



cosco capital  
i n c o r p o r a t e d

## Strength in Partnership



Annual Report 2018

# ABOUT THE COVER



Cosco Capital, Inc. (Cosco) has strategically evolved from an oil and minerals exploration and development company into one of the leading diversified conglomerate holding companies in the country today.

The concept of the cover design mirrors how the synergy from the different business segments—retail, real estate, wine and spirits, and oil and mineral provided the platform for the group's continued business expansion and growth. The bands carrying the names of Cosco's subsidiaries are wrapped around each, other, signifying the brands working hand-in-hand and forming a sphere replicating the company's logo—an immeasurable spectrum of opportunities.

Cosco has attained much success through the years not only through skill and hard work, but through collaboration with various stakeholders in business and the community. It has determined that there is indeed strength in partnerships, which in turn leads to long-term success and inclusive growth.

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## CORPORATE OVERVIEW

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Cosco Capital, Inc. (Cosco) continues to grow and diversify into new markets, making it one of the leading business conglomerates in the country today. The company's success in the retail industry has provided it with a strong foundation to capitalize on growth opportunities in various markets through the years.

Even as the company continues to expand its portfolio, its core business remains robust. Cosco's flagship Puregold Price Club, Inc., a household name in the Philippine retail sector, ended 2018 with a total of 208 hypermarkets, 104 supermarkets, 42 extra, 16 S&R warehouse clubs and 39 S&R Quick Service Restaurants (QSRs) for a total of 409 stores spread out across the country.

Cosco's liquor distribution business on the other hand, remains the leading importer and distributor of high-quality liquor and wines in the Philippines. Its subsidiaries Montosco, Inc., Meritus Prime Distributions, Inc. and Premier Wines and Spirits, Inc. carry well known international brands such as Johnnie Walker, Jack Daniels, Alfonso Brandy, Jim Beam, Chivas Regal, Glenlivet, Absolut Vodka, Jose Cuervo, Jagermeister and Red Bull.


The segment's total volume of cases sold for the year increased by 32%, led by strong sales in the brandy segment. The group is constantly expanding and will continue to explore new markets with efficiency in order to keep up with customers' needs.

The specialty retail segment is yet another significant contributor to the group's revenues. Office Warehouse, Inc. has been a reliable partner of consumers and of small and medium enterprises for quality, cost efficient and value-adding office solutions since 1998. The company offers office and school supplies, furniture and a wide range of technology products at the lowest prices. Store expansion and enhanced product offerings resulted in another positive year for Office Warehouse as it opened eight new stores in 2018.

Although Cosco completed its divestment from Liquigaz in February of 2019, the specialty retail company saw its sales increase by nearly 10% in 2018. Liquigaz is one of the biggest suppliers of LPG in the Philippines.

The group's commercial real estate business, led by Ellimac Prime Holdings, Inc. leases out properties





such as community malls and commercial buildings. The segment maintains a portfolio of 53 commercial properties with a combined gross leasable and land area of over 516,373 square meters and a 98% average occupancy rate.

The real estate group opened three new community malls in Cavite, Muntinlupa and Subic in early 2018.

The group also acquired four (4) additional land assets located in Subic, Zambales; Antipolo, Rizal; Laoag, Ilocos Norte, and Maria Aurora, Aurora involving a total land area of 9,834 square meters thereby expanding its landbank portfolio to a total of nine (9) assets with a gross land area of

146,148.70 square meters. It was also awarded as a winning bidder for a property located in Bayawan, Negros Oriental with an area of 12,052 square meters also for future development.

Also under the real estate group is Pure Petroleum Corporation, a fuel terminal that is now operating at full capacity with nine storage tanks and a total capacity of 88.5 million liters strategically located within the Subic Bay Freeport Zone.

With nearly PHP6 billion allocated for capital expenditures and expansion in 2019, and with a solid track record and skilled team of professionals behind it, Cosco is primed for further growth and increased profitability in the long term.



# MESSAGE FROM THE PRESIDENT

Despite the challenges brought about by rising inflation and interest rates, increased competition and other external factors, Cosco turned in another strong performance for 2018 as shown by our operational and financial achievements.

## Financial Performance

Cosco ended 2018 on a strong note with a consolidated revenues of PHP168.39 billion for a growth of 16% compared to the PHP145.75 billion generated in 2017. The growth in consolidated revenues was largely driven by a combination of the following factors:

- sustained organic growth from our grocery retail segment largely driven by a very strong same-store-sales growth;
- exceptional revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume;
- significant increase in revenue contributions from the real estate segment with a consistent high-capacity utilization of its rental assets portfolio coupled with additional leasable spaces from new commercial assets; and
- robust sales performance and growth in revenue contributions from the liquor and wine distribution business segment.

The Group also realized a 12% increase in consolidated net income to PHP8.80 billion in 2018 from PHP7.83 billion in the previous year. Our dedication to providing the highest quality of service as well as our effective management of costs and operating expenses have enabled the company to turn in another successful year.

## Business Segment Highlights

### Grocery Retailing

During the year, the grocery retail business segment registered a consolidated revenue contribution of PHP140.92 billion -- an increase of 13.2% or PHP16.42 billion compared to the segment's revenue contribution of PHP124.49 billion in 2017. The growth was brought about by its continued aggressive organic stores expansion program and the management's combined strategies to enhance operating efficiencies and deliver quality customer service experience at all its store outlets.

Puregold surpassed its target of opening 25 stores for 2018 by opening a total of 30 new Puregold stores for the year, and established its presence in Panay Island through the newly-acquired chain of five supermarkets in Roxas City.

On the other hand, S&R opened two new warehouse clubs in Parañaque and Cabanatuan and seven new S&R quick service restaurants around Metro Manila during the year.

### Commercial Real Estate

The Group's Real Estate Segment posted PHP2.43 billion in revenues for the year ended December 31, 2018 or a 10.56% increase from PHP2.19 billion in 2017. This was mainly attributable to the additional leasable space from its three new mall assets opened during the first quarter of 2018 and one in December 2017, consistent higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport Zone. Income from operations before depreciation grew by 9.5% to PHP1.45 billion while net income grew by 10.42% to PHP1.07 billion.





