management is looking at it very seriously. Most of the operations in the province, the environment is very filial. The contractual employees are also relatives of the employees. It is too loose. To a certain extent, the union puts some pressure on the cane supervisors and managers. Several things were actually done. First, there was a change in a lot of key people in the plants. A new Chief Manufacturing Officer was hired for Alcohol and Sugar. The Group is now in the process of changing some of the plant managers. At the end of the day, it is a question of who is enforcing the policies on the ground. Also, approval from the Board will be sought for the appointments to address those issues. As an intermediary measure, request has been made to the IAG to review all the OSR. At least on a weekly basis, the IAG can sit down with the operations people so that it can be corrected immediately.

Ms. Villanueva inquired as to the role of the Human Resources Department (HR) in this issue since this involves contractual labor. Mr. Dimarucut stated that the actual supervision is being done by the respective operating units. It depends whether the manager or supervisor

would do a closer supervision or sign off on certain things properly. While HR should be doing the policing work, the enforcement is with the respective heads. Ms. Villanueva noted that it is not only about the policing work, HR is in charge of the staffing and should determine what needs to be done and how many people are needed to get things done. Mr. Dimarucut explained that it is a combination of the requirements of the different departments and HR. In fact, the levels have already been lessened. For example, in CACI, when the Group entered, the number of contractors for OSR reached 800. During the first year it was reduced to 600. Now, it is down to 400. There are certain things needed to be addressed and corrected. The immediate step, so that the people in the plant will feel the presence of the Management checking what they are doing, is for the IAG to come in.

Mr. Hilado summarized the meeting by stating that the internal audits are submitted to the Management for Management to do something about. Mr. Dimarucut affirmed and stated that now, even before the report, the IAG sits down with the local management on a weekly basis and correct it onsite.

V ADJOURNMENT

There being no other matters to discuss, on motion made and seconded, the meeting was thereupon adjourned.

ATTEST:

ARLYN S. VILLANUEVA
Chairperson

CHRISTOPHER H. YOUNG
Member

OSCAR J. HILADO
Member

MA. HAZEL L. RABARA-RETARDO
Secretary

ROXAS HOLDINGS, INC.
MINUTES OF THE SPECIAL MEETING OF
THE AUDIT & RISK COMMITEE

Held attheRUC Conference Room, 6th Floor RCB/PLDT Building, Dela Rosa St. corner Makati Ave, Makati City on September 30, 2019 at 8:00 in the morning.

ATTENDANCE:

Present:

Ms. ARLYN S. VILLANUEVA
Mr. CHRISTOPHER H. YOUNG
Mr.OSCAR J. HILADO

Others Present:

Mr. HUBERT D. TUBIO
Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Ms. VERONICA C. CORTEZ
Atty. MA. HAZEL L. RABARA-RETARDO
Ms. JOSEPHINE LOGROÑO
Atty. AIMEE E. PEDAYO
Ms. AILEEN L. SARINGAN, *SGV & Co.*
Mr. KRISTOPHER S. CATALAN, *SGV & Co.*

I
CALL TO ORDER

The Chairperson, Ms. Arlyn S. Villanueva (Ms. Villanueva), called the meeting of the Committeeto order.TheAsst. Corporate Secretary, Atty. Hazel R. Retardo,certified the existence of a quorum and recorded the Minutes of the meeting.

II
APPROVAL OF THE MINUTES OF PREVIOUS MEETING AND DISCUSSION ON MATTERS ARISING FROM THE PREVIOUS MEETING

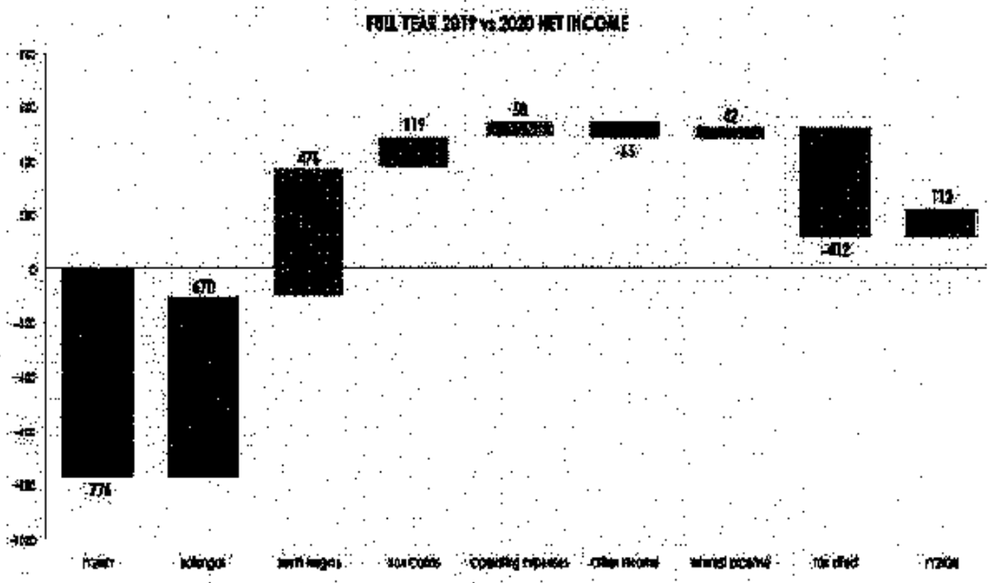
Ms. Villanueva presented the Minutes of the last Audit Committee held on 26 July 2019 and stated that the copy of the minutes was circulated to all members of the Committee prior to the meeting for their review.

On motion duly made and seconded, the Committee approved the Minutes as presented.

There were no matters arising from the minutes of the previous meetings.

III
PRESENTATION OF THE BUSINESS PLAN 2020-2023

Executive Summary



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The Executive Vice-President- Chief Finance Officer, Mr. Celso T. Dimarucut (Mr. Dimarucut) discussed that for the current year, the Group will have to report a net loss. It is driven by the softness on the results of both the Batangas and Negros operations - across all business units. That is why the Group intends to rebuild the business to bring it back to a profitable level and ensure to regain the lost grounds in Batangas and Negros. The Group expects that there will be slight improvements in San Carlos but the bulk of the improvement is expected in Batangas where big dip in margins was experienced this current year.

Batangas

2019 Challenges	2020 Initiatives	Target
Cane Supply 29% reduction in farm yield (tons cane per hectare) offset by 27% increase in sugar yield (LKg per ton cane) with the changing weather condition	Massive cane campaign thru regular farm visits and close coordination with the planters Assisted planters in improving productivity by shipping high yielding variety cane points from Negros Cost effective incentive program to increase market share Explore Pampanga and Tarlac areas	Increase cane market share from 68% to 76% **Potential GP Impact:** Php 38 million (net of Php 30 million increase in cane cost to increase market share)
Refinery Efficiency Refinery operations was limited (1.7 million 50kg bags) due to high cost of external fuel	Allow the use of alternative fuel	Produce 3.5 million 50kg bags of refined sugar **Potential GP Impact:** Php 632 million
Average daily capacity limited to 13,000 LKg due to defective affination centrifugal baskets	Completed conversions of affination centrifugal basket to achieve daily production output of 18,000 LKg	

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9

From the previous level of about PhP700-800 million gross profit, Batangas would be reporting less than PhP100 million. It is driven by the fact that it has not produced significant refined sugar. In previous years, the Group has produced roughly around 3.5 million bags of refined sugar in Batangas but this year, it is down to 1.6 million bags. This is quite significant given that the margin is really on the refined sugar. That is where the Group intends to recapture all the lost profits.

The PCEO, Mr. Hubert D. Tubio (Mr. Tubio) added that the timing of the operations was also affected by the failed transaction last year due to the disapproval of the Philippine Competition Commission (PCC) which was only rendered last February 2019. The Group initially had no plans regarding refinery because both the buyer and seller agreed already. The team did not commit to the customers for refined sugar. What happened was, for certain industrial customers, instead of 300-400,000 bags supply, the Group was only able to give 10% or 40,000 bags because of that delay in committing to those customers. Right now, the Group is pushing on recapturing the loss market.

Mr. Oscar J. Hilado (Mr. Hilado) inquired if most of the farmers are converting their lands from agricultural use to other uses.Mr. Tubio answered that in Batangas, not so much into commercial. It is more on the productivity of the yields of the farms. Particularly last year, aside from the weather conditions in Batangas, the planters were actually hesitant to put in the necessary inputs because they were unsure about the CADPI's ownership of the facilities in Batangas. They were the ones who put up the opposition against the sale alleging monopoly. In Negros, this is also not as big as a problem esp. for CACI.

Mr. Dimarucut explained that most of the losses in hectarage are happening in Central Luzon and Mindanao area, not in Negros or Batangas area.

Mr. Hilado added that in the case of the Group, if at all, it is the Hawaiian-Philippine Company (HPCo) area that might be affected because of the proximity to the Silay airport.

Mr. Dimarucut opined that in the next two or three years, that will start to happen. But for now, the Group has not seen any significant reduction yet. But a lot of real estate companies are trying to position themselves. Everybody in the area are starting to scout for bigger areas.

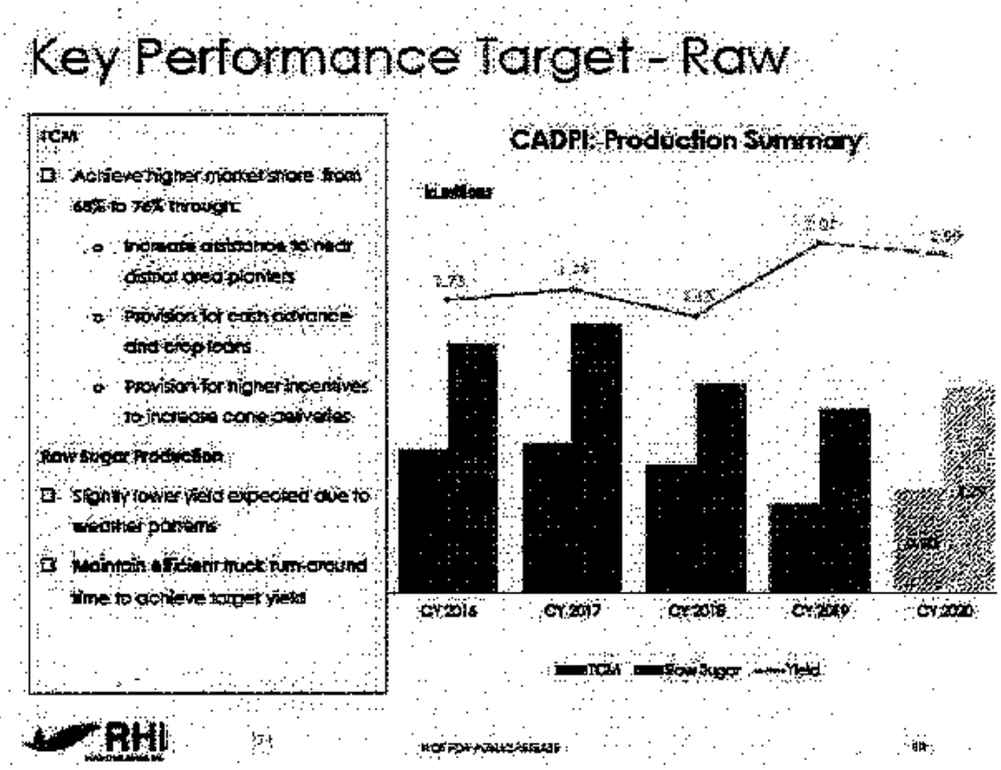
Mr. Hilado inquired whether there is hope in the disposal of Central Azucarera Don Pedro, Inc. (CADPI). He added that it seems that the best thing to do is to sell the Batangas asset.

Mr. Dimarucut explained that the way the budget plan will be presented is on a status quo. Updates will also be discussed regarding HPCo and the Nasugbu asset sale. For the presentation, the Group is assuming that the Nasugbu plant will continue its operation. The reason behind this is that last year, CADPI was supposed to be sold so no plans on refinery were made. It would have been quite difficult because a lot of investments on the raw sugar should have been put in. That was the significant hit last year. In terms of the plan right now, most of the recoveries will happen in Batangas.

In the past, the Alcohol and Sugar businesses were presented separately. But now, the Group is now looking at the businesses on a geographical area basis. That is, Batangas and San Carlos as one unit while South Negros would be composed of Roxol Bioenergy Corporation (RBC) and Central Azucarera dela Carlota, Inc. (CACI). Looking at the Batangas area, the strength of the Plant there is really the refinery capability. In fact, that was what attracted Universal Robina Corporation (URC) to make an offer. It is the only refinery in the area and closest to the market. 60% of the market is in Metro Manila. While the production of sugar is predominantly in Negros, the customers are really situated here. Most of the industrial users are using refined sugar. That is the advantage of Batangas. The downside is that the actual plantation around Batangas is limited compared to Negros. Last year, the cane supply dropped 30% in terms of tonnage. Fortunately, while the volume dropped, the content of sugar is quite high. There were shorter canes but concentrated sugar. To a certain extent, the drop of actual sugar is roughly around 3-5%. That has to do with the weather pattern changing. This is the

reason why the Group has actually started to provide some interventions such as new high yielding varieties to farmers.

In response to the query if the Group has brought in these varieties from Negros, Mr. Dimarucut answered in the affirmative. He added that the Group has actually brought in good varieties from Negros to Batangas. The farmers are quite happy in terms of the assistance provided to them.



Mr. Dimarucut continued on by saying that CADPI intends to increase its market share in the region. The reason why it was done 68% last year was because the Group deliberately delayed the opening of the mills due to the impending transaction. The past level of CADPI share is actually 71-72% of the market. The Group would want to fortify its hold on certain areas near the mills. Currently, the Group is at about 75-80% but there are some more potential if the Group provides the proper incentive to the planters. The potential is to increase to roughly 76% across. The Group hopes that with that level of canes, it would be able to rematch the volume produced in the past.

Mr. Hilado commented that the Group is taking market share from Balayan. He inquired whether they are not responding with aggressive incentives. Mr. Dimarucut explained that it is the reason why the Group is mostly focusing on those areas close to the mills, as it would be more expensive for URC to do that.

Mr. Tubio added that there is another distinctive characteristic about planters in Batangas. They normally start harvesting even if the canes are not yet mature. 80-90% of the planters are small planters. The Group actually has a strategy to have arrangements with these planters wherein the Group will buy their standing canes provided that they will not harvest early. The final payment will be settled after the harvest. Based on the Group's experience last year, even if the startup was delayed, it was more favorable because the Plant was able to mill mature canes. The planters actually saw that and they were able to compare what they were getting from the competition. Milling will probably start around early January.

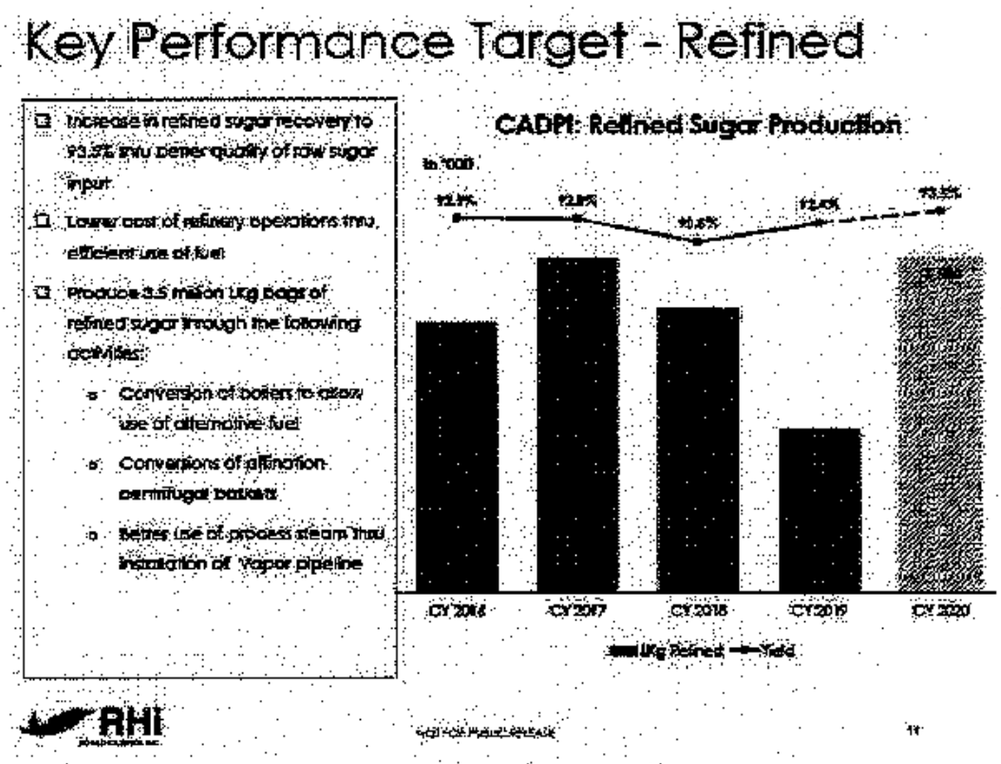
Mr. Lozada explained that the Group is hopeful since last year the competitor only had 1.8 LKg/TC while the Group had 2.07 LKg/TC. The Group will build on that 10% advantage. That is actually the campaign right now, that the Group can give more for their sugarcanes.

Mr. Tubio added that the Summit held last August was well attended with 400 planters in attendance. He disclosed that a new Ethanol Plant is being put up in Balayan by Emperador

and they have a mill. They were going to buy standing canes at 3,000 per ton. It will really now depend how this new Plant will perform.

In relation to the question if the refinery operations will be very important, Mr. Tubio answered in the affirmative. He discussed that in fact the refinery operations were extended long after the milling season this year. The milling season ended after just 15 weeks of milling operations. After running out of bagasse and outside woodchips, the Group recalculated using bunker fuel. The Group has to make sure that there was enough volume to absorb the cost of the bunker fuel.

In response to the question about the Coca-Cola position, Mr. Dimarucut answered that before, the shortage was not very apparent because these beverage companies used High Corn Fructose Syrup (HFCS). Due to the TRAIN Law, they went back to sugar and to a certain extent that created the shortage in terms of the refined sugar. Most of the approved imported sugar is in the form of refined to satisfy the beverage companies requirements. Moving forward, there would be continuous importations because of the shortage.



Mr. Lozada discussed that before the transaction, the Group had a project on affination centrifugal baskets but pending the transaction, the outlay was re-directed to Negros. When the refinery operations were started, the CADPI was limping due to the absence of these two baskets. Raw sugar is coated with molasses and that forms the colorant. The first step in the refinery process is to remove that molasses coating. The basket is where this is being done. It is sprayed with water and spun in the basket. 60% of the color will be removed from there.

Mr. Dimarucut added that to a certain extent, without these baskets, the output was significantly affected. Only 10,000-15,000 is being hit without the affination centrifugal baskets. So, that means because the Plant is running on a fixed cost, with a lower output, the unit cost is quite high. It is really important to hit those volumes so that it is more cost efficient and the unit cost will be lower. The same amount of fuel is being consumed for 15,000 and 18,000 of production. It is really important that those maximum capacities are reached in terms of refinery. While there are supposedly efforts on the cane supply, the biggest contributor really is hitting the refinery target of about 3.5 million. That is where the Group's focus is. The only challenge in terms of the refinery efficiency is the availability of fuel. In refinery operations, 90% of the cost is on fuel. There are some efforts right now to do certain conversions of the boilers. The travelling grate efforts have been dropped. Based on the evaluation of a third party consultant on the 1956 model, they are not convinced that it can run smoothly. The Group is now evaluating

whether to adopt the recommendation of the boiler consultant to use a micronized burner. It is run coal fuel but using a different approach.