The three new community mall assets added to the portfolio in the first quarter of 2018 are strategically located in Cavite, Subic and Muntinlupa. As of end 2018, our real estate segment had a total portfolio of 53 properties with a combined gross leasable and land area of 516,373 square meters, consisting of 252,065.70 square meter land area and 264,306.51 square meter floor area.

#### **Wine and Liquor Distribution**

The wine and liquor distribution segment continued to deliver a robust sales performance with its overall volume sold growing by 32% consistently

driven by its brandy category reinforced by very strong sales performance of its other spirits and specialty beverage categories.

Consequently, the segment posted a revenue growth of 31.3% to PHP8.7 billion during the year 2018 while its net income grew by 17.6% to PHP738 million.

The group will continue to pursue its aggressive sales and marketing campaigns to promote its product portfolio leveraging on its growing network of national key retail accounts, distributors and dealers as well as in premise customers.

## Specialty Retail

The LPG business unit sustained its solid performance in 2018 after adding PHP17.09 billion to the company's consolidated revenue. This is an increase of PHP3.96 billion, or 30% higher than the 2017 revenue contribution of PHP13.13 billion. This was mainly driven by increase in sales volume and the recovery in global LPG prices during the period.

On the other hand, our office supplies and technology retail business unit contributed PHP2.09 billion to the company's consolidated revenues in 2018. This was a 15% increase from the PHP1.82 billion recorded in 2017.

The strong growth was mainly brought about by the high same-store sales growth (SSSG) of 9.09% as well as its continuing stores network expansion program, enhanced product offerings, and aggressive sales and marketing campaign. Office Warehouse currently has 88 stores in operation across the country, nearly doubling its operating stores since its acquisition in 2014.

## Positioned for Strategic Growth

We look to 2019 and beyond with confidence and optimism. The next year is forecasted to be a better one for the business community due to continued easing of inflation and interest rates as well as legislative developments and agenda that supports the momentum of the country's economic gains. There will always be challenges ahead but Cosco will continue to overcome by executing its strategies efficiently and effectively.

We will maintain our leadership position in the market through a combination of effective cost controls, systems and process automation, strong personnel development, and aggressive expansion of the business segments into new markets. We intend to cover more areas and to establish our presence in new territories by expanding our grocery retail business and other segments.

Beyond business, Cosco actively contributes to nation-building by creating employment opportunities as we expand across the country. We also continue to support micro, small, and medium sized enterprises (MSME) through our various livelihood and business programs. In addition to our environmental CSR projects, the group also provides scholarships for deserving but financially-challenged students through the LCCK Foundation under Puregold. One of the main goals of Cosco is to be a strong catalyst and active partner in the delivery of real and inclusive growth for the communities we serve and operate in.

I would like to take this opportunity to thank all of our stakeholders for your never-ending support. For the past few years, we have exceeded our targets and created more value – all of which you can expect to continue in the coming years. Rest assured that we will always strive to reach greater heights and to create a sustainable future for all Filipinos.

  
**Leonardo B. Dayao**  
President





# FINANCIAL HIGHLIGHTS

in thousand Pesos

Revenue  
Net Income

## CONSOLIDATED REVENUE AND NET INCOME

	2018	2017	2016
Revenue	168,387,650	145,749,829	129,186,201
Net Income	8,804,797	7,833,314	7,469,394

Grocery Retailing  
Real Estate and  
Property Leasing  
Liquor Distribution  
Specialty Retail

## CONSOLIDATED REVENUE CONTRIBUTIONS

	2018	2017	2016
Grocery Retailing	140,918,008	124,491,024	112,589,366
Real Estate and Property Leasing	1,778,434	1,614,638	1,793,294
Liquor Distribution	6,514,653	4,694,538	4,344,365
Specialty Retail	19,176,554	14,949,102	10,457,999

Grocery Retailing  
Real Estate and  
Property Leasing  
Liquor Distribution  
Specialty Retail

## REVENUE BY BUSINESS SEGMENT

	2018	2017	2016
Grocery Retailing	140,918,008	124,491,024	112,589,366
Real Estate and Property Leasing	2,429,336	2,197,208	2,325,509
Liquor Distribution	8,747,207	6,662,915	5,903,677
Specialty Retail	19,179,888	14,953,360	10,461,156

Grocery Retailing  
Real Estate and  
Property Leasing  
Liquor Distribution  
Specialty Retail

## NET INCOME BY BUSINESS SEGMENT

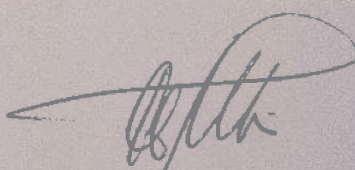
	2018	2017	2016
Grocery Retailing	6,519,720	5,840,212	5,526,230
Real Estate and Property Leasing	1,073,024	971,732	1,022,806
Liquor Distribution	738,639	628,232	581,362
Specialty Retail	691,760	528,199	337,935

SEGMENT FINANCIAL HIGHLIGHTS

## MESSAGE FROM THE CHAIRMAN

“Over the past years, Cosco consistently delivers long term profitable business for our partners and stakeholders. Our passion to venture into new industries and market segments remains, as it has always been the goal of the company to diversify its services to better serve Filipinos.

In spite of constant economic and business challenges, Cosco continues to grow both in terms of topline and bottomline performance. The company will continue to thrive to its full potential, as we are all driven and committed to upholding exceptional growth and development for the years ahead.”



**Lucio L. Co**  
Chairman











## GROCERY RETAIL

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Driven by the Group's consistent and sustained organic expansion and investments of its stores portfolio augmented by a very strong same store sales growth performance, the grocery retail segment realized a consolidated net income of PHP6.52 billion representing an 11.6% growth from the net income contribution of PHP5.84 billion in 2017.

By the end of 2018, Puregold was operating a total of 208 hypermarkets, 104 supermarkets, 42 extra, 16 S&R warehouse clubs, 39 S&R QSRs, for a total of 409 store outlets strategically located in the following areas:

	Puregold	S&R	QSR	TOTAL
Metro Manila	125	7	25	157
North Luzon	93	3	3	99
South Luzon	101	2	6	109
Visayas	25	2	4	31
Mindanao	10	2	1	13
TOTAL	354	16	39	409



# PUREGOLD

Price Club, Inc.