Ms. Villanueva inquired why the Group did not use the affination centrifugal basket before. Mr. Lozada answered that the Group was supposed to use them, however, due to the impending transaction at that time, the Group decided to re-allocate these to CACI.

In relation to the query if these baskets were being used prior to year where the supposed transaction happened, Mr. Lozada answered that the Group was actually using them for the refinery operations. The Group has noticed that these baskets have already bugged down and the spare parts needed were not readily available. Therefore, these were converted to alternating AC motors. Unfortunately last June, the transaction started and the decision was to re-allocate these baskets.

Mr. Dimarucut added that these baskets were working in the previous years but certain conversions had to be made. There is a need to make conversions in Negros and Batangas but the focus of efforts should be shifted more to Negros because of the impending transaction in Batangas. If these objectives are achieved, the possible Gross Profit is more than Php600 million.

Mr. Lozada clarified that since the Group has decided to focus on refinery, at the start of milling, the Group will already start mixing biomass.

Mr. Dimarucut explained that in the past, the Group only uses outside fuel when the bagasse has already run out. But now, at the start of milling, the Group will already mix outside fuel, in the form of wood chips so that the availability of fuel can be prolonged. Woodchips cannot be used without bagasse. Based on experience, if the Group does that, there would be a need to supplement it with bunker fuel which is more expensive. There is really a need to plan properly the fuel sources mix at this time in order to achieve the targeted numbers. The reason why this was not a problem in the past was because before the TRAIN Law, the outside alternative fuel was bunker, which at that time was just Php12.00 per liter. Now, it is around Php32.00 per liter. That is the reason why there is a need to find another alternative fuel source.

The key targets in terms of CADPI were presented. In terms of market share, the Group would want it to be increased to 75% market share. The Group does not expect a significant increase in the total volume in the area, so the total ton canes that is expected is about 1.79 million representing 75% market share and this is about 2 bags per ton cane milled (TCM). For the refined sugar, the last time the 3.5 target was hit was in 2017 where the price of bunker was still Php12.00 and that is what is planned to be replicated. The actual capacity of the Plant is about 5 million bags for the full year. The challenge really is how to get the fuel to be close to that level.

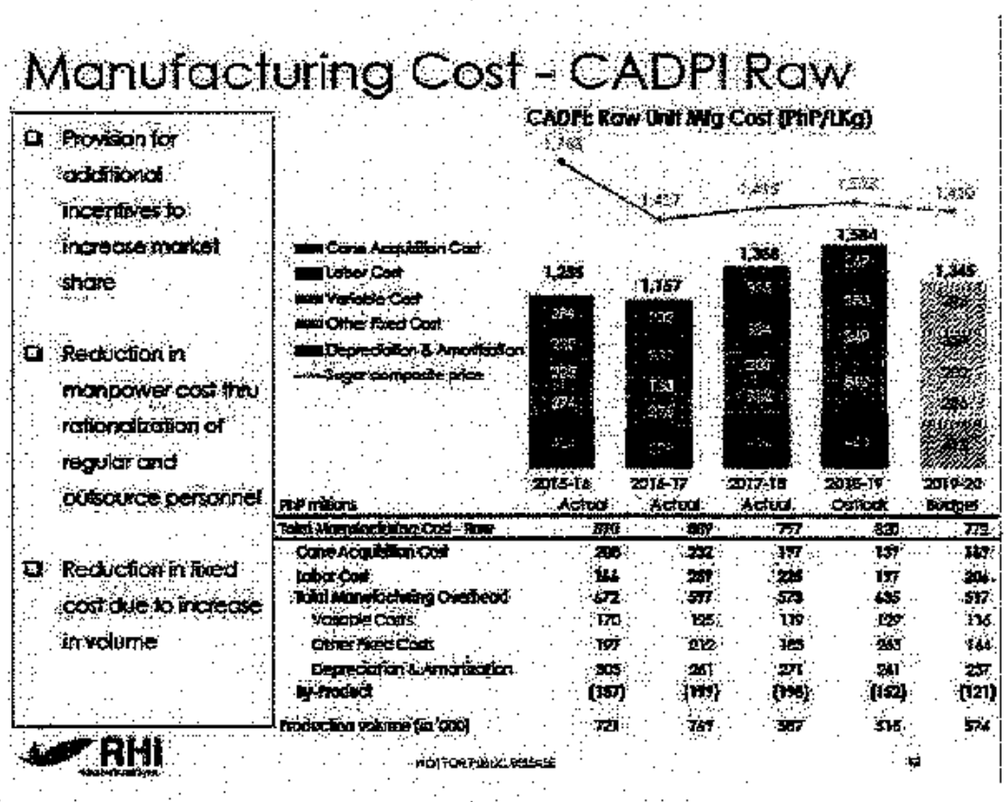
In response to the query on how much of the refinery capacity use for raw sugar in CADPI itself, Mr. Tubio answered that 100% is used for CADPI.

Mr. Dimarucut explained that this year, only Batangas sugar was used or 1.6 million bags. This was because the Group thought that the Batangas asset was going to be sold. In the past, raw sugar from CACI was also used in Batangas.

When asked if CACI raw sugar will be used this year, Mr. Dimarucut answered that admittedly, the Group is tight in terms of cash right now and to delay the liquidation of raw sugar in CACI, would require a huge investment in working capital. The agreement internally is to continue selling raw sugar but the Group will buy outside raw sugar at the opportune time. At least in this way, the Group will be able to manage the cash.

Mr. Tubio added that the Group also had discussions with Michael Escalario, the biggest trader from All-Asian, and he is willing to buy raw sugar from another mill in Batangas and have it refined with CADPI. This would be additional tolling income for the Group. If there is additional income, the Group can buy more outside raw sugar either from Negros or from other sources.

Mr. Hilado asked if the Group wants to maximize the refinery operations. Mr. Tubio answered in the affirmative because this is where the revenues are.



Mr. Dimarucut explained that the above slide shows the cost structure. On a gross value basis, while cane acquisition cost is expected to increase, additional incentives will be provided by the Group to selected planters. The Group expects other elements to go down. There have been significant improvements in reducing headcounts, particularly the non-regulars. There is a significant portion of labor that the Group has contracted on job contracting basis. For the two Plants this year,it is planned to bring it down to 500 people given the shorter milling period. In Batangas, it is roughly around 300 people and 200 people in CACI. This is the reason why, despite increase in labor mandated cost or Collective Bargaining Agreement increases, the Group has managed the level of costs.

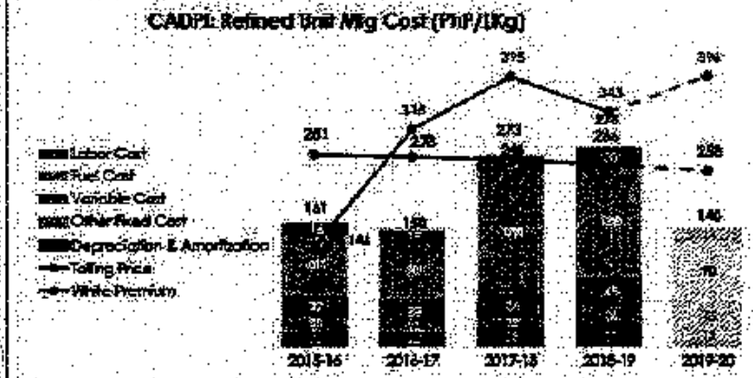
When asked if there are *"endo"* labor issues raised, Mr. Dimarucut answered in the negative but he explained that there are selected positions that need to be regularized to comply with the compromises made with DOLE. He explained that due to the seasonality of the business, there is a provision that allows companies to hire seasonal employees. To a certain extent, this supports the hiring for those contractuals.

Mr. Tubio revealed that there is a certain number of warm bodies that were added which are cadets. The Group is ramping up the Cadetship Program because the Group realized that the quality of talents in the operations is actually diminishing.

Mr. Dimarucut added the expected increase in cadets is about 37, 20 of which are in CACI. There is a need to build the quality of line managers through this Cadetship Program.

Manufacturing Cost - CADPI Refined

- Reduction in fuel cost by increasing mill efficiency to generate excess bagasse and with the use of alternative outside fuel
- Reduction in fixed cost with proper maintenance of equipment



PhP millions	Actual	Actual	Actual	Outlook	Budget
Total Manufacturing Cost - Refined	512	527	732	478	489
Labor Cost	57	66	72	52	51
Fuel Cost	302	290	530	271	314
Total Manufacturing Overhead	215	244	231	178	234
Variable Costs	90	122	106	78	156
Other Fixed Costs	87	42	40	45	37
Depreciation & Amortization	38	80	84	55	41
By-product	(55)	(73)	(103)	(25)	(110)
Production Volume	2,803	3,607	2,977	1,717	3,500

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Ms. Villanueva inquired why there has been a significant increase in the Group's fixed cost. Mr. Dimarucut clarified that for 2019, there is a certain number of refined sugar that needs to be produced. Refined sugar is subject to Value-added Tax (VAT), while raw sugar is not. Thus, if more raw sugar is sold than refined sugar, some of the input tax, which supposedly can be offset by output tax, becomes uncreditable. That is the biggest cost in the fixed cost. Out of the Php265 million, it is about Php60-80 million. To address this, there is a need to increase the production and sale of refined sugar. He continued the discussion by explaining the upside to selling refined sugar compared to selling it in its raw state minus the taxes and effective yield. When refined sugar is converted, not 100% of the raw sugar becomes 100% refined sugar. There is a yield lower than 100%. Based on the Group's experience, it is about 92%-93%. This explains why the Group is pushing to refine sugar because there are really additional margins that can be generated.

In relation to the question on how the coal conversion will contribute to the Group's saving on fuel cost, Mr. Dimarucut answered that the assumption is that wood chips will be used. It is assumed that the coal conversion will happen at a later time. But if it will be done this year, then the Group will utilize it. As of now, this was not included in the budget. The plan is biomass will be introduced early, rather than introducing it towards the end. So, the blending will be done at the start to extend the use.

Mr. Hilado stated that if the Group has adequate preparation for the blending, it would work to the Group's favor. Mr. Tubio affirmed and added that particularly with bagasse, the Group has control over the quality and safekeeping. But on the woodchips, the Group can only control it after it has been delivered.

Mr. Dimarucut explained that during the last two years, the refining cost is higher than the tolling cost. The tolling cost is the amount charged to third parties so they can convert their raw sugar to refined sugar. It is not attractive during the last two years. This affected the level of total refined sugar production. Unlike in 2016 and 2017, where the tolling cost averaged at about Php278.00 where the Group's actual cost was about Php150.00. The Group was able to tcaccept significant amounts of tolling transactions. For 2018 and 2019, the Group intentionally did not really accept these contracts, because it was charging third parties Php300.00 but the cost is already at Php343.00. That is the reason why they no longer went with the Php300.00 tolling fees. The margin is already too narrow.

South Negros

2019 Challenges	2020 Initiatives	Target
Factory Reliability and Efficiency Sugar – Low production yield and sugar quality output Ethanol – Increase energy cost due to steam turbine generator (STG) breakdown	Completion of CBA boiling scheme to improve regular raw production and yield STG fully operational Increase daily AHA production to 140,000 liters per day Continuous improvement in methane fuel displacement of Anaerobic Digester	LKg/TC: 2.6 Color: ≤96% Pol: ≤2,500 ID Moisture: 0.45% Methane displacement: 42% **Potential GP Impact:** Sugar – Php 173 million Ethanol – Php 142 million
Cane Supply Tight competition on cane supply with aggressive planter offers from other mills (i.e. guaranteed LKg/TC) to capture the cane market resulting to higher cane cost acquisition	Focus on the small (30 hectares and below) planters but low cost cane acquisition Expanded in-house farms and contract growing areas Leverage on ADC's mechanized harvesting and extension services	1.7M TCM P340/ton average cane acquisition cost **Potential GP Impact:** Php 93 million

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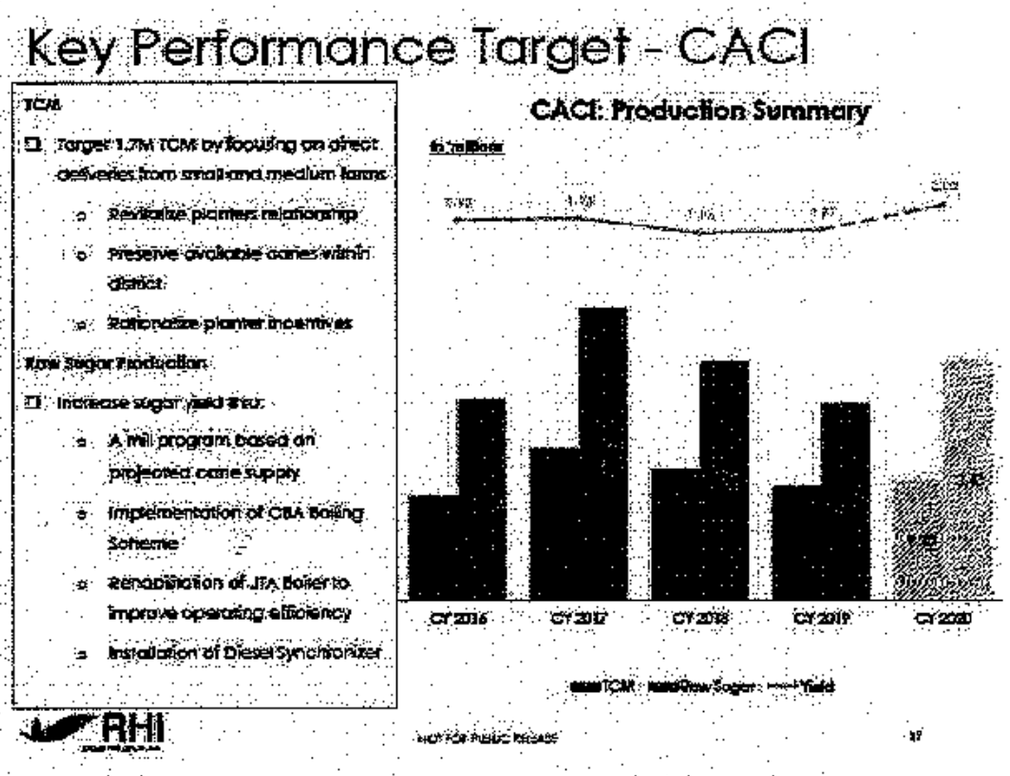
For South Negros, most of the Group's competitors are already integrated with other businesses. They have either a refinery or a co-generation facility. To a certain extent, this is the reason why the Group is putting together these businesses and taking a bigger view. The Group is able to offer better incentives to the planters. The Alcohol and Sugar operations in the previous years were taken separately. This year, the Group has started to put them together to see if there are flexibilities and to compete more competitively against other mills in the area. One of the challenges in Negros, aside from the highly competitive environment for cane supply, is factory reliability and efficiency. The Group was hit with problems with the boiler and this affected the volumes that were processed, as well as the yield. On the ethanol side, the steel turbine generator experienced breakdowns, thus, the Group had to rely on outside supply of power. This costs additional electricity - roughly Php80 million for the whole year. This year, the focus really is that the factory should run properly and efficiently. A new head was hired in the Manufacturing Operations. This year, they have adopted a lot of good factory measures to make sure that it runs efficiently. The Group has already adopted a strategy where the talents are sourced from outside of the Sugar industry. The Group has seen good results brought about by this change, especially on good factory practices. The Group is quite hopeful that together with the improvements completed this year, like the conversion of the CBA boiling scheme, it would give a better sugar quality and yield. Hopefully, this would command a better price.

Mr. Tubio explained that this is the marketing scheme of the Group discussed to the farmers – reliability and factory efficiency. The Group expects that the price of sugar will be better compared to past years. We are expected to produce quality raw sugar.



Mr. Dimarucut continued to discuss and said that with those improvements, in terms of fuel displacement, it would give an additional profit of Php173 million for the Sugar Business and Php142 million for the Ethanol Business. In terms of the cane supply, the Group will now stop chasing the expensive canes. Rather than targeting a 2 million level, it has been re-calibrated to 1.7 million which is the medium to small planters.It is less expensive compared to the canes sourced from the aggregators.

Mr. Hilado inquired what the milling period will be to achieve the level stated. Mr. Tubio answered October to April in CACI. Mr. Dimarucut added that a significant number of which, only one mill will be running, rather than two mills. This strategy will be adopted so that the Group can also help bring down some of the fixed cost.

Mr. Tubio discussed the two thoughts on this issue. If the canes are available, two mills should be run. It is better to contract the milling period so that efficiency can be achieved. But considering the competition in Negros right now, VMC has just made an announcement that they are giving high incentives to their district planters, which HPCo has actually seen as a direct attack on their market share. Some of the planters expressed their concerns. They asked what strategy the Group will take. The Group is also extending itself in the South because that is where the market is. Focus will be on the medium and small planters. Experience with the big planters was not pleasant. The Group is optimistic about this proposed strategy.

Mr. Dimarucut added with that objective and trying to manage the level of incentive, the Group will be able to improve the Gross Profit despite a lower volume target. The Gross Profit is close to Php100 million. The Group is trying to run the Plant as one unit. There is planned power sharing and integration. Due to the distance of the RBC and CACI Plants, integration of the support groups is also under way. The Group expects that it would give additional Gross Profit. This is before the full integration of the plants and full power integration. There are certain works that the Group really needs to do. But some cannot be done before the opening of the mill, like for instance, trying to establish a more robust line between RBC and CACI.

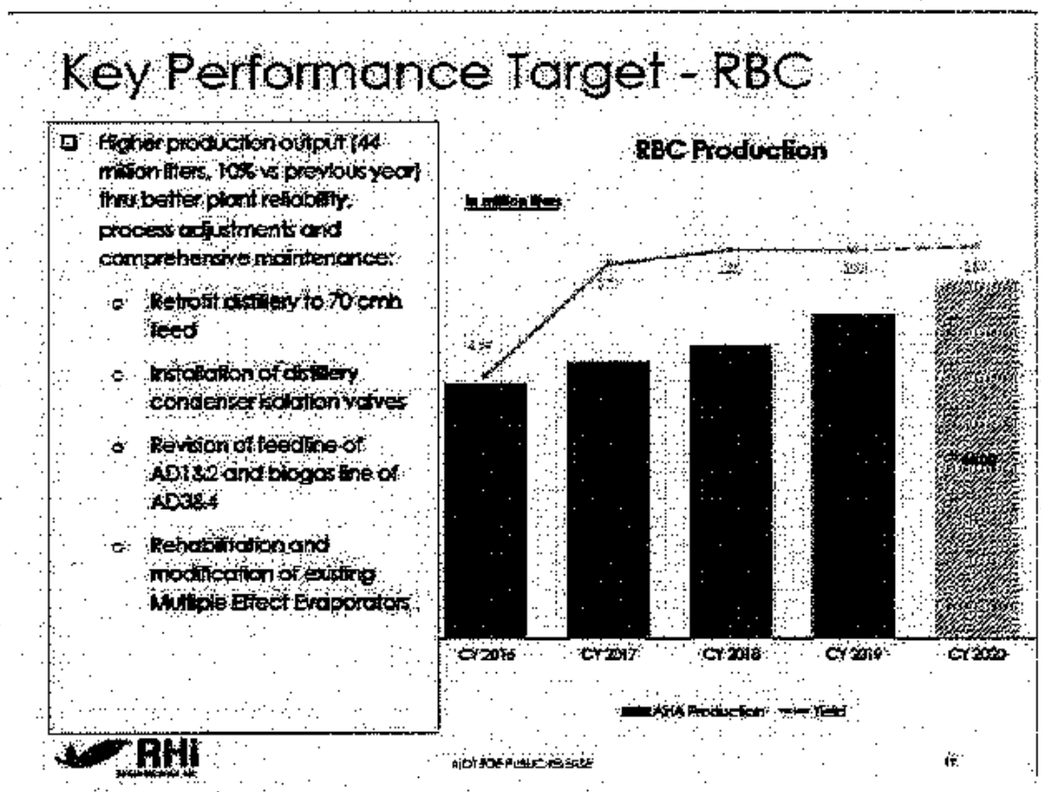
Mr. Young inquired if RHI Agri-business Development Corporation (ADC) is one of the sources of the targeted tons cane milled. Mr. Dimarucut replied that while ADC has a target of 300,000 to complement the 1.7 million, the Group does not expect that it would happen this year. The 300,000 will likely be achieved in 3-5 years. The total hectarage in terms of the contracted farm is about 200 hectares. For purposes of the budget, the Group did not assume any improvements. In the financials, there is no significant increase in ADC. Mr. Tubio added that the mandate of ADC is not just to generate internal inhouse canes, the Group has also

given the mandate for them to help in cane acquisition. For this Crop Year, ADC was able to close out a contract with a cooperative in a district in Negros which consists of 800 hectares. Mr. Dimarucut explained that ADC assists in the running of mechanical equipment. The Group is trying to maximize the use of equipment right now. As for the figures, the Group will include ADC's figures as they close. As for ADC, the Group is trying to achieve a breakeven cost.

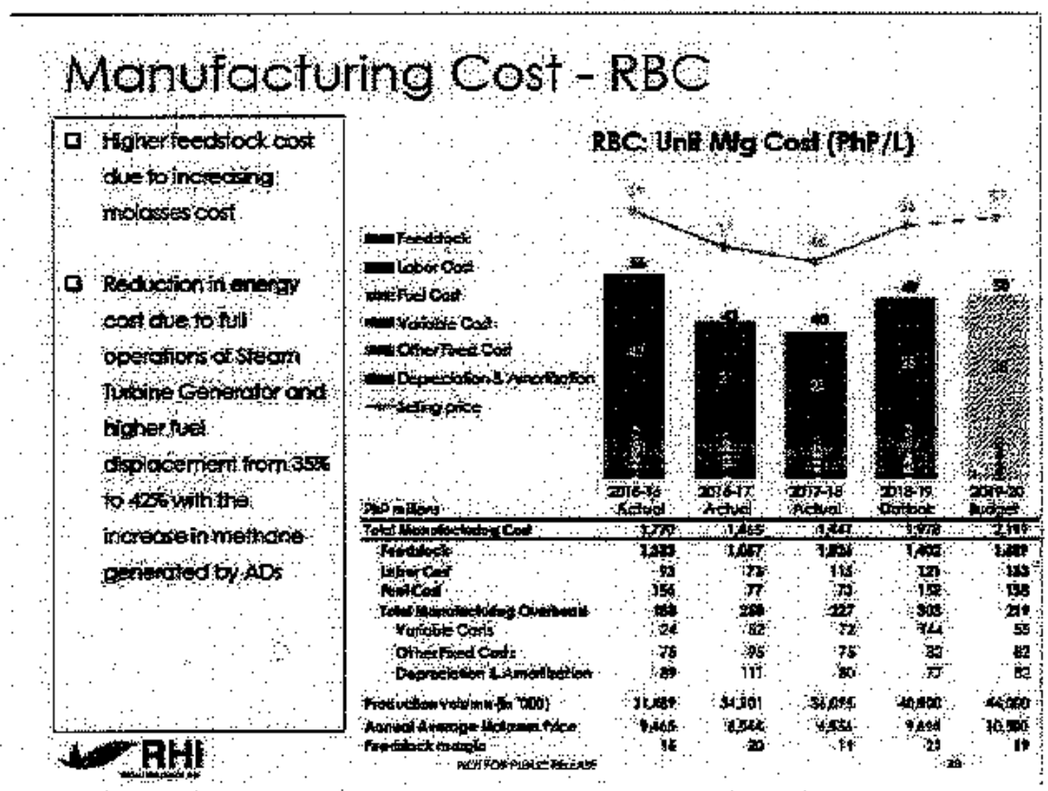
Mr. Tubio discussed that ADC is not yet a profit center but it also assists throughout the organization, from cane acquisitions and other agricultural interventions. In a sense, it is a profit center because the Group already has Joint Ventures with planters enabling the operation of farm being leased. But not as much as what the Group wants it to.

Mr. Dimarucut discussed the targets for CACI which is 1.7 million tons cane milled or equivalent of about 3.40 million bags, with a yield of about 2LKg/Tc. This year, the Group expects to get a better yield with improvements in the operation, particularly the completion of the CBA boiler and the rehabilitation of the JTA boiler. In terms of cost, the noticeable decline is on the cane acquisition cost. It would really depend on how the Plants will operate during the first few weeks of the milling.

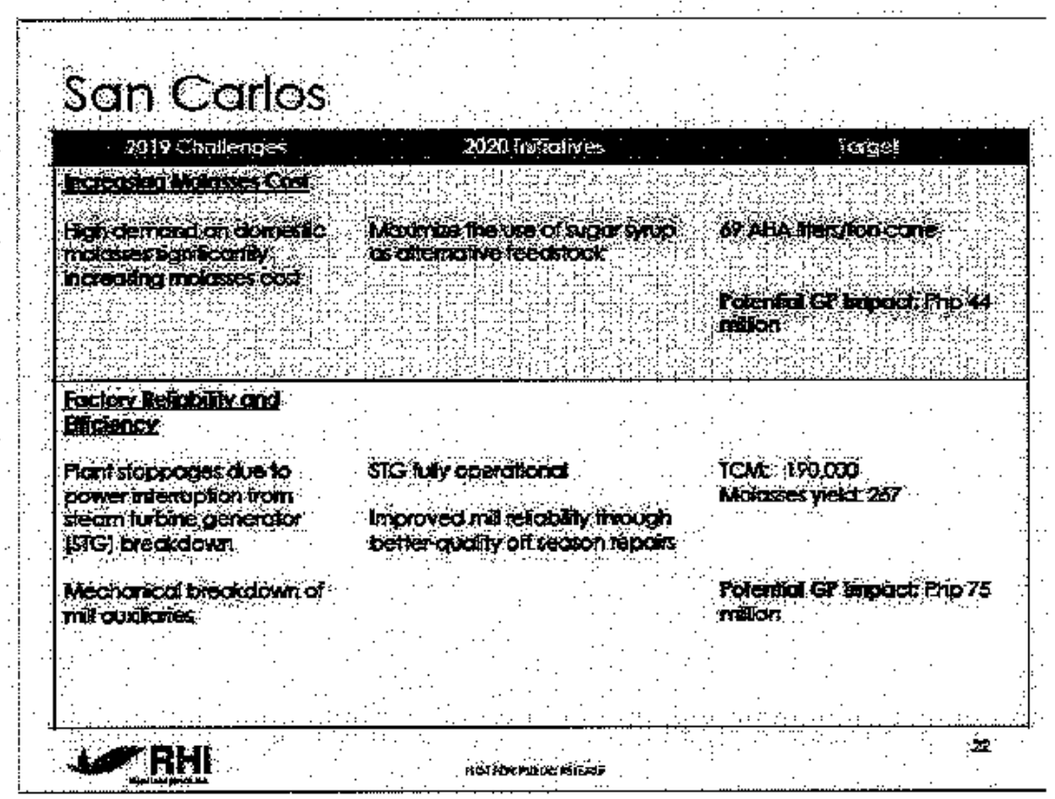
Mr. Dimarucut emphasized that the focus really is to manage the level of incentives. Last year, on a per unit basis, it went up as high as Php737.00 per bag. Now, the Group is managing to average at about Php500.00, similar to 2017 and 2018.



In terms of RBC, the Group expects that the output will be a bit higher than last year where it was closed at about 40 million liters and the Group is looking at about 44 million liters. The improvements would come from the displacement of fuel. That is where the improvements in the Gross Profit will come from.

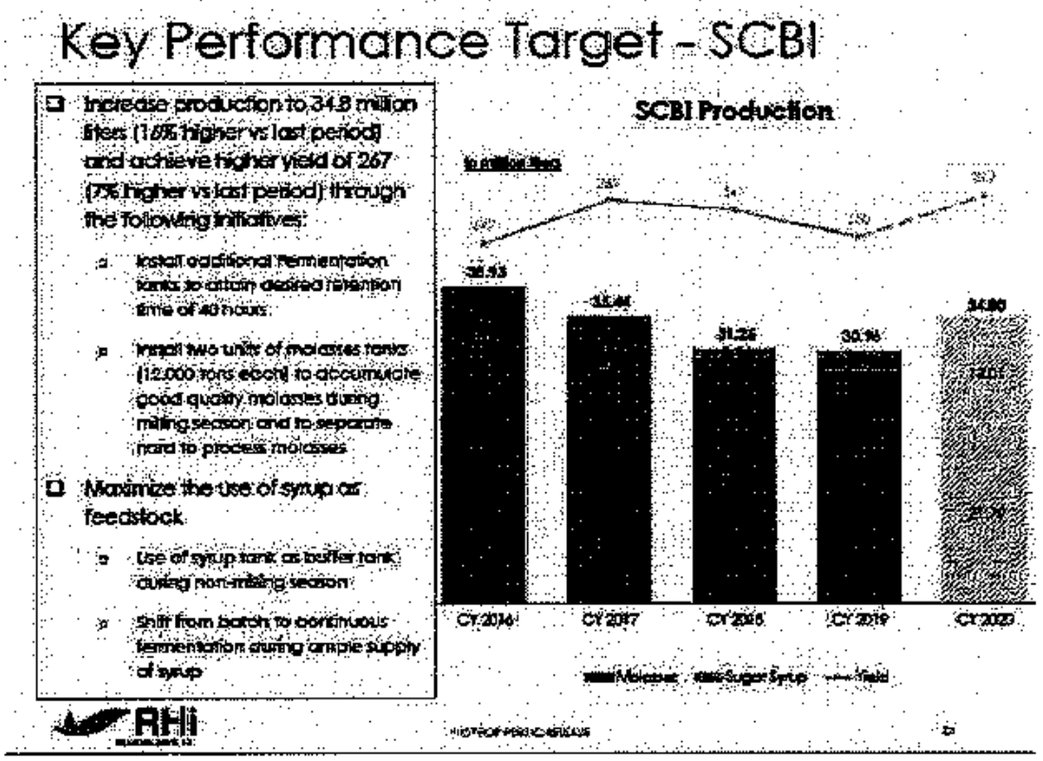


The challenge in terms of the Alcohol Business is the cost which the Group expects to grow. Hopefully, the Group would be able to recover whatever increase will happen due to the NBB formula. The Group anticipates, for the purposes of this budget, that the molasses price is about Php10,500 per ton. This is where the price is right now. This can go beyond that figure. Based on the calculation that the Group has, if the price of molasses breaches the Php11,000.00 per ton, then it would be better to use syrup. In the case of RBC, due to its proximity to CACI, to some extent, molasses is coming from CACI.



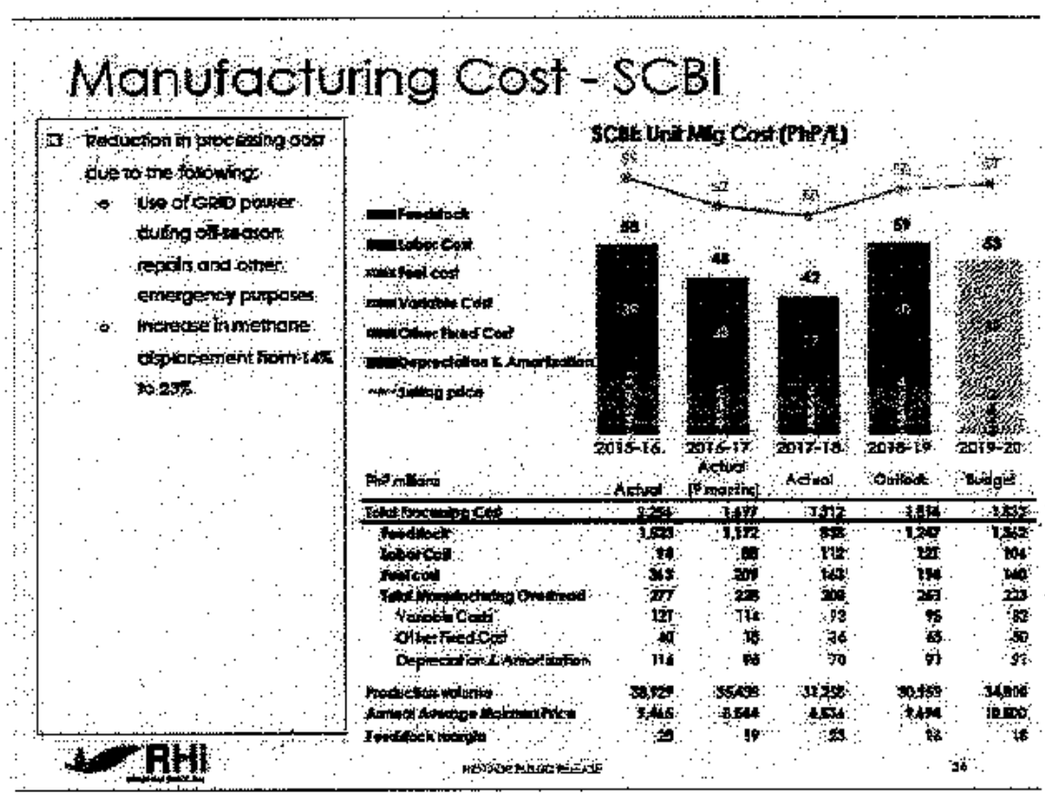
But this is not the case for SCBI. Thus, the Group would need a different approach for SCBI in terms of using feedstock.

Mr. Hilado inquired about the ownership of the storages in CACI. Mr. Dimarucut explained that the Group has separate storage for CACI. Mr. Tubio added that the Group has a lot of storages, about 30,000 tons capacity in RBC and a similar capacity in CACI.



Mr. Dimarucut continued and said that that is actually the difference between RBC and SCBI. He added that originally, SCBI was designed for syrup. They do not have significant storage capabilities for molasses. This is a challenge. Part of the plan is to build up the storage capabilities of SCBI. RBC has enough storage capabilities. While in the past, the Group has diverted sugar syrup to Sagay to sell it rather than converting it to alcohol, with the increased price of molasses, the Group thinks that it would be better to convert syrup than molasses. The Group has noticed that there are issues on the steam turbine generation (STG) last year in SCBI, only because the spare parts needed arrived later than it should have. This is the reason why there was a delay in fixing the STG. Hopefully this year, the Group would see much more reliable operation.

In response to the queries on new hires, Mr. Dimarucut explained that the Group had significant changes in the management heads of the factory operations. Like in CADPI, there is a new plant manager and another person below him. The same for CACI and SCBI.



Mr. Dimarucut discussed that the biggest problem in SCBI is that it uses both syrup and molasses. In the past, it was mixed. But this is what caused the yield to be below target. Based on the consultation with external expert, the Group needs to manage the use of these feedstock separately. This is why the Group needs to put the appropriate storage capacities so that a separate run can be done for molasses or syrup. While both are considered as input feedstock, their characteristics are different. The fermentation time is also different. With this, hopefully the desired yield will be reached and be able to supplement the shortage of molasses.

In response to the query on the price of these initiatives, Mr. Dimarucut answered that the tanks are about Php30 million. This is not one-time use. The average life of a tank is about 10-15 years. Right now, what SCBI is doing is leasing a water tank from a third party which is about 6,000 tons. So, it is a total of Php60 million for molasses and fermentation tanks. If this is not done, the yield will not be reached. If there are no molasses, the Group would consider shutting it down in the meantime.

Mr. Dimarucut further moved to the discussion on the update on the sale of HPCo shares. The price is about Php1 billion and since the year-end is already over, the Group requested to be given the corresponding dividend share for this year. HPCo expects to earn Php80 million to Php90 million income this year. The 45% dividend is about Php40 million. Based on a very low carrying cost, the Group needs to pay about Php130 million in capital gains tax. The net proceeds are about Php910 million. The intention is to close the deal by first week of October. The whole of the net proceeds will be used to pay down debt. The Group has roughly around Php800 million maturing obligations this year. It is expected that the Group will not be able to meet the debt covenant (DSCR) this year. Waivers were gotten from the banks. Part of the condition is that whatever is maturing this year, the Group will advance the payment of amortization. The funds will be utilized to do that. On an accounting perspective, the Group will recognize a Php260 million gain. The net book value of HPCo shares is about Php654 million. But this will not be recognized this crop year but on the next crop year.

Profit & Loss

(in millions)	Actual			Outlook	Budget	Forecast		
	2016	2017	2018	2019	2020	2021	2022	2023
Gross income	1,073	1,457	1,254	291	1,557	1,709	1,730	1,741
Batangas	779	799	468	74	744	781	781	781
Negros	199	594	522	168	645	746	758	770
CACI	47	416	275	(2)	329	351	355	361
BIC	132	228	357	174	317	392	400	406
ADC	(12)	(29)	(19)	(3)	3	3	3	3
San Carlos	95	64	264	49	163	182	190	191
Operating expenses	(966)	(1,066)	(1,024)	(1,000)	(942)	(935)	(889)	(864)
Interest expense	(363)	(444)	(502)	(600)	(555)	(550)	(478)	(416)
Share in HPCo earnings	212	68	56	75	-	-	-	-
Other income - net	90	94	125	78	87	87	87	87
Tax benefit (expense)	75	12	146	380	(20)	(46)	(63)	(83)
CORE NET INCOME (LOSS)	102	120	55	(776)	112	265	386	465
NONRECURRING INCOME	-	-	-	-	216	-	-	-
Depreciation	928	951	777	810	972	930	949	968
CORE EBITDA	1,337	1,583	1,187	254	1,615	1,791	1,876	1,932

RHI

The Profit and Loss would basically summarize all the earlier discussions. The intention is to bring the gross income level to about Php1.5 billion. The biggest chunk really is the restoration of the GP in the Batangas Operations to roughly the same level in 2017 which is about Php700 million. In Negros, the Group is targeting about Php645 million. In terms of ADC, while in the past it shows negative numbers but part of this is depreciation of the machinery. They have not fully utilized some of the equipment that was acquired in the past. Moving forward, the Group plans to maximize the use of these equipment. If the Group achieves this, a core net income of Php112 million is projected. Again, the Php260 million nonrecurring income is from the sale of HPCo.