**Cosco's flagship grocery retail chain, first opened in Mandaluyong City in 1998. Marking its 20th anniversary in 2018, the retail giant delivered another strong performance and solidified its position as a leader in the country's grocery retail industry.**

Since its founding, Puregold has continuously expanded its nationwide retail network through organic expansion and strategic acquisition. To grow its market coverage and share, it introduced another store format in 2008 called the Puregold Jr. Supermarket, a smaller store carrying a variety of products. Two years later, Puregold Extra was launched—an even smaller yet similarly successful store chain. Through its various store formats, the company saw a significant increase in sales which in turn prompted more expansion opportunities.

Puregold continued its strong revenue growth in 2018, driven by the opening of 30 new stores across the country. The company currently operates a total of 354 groceries nationwide,

with 125 located in Metro Manila, 93 in Northern Luzon, 101 in Southern Luzon, 25 in Visayas and 10 in Mindanao. Net selling area at the end of the year also reached to 452,609 square meters.

Puregold ended the year with revenues amounting to PHP109.47 billion, an 11% increase from the previous year's PHP98.62 billion.

To continuously sustain its robust growth, Puregold is set to pursue acquisitions and expand its reach to new locations nationwide. The company is in fact targeting the opening of 25 additional grocery stores in 2019 and has allotted PHP1 billion for capital expenditures.



# S&R

## Membership Shopping

**S&R is a membership-shopping club modelled after the warehouse shopping chains introduced in the United States.**

The core concept of S&R is to deliver significant value to member-customers through an effective and efficient system anchored on aggressive buying, low-cost distribution and streamlined operations.

S&R started with warehouses in four key locations in BGC, Alabang, Congressional, and ASEANA in 2006. Since then, its reputation for offering a unique, streamlined shopping experience has only grown stronger; its warehouses, with their signature, hygienic white and blue design, have become meccas for high-quality imported groceries, food, and lifestyle products.

Fast forward to today, there are now 16 warehouses in the Philippines, a 3-fold increase since its inception. Moving forward, S&R plans to build at least 4 new warehouses a year, with its core focus on NCR and the provinces as its secondary market.

S&R has adopted a warehouse club concept where most of the products offered are in club packs. Majority of the merchandise are

imported brand names mostly sourced from the United States. Currently, S&R is the biggest reseller of imported quality products at very competitive prices.

Popular grocery items include fresh produce and fruits, Australian/New Zealand beef, a bevy of Western brands (from cereals to snacks, to soap and sundries), and the biggest assortment of imported chocolate among supermarkets. S&R also boasts the most comprehensive selection of imported wines and spirits among supermarkets. S&R doesn't stop at just groceries; consumer electronics and appliances, along with health and beauty products are also available for purchase.

S&R partnered with Unioil to give additional value to their membership. S&R members can enjoy PHP5.00 discount on gasoline 91, PHP3.00 discount on gasoline 95 and 97, PHP2.50 on diesel.

As 2019 rolls on, S&R continues to grow with no signs of slowing down.







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## SPECIALTY RETAIL

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The specialty retail segment plays an important role in the company's success as both Liquigaz Philippine Corporation and Office Warehouse, Inc. continued to record outstanding performances in 2018.

The liquid petroleum gas (LPG) business contributed PHP17.09 billion in the group's consolidated revenues, showing an increase of 30% compared to the previous year's PHP13.13 billion. The significant growth was mainly driven by the sustained improvements of global petroleum and gas prices.

On the other hand, the office and technology retail unit's revenue increased by 15% to PHP2.09 billion compared to the PHP1.82 billion revenue recorded in 2017, prompted by the ongoing store expansion program and enhanced product offerings as well as the aggressive sales and marketing campaigns.



# OFFICE WAREHOUSE, INC.

**For over 20 years now, Office Warehouse, Inc. (Office Warehouse) has been an everyday partner to small and medium businesses (SMBs), small offices and home offices (SOHOs), as well as the educational market, providing them quality, cost-efficient and value-adding office supplies.**

With strategically located stores, the company continuously provides its customers with various products of reputable brands ranging from the latest technology items, to office and school supplies and modern functional furniture pieces—all of which are priced competitively.

Office Warehouse closed 2018 with 88 stores operating, 67 of which are in Metro Manila and 21 in nearby provinces. The company's total retail area also reached more than 16,300 square meters.

In 2018, Office Warehouse managed to surpass the previous year's sales figures as a result of the company's dedication and persistence in addressing market concerns along with the continuous enhancement of its services. The company posted 15% increase over 2017. In terms of gross revenue, the company peaked at PHP2.09 billion, doubling the business size in just four years.

To enable a more market responsive service, Office Warehouse offers door-to-door delivery,

the fastest of which is same-day delivery and store-pick up option. It also operates an online platform for a more convenient shopping experience. Furthermore, the company has established the Points Plus+ Loyalty Program, wherein customers are entitled to exclusive perks and privileges.

Likewise, Office Warehouse started its cross docking services allowing for a more efficient and sustainable supply chain from source to customers. Through this, the company enhances in-store stock availability and provides simplified and cost-reductive processes.

Office Warehouse remains committed to providing only the best products and services and delivering satisfaction that is above par and in tune with the times. With several partnerships and plans for e-commerce and e-payment platforms in the works, Office Warehouse will continue to aggressively strengthen its customer portfolio and market reach.





# LIQUIGAZ

Philippines Corp.

Liquigaz Philippines Corp. (Liquigaz) was established in 1995 and was acquired by Cosco in 2014. The 100% acquisition enabled Cosco to successfully enter the liquefied petroleum gas (LPG) business.



Liquigaz caters to both the North and South Luzon regions with import terminals located in Mariveles, Bataan and Sariaya, Quezon, both with storage capacities of 12,500 MT – making its total LPG storage size of 25,000 MT, the biggest in the country.

In 2018, the LPG unit generated PHP17.09 billion in revenues, 30% higher compared to the PHP13.13 billion in 2017.

Overall sales volume also grew by 9.7%, driven by a higher demand for LPG and the continued improvements in global petroleum and gas prices.

Despite tough competition in the industry, Liquigaz recorded a 33.47% increase in net income to PHP626.23 million in 2018.

Industrial and commercial segments of the LPG business both grew by 6.4% and 7.2%, respectively.

Liquigaz grew its volume for the year after the completion of Sariaya storage facility and ended 2018 with two import terminals, three LPG bulk depots and five refilling plants.

The group's ERP upgrade started in late 2018 as part of current process improvements to achieve maximum business efficiency. The upgrade is set to be completed in the last quarter of 2019. Liquigaz also aims to reach the PHP1 billion mark in terms of NIAT in the same year.





## WINE AND LIQUOR DISTRIBUTION

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Cosco yet again finished 2018 with gains from its wine and liquor distribution businesses. The strong sales performance in this segment, which grew by 32% in number of cases sold, drove a 31% growth in revenues to PHP8.75 billion. Net profit was up 17.6% to PHP739 million in 2018 from PHP628 million in the previous year.

As consumers' disposable income steadily increases due to economic growth, the company's sales are projected to follow suit. This, coupled with the company's constant introduction of new product lines, will continue to produce positive results for the Wine and Liquor segment for years to come.

The 2018 performance showed the brandy category contributing the most to the group's total revenues, accounting for 67% of its sales. The Alfonso brand was particularly strong as a result of its aggressive sales and marketing campaign during the year.



# MONTOSCO, Inc.

**Montosco, Inc. acquired by Cosco in 2012, is a liquor importing and distributing company with a roster of high quality brands that have made significant inroads in the country's brandy and wine industries.**

The company's underlying ability to maintain its high standards is complemented by the knowledge, skills and hard work put in by each member of the dynamic team.

In 2018, Montosco became the exclusive importer and distributor of Gilbey's, Island Mixers and Seagrams 7 in the Philippines. The year also saw significant growth for the Alfonso brand as well as incremental sales in VISMIN with the expansion of Montosco's gin, vodka, whiskey and mixers portfolio.

Montosco's products cover all levels of imported brandies and wines from the most affordable brands to the premium quality labels. With the collaboration of sales and effective merchandising, the company offers exceptional products at good value for its customers. It further aims to do more than just

selling but to partner with customers in helping them to achieve their business goals through the placement of important brands and quality products.

The company is constantly expanding and will continue to explore new resources that are cost effective to keep up with the demands of its customers. Given its valuable partnerships internationally and locally, Montosco is a name to be reckoned with in the liquor industry.

Montosco is the exclusive Philippine importer and distributor of Spanish brands Alfonso Brandy and Vino Fontana from Bodegas Williams & Humbert and Muga wines from Bodegas Muga. The list also includes leading international brands from Diageo, Castel Wines and Pegoes Wines.



# MERITUS PRIME

Distributions, Inc.

**Meritus Prime Distributions, Inc. (Meritus) became the exclusive Philippine distributor of Beam Global Spirits & Wine in March 2010.**

In 2018, the company reported an increase in sales due mainly to significant growth in the high-end segments such as the single malt brands. The brandy segment has also exhibited continuous growth through brand activation, product sampling and increased brand awareness.

With its continuous expansion, the company's extensive portfolio now includes products in the Premium Wine category. Several notable international wine brand owners have partnered with Meritus, including the Treasury Wine Estates, the world's #1 listed wine company and South Africa's DGB. The company also carries

key whiskey brands from Beam International, Jim Beam and Maker's Mark.

Meritus is continuously gaining a strong foothold in the spirits industry. Proof of their strength came in the last quarter of 2016 when they partnered with Spain's well-renowned winery, Bodegas Williams & Humbert, to come up with a premium Spanish brandy, Alhambra Solera Brandy.

As it looks forward to the next few years, Meritus looks to grow its sales even further – targeting significant increase in 2019.





# PREMIER

Wine & Spirits, Inc.

**For more than 20 years now, Premier Wine & Spirits, Inc. (PWSI) has continuously developed its core business of wine and specialty beverage distribution in the Philippines.**

With its engagement in the sales, distribution and marketing of imported wine, spirits, beer and specialty beverage brands, Premier has a national distribution network covering all channels of the industry that is on premise, off premise, provincial and travel retail.

PWSI achieved excellent top line growth in 2018, increasing sales by 20% through its expanded portfolio of brands catering to new markets.

With the diverse demand in the mass and premium segments, PWSI took advantage of growth opportunities by maximizing the full array of their portfolio spanning across multiple categories in liquor and beverages.

PWSI caters to the imported and premium segment of the liquor and wines market. As such, it is not directly competing with the local brands.

Premier is the exclusive Philippine distributor of world-renowned brands like Chivas Regal Scotch Whisky, Glenlivet Single Malt, Martell Cognac, Absolut Vodka, Jose Cuervo Tequila and Jagermeister, among others. It also carries brands from Gruppo Campari, Heaven Hill, Distell and Osborne.

On the wine side, it has Momo, the country's favorite mass wine, Wolf Blass, Penfolds, Ruffino, Marques de Riscal and Vina Santa Carolina, which are among the leading wine companies in their respective countries of origin.





梅酒

SUNTORY  
UMEZU  
Liqueur  
aged in  
selected oak in  
YAMAZAKI



山崎蒸溜所貯蔵  
焙煎樽熟成梅酒

44.7%







## REAL ESTATE

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Cosco Capital, Inc.'s real estate business is strategically positioned to harness the industry's sustained growth through its wide range of assets and revenue streams. The group is primarily involved in the leasing of land, commercial buildings, and oil storage facilities through the following companies: Ellimac Prime Holdings, Inc., Fertuna Holdings Corp., Patagonia Holdings Corp., Nation Realty, Inc., NE Pacific Shopping Centers Corp., and Pure Petroleum Corp.

As of end 2018, Cosco's real estate segment maintained a total of 53 commercial properties with a combined gross leasable and land area of 516,373 square meters and a 98% average occupancy rate.



# ELLIMAC PRIME

Holdings, Inc.

Ellimac Prime Holdings, Inc. is the flagship company of Cosco's real estate group. It was formed through the merger of four property companies in December 2012, namely: PILGOR Development Services Corporation, 514 Shaw Property Holdings Inc., Cosco Prime Holdings, Inc. and Pajusco Realty Corporation.



The company owns 47 properties located in prime Metro Manila areas and across the Central and Northern Luzon provinces of Bulacan, Nueva Ecija, Quezon and Cagayan. Among these are 25 properties operating as commercial retail buildings, eight on land long-term lease arrangements and 14 more in various stages of planning and development.