Balance Sheet

(in millions)	Actual			Outlook	Budget	Forecast		
	2016	2017	2018	2019	2020	2021	2022	2023
Current assets	4,484	4,196	13,711	12,214	5,355	5,820	5,685	5,036
Cash	705	571	295	504	300	400	400	400
Trade and other receivables	1,331	2,258	3,040	1,256	1,729	1,820	1,835	1,836
Inventories	1,602	2,540	2,644	1,904	2,000	2,000	2,000	2,000
Other current assets	847	826	1,204	1,430	1,086	800	800	800
Assets held for sale	-	-	6,525	7,112	-	-	-	-
Noncurrent assets	17,174	17,698	11,820	11,119	17,181	16,661	16,312	15,946
Property, plant and equipment	13,054	13,299	9,225	8,957	15,123	14,703	14,444	14,077
Investment and goodwill	1,757	1,656	1,722	1,058	1,058	1,058	1,058	1,058
Other noncurrent assets	412	613	777	1,095	1,000	900	800	800
Total Assets	21,658	25,896	25,531	23,336	22,536	21,482	21,347	20,980
Current liabilities	4,368	7,083	14,331	9,123	9,353	8,917	8,688	8,304
Short-term borrowings	2,914	4,606	6,211	6,717	6,717	6,717	6,717	6,717
Current portion of long-term bo	380	1,235	4,814	848	1,405	997	397	301
Trade and other payables	1,074	1,190	3,307	1,559	1,231	1,403	1,484	1,057
Noncurrent liabilities	7,516	6,319	457	4,226	2,825	2,224	1,829	1,498
long-term borrowings - net of c	4,054	4,821	-	2,730	1,225	728	331	-
Other noncurrent liabilities	1,461	1,498	457	1,496	1,498	1,496	1,498	1,498
Equity	9,774	10,544	10,743	9,986	10,359	10,339	10,918	11,378
Total Liabilities and Equity	21,658	23,896	25,531	23,336	22,536	21,482	21,347	20,980
Net Debt	8,445	10,092	10,224	9,730	8,346	7,642	7,045	6,847

RHI

In terms of balance sheet, after the payment of the debt with the asset sale, Php9.8 billion net debt would go down to Php8.9 billion. Still, a significant level of debt. It is roughly

Php550 million interest annually. This is the reason why the Group is continuously exploring the sale of the other assets. The residual debt would have been reduced to about Php2 billion to Php3 billion if the CADPI sale pushed through.

Cash Flow

(in millions)	Actual			Outlook	Budget	Forecast		
	2016	2017	2018	2019	2020	2021	2022	2023
CORE EBITDA	1,337	1,503	1,187	254	1,616	1,791	1,876	1,932
Working capital	(1,242)	(1,344)	(144)	2,090	(531)	743	(201)	(519)
Capital expenditures	(912)	(1,141)	(1,185)	(304)	(600)	(600)	(600)	(600)
Free cash flow	(817)	(1,002)	(142)	2,040	484	1,934	1,076	814
Debt Availments (Servicing)								
Long Term principal payments	(445)	(360)	(1,242)	(1,236)	(848)	(1,405)	(597)	(297)
Short Term availments (payments)	1,046	1,694	1,002	-6	-	-	-	-
Interest expense	(363)	(431)	(494)	(604)	(551)	(630)	(478)	(416)
Proceeds from sale of investment	-	-	-	-	911	-	-	-
Cash balance								
Beginning	202	705	571	295	504	500	400	400
End	705	571	295	504	500	400	400	400

RHI

NOT FOR PUBLIC RELEASE

In 2019, the Group was able to cover all the cashflow requirements. There is better working capital and reduction of Capital Expenditures (CAPEX).

Capital Expenditures

Sugar business units

- Increase in powerplant operations for power integration of south Negros Plants
- Taking actions on SUTECH recommendations specifically for Boiling House operations

Alcohol business units

- Installation of additional of fermenters and molasses tanks

Php millions	2016	2017	2018	2019	2020
PRODUCTION	479	298	389	92	272
Mills	86	165	75	32	55
Refinery	18	14	50	25	9
Boiling House	207	94	233	19	40
Distillery and Fermentation	168	25	32	15	168
ENGINEERING AND MAINTENANCE	228	516	252	87	198
Power Plant Operations	68	165	30	11	46
Engineering Maintenance	43	44	23	0	11
Boiler Operations	40	285	168	68	79
Instrumentation	77	22	32	8	29
QUALITY ASSURANCE	24	16	20	14	14
WAREHOUSING	34	28	23	2	12
ADC	66	29	54	0	17
ENVIRONMENTAL MANAGEMENT	29	139	255	45	82
GENERAL MANAGEMENT & SUPPORT FUNCTION	52	114	169	44	75
Total CAPEX	712	1,141	1,185	304	600

RHI

NOT FOR PUBLIC RELEASE

In 2020, the Group is aiming to maintain the CAPEX level at Php600 million. Which is less than the total deprecation level for the Group of about Php900 million per year. The budget assumes proceeds from sale of investment or about Php911 million and the re-payment of Php848 million. Significant portion of the CAPEX really is the building of the Distillery and Fermentation capabilities of the Alcohol business.

Assuming that CADPI is going to be sold at the current offer price, the Group will take Php1 billion loss on the sale because the current book value is about Php6.5 billion. The offer price is Php6.2 billion, inclusive of VAT. If VAT is taken out, the net value is Php5.5 billion. There is a difference of Php2 billion between the previous offer and the current offer.

When asked why the Group is selling CADPI, Mr. Dimarucut answered that while the Profit & Loss and CAPEX are neutral, it would significantly de-risk the business. This is because at the level of indebtedness of about Php9 billion there is very little elbow room that the Group has right now. In fact, if the Group has one more bad year, it would probably go to rehabilitation.

Mr. Young added that the Group has to choose which assets to be sold. But realistically, the more saleable ones are the big ones. The first transaction was the ideal one because the buyer was prepared to pay a high price.

Mr. Dimarucut also added that the buyer would have been the single operator in Batangas if the transaction pushed through. This is the reason why they were willing to pay a premium. Also, most of their plants are in Manila. The cost of bringing refined sugar from Negros to Manila is high and having the Batangas plant would save them around Php500 million per year. Unfortunately, the Philippine Competition Commission did not approve the deal because the buyer would have been able to consolidate in Batangas. The Group tried to hold on to Batangas. The offer right now is still subject to certain commercial discussions and it is not yet final. The Group is still addressing potential issues on the land. But the Group is taking the position that it is selling it on an "as is, where is" basis. The Group has not really closed out certain issues on the commercial side. In relation to the issue of why sell CADPI, this is for the Group to focus on other assets like in Negros. But nothing is really final. In fact, recently, an offer was made for CACI and RBC. As for value of the Alcohol businesses, the net book value of RBC is about Php2 billion. As for the net book value of SCBI, advances are considered and the assumption of certain obligations which caused the increase in the debt levels is at Php4 billion. CADPI is really the good asset that would attract the buyers.

IV. AUDIT PLAN PRESENTATION BY SGV & CO.

The external audit team was called in for the meeting. Ms. Aileen L. Saringan (Ms. Saringan) explained that she will discuss the status of what was done by SGV & Co. and the action plan moving forward.

She explained that there has been no management change in SGV &. Co and that she will still be the engagement partner, together with Mr. Krisopher S. Catalan who is handling bioethanol.

The scope of work is still the audit of the consolidated and the parent company's financial statements, as well as the subsidiaries. Mainly, SGV & Co. is giving their opinion on the financial statements for purposes of filing with the tax authorities and Securities and Exchange Commission (SEC). SGV & Co. is also required to report to the First Pacific team for the group reporting come December 31, 2019. There will be two cut-offs, one is the September 30 for the statutory reporting and the continuation of the work until December 31, 2019 because SGV &Co. follows the calendar year end for First Pacific reporting. SGV & Co. is also required to report to the SEC so the schedules submitted to the SEC and the Philippine Stock Exchange are reviewed by SGV & Co. before filing.

In terms of scoping, full scope covers Roxas Holdings, Inc. (RHI) which is a listed entity and CADPI. CACI, RBC and SCBI. There is another one which is an associate and this covers HPCo which is audited by Price Waterhouse Cooper (PWC) which SGV &Co. still considers a full scope entity. The rest are using the specified procedures and not in scope because they are just small entities within the Group.

For HPCo which is being audited by PWC, SGV and Co. is in coordination with the auditors in terms of the approach taking. Discussions were also made regarding the risks which are affecting the overall consolidated financial statement. SGV and Co. will also be reviewing

the working papers of PWC as soon as they are complete. It is anticipated that these will be finished in time for the reporting by year end.

SGV & Co. is also assessing the extent of reliance of the work of the internal audit. There are certain parts of the processes that the internal audit is looking into which SGV & Co. is also reviewing and reading. SGV & Co. also has transaction advice services, and they are involved in the review of the recoverability of the Group's goodwill in relation to the San Carlos investment and the review of appraisal reports because the Group has lands which are valued at an appraised amount.

The assessment on the entity level controls are effective. This means that SGV & Co. was able to rely on that and to the extent that they have to perform test of controls, they were able to perform that using the interim numbers. The materiality right now is on a low level because of the results of the operations of the Group.

In response to query if there are quantitative results for materiality, Ms. Saringan answered that SEC looks at 5% in relation to the Group's income, revenue, assets or current assets. If there are some adjustments that will not be posted, the SEC element must be considered. But on top of that, SGV & Co. has its own materiality threshold. The maximum is the 5% as mentioned previously.

In terms of the timeline, SGV & Co. is already done with the planning and risk identification. This started around mid-May and continued until August. The risk strategy and assessment are also done as well. Right now, what SGV & Co. is doing is to update the test of control.

The performance of the audit procedures has been started as well. June 30 and July 30 were used for certain accounts as an interim balance, and this would be continued for the September 30 audit. The communication of the audit report to the Audit Committee and the Management will be done by the end of November.

The potential key audit matters are the items found in the auditor's report. This means that these are the key areas where significant attention is given and where there are significant estimates made by the Management. These are the same items covered last year. What is being added now is the adoption of the PRFS 15. This is a significant standard adopted this year and as well as the adoption of PRFS 9 on financial instruments. The accounting of completeness of quedans for CADPI and CACI, considering the quedan accounting is unique to the sugar industry, is considered. SGV & Co. is concerned about the Group's physical possession and delivery of the sugar because it does not necessarily mean that you own the sugar that is in the location. Actual quantities are also being checked. What is important here is the determination of the shortage of sugar after the count and reconciliation have been performed. It is a potential matter even for this year. On SGV & Co.'s part, they will check the relevant controls in relation to the quedan system. SGV and Co. has substantially completed the test of control for the quedan system. The quedan system that has been put in place provides reliable information in terms of this process. But what is left to be performed is the accountability testing at the end of the year. It does not matter how the Group has accounted for the transaction but if the physical count at the end of the year will not match with the accountability records, then there must be adjustments to be made.SGV & Co. will also review of the roll forward procedures because the count is not necessarily at the end of the year. SGV & Co. will also review the inventory and cut off procedures.

The next testing will be done in relation to the Group's goodwill on its investment in San Carlos. Currently, the amount recorded in the books for San Carlos acquisition is at Php1.08 billion. This represents 5% of the Group's consolidated assets. Management has already assessed the recoverability of the goodwill last year. What SGV & Co. is asking is for the review of this assessment. Look back analysis must be done. Review of key assumptions placed in the cash flow forecast will also be reviewed, as well as the sensitivity analysis done by Management because any increase or decrease would have an impact on the attained value. SGV & Co. will also look at the sensitivity calculation and the disclosures in the financial statements. These are critical items because if the amounts forecasted are below the recorded investment in San Carlos then that would mean an impairment to be adjusted for the consolidated financial statements.

For the accounting of the investment in HPCo, it is owned by the Group at 45% currently. The Group is taking the shares in equity of HPCo under equity method which means it is a one-line adjustment so the Group does not consolidate it line by line per asset and per Profit & Loss. In the past, it was a significant amount which had an impact on the consolidated financial statement, more so if it is net income in HPCo. SGV & Co. is in coordination with PWC for the review of the working papers so that SGV &Co. can provide an opinion on the shares in HPCo in relation to the consolidated financial statement. SGV & Co. also talked to the financial personnel of HPCo to give the information ahead of time because the problem is if SGV & Co. does not have the final number of HPCo, the final consolidated financial statement cannot be released.

The adoption of PRFS 15 on the revenue from contracts with customers is an important revenue standard. For the sugar industry, the Group was able to get a deferral of one year in terms of the recognition of the milling revenue in the books of the sugar companies. What happened in terms of the change in this accounting standard is in the past, the Group does not recognize the milling revenue in the books. The Group just takes cane share after milling, then that is used as input in the selling operations. But since this is agreed upon with the farmers, so technically the Group needs to recognize the milling revenue in relation to the share of the miller. The value that needs to be considered as revenue is the mill side amount on the date of liquidation. The cost must also be recognized and this is the actual cost that the mill has incurred. Significant increases will be seen because milling revenue now is recognized. The third-party sale or actual sale is still recognized. In the books of RHI, the Management has decided to implement this standard. Thus, the Group is not deferring the adoption of this standard considering that that reports must be made to First Pacific. First Pacific is following the revenue standard in its full context because the deferral is only here in the Philippines. The numbers need to be adjusted in order to comply with the full PRFS being followed by First Pacific. The quarterly filings already took this new accounting standard into consideration.

The challenge would be on the valuation of the inventory. The net realizable value test must be done. For example, if the market price is going down, this must be compared to the recorded cost. If the cost is lower, then there is no problem.

In response to the question on what is being referred here is inventory as of September 30, 2019 or as of December 31, 2019, Ms. Saringan answered that what is being referred to is the inventory as of September 30, 2019 and December 31, 2019, similar to First Pacific. SGV & Co. would need the computation of the market value at the end of the year.

The other standard is PRFS 9 on financial instruments. The key change here is the use of the expected credit loss model vis-à-vis the actual or incurred loss model. The possible losses need to be projected in relation to the Group's financial instruments. The Group has already done this last year. This must be updated to include other financial instruments, which should include intercompany receivables for purposes of the statutory reporting. In the consolidated financial statement, the intercompany receivables will be eliminated but for the subsidiaries' and the parent company's financial statement additional analysis should be done in relation to the expected credit loss on the intercompany receivables. SGV & Co. requests that the Management recalculate the credit loss both for the September 30, 2019 statutory reporting and the December 31, 2019 reporting for Group reporting. While SGV and Co. does not expect significant adjustments, this is still a critical disclosure in the financial statements. The methodology performed and the assumptions made would have to be disclosed in the financial statement.

There are also matters for audit emphasis which means that these are for discussion with Management but would not land on the auditor's report. The first item is on the assessment of contingent liability and estimation on the provision of claims. The Group has been receiving assessments from the Bureau of Internal Revenue. With that, potential contingency matters that must be assessed and possibly recognize in the books. Based on the June 30, 2019 level, the Group has only provisions of Php5 million in relation to the Group's exposure to tax assessments. This is something that Management must continuously review considering the significant amount of assessments that the BIR has sent in the past years. Management will update their positions for each item assessed by the BIR. This will form part of the significant disclosure on adjustments and estimates. There was a Php2 billion assessment before, but

Management has contested it. Robust documentation must be made in order to support the Management's position.

Mr. Hilado inquired about the Php1.7 billion assessments on CADPI. Mr. Dimarucut answered that BIR would normally make an assessment based on the inconsistencies in the Group's numbers. This is across all taxes. This assessment was issued last month but most of the assessments have been closed out. Ms. Saringan continued that SGV and Co. is working with Management to identify anything that will be considered by BIR to be a potential item of exposure. Considering that BIR has become stricter in terms of their examination.

The other item is the valuation of the lands at fair value. The Group's lands are recognized at an appraised value which will require recalculations every year or if there are significant changes surrounding these properties. Right now, the Group's carrying value of the lands is at Php1.22 billion but this excludes the properties classified as held for sale in the previous year's financial statement. This includes CADPI which was supposed to be sold. The requirement is to do the updating of the appraisal value so that it can be recognized in the books. Another item which needs to be considered is whether the Group will still be recognizing the assets as asset held for sale. It would depend on the status of now. The assessment should be done by September 30, 2019.

When asked if the asset will still be considered as held for sale, Mr. Dimarucut answered that there are ongoing discussions. The same will still be considered as asset held for sale. Ms. Saringan stated that SGV & Co. would need the relevant correspondence and documents. It would be critical for SGV & Co. to have the information now so that delayed reactions would be prevented in terms of adjusting the numbers. The assumptions of the appraisers should also be considered because the basis of their appraisal is critical. This is especially because if there is an amount being considered, then the appraised amount should be considered in the valuation of the property.

Because the URC deal did not push through and the asset is still classified as held for sale due to interested buyers, what happened this year is that Management continued to depreciate. The asset was used. SGV & Co. tested the calculations in the system and it has noted certain recalculations that Management must consider. This may be due to the late taking up of the adjustments in the system. SGV & Co. did the reasonableness test using the raw data from last year's evaluation. There are some differences which will be taken up with Management. The review of the appropriateness of the classification, as well as the valuation of the asset held for sale will be considered.

On revenue recognition, there are different types of policies. SGV & Co. will be focusing on certain matters such as the milling revenue being recognized properly in the books of the Group. And the result of the count has been considered as well. The Management also made the cut off test. SGV & Co. is in discussions with Management on the subsidies being given. The subsidies should be considered as contra-revenue account rather than charges to cost of goods sold. There is already a quantification of the amount and this will be discussed with Management for possible reclassification.

It is critical that the Group has accurate and complete records of inventory. That is why SGV & Co. is performing the count. There are just some items which are yet to be done in terms of inventory taking. There is a significant amount of bagasse left as of end of the year. This requires calculations of the amount. SGV &Co. needs the physical count and the valuation as of end of the year. The usage should also be disclosed. For all the inventory taking, SGV &Co. will ensure that they have observed that the accountability testing has been performed. SGV & Co. also analyzed the unit cost of raw and refined sugar vis-à-vis the current market price. It is very slim. That is why the Management will continue to review the valuation of the inventory.

There is excess input VAT in the books of RBC which stands at Php280 million as of June 30, 2019. There were discussions on how to use up the input VAT considering that the sales of RBC are not subject to VAT. This will be subject of a position paper and approval of the plan. The best is to have the Board of Directors approve the plan in terms of the recoverability of the input VAT.

Mr. Dimarucut explained that the Management has plans but they are now put on hold due to the number of things happening to the Group. Assuming that RBC will be sold, the whole amount of the input VAT will be consumed. Most of these accumulated VAT are acquisition of equipment. This does not have an expiration as long as it has been reported in the tax return and supported by valued invoices and official receipts.

One key item is the recoverability of the deferred tax assets. Because of the significant losses in the books of CACI, CADPI and a portion of RBC and ADC, there is an accumulation of the net operation loss carryover. The rule states that if there is a continuing loss in the books, the Group cannot recognize the deferred tax assets on NOLCO. That is the standard treatment unless there is basis to say that these will be applied to income tax payments in the near future. The NOLCO for CADPI is at Php266 million. This means that there must be an income tax payment in the next three years.