Majority of Ellimac Prime's commercial retail buildings are being leased by prominent retail tenants in support of Puregold Price Club, Inc.'s retail customers. These include The Fairview Terraces, the group's second commercial shopping complex that was co-developed with Ayala Land, Inc. It is located in the prime commercial area of Quezon City, and houses an extensive mix of foreign and local brands offering an array of dining and shopping experiences for families and professionals.

For the year 2018, Ellimac Prime benefited from the full operations of its Marikina community mall which achieved a 99.79% occupancy rate as of the end of the year. The company also opened three new Puregold locations in Muntinlupa, Cavite and Zambales. Two new community malls are expected to open in 2019, one in the province of Aurora and the other in Negros Oriental.

The company's success is due in large part to its ability to select the best tenant mix to further enhance customer experience in its stores. Locators are meticulously screened and chosen based on their ability to meet the demands of the latest consumer trends.

Moving forward, Ellimac Prime will continue to acquire properties for future developments and capitalize on opportunities for further growth and expansion.



# FERTUNA

Holdings Corp.

Fertuna Holdings Corporation is considered the stronghold of Cosco Capital, Inc. in Central Luzon. Together with Ayala Land, Inc., Fertuna developed a 6.5 hectare parcel of leased land into a commercial retail complex called Harbor Point. The development, was formally opened in September 2012 with Puregold as its anchor tenant, and is strategically located within the heart and bustling economic hub of eco-friendly Subic Bay Freeport Zone.

To date, Harbor Point is known as a major shopping destination for residents of Central Luzon with its tax and duty free importation privileges under Republic Act 7277.

The significance of Harbor Point as a commercial hub solidifies Cosco's position as a leading real estate developer in the Central Luzon area. With future ventures and developments in the pipeline, the Fertuna group will continue to be major industry player for years to come.





# PATAGONIA

Holdings Corp.



Cosco is a major force in the Bonifacio Global City (BGC) real estate sector through Patagonia Holdings Corporation's acquisition of seven parcels of land with a total area of 1.3 hectares. The strategic location of the properties in the growing business district of BGC makes it a promising investment for future growth.

Patagonia Holdings' property also enabled S&R Membership Shopping to operate a retail outlet in BGC since the year 2000. The premier location of the land worked to the company's advantage, with its accessibility to patrons and consumers allowing for a steady market for S&R's retail outlet.

Patagonia Holdings' premium property attests to its attractiveness as a venture that investors can derive long-term benefits from.





# NATION REALTY, INC.

Nation Realty, Inc. is Cosco's mall development arm. Its 999 Shopping Mall is a specialty mall in the heart of Binondo that houses numerous bazaar stalls, giving shoppers a fresh approach to the flea market or "tiangge".



As 999 Shopping Mall became the retail hub for Filipino shoppers and resellers who want to purchase quality items at low prices, it has established Nation Realty as a dominant player in the retail shopping segment.

The shopping mall has two developments, the first of which was completed in 2011. It is a four storey building that offers a 31,931 square meter gross floor area. The second phase was completed a year later, with a seven storey building providing a gross floor area of 84,292 square meters.

In 2018, the mall continued to see an increase in foot traffic and mall customers due to its strategic location and accessibility to all modes of transportation. 100% of its stalls remained occupied, which makes for a wide variety of goods and products sold.

Moving forward, Nation Realty, Inc. will continue to grow the business through additional income-generating activities, mall expansion and increased branding efforts.

# NE PACIFIC

Shopping Centers Corp.

**NE Pacific Shopping Centers Corp. owns and operates the NE Pacific Mall, the ultimate shopping and family entertainment destination in the province of Nueva Ecija.**

The NE Pacific Mall, which was developed within a 12.5-hectare commercial property, has a total gross floor area of 32,800 square meters and 24,747.87 square meters of leasable spaces for different brands and establishments such as supermarkets, department stores, hardware and appliance centers, restaurants, and its very own Puregold Price Club as an anchor tenant.

The entry of S&R Warehouse Club as a tenant/locator adjacent to the NE Pacific Mall in 2018, along with the presence of other locators such as the PSA, SSS and Philhealth, continued to

generate increased foot traffic for the mall and helped it stay ahead of the competition.

Innovations and adaptations to customers' needs, a variety of regular events at the mall, and expansion to accommodate more food and retail tenants, have also helped the shopping center maintain its premier leadership position.

The contributions of NE Pacific Mall to the Cosco portfolio continue to strengthen the real estate arm of the group and provide it with a dynamism that allows for new avenues towards sustained growth.





# PURE PETROLEUM CORP.



Pure Petroleum Corp. (PPC) commenced operations of a fuel terminal facility inside the Subic Bay Freeport Zone in December of 2012. It currently operates at full capacity a tank farm of nine fuel storage tanks with a total capacity of 88.5 Million liters, 700 KL Ethanol and a 250 KL CME storage tank.

The terminal also operates jetty facilities for bulk loading and unloading, mooring buoys, water storage tanks for fire protection and maintenance as well as truck loading racks. It has adapted the best practices of the oil industry, applicable policies and procedures to ensure safe and efficient operation.

The year 2018 was another successful one for the company, with a 100% occupancy rate, an impressive safety and quality record and

the continued expansion of its facilities in the form of three new skid tanks with 50,000 liters of capacity. These led to a 64.65% increase in revenues to nearly PHP284 million.

Pure Petroleum looks to build on these accomplishments in the coming years, especially with the government's aggressive infrastructure program leading to an increased demand in petroleum products.





## OIL AND MINERALS

Cosco Capital, Inc. started out in 1988 as an oil and mineral exploration and development company called Alcorn Petroleum and Minerals Corporation (APMC). The primary purpose of the company was to engage in exploration, development, and production of oil and gas reserves. It shifted its purpose to that of a holding company in 2000 as Alcorn Gold Resources Corporation (AGRC) when the Securities and Exchange Commission approved the amendment of APMC's primary purpose.

In order to adapt to the ever-changing business atmosphere, AGRC recapitalized in 2013 and once again renamed itself as Cosco Capital, Inc. Cosco has been expanding ever since, and is now a successful conglomerate with diverse interests in retail, real estate, liquor distribution, and mining.



# ALCORN

Petroleum and Minerals Corp.