The Group also has MCIT. If there is no excess income tax liability then the MCIT might expire. Management is already monitoring which items are expiring. It is critical to have the forecast in terms of the transactions the Group will be having and the possible income of these transaction and corresponding tax equivalent. The three-year taxable forecast is critical. Those which will be expiring this year are in the books of RBC and ADC. But for CADPI and CACI, the significant amounts will expire in 2021 and 2020, respectively.

The Group should obtain waivers on debt covenants from the banks on or before September 30, 2019. Without the waivers, the liabilities would have to be recognized as current liabilities even if they are long-term. Mr. Dimarucut explained that the Management will get the waivers by that date. It is part of the prior discussions on the plan on amortization of debt.

The accounting for related party transactions is being monitored by SGV & Co. especially in terms of transfer pricing. BIR will also look at these types of transactions. The Group must have proper documents in relation to these transactions. There has also been intercompany charging of interests for previous years which require documentation.

In relation to the question as to how the Group handles the sale of molasses from its own mills, Mr. Dimarucut answered that market price is used. Ms. Saringan explained that this is covered by the related party transaction test but as long as the Management is able to prove that this made on an arm's length basis, then this is allowed. What is critical here is the documentation on the basis of the numbers for purposes of the Documentary Stamp Tax.

Mr. Dimarucut further explained that most of the short-term loans were housed under CADPI. But due to the sale, it had to be moved to another entity, which is CACI.

Ms. Saringan stated that is last items in terms of key issues. She also confirmed the independence of SGV & Co. in terms of RHI and its subsidiaries. Internal controls are not required to be reported but SGV & Co. considers these for them to be able to decide on the timing of the procedures that they perform. Management has confirmed that there are not items on fraud or items that would result to fraudulent transactions.

There are some indicators in the financial statements because there is negative working capital, The Group not meeting debt services ratios in the previous years and there is a significant loss in some entities. This would require disclosures and explanations in the financial statements this year.

V. ADJOURNMENT

There being no other matters to discuss, on motion made and seconded, the meeting was thereupon adjourned.

ATTEST:

ARLYN S. VILLANUEVA
Chairperson

CHRISTOPHER H. YOUNG
Member

OSCAR J. HILADO
Member

MA. HAZEL L. RABARA-RETARDO
Secretary

ROXAS HOLDINGS, INC.
MINUTES OF THE MEETING OF
THE AUDIT & RISK COMMITTEE

Held at the RUC Conference Room, 6th Floor RCB/PLDT Building, Dela Rosa St. corner Makati Ave, Makati City on December 4, 2019 at 10:00 in the morning.

ATTENDANCE:

Present:

Ms. ARLYN S. VILLANUEVA
Mr. CHRISTOPHER H. YOUNG (via teleconference)
Mr. OSCAR J. HILADO

Others Present:

Mr. HUBERT D. TUBIO
Mr. CELSO T. DIMARUCUT
Mr. ARCADIO S. LOZADA, JR.
Mr. RICHARD CHAN
Ms. VERONICA C. CORTEZ
Atty. MA. HAZEL L. RABARA-RETARDO
Ms. JOSEPHINE LOGROÑO
Ms. FARRAH CRIZEL SANTIAGO
Atty. AIMEE E. PEDAYO
Ms. AILEEN L. SARINGAN
Mr. KRISTOPHER S. CATALAN

I
CALL TO ORDER

The Chairperson, Ms. Arlyn S. Villanueva (Ms. Villanueva), called the meeting of the Committee to order. The Asst. Corporate Secretary, Atty. Hazel L. Rabara-Retardo, certified the existence of a quorum and recorded the Minutes of the Meeting.

II
APPROVAL OF THE MINUTES OF THE PREVIOUS SPECIAL MEETING, AND MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS MEETING

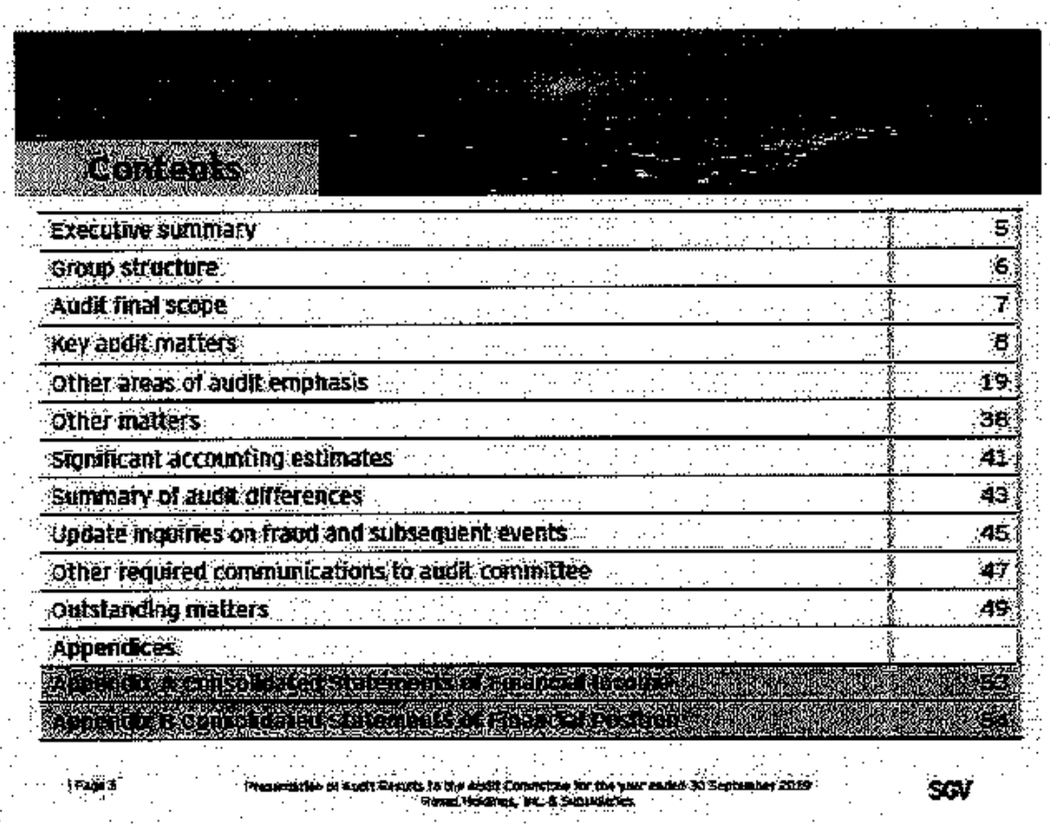
Ms. Villanueva presented the Minutes of the Regular Audit Committee Meeting held on 01 August 2019 and Special Audit Committee Meeting held on 30 September 2019 and stated that the Minutes of the Regular and Special Audit Committee Meetings were circulated to all members of the Committee prior to the meeting for their review.

On motion duly made and seconded, the Committee approved the Minutes as presented.

There were no matters arising from the Minutes of the previous Meetings.

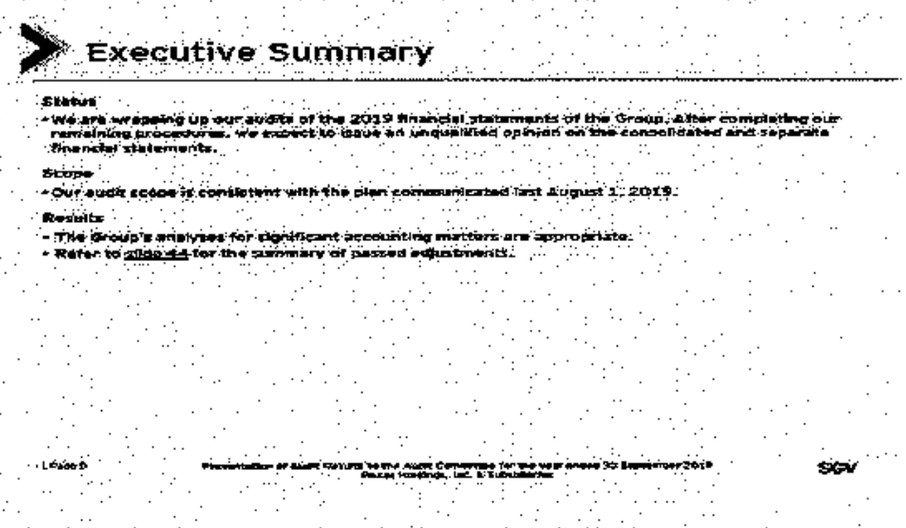
III
EXTERNAL AUDITOR REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE

Ms. Aileen L. Saringan (Ms. Saringan) presented the result of their audit of the financial statement of Roxas Holdings, Inc. (RHI) and subsidiaries (collectively, the "Group") as of Fiscal-Year ending 30 September 2019 ("2019 Audited FS").



Contents

Ms. Saringan explained that the content of the report would include: executive summary, discussion on the group structure, audit final scope, key audit matters which are critical to be confirmed with the Audit Committee. The report will also include other areas of audit emphasis, other matters, significant accounting estimates, summary of audit differences, inquiry on fraud and subsequent events, other required communication to the Audit Committee and outstanding matters.



Executive Summary

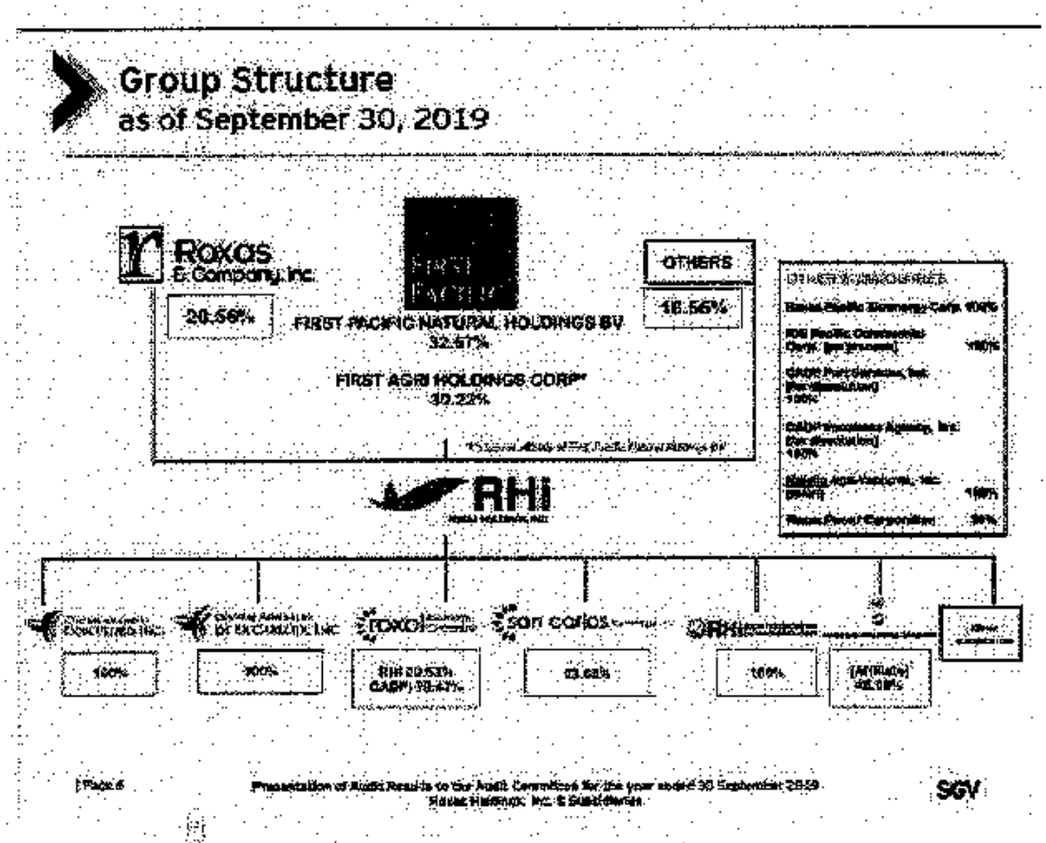
Status
- We are wrapping up our audits of the 2019 financial statements of the Group. After completing our remaining procedures, we expect to issue an unqualified opinion on the consolidated and separate financial statements.

Scope
- Our audit scope is consistent with the plan communicated last August 1, 2019.

Results
- The Group's analyses for significant accounting matters are appropriate.
- Refer to slide 44 for the summary of passed adjustments.

Ms. Saringan mentioned that SGV&Co. is already wrapping up their audit on the 2019 financial statements of the Group. They will issue their unqualified report on the financial statements provided that they receive the outstanding items to be discussed herein.

The scope is consistent with the audit plan as discussed with the Audit Committee during the meeting last 1 August 2019. The significant accounting matters shall also be highlighted throughout the discussion. Additionally, the summary of audit differences and past adjustments shall also be discussed.



There is no change in the group structure from the time of the audit planning meeting. Although subsequent to 30 September 2019, there was a sale of investment in Hawaiian-Philippine Co. (HPCo.).

Audit Final Scope

Audit scope | Our final audit scoping of the Group entities is consistent as planned.

Entity	Auditor	FY 19 audit
Roxas Holdings, Inc.	SGV	
Central Azucarera Don Pedro, Inc.	SGV	
Central Azucarera De La Carlota, Inc.	SGV	
Roxol Bioenergy Corporation	SGV	
San Carlos Bioenergy, Inc.	SGV	
Hawaiian-Philippine Company	RSM Litania	
RHI Agri-Business Development Corporation (ADC)	SGV	
Najalin Agri-Ventures, Inc. (NAVI)	SGV	
Other subsidiaries	SGV	

Scope definitions

- Full scope
  - Audit procedures performed on all significant accounts using assigned materiality levels
- Specified procedures
  - Specific audit procedures performed on accounts or assertions identified and using assigned materiality levels.
  - ADC - Input VAT
  - NAVI - Investment properties
- Not in-scope for consolidated audit
  - Insignificant location to support the consolidated audit opinion
  - Limited procedures (i.e., overall account analysis)

| Page 7 | Presentation of Audit Results to the Audit Committee for the year ended 31 September 2019 Roxas Holdings, Inc. & Subsidiaries | SGV

SGV&Co. also confirmed that based on the scoping decided with the Audit Committee, accounts to be performed in full scope include RHI, Central Azucarera Don Pedro, Inc. (CADPI), Central Azucarera De La Carlota, Inc. (CACI), Roxol Bioenergy Corporation (RBC), San Carlos Bioenergy, Inc. (SCBI) and investment in HPCo. Specific procedures were also applied on the other smaller entities such as RHI Agri-Business Development Corporation (ADC) and Najalin Agri-Ventures, Inc. (NAVI). While other subsidiaries not mentioned are not in-scope for the consolidated audit.

Areas of audit emphasis

Our audit procedures emphasized testing areas with the highest risk of misstatement. We considered the effects of current market risk factors on the Group, and emphasis was also placed on those areas requiring subjective determinations by management. Based on the areas of audit emphasis communicated to you in our Audit Plan, we report to you our observations arising from our audit.

Key audit matters
- Accounting for completeness of quedans (CADPI and CACI)
- Recoverability of goodwill (RHI and SCBI)
- Valuation of land stated at fair value (Group)
- Assessment of contingent liabilities and estimation of provisions from claims (Group)
- Adoption of PFRS 15, Revenue from Contracts with Customers (Group)

| Page 9 | Presentation of Audit Results to the Audit Committee for the year ended 31 September 2019 Roxas Holdings, Inc. & Subsidiaries | SGV

This year's key audit matters include: accounting for completeness of quedans in CADPI and CACI, recoverability of goodwill in RHI and SCBI, valuation of land stated at fair value,

assessment of contingent liabilities and estimation of provisions from claims relating mainly to the tax contingencies and the adoption of Philippine Financial Reporting Standards (PFRS) 15 which includes revenue from contracts with customers. This is consistent with the discussion during the planning meeting except that two items were taken out because SGV&Co. deemed them not to be significant for the year-end audit.

Areas of Audit Emphasis: Key Audit Matters

Accounting for completeness of quedans: CADPI and CACI

Background:

The Group's raw sugar business follows the quedan system, which is unique to the Philippines. A quedan is a negotiable instrument which shows ownership of a specified amount of raw sugar in a warehouse or sugar central. Accordingly, the Group's physical possession or delivery of raw sugar may not necessarily indicate ownership or sales transaction, respectively.

For the fiscal year, we observed the physical count procedures of raw sugar inventories, reviewed the reconciliation with raw sugar accountability at count date, reviewed roll-forward procedures to year-end, and reconciled the mill share quantity (multiplied by the unit cost) to the general ledger balance. We noted the following differences:

RAW SUGAR (in Lkg '000)	Should be mill share quantity at 9.30	Mill share quantity per books as of 9.30	Difference	Financial impact (in Php '000)	Disposition
CACI	4,130	8,051	(3,921)	(5,888)	Adjusted
CADPI	11,557	18,471	(6,914)	(10,206)	Adjusted

1 Page 10 Presentation of Audit Results to the Audit Committee for the year ended 30 September 2019 Vista Holdings, Inc. & Subsidiaries SGV

The first one in the key audit matters is the accounting for the completeness of quedans. This affected two entities namely CADPI and CACI. This takes into consideration that the quedan system in the Philippines is a unique system, where quedan is used as a negotiable instrument and is proof of ownership of the canes. The physical count is done by the Management near year-end and based on the performance of the reconciliation with the sugar accountability as of account date and rolled forward to the end of the year, SGV&Co. noted that "should be milled", which is the result of the roll forward, is showing Php4 million for CACI and CADPI is at Php11.5 million comparing it with the recorded amounts in the books which are at Php8 million for CACI and Php18 million for CADPI. There are differences in financial impact of Php5.8 million for CACI and Php 10.2 million for CADPI.

Mr. Oscar J. Hilado (Mr. Hilado) inquired if these are in LKg. Ms. Saringan answered that the difference is still in LKg but the financial impact is in Pesos. This number has already been adjusted by Management. The Group shouldered this difference and this was not shared with the planters anymore.

Mr. Richard Chan (Mr. Chan) inquired if the differences are normal. Ms. Saringan explained that there is a valuation difference as well in the prices of both entities. If this will be compared to the total inventory at the end of the year, this is a small percentage of inventory as compared to the total inventory that was produced during year.

Mr. Hubert D. Tubio (Mr. Tubio) added that it represents 0.2 of 1% which is acceptable within the industry because there are losses during transport, especially in this case where raw sugar is transported to CADPI for refining. It is an acceptable percentage. Moving forward, this should be provided in production planning.

Mr. Hilado inquired how inventory is measured at the end of the year. Mr. Tubio answered that this is measured through actual weights. Everything is weighed in the warehouse.

Mr. Celso T. Dimarucut (Mr. Dimarucut) added that those that are not in bags are weighed at the end of the year, while those in bags are counted.

Ms. Villanueva added that the difference is too big considering that this is just the ending inventory. Although the total is small, it is still quite disturbing.

Mr. Arcadio S. Lozada, Jr. (Mr. Lozada) explained that this is only referring to the mill share which is 30% of the total production in Negros and in CADPI, it is around 38% production. Ms. Saringan added that what is shown as shortage at the end of the year is really a result of all the accumulation of the whole year's production. If this is taken into consideration in relation to the total production for the year, it is already a small percentage. The Management does not adjust any potential shortage during the year of production but they only do that based on the actual count at the end of the year.