**Alcorn Petroleum and Minerals Corporation (APMC) is a wholly owned subsidiary of Cosco Capital, Inc. and was organized on July 5, 2013 to pursue exploration and development of Cosco's interests in oil and mining business activities.**

Among the company's interests is Service Contract (SC) 14 in the waters of Palawan, which includes four operational blocks granted by the Department of Energy: Nido (Block A), North Matinloc (Block B1), West Linapacan (Block C) and the retention area (Block D). The company has participating interest in all except in Nido Block A.

In offshore Northwest Palawan, the company operates SC 6A – Octon Block and SC 6B – Bonita Block. SC 6A covers 165,000 hectares of relatively shallow waters while SC No. 6B only covers 53,293 hectares. Philodrill Corporation recently completed the resources assessment of the Octon field.

Along with the company's partners - Phinma Petroleum and Geothermal, Inc. and PetroEnergy Resources Corporation, the company has decided to withdraw from onshore Service Contract 51 Northwest Leyte due to technical challenges. The company has advised the Department of Energy of Alcorn's relinquishment of the area on July 4, 2018.

Over the years, Alcorn has generated positive and sustainable returns for the company. As Cosco continues to expand its business portfolio, its oil and minerals business segment remains an integral part of the growth strategy moving forward.



# BOARD OF DIRECTORS

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**LUCIO L. CO**  
Chairman



**SUSAN P. CO**  
Vice-Chairman



**LEONARDO B. DAYAO**  
President



**LEVI B. LABRA**  
Director



**ROBERTO JUANCHITO T. DISPO**  
Director



**OSCAR S. REYES**  
Independent Director



**ROBERT Y. COKENG**  
Independent Director



**ATTY. BIENVENIDO E. LAGUESMA**  
Independent Director



## **LUCIO L. CO**

**64, Filipino, Chairman of the Board**

Mr. Co has served as Director of the Company since 1997.

Mr. Co currently holds the following positions in other publicly-listed companies: Chairman of Puregold Price Club, Inc. and Da Vinci Capital Holdings, Inc., and Director of Philippine Bank of Communications.

Mr. Co is also the Chairman of the following privately-owned companies: Bellagio Holdings, Inc., Invescap Incorporated, P.G. Holdings, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.

He is also a Director of the following privately-owned companies: Tower 6789 Corporation, Catuiran Hydropower Corporation, Karayan Hydropower Corporation, LCCK & Sons Realty Corporation, League One Finance and Leasing Corporation, and PPCI Subic, Inc.

He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

## **SUSAN P. CO**

**61, Filipino, Vice-Chairman**

Mrs. Co has served as Director of the Company since June 2013.

Mrs. Co currently holds the following positions in other publicly-listed companies: Vice-Chairman of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

She is currently the Chairman of Tower 6789 Corporation and Director of the following private companies: Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., KMC Realty Corp., Luis Co Chi Kiat Foundation, Inc., P.G. Holdings, Inc., PPCI Subic Inc., Puregold Duty Free (Subic), Inc., Puregold

Duty Free, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation and Union Equities, Inc.

Mrs. Co received a Bachelor of Science Degree in Commerce from the University of Santo Tomas.

## **LEONARDO B. DAYAO**

**75, Filipino, President**

Mr. Dayao has served as Director of the Company since October 1997.

Mr. Dayao currently holds the following positions in publicly-listed companies: Director of Puregold Price Club, Inc. and Vice-Chairman of the Philippine Bank of Communications.

He also holds the following positions in private companies: Chairman of Catuiran Hydropower Corporation, League One Finance and Leasing Corporation, PSMT Philippines, Inc.; President of Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alerce Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Properties, Inc., Union Equities, Inc.; and Director of Karayan Hydropower Corporation, and Puregold Realty Leasing & Management, Inc.

He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant and has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

## **LEVI B. LABRA**

**61, Filipino, Director**

Mr. Labra has served as Director of the Company since in June 2013.

He is a graduate of the University of San Carlos, major in Business Administration (Cum Laude). He worked for Procter and Gamble Philippines for 35 years in Sales, Forecasting, Supply Chain, Trade Marketing and Organization Development.

He was the Sales Head and a member of the management committee for 20 years and Regional Sales Manager for three years building the sales organization and systems for India, Indonesia, Malaysia, Singapore, South Korea and Thailand.

Currently, a director of Cosco Capital, Inc., he is also engaged in strategy and operations development with various companies in the field of retail, consumer goods, micro-insurance, telecom and Agri product distributorships.

## **ROBERTO JUANCHITO T. DISPO**

**55, Filipino, Director**

Mr. Dispo has served as Director of the Company since in June 2017.

He is concurrently the Vice-Chairman and President of Cirtek Holdings Phils. Corporation, another publicly-listed company.

Mr. Dispo is a seasoned investment banker with extensive experience in capital raising, investments, strategic acquisition, and asset management. He was the former President of Money Market Association of the Philippines and is currently the Chairman of Capital Markets Development Committee of FINEX. He also held positions in various Government offices including Department of National Defense, Department of Trade and Industry and Department of Finance.

Mr. Dispo holds a degree of Bachelor of Science in Economics and Business Management from San Sebastian College and Pamantasan ng Lungsod ng Maynila, respectively. He also completed Masters in Business Administration from Pamantasan ng Lungsod ng Maynila and Masters in Business Economics from the University of the Asia and the Pacific.

He also completed Management Development Program from Asian Institute of Management and a diploma course in International Banking and Finance from the Economic Institute, University of Colorado.

## **OSCAR S. REYES**

**73, Filipino, Independent Director**

Mr. Reyes has served as Independent Director of the Company since July 2009.

Mr. Reyes is a member of the Advisory Board of the Philippine Long Distance Telephone Company (PLDT), Advisory Council of Bank of the Philippine Islands and of the Board of Directors of Manila Electric Company where he also holds the position of President and Chief Executive Officer, Manila Water Co., PLDT Communications and Energy Ventures Inc., Basic Energy Corporation, Sun Life Financial Phils, Inc., Sun Life Prosperity Funds, Grepa Life Funds, Clark Electric Distribution Corp., Republic Surety & Insurance Co., Inc., and PXP Energy Corp., among other firms. He is the Chairman of Pepsi Cola Products Philippines, Inc., Meralco Industrial Engineering Services Corporation (MIESCOR), CIS Bayad Center Inc., Meralco Energy, Inc. (MEI), Atimonan One Energy Inc., Redondo Peninsula Energy, Inc., Pacific Light Pte. Ltd., MSpectrum, Inc. and MRail Inc., and Vice Chair of Meralco PowerGen Corporation.

He is a member of the Board of Trustees of Pilipinas Shell Foundation Inc., One Meralco Foundation, SGV Foundation and El Nido Foundation. He served as Country Chairman of Shell Companies in the Philippines, President of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B.V.

Mr. Reyes completed his Bachelor of Arts Major in Economics, Cum Laude, from the Ateneo de Manila University in 1965 and Master of Business Administration (academic units completed) from the Ateneo Graduate School of Business Administration in 1971; Program for Management Development from the Harvard Business School, Boston, in 1976; and Commercial Management Study Program at the Lensbury Centre, Shell International Petroleum Co., United Kingdom. He also took up Business Management Consultants and Trainers Program at the Japan Productivity Center/ Asian Productivity Organization, Tokyo, in 1968; and International Management Development Program leading to (1) Diploma in Business Administration and (2) Certificate in Export Promotion at the Waterloo University, Ontario, Canada in 1969.





## **ROBERT Y. COKENG**

**68, Filipino, Independent Director**

Mr. Cokeng has served as Independent Director of the Company since June 2013.

He also serves as a director and/or officer in the following companies: Chairman, President and CEO of F&J Prince Holdings Corporation (publicly-listed Company); President and CEO of Magellan Capital Holdings, Corp.; President and CEO of Magellan Utilities Dev't. Corp.; Chairman, President and CEO of Consolidated Tobacco Industries of the Phils.; Chairman and President of Center Industrial and Investment, Inc.; Chairman of Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee of Business Process Outsourcing International; Chairman of IPADS Developers, Inc. He was also the Senior Investment Officer and Philippine Country Officer of International Finance Corporation (World Bank Group) from 1976 to 1986. He worked on investments in East Asia from Washington D.C. Headquarters and from Regional Mission for East Asia located in Manila.

He graduated Magna Cum Laude in Ateneo de Manila University with degree of Bachelor of Arts Economics Honors Program. He also earned his Master in Business Administration in Harvard University with High Distinction and elected a Baker Scholar.

## **ATTY. BIENVENIDO E. LAGUESMA**

**68, Filipino, Independent Director**

Atty. Laguesma served the Philippine Government for 25 years holding various positions including that of Secretary of the Department of Labor and Employment and Presidential Assistant at the Office of the President of the Philippines.

He has been in the private practice of law for 15 years now being a Senior Partner at Laguesma Magsalin Consulta and Gastardo Law offices, former Director of First Metro Investment Corporation, former Commissioner of the Social Security System, Member of the Board of Regents of the Pamantasan ng Lungsod ng Maynila, and Member of the Integrated Bar of the Philippines and the Philippine Bar Association.

He served as Chairman of Charter Ping An Insurance Corporation from 2009 to 2016 and currently its Vice-Chairman.

Atty. Laguesma graduated from the Ateneo De Manila, College of Law, in 1975 and completed Bachelor of Arts degree in Political Science at the Lyceum of the Philippines in 1971.



# cosco capital

i n c o r p o r a t e d

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **COSCO CAPITAL, INC. AND SUBSIDIARIES** (the "Group"), is responsible for the preparation and fair representation of the financial statements including the schedules attached therein, for the years ended **December 31, 2018 and 2017**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

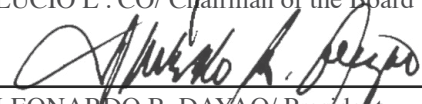
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern and using the going concern basis of accounting unless management intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

Signature   
LUCIO L. CO/ Chairman of the Board

Signature   
LEONARDO B. DAYAO/ President

Signature   
TEODORO A. POLINGA/ Chief Finance Officer

APR 08 2019

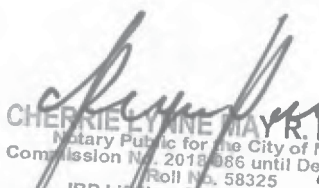
SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2019 affiants exhibiting to me their respective Tax Identification Number, as follows:

Name
LUCIO L. CO
LEONARDO B. DAYAO
TEODORO A. POLINGA

TIN
108-975-971
135-546-815
104-883-077

Doc. No. 103 ;  
Page No. 34 ;  
Book No. 20 ;  
Series of 2019

Cosco Capital  
Incorporated

  
CHERRY L. MAY R. PUREZA  
Notary Public for the City of Manila  
Commission No. 2018-086 until Dec 31, 2019  
Roll No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 802123/01-03-19/Mla.  
MCLE Compliance No. V-0012777/12-15-2015  
No. 900 Romualdez St., Paco, Manila







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Email [ph-inquiry@kpmg.com.ph](mailto:ph-inquiry@kpmg.com.ph)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Cosco Capital, Inc. and Subsidiaries**  
900 Romualdez Street  
Paco, Manila

### *Opinion*

We have audited the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

### *Basis for Opinion*

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

## Key Audit Matters

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

### *Revenue Recognition (P168.39 billion)*

Refer to Note 3 to the consolidated financial statements.

#### *The risk*

Revenue is an important measure used to evaluate the performance of the Group and is generated from various sources. It is accounted for when sales transactions are completed, when goods are delivered or services are rendered to the customers and all economic risks of the Group are transferred. While revenue recognition and measurement is not complex for the Group, revenues may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement.

#### *Our response*

We performed the following audit procedures, among others, on revenue recognition:

- We evaluated and assessed the revenue recognition policies of the Group in accordance with Philippine Financial Reporting Standard (PFRS) 15, *Revenue from Contracts with Customers*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- We involved our information technology specialists to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- For retail, specialty retail and liquor distribution segments, we tested, on a sampling basis, sales transactions for a selected period before and after year-end to supporting documentation such as generated sales summary reports from point-of-sale system as reconciled with cash receipts, sales invoices, and delivery receipts, as applicable, to assess whether these transactions are recorded in the correct reporting period. For real estate and property leasing segment, we reviewed the completeness and accuracy of the master list of tenants and, on a sampling basis, we inspected and reviewed new and/or amended lease contracts to ascertain the existence of these lease contracts as well as the completeness and accuracy of the lease terms.
- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents, as applicable, to ascertain that the revenue recognition criteria is met.
- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.