Ms. Villanueva inquired if the Management does regular inventory counts. Mr. Dimarucut answered in the affirmative and explained that it is not in the normal context. For example, in CACI, the total production for the year is 1.7 TCM, that is roughly about 3.2 million LKg, thus the difference of 3,921LKg is basically 0.115 of the total production.

Ms. Villanueva further inquired as to the internal findings, without the external auditors, in the regular inventory counts. Mr. Tubio answered that it is just for Management to have some sort of assurance because the inventory count during the year is really not accurate because it is volumetric and there is no weighing. Otherwise, the operations will be disrupted. Mr. Dimarucut added that volumetric estimates are done every month and validated with the actual weighed amounts at the end of the year. There are years where the figures do not show shortages.

Areas of Audit Emphasis: Key Audit Matters

According to certain terms in quedans (CADPI and CACI)

Procedures performed:

- Updated our understanding of the Raw Sugar Quedan Monitoring System and tested the relevant controls on the information system and manual processes.
- Tested of system-generated reports (e.g., quedan listing, sugar release order (SRO) listing, sugar and molasses warehouse report) used in the preparation of inventory accountability by comparing the details per the extracted reports with those displayed by the relevant systems.
- Observed the physical count procedures of quedan and raw sugar inventories, reviewed the inventory quantity reconciliation with raw sugar accountability at count date, tested the roll forward schedule, and reconciled the mill share quantity (multiplied by the unit cost) to the general ledger balance as of year end.
- Reviewed any average and shortage and evaluated whether these are supported with business rationale, and adjusted in the books accordingly.
- Reviewed the roll forward procedures to arrive at the physical quantity as of reporting date and reconciled the mill share quantity to the general balance;
- Performed inventory and sales cutoff procedures - review of accountability report and examine related supporting documents (i.e., quedan, invoices) to validate the reconciling items, established the quantity reported as the Group's inventory and those which are held trust for the planters and traders, and verify if all quedans are duly accounted for.

Conclusion

- Raw sugar sales are appropriately reported based on the quedan endorsements.
- Raw sugar quantities owned by CACI and CADPI and held in trust for third parties as of year-end have been properly accounted for.

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Ms. Saringan continued by stating that in terms of the procedures performed, SGV&Co. has updated their understanding of the Raw Sugar Quedan Monitoring System because the process has to be evaluated to make sure the Management is able to monitor inventory. System-generated reports are tested on the quedan listing, sugar release order listing, sugar and molasses warehouse report as part of the audit. Physical count procedures were observed and inventory quantity reconciliation with raw sugar accountability at count date was also reviewed. The roll forward procedure was also checked to arrive at the reconciled amount at the end of the year. Inventory and sale cutoff procedures were also performed. For the conclusion, SGV&Co. confirmed that the raw sugar sales which are critical in the quedan monitoring as

were appropriately reported, as well as the quantities owned by CACI and CADPI and those held in trust for third parties as of year-end were properly accounted for.

Areas of Audit Emphasis: Key Audit Matters

Recoverability of goodwill (RHI and SCBI)

Background:

The Group has goodwill amounting to Php1.08 billion which arose from the acquisition of San Carlos Bioenergy, Inc. (SCBI) in 2015.

Management's assessment process requires significant management judgment about future market conditions and estimation based on assumptions (e.g. growth rate, discount rate).

Value-in-use (VIU) calculation

- VIU calculation is based on a five-year forecast and terminal value based on the Y5 cashflows with growth rate of 4%.
- Discount rate used is 11.35%.

Impairment calculation

(in '000)	
VIU	Php3,287,726
Carrying value of CGU	2,276,615
Headroom	Php1,011,121

Retrospective review of financial information

Presented below is the comparison of actual FY2019 versus budgeted FY2019 (used in the FY2018 impairment testing) pertaining to sales quantity and selling price/L:

	FY2019		
	Forecast	Actual (unaudited)	Differences
Alcohol			
Gross margin (in '000 PHP)	Php320,287	(Php4,650)	(Php324,937)
Sales (in '000 L)	36,560	35,925	(635)
Selling price/L (Price)	52.96	57.22	4.26
Net income (in '000)	217,759	(82,643)	(300,415)

Areas of Audit Emphasis: Key Audit Matters

Recoverability of goodwill (RHI and SCBI)

Procedures performed:

- Obtained an understanding of the Group's annual impairment assessment process and the related controls.
- Involved Transaction Advisory Services (TAS) specialist in evaluating management's sensitivity analyses and methodology used for the impairment assessment procedures.
- Tested the discounted future free cash flows based on SCBI's 5-year forecast approved by management.
  - Reviewed the approved 5-year forecast, which involved testing clerical accuracy, the inputs to calculations, and reasonableness of amounts included.
  - Assessed the historical experience of prior years' assumptions and estimates, and obtain an understanding of current and expected future developments of RHI and its environment.
  - Assessed key assumptions, including discount rate, expected market development and long term growth rates, with the assistance from our valuation experts with relevant expertise and with external information sources.
  - Compared the calculated value-in-use to the carrying amount of SCBI's identified cash generating unit.
  - Performed independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment.

The next item is regarding the recoverability of goodwill in relation to the investment in SCBI. In the books, there is Php1.08 billion amount of goodwill recognized in the acquisition of SCBI in 2015. Management has provided SGV&Co. with their assessment on the recoverability of SCBI where they have shown a value-in-use (VIU) amount of Php3.28 billion comparing it with the carrying value of Php. 2.27 billion, the headroom for this assessment is at Php1 billion. Some assumptions were made on the discount rate. The discount rate used is 11.35% which is comparable to the industries within the region. Also, the cashflow used is with growth rate of 4%

comparing it to the historical growth rate of the Group at 6.7%. 4% is on the low side. The 2019 result is showing a net loss of Php82 million. Management has performed some sensitivity analysis to consider the impact of the high feedstock cost which happened in 2019. They also considered the potential increase in volume maximizing the capacity for the San Carlos plant. SGV&Co. has tested cash flow that has been provided. The growth rate vis-à-vis the historical growth rate was also challenged. Comparison of the calculated VIU and the carrying amount of SCBI's identified cash generating unit was also made. Based on this, SGV&Co. confirmed that that the VIU is reasonable based on the review made.

Mr. Chan inquired as to what SGV&Co.'s overall assessment is of the quality of the forecast since there is actually a loss reported. Ms. Saringan explained that Management has made a representation that what happened to SCBI in 2019 is extraordinary in terms of the feedstock. What is forecasted is an increase in the amount of feedstock to be produced and this will off-set the high cost of feedstock in 2019.

Mr. Dimarucut also explained that there were two (2) significant challenges in SCBI last year. The first one is with respect to the Anerobic Digester (AD) which was commissioned in December of 2018. This needs six (6) months before it can be ramped up to realize the benefit of the AD. What this means is that the cost of fuel is still high without the AD. The cost of hauling spent wash was also high because the AD was not yet operational. During the year as well, because of the delay of the arrival or some spare parts, particularly, the turbine generator, the SCBI plant was forced to run using electricity from the Grid. This means power is sourced from the outside instead of using internally generated power. This cost amounted to roughly Php60-80 million and this had an impact on the performance of SCBI. Moving forward, with the completion of the AD and the repair of the turbine generator, there will be lower cost to operate San Carlos.

Mr. Hilado inquired if the forecasts are for five (5) years. Ms. Saringan answered in the affirmative. Mr. Hilado further inquired if it will still point to positive rather than negative if the forecast is only for one (1) year. Ms. Saringan answered that there will be minimal changes for 2020. The improvement will not abruptly happen. She added that the forecast will be subject to the approval of the Board after presentation.

Areas of Audit Emphasis: Key Audit Matters

Valuation of land stated at fair value (Group)

Background:

The Group measures its parcels of land, which represent around 23% and 19% of the consolidated total assets as September 30, 2019 and 2018, respectively, at fair value

In Thousands	2019*	2018*	Fair Value adjustments	
			P/L	OCI
Property and equipment	1,423,094	1,340,832	-	79,657
Investment property	513,561	347,592	34,416	-
TOTAL	1,936,655	1,688,424	34,416	79,657

*Includes 5% land subject to Asset Purchase Agreement (refer to slide 25)

The Group engaged Vitale Valuation Services, Inc. and Royal Asia Appraisal Inc., SEC-accredited asset valuers, to determine the fair value of its landholdings as of September 30, 2019.

Procedures performed:

- Compared the property-related data in the appraisal reports against the Group's records.
- Involved our internal specialist in reviewing the scope, methodology and the assumptions used by the Group's external appraisers.
- Evaluated the competence, capabilities and qualifications of the external appraisers by considering their qualifications, experience and reporting responsibilities.
- Compared the assumptions used, specifically the sales price of comparable properties, against relevant external information.
- Reviewed of relevant information supporting the sales price of comparable properties and basis of adjustments made to the sales price
- Discussed with the external appraisers the nature and magnitude of the adjustment factors.
- Reviewed income tax implications of revalued lands.

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The next item is the valuation of land stated at fair value. The landholding of the Group is valued at fair value. The land being occupied for the operations is shown under Property, Plant and Equipment in the books. While Investment property refers to smaller portion of land which is

being leased out to third parties. The valuation for 2019 is higher by a non-significant amount. This appraisal was done by two (2) entities Royal Asia Appraisal Inc. and Vitale Valuation Services, Inc., which are both Securities and Exchange Commission (SEC) accredited appraisers, and they used 30 September 2019 as the cut-off. Comparison of the fair values from 2018 to 2019 (which used the market approach for the land and used the negotiated appraisal cost for the facilities) were recognized as adjustments in the Other Comprehensive Income (OCI) at Php79 million for PPE. This is already net of the tax. On the other hadnd, the valuation adjustment for Investment Property to the Profit and Loss(P&L) account is at Php34 million.

In response to the inquiry as to where these investments are located, Ms. Saringan answered that these investments are in Visayas. Mr. Dimarucut added that the Group has a parcel of land beside the Negros Plant. A portion is classified as agricultural, while another portion has already been classified as industrial. A portion is being leased to Hinojales. Mr. Hilado inquired as to the size of this parcel of land. Mr. Dimarucut answered that the size of the one in Negros is close to 280 hectares. There are also parcels of land in small sizes. There are also properties in San Carlos. Initially, they were supposed to be used as employee housing. It is roughly around 3 hectares. Mr. Hilado further inquired if these properties are booked in the balance sheet of the subsidiaries or the parent company. Mr. Dimarucut answered that it is booked in the respective subsidiaries, but since what is being discussed is the consolidated financial statement, this is significant.

Mr. Chan inquired why the Group adopted the fair value approach. Mr. Dimarucut discussed that the reason why the Group decided this valuation as basis for accounting is because most of the assets were acquired a long time ago. The original costs of these properties are no longer reflective of their real value. Moreover, as there is substantial indebtedness of the Group, when the financial statements are presented to the banks, the banks will look at the total assets of the Group. Using the fair value is really the best way to reflect properly the value of the total assets. Mr. Chan further inquired if this is a common practice for the sugar industry. Mr. Dimarucut explained that it is not, especially if a comparison is done with the financials of other sugar entities which are family-owned. This is why the Group's book value is significantly higher than those. The financial statements of these sugar entities just copy the original cost of the assets which are very low.

Areas of Audit Emphasis: Key Audit Matters

Assessment of contingent liabilities and estimation of provisions for tax claims (Cont'd)

Background:

As of September 30, 2019, the Group has the following on-going tax assessments:

Entity	Taxable Year	Status	Assessment Type	Assessed Taxes	Paid Under Protest	Balance Payable (Cont'd)
BIR	2010	Submitted a request for reconsideration to the Commissioner last July 29, 2016.	FDDA	Php163,037	Php5,000	Php5,000
BIR	2016	On-going reconciliation with the BIR	NIC	320,505	45,000	45,000
RBC	2014	Request for reconsideration to the FDDA was filed last June 13, 2019 but still pending with the Appellate Division.	FDDA	107,090	10,000	10,000
CADPI	2014	On-going reconciliation (For possible issuance of PAN)	PAN	1,828,400	25,000	25,000
CADPI	2015	Pending initial findings from the BIR	NIC	3,560,357	25,000	25,000
CACI	2014	Protest to PAN submitted last November 5, 2019. Awaiting issuance of FDN.	PAN	856,897	20,000	20,000
CACI	2015	On-going reconciliation with the BIR (For possible issuance of PAN)	NIC	1,525,053	20,000	20,000
TOTAL				Php8,473,239	Php150,000	Php150,000

Areas of Audit Emphasis: Key Audit Matters

Assessment of contingent liabilities and estimation of provisions from claims (Group)

Procedures performed:

- Inquired with the Group's legal counsels and financial officers the status of any ongoing investigations, claims or proceedings, and the potential exposure of the significant claims.
- Inspected relevant correspondence with regulatory bodies and other relevant parties.
- Reviewed applicability of findings from settled and existing tax assessments to open taxable years.
- Reviewed minutes of the BOD and Audit Committee meetings

Ms. Saringan continued the discussion on assessment of contingent liabilities and estimation of provisions from claims. The on-going tax assessments are of RHI, CADPI and CACI. The years covered are from 2014-2016. What is presented is the assessment initially made by the tax authorities which is at a high value of Php8.4 billion versus the provision by the Management as of 30 September 2019 which is at Php150 million. The counsel's estimate is also at Php150 million. The procedure taken was first to inquire with the Group's Tax Management as to the evaluation of each item being assessed by the Bureau of Internal Revenue (BIR). Confirmation was also done with the Group's external counsels as to their assessment of the status of the ongoing claims or proceedings. SGV&Co. is currently waiting for the response of Baniqued Law. Based on prior years, however, this is aligned with the provisions stated in the books. Review of the provision is being done because the amounts should be assessed in detail based on the items the Management believes to be a potential for assessment from the BIR. Initial discussions were done with tax authorities and prior years' settlements were used as basis in assessing the amounts to be provided. Documents are being prepared for each specific assessment.

Mr. Hilado inquired if the Php150 million provision includes provision for settlements during the current year. Ms. Saringan answered in the affirmative. Mr. Dimarucut explained that normally the Group will make the provision after an assessment is received and formal discussions with the BIR are done. At that stage, the Group would have an evaluation of the amount and it is only at that point that the Group makes the provision. Most of these provisions approximate the settlement. The residual amount this year is about Php30 million. And on the basis of the open assessments made through the valuations, there is a proposal to add Php120 million this year. Thus, out of the Php150 million, Php30 million is coming from the previous year.

Mr. Hilado inquired if setting this as contingent liability would open to BIR actually assess these values. Mr. Dimarucut answered that most of these are open assessments. Mr. Hilado further inquired if the Management is still contesting them. Mr. Dimarucut stated that the Management is in discussions insofar as the final amount. Most of the values presented are the approximate amount of the settlement being discussed with the BIR. Mr. Tubio added that if the BIR sees this, they will more or less understand that this is how the Management has actually evaluated the assessments.

There is a need for Management to evaluate if the provisions made relates to an uncertain tax position. If this is recognized, it becomes an income tax payable rather than a provision. As early as now, the assessments must be re-evaluated.

Mr. Dimarucut explained that the Management has taken a position that most of these are not income taxes because the Group has significant Net Operating Loss Carry Over (NOLCO). There is no distribution yet of the specific taxes. It would be only known once the

Management has already reached an agreement with them. Given the NOLCO, it is assumed that most of the assessments are not income taxes but other taxes.

Ms. Villanueva inquired if the amount assessed will be lower once the BIR issues the final assessment notice (FAN). Mr. Dimarucut explained that in the past, the practice was that as soon as the BIR issues the pre-assessment notice (PAN), they automatically issue the FAN within thirty (30) days. The only pending items are those open assessments which are for dispute. While pending, there is still room for discussions.

Mr. Hilado clarified if some of these assessments are for the parent and some are for the subsidiaries. Mr. Dimarucut answered in the affirmative.

Areas of Audit Emphasis: Key Audit Matters

Adoption of PFRS 15, Revenue from Contracts with Customers (Group)

Background

- At present, the milling arrangement between the Group (Miller) and the Planter takes in the form of either: (a) output sharing arrangement; or (b) cane purchase agreement.
- Under PFRS 15, the relationship of the Group and Planter in an output sharing arrangement takes the form of vendor-vendee arrangement, where the Planter, as a customer, engages the Group as a service provider to convert sugar canes into raw sugar.
- The Group adopted PFRS 15 effective October 1, 2018.
- As of September 30, 2019, revenue recognized in consideration of the milling services rendered by CADPI and CACI, net of subsidies and incentives (see table on the right), amounted to Php837 million and Php683 million, respectively.

Determination of Transaction Price

- Per PFRS 15, the subsidies and incentives provided by the Group to the planters qualify as a "consideration payable to a customer" which should be treated as a reduction to the milling price, unless the payment is in exchange for a separate distinct service or goods.
- Under the previous revenue standard, subsidies and incentives are classified as part of production costs:

[illegible]	[illegible]	[illegible]	[illegible]
Subsidies and Incentives	94,104	582,257	679,353

	With Output Sharing Arrangement			
	Sale of Raw Sugar	Sale of Molasses	Sale of Planters' Sugar	Sale of Alcohol
Impact of PFRS 15	[illegible]	[illegible]	None	None

Areas of Audit Emphasis: Key Audit Matters

Adoption of PFRS 15, Revenue from Contracts with Customers (Group)

Background (cont'd):

- On the other hand, related costs incurred from output sharing arrangement is treated as outright expense whereas costs from milling sugarcane purchases are treated as inventoriable production costs.
- Currently, the Group classifies the total milling costs as cost of services. These costs, which should have been in the inventory as of September 30, 2019, amounts to Php 6.89 million as follows:

[illegible]	[illegible]	[illegible]
Production Costs	Php 55,863	Php -
COGS*	48,976	-
End. Bal*	6,887	-
Cost of Service	406,936	1,584,835
TOTAL	Php 462,799	Php 1,584,835

*Includes Sc/n raw and refined sugar in inventory amounting to Php 1.22 million and Php 5.67 million, respectively.

Procedures performed:

- Performed understanding and walkthrough of the Group's PFRS 15 transition and adoption process, using the five-step model for PFRS 15 across all revenue arrangements.
- Inquired with the Group's Costing and Revenue Managers the relevant controls in place for the adoption of PFRS 15 and corroborate through applicable test of controls.
- Inspected the relevant source documents (i.e., inventory costing worksheet, schedule of weekly bidding prices, etc.) as regards the quantity and liquidation prices of raw sugar and molasses produced, to verify the accuracy and completeness of inputs in the quantification of milling revenue under PFRS 15.
- Recalculated management's computation of transition adjustment, if any.
- Determined the relevant tax implications on the adoption of PFRS 15.

Ms. Saringan continued to discuss the adoption of PFRS 15 on revenue from contracts with customers. There is a distinction as to the accounting of the purchase of cane, whether it is under cane purchase agreement or output sharing agreement. There is a recording of the milling revenue that the Group recognizes in relation to the mill share on the canes that have been received through the output sharing agreement. The amount of milling revenue recognized for CADPI is at Php837 million, while in CACI it is at Php683 million. This has been adjusted by the Management in the books. In the financial statement, there is an increase in the revenue level but there is also an increase in cost of milling revenue on top of the normal sale of raw sugar and refined sugar. The adoption has affected the sale of molasses similar to the sale of raw sugar but for the sale of refined sugar and alcohol there is no impact. SGV&Co. has also evaluated the adjustment with respect to the transaction. In previous years, the Group has given incentives and subsidies to the planters which are recognized as regular expenses. These expenses shall now be recognized net of the revenue. This means there is a reduction of Php679 million in the milling revenue that has been recognized. There is no effect on the net income but there is reclassification on the cost to revenue. Cost of milling revenue must also be assessed if there are still remaining inventories in the books. Based on the evaluation made, there is a portion of the milling revenue which can be allocated to the ending balance of inventory which is at Php6.8 million. Based on the procedures made, SGV&Co. confirmed that the proper accounting adjustments have been considered.

Mr. Dimarucut explained that the Group is now pushing the cane purchase agreement wherein the title to the cane is transferred to the Mills at the time of cane delivery. There is also revenue sharing wherein the title to the quedan is still with the planters. In both instances, the determination of the value of payment is sugar price.

Ms. Saringan discussed the other areas of audit emphasis.

Other Areas of Audit Emphasis

Other areas of audit emphasis
1. Equity accounting for investment in Hawaiian-Philippine Company (RHI)
2. Recoverability and classification of excess input value-added tax (RBC and SCBI)
3. Compliance with debt covenants (CADPI, CACI, RHI)
4. Accounting for the proposed sale transaction of HPCo. shares and CADPI's milling and refining operations (RHI and CADPI)
5. Revenue recognition (Group)
6. Adoption of PFRS 9, Financial Instruments (Group)
7. Existence and valuation of inventories (CACI, CADPI, RBC, and SCBI)
8. DST exposure on related party transactions (Group)

Other Areas of Audit Emphasis

Equity accounting for investment in Hawaiian Philippine Company (HPCo)

Background:

RHI has 45.09% ownership interest in HPCo, an entity incorporated in the Philippines, which is engaged in manufacturing and trading of raw and refined sugar, molasses and other sugar by-products. HPCo is accounted as investment in associate using the equity method in the consolidated financial statements.

Presented below is RHI's share in equity earnings of HPCo and the relative contribution to Group EBITDA and Group net income for each of the five years ended September 30, 2019.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Share in equity earnings	41,353	55,834	67,777	212,258	134,424
Consolidated EBITDA (Loss before interest, taxes, dep. & amort.) ('000)	(137,832)	1,105,142	1,503,492	1,337,122	995,538
% share in EBITDA (Loss before interest, taxes, dep. & amort.)	(30%)	5%	5%	16%	14%
Consolidated net income (loss)	(1,888,935)	55,225	120,040	101,591	18,351
% share in net income (loss)	(2%)	101%	56%	209%	732%

Other Areas of Audit Emphasis

Equity accounting for investment in Hawaiian Philippine Company (HPCo)

Procedures performed:

- Sent group audit instructions to the statutory auditors of HP Co. (PwC) to perform an audit on the relevant financial information of HP Co.
- Performed procedures to assess the competence of non-EY component auditor.
- Obtained the latest financial information of HP Co. as of and for the year ended September 30, 2019 and recompute the Group's share in net income.

First is the equity accounting for investment in HPCo. As of 30 September 2019, this is still considered as part of the Group's investments. The amount initially recognized is based on the numbers given by HPCo. Currently, Management is in discussions with HPCo. as to the final amount of equity that will be recognized by RHI. There will be adjustments based on the audit of HPCo.'s financial statement. There will be an increase in the share in equity earnings based on the final number that HPCo. will provide. SGV&Co. has coordinated with the auditors of HPCo. for the review of the working papers.

Mr. Dimarucut explained that the HPCO sale transaction happened sometime in November 2019 but the auditor's report is as of 30 September 2019. Ms. Saringan further discussed that for this report, investment in HPCo. will be shown as asset held for sale.

Other Areas of Audit Emphasis

Recoverability and classification of excess input value-added tax (VAT) (RBC, SCBI)

Background:

Input VAT as of September 30, 2019 amounted to Php284.73 million and Php14.12 million for RBC and SCBI, respectively. On the other hand, the Output VAT for the period amounted only to Php0.82 million and nil for RBC and SCBI, respectively.

	Input VAT (in millions)	Output VAT (in millions)
RBC	Php 284.7	Php0.8
SCBI	14.1	-
Total	Php 298.8	Php0.8

The entities' source of output VAT comes from scrap sales which are unregistered activities under RBC's BOI and SCBI's PEZA certificates. Scrap sales for the year amounted to Php0.47 million and nil for RBC and SCBI, respectively.

Procedures performed:

- Confirmed our understanding of how the Group accounts for input VAT and performed test of relevant controls on recognition of additional input VAT.
- Checked whether the Group's recognition and measurement of input VAT and deferred input VAT are in accordance with relevant tax legislation.
- Reviewed VAT returns and compared with the net input VAT recorded per books.
- Performed reasonableness test for input VAT based on information disclosed in financial statements (purchase of goods and services and importation).
- Performed reasonableness test for output VAT based on sales disclosed in income statement, including other income subject to VAT.

Another item for key audit emphasis is the recoverability and classification of excess input value-added tax (VAT). RBC, because of construction of the facilities, has accumulated its input VAT which now stands at PHp284 million in the books. There is no output VAT liability for RBC. In the Philippines, there is no expiration of the input VAT. This can also be used in relation to the sale of asset under the books of RBC. This is on a long-term basis, so currently it is under non-current assets.

Other Areas of Audit Emphasis

Compliance with debt covenants (DCSR, CADF, RHI, CACI)

Background:

As of September 30, 2019, financial ratios calculated based on the formula contained in the loan agreements:

Debt Service Coverage Ratio (DCSR) as of June 30, 2019				
(in Php 000's)	Consolidated	RHI	CADFI	CACI
Income (Loss) Before Taxes	(1,412,795)	(163,193)	(714,645)	(402,537)
Interest expense	(699,633)	(184,209)	(226,762)	(224,483)
Depreciation and amortization	(570,807)	(10,633)	(17,043)	(311,465)
EBITDA	(142,355)	31,849	(470,248)	133,411
PRINCIPAL & INTEREST	1,883,015	257,959	1,212,545	412,511
DSCR	(0.08)	0.12	(0.39)	0.32
Compliant?	No	No	No	No

Debt to Equity Ratio as of September 30, 2019				
(in Php 000's)	Consolidated	RHI	CADFI	CACI
Liabilities	12,795,777	3,574,656	5,739,143	4,134,241
Total Equity	9,143,044	10,158,156	505,246	1,313,503
Total	21,938,821	13,732,812	6,244,389	5,447,744
Debt	58%	26%	92%	76%
Equity	42%	74%	8%	24%
Compliant?	Yes	Yes	No	No

Procedures performed:

- Reviewed updates on loan agreements, if any.
- Identified any change/s in debt covenants and determine whether the Group is compliant in the context of the new / revised loan agreement, as applicable.
- Reviewed approved bank waivers.

Next is compliance with debt covenants. SGV&Co. presented the figures for the Debt Service Coverage Ratio (DCSR) as indicated in the Group's loan agreements. For the DCSR,

all the entities are not in compliance as of 30 September 2019. This has been highlighted in the previous years, the Management has already secured waivers from the banks in relation to this covenant before 30 September 2019. There is also a requirement to disclose the noncompliance but the fact of securing the waivers will also be stated. This DCSR is not a problematic item but it has affected CADPI and CACI financial statements. A clarification was also made with the banks that the basis should not be the individual financial statements but the Group's financial statements.

Mr. Hilado inquired if the banks use debt service covered for purposes of covenant. Mr. Dimarucut explained that the Group uses two ratios: debt service coverage and debt to equity. There is no problem with debt equity ratio because of the capital-raising exercises that were undertaken. However, insofar as the debt service coverage ratio, the performance this year is not good, and the reports do not show that the Group has enough to pay the loan. To secure the waiver, the Group had to advance the principal payment this year from the proceeds of HPCo sale.

In response to an inquiry regarding the amount of the proceeds from HPCo. divestment, Mr. Dimarucut stated that the net amount, deducting the capital gains tax, is close to Php900 million. This was used to pay about Php800 million principal loan and Php40 million accumulated interest. Financially, a gain was actually recognized of about Php200 million but this will be recorded subsequent to 30 September 2019.

Other Areas of Audit Emphasis

Accounting for the proposed sale transaction of HPCo Shares and CADPI's milling and refining operations GAAP, PAS/PFRS

Transaction	Status		Measurement	Other Considerations
	Assessment of Lower of fair value less cost to sell	Highly probable		
1. Proposed sale of equity interest in Hawaiian Philippine Company (HPCo) to Kansas Long Holdings, Inc.	Met	Met	Lower of carrying value or fair value less cost to sell	Take up of share in equity - until upon classification as held for sale (i.e. until fiscal year ended September 30, 2019)
2. Proposed sale of CADPI's milling and refining operations* to Vedaly	Met	Met		Assessment of subsequent events under PAS 10, Events after the reporting period

*Breakdown of assets involved

Assets	Amount (In Php '000s)
Land on which the following assets are located	3,422,891
Machinery and equipment	2,164,999
Buildings and building improvements	554,868
Furniture fixture and other improvements	75,040
Transportation equipment	12,230
Investment property (ice plant located in Nasugbu)	1,433
Construction in progress	63,508
Total	6,295,039

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Other Areas of Audit Emphasis

Accounting for the proposed sale transaction of HPCo. Shares and CADPI's milling and refining operations (CADPI)

Procedures performed:

Accounting for the proposed sale transaction of HPCo. Shares (RHI)

- Reviewed the minutes of Board of Directors' (BOD) meetings and pertinent BOD resolution on the authorization to negotiate the divestment of investment in
- Reviewed the share purchase agreement with Kardaon Loney Holdings, Inc. dated November 4, 2019.
- Inspected the closing conditions of the proposed sale.

Accounting for the proposed sale transaction of CADPI's milling and refining operations (CADPI, RHI)

- Confirmed our understanding of the underlying facts and circumstances surrounding the sale transaction with a prospective buyer through (1) inquiries with key management personnel (2) review of existing Company disclosures (both publicly disclosed and internally circulated information) and (3) review of minutes of meetings of BOD.
- Evaluated appropriateness of classification of assets related to the proposed sales transaction.
- Reviewed the Group's disclosures pertinent to the proposed sale transaction

Prepared By

Ms. Saringnan discussed the accounting for the proposed sale transaction of HPCo. shares and CADPI's milling and refining operations. If the asset is available for immediate sale in its present condition and the sale is highly probable, then the asset should be classified as part of the assets held for sale. With regard to the sale of the HPCo. shares, both these conditions were met. The measurement used is the lower of carrying value or fair value less cost to sell. The carrying value is lower than the fair value less cost to sell. As for CADPI's milling, since the proposed sale last year did not materialize, there should be a discussion as to what the classification of this asset is. While there is an ongoing negotiation with a third party, this has not been finalized yet. As of 30 September 2019, both the conditions are still met by the impending sale. Management has evaluated that this shall still fall under assets held for sale. In terms of the presentation in the income statement, HPCo. will not qualify as discontinued operations because the Group still has operations in Visayas not for sale. CADPI, which is a separate entity, will be classified as discontinued operations similar to the previous year. The valuation of the CADPI facilities has been considered using the fair value less cost to sell. There is no indicative price yet, in terms of breakdown of the assets which is at Php6.5 billion for CADPI and RHI facilities. As of 30 September 2019, HPCo. shall be classified as asset held for sale. Prior to the sale, it has been classified as investment in associate.

Checked By

There is a requirement to update the disclosure. What is stated in the financial statement is the disclosure on the CADPI sale in 2018 only. There should be update on that disclosure to include the fact that another entity has been negotiating with the Group.

Mr. Chan inquired if there is a time limit for classifying an asset as asset held for sale. Ms. Saringan answered that the standard is one (1) year. However, this is subject to exceptions like failure to get approval from regulators. But if there is prolonged classification under asset held for sale, there must be disclosures.

Approved By

Other Areas of Audit Emphasis

Revenue recognition (Group)

Revenue by segment	2019 (Restated)	2018
Alcohol	Php3,861,260	Php3,250,912
Raw sugar	3,287,433	2,274,427
Refined Sugar	3,370,328	5,575,007
Milling Revenue	1,520,387	-
Molasses	490,858	547,042
Tolling fees	214,915	97,213
Others	81,340	57,865
TOTAL	Php12,926,321	Php11,802,466

Sugar Segment (raw sugar)
The Group's raw sugar sales of CADPI and CACI (26% of total revenue) is governed by the Philippines' quedan system. Quedans are negotiable instruments evidencing ownership over a specified quantity of raw sugar. Essentially, the sale of raw sugar follows the transfer of quedans, regardless of the location of the corresponding physical sugar quantities. We identified the following risk areas resulting from this unique system:

- The Group may prepare and issue quedans without corresponding physical quantities ("sugarless quedans or SLQs"); and
- The Group may recognize revenue from sale of quedans without corresponding physical quantities.

Ms. Saringan continued to discuss revenue recognition for the Group. In the books, the Group is recognizing milling revenue on top of the sale. This is at Php1.5 billion which is not existing in previous years. For the segment information, SGV&Co. also considered the other segments like sugar and alcohol in accordance with the requirements of the revenue standards.

Other Areas of Audit Emphasis

Revenue recognition (Group)

Sugar Segment (refined sugar)
Meanwhile, the Group's refined sugar sales of CADPI (26% of total revenue) are earned under two types of transactions:

- Delivered - Upon actual delivery to customers
- Pick-up or Bill-and-Hold - Date of conformity of the customer to the sales agreement and delivery order schedule

Revenue recognition under bill-and-hold sales is also a risk area as this is affected by the following factors:

- Compliance with revenue recognition criteria;
- Reconciliation of unserved bill-and-hold sales with inventories on hand; and
- Proper cut-off at period-end.

As of September 30, 2019, CADPI's refined sugar inventories under bill-and-hold/pick-up sales which are not yet withdrawn amounted to Php413 million (494,240 Kg).

Other Segment
Molasses sales are earned under two types as follows:

- Delivered - Upon actual delivery to customers
- Pick-up or Bill-and-Hold - Date of conformity of the customer to the sales agreement and delivery order schedule

Other Areas of Audit Emphasis

Revenue recognition (Cont'd)

Alcohol Segment

Revenue from alcohol is recognized upon lifting or actual delivery of alcohol to the barge, lorry or trucks, computed gross of the denaturant. Comparative analysis of alcohol entities' revenue are as follows:

[illegible]	[illegible]	[illegible]	[illegible]
RBC	Php2,089	Php1,747	Php1,712
SCBI	2,055	1,804	1,592
Total	Php4,144	Php3,551	Php3,304

As of September 30, 2019, inventories under bill-and-hold/pick-up sales for RBC which are not yet withdrawn follow:

Unwithdrawn inventories under bill-and-hold/pick-up sales

Company	Customer	Quantity (Liters)	Amount
RBC	Sea Oil Philippines, Inc.	979,000	Php55,568,040

Total Bill-and-Hold/ Pick-up Sales:

Company	2019	2018
RBC	Php55,568,040	Php101,450,000
SCBI	-nil-	32,250,000
	55,568,040	133,700,000

Other Areas of Audit Emphasis

Revenue recognition (Cont'd)

Procedures performed:

- Updated understanding on the Group's revenue process and identify controls that addresses the risk identified.
- Tested and concluded on the effectiveness of the controls identified.
- Performed the following substantive procedures:
  - Observed inventory count procedures near yearend
  - Obtained and tested the completeness and accuracy of the accountability and reconciliation report the unwithdrawn sugar owned by the customers but are still to be withdrawn from the warehouse, and investigated reconciling items.
  - Obtained the supporting schedule of the items presented in the report
  - Obtained the result of the inventory count.
  - Based on the required testing threshold, validate and determine whether these reconciling items are properly accounted for.
  - Tested rollforward of accountability and reconciliation report from date of count until yearend.
  - Obtained schedule of unserved spot sales and establish that these are with corresponding inventories on hand.
  - Obtained confirmation of balances from customers and perform alternative procedures by vouching to subsequent collections.
  - Obtained confirmation from customers with regards to deferred delivery and payment terms, etc.
  - Performed test of details to determine if revenue are properly accounted for based on sales type.
  - Performed additional inquiries with key members of management (including sales and marketing) and members of the legal department as to the terms of key commercial contracts and their awareness of any non-standard terms and how these are recorded.
  - Tested significant manual adjustments, if any, made to the revenue (and contra revenue) for appropriateness and evidence of review.

There is also a bill-and-hold arrangement being used for the Alcohol Businesses which is already recognized by Management in the books. Proper documentation has been checked in relation to this. RBC has recognized bill-and-hold sales of about Php55 million in relation to the sale to SeaOil. Confirmation has been sent to SeaOil. Examination of the actual quantities have been considered.

Other Areas of Audit Emphasis

Adoption of PFRS 9, Financial Instruments (Group)

Background:

- On October 1, 2018, the Group adopted PFRS 9, *Financial Instruments*, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*.

Classification and Measurement

- The Group classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets whether cash flows represent solely payments of principal and interest.
- Summary of balances of receivables is as follows (amounts presented in Php '000s):

As of October 1, 2018

Receivables	Gross Carrying Amount	Allowance under PAS 39	Allowance under PFRS 9	Gross Carrying Amount
Php '000				
CADPI	1,682,653	46,713	49,849	(3,136)
RBC	630,183	754	99	654
SCBI	481,646	3,645	5,370	(1,725)
CACI	16,205	6,063	6,063	0
Total	2,780,685	57,173	61,406	(4,233)

As of September 30, 2019

Receivables	Gross Carrying Amount	Allowance under PAS 39	Allowance under PFRS 9	Gross Carrying Amount
Php '000				
CADPI	559,248	47,548	50,540	(3,032)
RBC	186,914	754	235	519
SCBI	277,962	2,798	861	2,937
CACI	16,642	6,124	7,288	(1,164)
Total	1,040,766	56,224	58,923	(699)

Other Areas of Audit Emphasis

Adoption of PFRS 9, Financial Instruments (Group)

Classification and Measurement

- Summary of reclassification from PAS 39 to PFRS 9 as at September 30, 2019 is as follows:

Financial Instrument	IFRS Assessment	Business Model	Fair Value Option Elected	PFRS 9 Classification
Financial Assets				
Cash and cash equivalents	Pass	Hold to collect	No	Amortized Cost
Trade receivables	Pass	Hold to collect	No	Amortized Cost
Due from employees	Pass	Hold to collect	No	Amortized Cost
Due from related parties	Pass	Hold to collect	No	Amortized Cost
Other receivables	Pass	Hold to collect	No	Amortized Cost

Financial Instrument	Held for Trading	FVO Elected	Non-Financial Liabilities	Classification	Subsequent Classification
Financial Liabilities					
Short-term borrowings	No	No	None	Other Financial Liabilities	Amortized Cost
Trade and other payables	No	No	None	Other Financial Liabilities	Amortized Cost
Long-term borrowings	No	No	None	Other Financial Liabilities	Amortized Cost

Another new standard which has affected the Group is PFRS 9 on Financial Instruments. The key here is the change from incurred loss model to expected credit loss model. For 2018, there is an amount that has been considered as potential for adjustment between the allowance from the old standard and the new standard. It is just Php4 million. For 30 September 2019, the calculated difference between the two standards is Php699 million. This has already been included as an adjustment.

Other Areas of Audit Emphasis

Adoption of PFRS 9, Financial Instruments (Group)

Macroeconomic

- The increase in Consumer Price Index and Wholesale Price Index shows a progress in the sugar industry, hence, has inverse relationship with ECL.
- The Gross National Income and Gross Domestic Product shows an economic growth, which will result to increase in purchasing power of peso. Thus, has indirect relationship with ECL.
- As inflation rate increases market prices also rise up, hence, driving the customer to delay payment or default. Thus, has direct relationship with ECL.

Procedures performed:

- Obtained and tested the aging schedule of receivables prepared by the Group and noted no material exceptions noted.
- Reviewed the adequacy of allowance for expected credit losses as at transition date in accordance with Group's policy.

Expected Credit Loss Rate for September 30, 2019 balances:

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CADPI	0.91%	7.35%	25.31%	54.21%	83.78%	34.12%
CACI	0.06%	0.38%	1.25%	4.67%	34.38%	8.12%
RBC	0.09%	0.45%	1.29%	1.85%	7.02%	1.10%
SCBI	0.55%	3.47%	5.12%	5.89%	6.98%	4.12%

Assumptions used by Management in computing the expected credit loss rate include the historical experience in loss, as well as the macroeconomic factors which affected the business, including inflation rate, Gross Domestic Product and the Gross National Income consideration.

Other Areas of Audit Emphasis

Existence and valuation of inventories (CADPI, CACI, RBC, and SCBI)

Inventory Count Results and Rollforward Analysis

	Per Count Sheets (Inventory)	Inventory Rollforward (Inventory)	Difference (Qty)	Difference (Amount)	Disposition
	PV	PV	PV	PV	
[illegible]					
CADPI	11,557	11,557	-	-	-
CACI	4,130	4,130	-	-	-
[illegible]					
CADPI	195,874	196,520	646	(1,254)	Unadjusted*
[illegible]					
RBC	3,817,997	3,817,997	-	-	-
SCBI	578,870	578,870	-	-	-
[illegible]					
CADPI	1,716	2,201	(485)	(759)	Unadjusted*
CACI	38	-	38	352	Unadjusted*
RBC	752	752	-	-	-
SCBI	248	248	-	-	-

*Included in the Summary of Audit Differences (uncorrected misstatements)

Other Areas of Audit Emphasis

Existence and valuation of inventories (CACI, CADPI, RBC, and SCBI)

Inventory Count Results and Rollforward Analysis

	Per Count Rollforward [illegible]	Per books after audit adjustments	Variance Overstatement/ (Understatement) (in Php 000)	Description
[illegible]	[illegible]	[illegible]		
CACI	Php165,225,909	Php165,262,414	36	Adjusted
SCBI	118,773,587	118,773,587	-	-
CADPI	264,164,065	264,164,065	-	-
RBC	67,720,786	67,720,786	-	-

Procedures performed:

- Observed physical count for alcohol, molasses, materials and supplies.
- Traced the results of the counts to the inventory compilation and warehouse report to determine if the inventory compilation reflects actual inventory count results.
- Performed rollforward analysis from count date to year-end.
- Tested the system-generated reports (e.g., un-surrendered quedans, trader's report, sales order, and sugar release order listing) used in the preparation of inventory accountability.

Other Areas of Audit Emphasis

Existence and valuation of inventories (CACI, CADPI, RBC, and SCBI)

Valuation

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	A	B	[illegible]	C	[illegible]					
[illegible]										
CADPI	31,557	1,464	30,093	250	1,734	31,526	2,199	1,734	31,526	-
CACI	9,251	1,497	7,754	260	1,747	11,010	2,166	1,747	11,010	-

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
CADPI	46,177	1,611	162,745	2,099	3,193	1,911	162,745	-
[illegible]								
CADPI	372	5,963	5,591	10,715	12,268	5,963	5,591	-
RBC	1,664	10,216	14,180	12,713	11,662	10,216	14,068	-
SCBI	248	10,220	7,634	10,713	11,080	10,220	7,634	-
[illegible]								
RBC	2,819,937	58	162,946	61	60	58	164,946	-
SCBI	576,870	68	33,782	-	59	58.36	33,782	-

*Included in the Summary of Audit Differences (uncorrected misstatements).

Procedures performed:

- Obtained an understanding of the Group's inventory valuation process and related controls (with focus on NRV).
- On a sampling basis, performed recalculation of the theoretical NRV using subsequent sales information.

Next is the existence and valuation of inventories for CACI, CADPI, RBC and SCBI. Procedures have been done by SGV&Co. in relation to the inventory existence. Count has been observed for the entities. The result of the count as against books only shows an immaterial amount of variance. It is Php1.2 million for CADPI concerning refined sugar.

Other Areas of Audit Emphasis

DST exposure on related party transactions (Group)

Background:

The Group has both interest and noninterest bearing intercompany cash advances. The Group applies offsetting and assignment of nontrade receivables and payables (total assignment amounted to Php3.84 billion). These advances are not subjected to documentary stamp tax on a transaction basis.

Presented below are the outstanding balances after assignment for these nontrade intercompany advances as of September 30, 2019 (in Php millions):

Related Party	2019	2018	Movement	Percentage
CADPI	1,316	48	1,664	1.6
CAC1	(92)	858	(950)	-
PSC	738	1,208	(470)	-
SCDI	(127)	995	(1,122)	-
KDC	343	275	68	0.2
EPIC	2,370	2,370	-	-
MVP	65	72	(6)	-
Total	4,915	5,728	(813)	1.8

Procedures performed:

- Obtained and reviewed intercompany reconciliation of trade and nontrade transactions. Thereafter, checked the reasonableness of the reconciling items as well as resulting adjustments.
- On a sampling basis, verified intercompany advances against supporting documents (e.g., journal vouchers, bank statements).
- Obtained and reviewed the computation from management regarding the Group's exposure to DST.

One item which is a potential tax issue is documentary stamp tax (DST) on related party transactions because the tax authorities automatically compute an amount of DST for every availment of advances among the sister companies. The amount computed must form part of the overall provision that the Group has.

Other Matters

Working Capital Management

Background:

The Group's comparative key financial figures:

Liquidity Position	2019	2018
Working Capital (Net Current Liabilities)	(4,501)	(6,120)
Net liquidity position	(10,578)	(10,942)
Operating cash flow	1,781	1,214
Net assets	9,143	10,763
Revenue	13,946	4,898
Net income	(1,869)	55

Key points:

- Reassess ability to service debt and manage liquidity risk.
- Revisit capital management strategies (conservation; utilization; capital raising, asset sale, etc.)
- Prepare cash flows projections to support management's plans to turnaround the Group and address significant liquidity risk.

Management Plans	Status of Plan	Carrying Amount in Books (in Php 000)	Fair Value (in Php 000)
Sale of HPCO shares	Share purchase agreement has been signed dated November 4, 2019	859,994	859,994
Sale of CADPI assets	Ongoing negotiations	6,525,079*	Yet to be determined
Renegotiation of long term loans	for Management's consideration		
Rollover of short term loans	BPI short term loans were rolled over in Oct 2019	(for discussion)	
Other plans	(for discussion)		
Total		7,385,073**	859,994**

*Provision only measured based on the carrying value of assets held for sale as at fiscal year ended September 30, 2018
**Subject to changes depending on management's plan and other external factors

Other Matters

2019 Figures

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Working Capital (Net Current Liabilities)	(4,501)	(1,737)	(1,973)	330	(2,094)	(251)	(1,407)	(4,456)
Net assets	9,143	505	1,313	2,106	631	632	92	9,164
Revenue	13,946	6,830	4,579	2,933	2,159	34	-	12,926
Net income (Loss)	(1,029)	(551)	16	(84)	(101)	18	(0.2)	(1,889)
Net operating cash flows								1,781

2018 Figures

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Working Capital (Net Current Liabilities)	410	(2,455)	235	(2,268)	(211)	(65)	(1,407)	(6,120)
Net assets	1,610	1,859	2,085	341	(56)	64	474	10,763
Revenue	7,245	2,883	2,621	1,917	32	5	-	11,811
Net income	(524)	35	402	169	(22)	3	3	55
Net operating cash flows								1,214

Page 45	Presentation of Audit Results to the Audit Committee for the year ended 30 September 2019 Robina Holdings, Inc. & Subsidiaries	SGV

For the working capital management, SGV&Co. highlighted that because of the loss position of the Group as of 30 September 2019, other financial considerations must be considered. The working capital for 2019 is showing a negative Php4.5 billion, the net liquidity position is negative Php10.5 billion. There is still a positive operating cash flow for 2019 amounting to Php1.7 billion, net assets at Php9 billion and revenue at Php13 billion. However, the net loss is Php1.8 billion. The challenge is to find support that the liquidity position can be addressed via operations or sale. Due to the sale of HPCo. shares, the Group was able to advance the payment for the principal loans and thus the maturing obligations for the coming year are covered. The challenge now is on the year after. Mr. Dimarucut added that the proceeds from any saleable assets shall be applied to these loans. If this is done, only short-term obligations will remain which can be termed out.

Mr. Hilado inquired if the Philippine Competition Commission (PCC) will have the same contentions in the future sale of CADPI. Mr. Dimarucut answered that the basis for the decision of the PCC is that because there are only two keys players in the area, Universal Robina Corporation's take over on CADPI will result in a monopoly. This is not the case for the buyer.

In relation to the inquiry as to how the Group will manage the maturing loans, Mr. Dimarucut explained that the banks from which the Group has long-term and short-term obligations are the same. Thus, these banks understand why the Group is choosing to pre-pay the long-term obligations first through the sale of HPCo. Moreover, the Banks are actually amenable to this because if the short-term obligations stay, they can charge higher interest.

Mr. Hilado inquired whether the assets are mortgaged. Mr. Dimarucut answered in the affirmative and stated that most of the assets are given as collateral to the long-term obligations.

Significant Accounting Estimates

Area	Our Conclusion
Determining the NRV of inventories	Inventories of the group are carried at lower of cost or NRV as of September 30, 2019. The Group continuously monitors the selling prices of inventory items vis-a-vis the developments in sugar industry.
Determining the fair value of land	The assumptions used by appraisers are reasonable and appropriate. The Group has engaged SEC accredited appraisers (i.e., Wise Valuation Services, Inc. and Great Asia Appraisal Inc.) as required by SEC MC 4-2010.
Evaluation of provisions and contingencies	Provisions and contingencies recorded are disclosed in the accounts. The Group should continuously monitor the developments of their outstanding tax assessments and adjust the amount of provisions recognized.
Assessing impairment of nonfinancial assets	SCPI's value-in-use is higher than the carrying value of its long-lived assets and net operating assets. There are no impairment indicators on the Group's property, plant, and equipment and investment in associate as of September 30, 2019.
Estimating expected credit losses on receivables	Allowance for doubtful accounts is adequate which is based on the customer estimated credit risk in accordance with PFRS 9.
Assessing recoverability of deferred tax assets	Deferred tax assets are recoverable against future taxable income.
Determining retirement benefits and liability	The assumptions used by actuaries are reasonable and appropriate.
Estimating useful lives of property, plant and equipment and software costs	Useful lives of property, plant and equipment and software costs are reasonable.
Allocating the cost to products in inventory	Cost is allocated to refined molasses by deducting its net realizable value from the cost of refined sugar production.

Ms. Saringan discussed the significant accounting estimates done by Management which will be stated in the financial statement.

In relation to the inquiry on deferred tax assets, Mr. Dimarucut explained that Php700 million of these assets are classified under NOLCO and this is mostly CADPI. Because in the past, most of the head office expenses were housed under CADPI. That was where most revenues were generated. However, since last year, due to the transaction, CADPI suffered significant loss in revenue for the refinery.

Mr. Hilado inquired as to why the Management has classified the expense as certain if the sale of CADPI is still uncertain. Mr. Dimarucut explained that part of the assessment is that if the Group wants to use NOLCO, there must be a significant gain such as the CADPI sale. If the CADPI sale is not assumed, there would be no gain to support the continued carrying of the NOLCO.

In relation the inquiry on the reaction of the Banks, Mr. Dimarucut stated that the Management will explain that this loss is in relation to the non-cash transaction. This would have no bearing on the cash flow.

Summary of Audit Differences

Uncorrected Misstatements

The following table presents the uncorrected misstatements identified in connection with our audit of the consolidated financial statements as of and for the year ended September 30, 2019 (in Php'000):

Ref	Description	Analysis of misstatements				
		Assets Dr (Cr)	Liabilities Dr (Cr)	Equity Dr (Cr)	Income Dr (Cr)	Expenses Dr (Cr)
CAOPI	To correct perpetual records based on yearend physical count for refined sugar (Php1.23 million) and molasses (Php0.76 million)	(1,993)	-	-	-	1,993
CAO	To correct perpetual records based on yearend physical count for molasses	352	-	-	-	(352)
SCBI	To reverse the previously recorded DTA on retirement actuarial loss	-	(324)	324	-	-
	Total	1,740	(324)	324	(1,641)	1,641
	Consolidated financial statement	21,917,454	12,753,099	9,164,355	6,554,604	7,778,885
	% of difference over FS	0.01%	0.00%	0.00%	0.02%	0.02%

*Subject to provision of HPCO's final balances

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Ms. Saringan stated that as to the audit differences, this relates to the inventory and some portion relating to the retirement actuarial loss. The net income for this past adjustment is very low compared to the consolidated financial statement. In terms of the income and expenses, this is only 0.05% and 0.025 of the consolidated number.

Update Inquiries on Fraud and Subsequent Events

Fraud

- Knowledge of any fraud that has been perpetrated or any alleged or suspected fraud?
- Knowledge of allegations of fraudulent financial reporting, for example, because of "whistleblower" or other communications from employees, former employees, analysts or other investors?
- Any fraud risk areas identified?
- What are the programs and controls the entity has established or is observing to mitigate fraud risk areas?
- Results of internal audit work?
- Oversight of management's processes for identifying and responding to risks of fraud and the controls that management has established to address risks?
- Any corporate governance initiatives?

Subsequent events

- Receipt of information indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognized impairment loss for an asset needs to be adjusted
- Determination of the amount of profit-sharing or bonus payments
- Discovery of fraud or errors that show that the financial statements are incorrect
- Dividend declaration
- Significant new investments, i.e. business acquisitions
- Others matters

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In relation to fraud and subsequent events, Management has represented that this did not happen during the year. The Audit Committee affirmed this. SGV&Co. will continue to review the subsequent events as of this date. There is really a push from the SEC that all auditing firms must have the proper documentations ready.

Other required communications to Audit Committee

We are required by the auditing standards to report to you certain matters that are not otherwise detailed in this report.

Matter	Comments
Changes from initial audit plan	None
Disagreements with management	None
Our views about the qualitative aspects of the Company's significant accounting practices	Management has not selected or changed any significant accounting policies or changed the application of those policies in the current year other than those related to the adoption of PFRS 9 and 15. We are not aware of any significant accounting policies used by the Group in controversial or emerging areas or for which there is a lack of authoritative guidance.
Significant difficulties encountered during the audit	None
Fraud and non-compliance with laws and regulations (illegal acts)	During the course of our audit, we are not aware of any instances indicating fraud that may result in a material misstatement in the financial statements which require us to communicate with the Audit Committee.
Representations we are requesting from management	We will request for the signed management representation letter.
Findings regarding external confirmations	We are not aware of any matter that require communication.

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For required communications to the Audit Committee, there has been no change in the initial audit plan previously communicated. The adjustments have been taken up. The Management representation letter will be received today.

Outstanding matters

As at date of this report, the following are still outstanding:

No.	Items
1.	Confirmation replies from Bangued and RTC on the status of tax assessments
2.	Signed position paper for the recoverability of input VAT
3.	Deeds of assignment of nontrade receivable/payable balances among entities
4.	Minutes of BOD meetings held from October 2019 up to audit report date

We have requested management's assistance in expediting the satisfactory resolution of these outstanding matters. In the event that these matters are not satisfactorily resolved before the expected audit report date, it may have a bearing on our audit opinion.

Alternative procedures/validation

- Receipt of final confirmation from HP Co's auditors
- Performance of subsequent event procedures through the date of BOD approval of the financial statements
- Review of final drafts of consolidated financial statements and separate financial statements and Form 17A

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Mr. Christopher H. Young (Mr. Young) inquired if the results will be disclosed today. Mr. Mr. Dimarucut answered that the initial plan was today but this may be delayed in order to complete the requirements. As to the date of the financial statement, the same shall be dated today. SGV&Co. is saying that they will sign off only when they get the pending documents. Mr. Young pointed out that since this will be discussed in the Board of Directors Meeting today and since the loss is significant, this must be reported at once. Mr. Dimarucut explained that in previous experience, the Group can release the unaudited financial statement first. Ms.

Saringan explained that SGV&Co. can only sign off after the documents have been submitted. Mr. Dimarucut stated that all items can be complied with, within the day.

VII ADJOURNMENT

There being no other matters to discuss, on motion made and seconded, the meeting was thereupon adjourned.

ATTEST:

ARLYN S. VILLANUEVA
Chairperson

CHRISTOPHER H. YOUNG
Member

OSCAR J. HILADO
Member

MA. HAZEL L. RABARA-RETARDO
Secretary

Annex M- Board Attendance

Board	Name	Date of Election	No. of Meetings held during the year	No. of Meetings Attended
Chairman	Pedro E. Roxas	1982	7	6
Vice-Chairman	Manuel V. Pangilinan	3 December 2013	7	4
Member	Hubert D. Tubio	16 December 2015	7	7
Member	Christopher H. Young	13 May 2015	6	6
Member	Ray C. Espinosa	3 December 2013	6	4
Member	Alex Erlito S. Fider	3 December 2013	6	4
Member	Oscar J. Hilado	2 March 2016	6	4
Independent	Santiago T. Gabionza, Jr.	30 April 2019	6	5
Independent	Arlyn S. Villanueva	30 April 2019	6	5

Board	Name	Date of Election	No. of Meetings held during the year	No. of Meetings attended
Independent	**David L. Balangue	15 February 2012	7	2

****Effectivity of Resignation: 15 February 2019**

Annex N- IT Governance Processes

Risk Area	Management/Mitigation Process
IT Issues	IT has a ticketing system where users can report all IT related concerns. This ensures issues are logged, monitor and resolved.
Service Disruption	Redundancies are in place (and being put in place) to have alternative mode of operations should main infrastructure encounter problems. IT Support teams are always on standby to respond to emergencies to restore service to its ideal state. Active monitoring tools are also employed to send alarms/notifications in cases of threshold breeches. We are also subscribed to Microsoft Premiere Support for our ERP solution MS AX 2012.
Cyber Security	Firewalls and anti-virus solutions are in place to ensure cyber security. Third-parties are also being engaged for independent threat assessments and mitigation activities.
Disaster Recovery	Daily backups are being performed. Offsite DR site is being planned to be in place within CY 2018