*Valuation of Goodwill, Trademark and Customer Relationships (P20.85 billion)*  
Refer to Note 14 to the consolidated financial statements.

*The risk*

The Group holds significant balances pertaining to goodwill, trademark and customer relationships as a result of several business acquisitions. The annual impairment test of these assets was significant to our audit since this is complex and judgmental by nature as it is based on assumptions of future market and/or economic conditions. The key assumptions used include growth rates, discount rates and sensitivity analyses.

*Our response*

We performed the following audit procedures, among others, around impairment testing of goodwill, trademark and customer relationships:

- We obtained the Group's discounted cash flow model that tests the carrying value of goodwill.
- We evaluated the reasonableness of key assumptions used by management in deriving the recoverable amount. These procedures included using our own internal valuation specialist to evaluate the key inputs and assumptions for growth and discount rates.
- We reviewed the cash flows used, with comparison to recent performance, trend analysis and market expectations, and by reference to prior year's forecast, where relevant, and assessing whether the Group has achieved them.
- We evaluated the adequacy of the disclosures in respect of impairment of goodwill in the consolidated financial statements.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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



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

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

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

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

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

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

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

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





- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

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

DINDO MARCO M. DIOSO

Partner

CPA License No. 0095177

SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-30-2016

Issued October 18, 2016; valid until October 17, 2019

PTR No. MKT 7333616

Issued January 3, 2019 at Makati City

March 29, 2019

Makati City, Metro Manila

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands Pesos)

		<b>December 31</b>	
	<i>Note</i>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	<b>P16,784,861</b>	P15,353,098
Receivables - net	6	<b>6,630,927</b>	7,901,686
Inventories	7, 21	<b>23,931,657</b>	21,194,691
Financial assets at fair value through profit or loss (FVPL)	8	<b>36,503</b>	46,888
Financial assets at fair value through other comprehensive income (FVOCI)	9	<b>7,643</b>	8,618
Due from related parties	26	<b>47,971</b>	74,354
Prepaid expenses and other current assets	10, 36	<b>2,984,517</b>	2,799,075
		<b>50,424,079</b>	47,378,410
Assets of disposal group classified as held for sale	34	<b>7,320,895</b>	-
<b>Total Current Assets</b>		<b>57,744,974</b>	47,378,410
<b>Noncurrent Assets</b>			
Investments	11	<b>611,054</b>	933,797
Property and equipment - net	12	<b>26,343,793</b>	26,622,702
Investment properties - net	13	<b>10,836,618</b>	10,753,607
Intangibles and goodwill - net	14	<b>21,095,502</b>	22,776,064
Deferred oil and mineral exploration costs - net	15	<b>123,365</b>	122,947
Deferred tax assets - net	28	<b>27,239</b>	64,438
Other noncurrent assets	16, 23, 36	<b>3,585,285</b>	2,962,324
<b>Total Noncurrent Assets</b>		<b>62,622,856</b>	64,235,879
		<b>P120,367,830</b>	P111,614,289
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	17	<b>P13,015,167</b>	P13,793,132
Short-term loans	18	<b>4,866,300</b>	5,562,500
Current maturities of long-term debts	18	<b>49,999</b>	2,443,402
Income tax payable		<b>928,796</b>	1,032,750
Due to related parties	26	<b>1,365,863</b>	849,772
Other current liabilities	19	<b>436,297</b>	505,407
		<b>20,662,422</b>	24,186,963
Liabilities of disposal group classified as held for sale	34	<b>1,834,651</b>	-
<b>Total Current Liabilities</b>		<b>22,497,073</b>	24,186,963
<b>Noncurrent Liabilities</b>			
Long-term debts - net of current portion	18	<b>6,572,209</b>	4,782,210
Deferred tax liabilities - net	28	<b>693,099</b>	774,280
Retirement benefits liability	27	<b>508,533</b>	592,387
Other noncurrent liabilities	22	<b>3,256,701</b>	2,834,358
<b>Total Noncurrent Liabilities</b>		<b>11,030,542</b>	8,983,235
<b>Total Liabilities</b>		<b>33,527,615</b>	33,170,198

Forward





December 31			
	Note	2018	2017
<b>Equity</b>			
Capital stock	29	<b>P7,405,264</b>	P7,405,264
Additional paid-in capital	29	<b>9,634,644</b>	9,634,644
Treasury stock	29	<b>(1,197,727)</b>	(628,203)
Remeasurements of retirement liabilities - net of tax	27	<b>113,822</b>	28,365
Net unrealized gain on financial assets at FVOCI	9	<b>3,420</b>	5,012
Retained earnings		<b>43,694,953</b>	38,147,384
<b>Total Equity Attributable to Equity Holders of Cosco Capital, Inc.</b>		<b>59,654,376</b>	54,592,466
<b>Non-controlling Interests</b>		<b>27,185,839</b>	23,851,625
<b>Total Equity</b>		<b>86,840,215</b>	78,444,091
		<b>P120,367,830</b>	P111,614,289

See Notes to the Consolidated Financial Statements.

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands Pesos)

		Years Ended December 31		
	Note	2018	2017	2016
<b>REVENUES</b>	20, 30			
Net sales		<b>P166,609,216</b>	P144,134,663	P127,406,728
Services		<b>1,778,434</b>	1,614,638	1,778,296
Production lifting		-	528	1,177
		<b>168,387,650</b>	145,749,829	129,186,201
<b>COST OF SALES</b>	21, 36			
Cost of goods sold		<b>139,049,004</b>	119,689,636	105,490,079
Cost of services		<b>1,079,074</b>	917,463	887,905
		<b>140,128,078</b>	120,607,099	106,377,984
<b>GROSS PROFIT</b>		<b>28,259,572</b>	25,142,730	22,808,217
<b>OTHER OPERATING INCOME</b>	23, 36	<b>2,994,765</b>	2,759,815	2,524,485
		<b>31,254,337</b>	27,902,545	25,332,702
<b>OPERATING EXPENSES</b>	24, 36	<b>19,166,531</b>	16,426,309	14,526,122
<b>INCOME FROM OPERATIONS</b>		<b>12,087,806</b>	11,476,236	10,806,580
<b>OTHER INCOME (EXPENSES) - Net</b>				
Interest expense	18	<b>(468,844)</b>	(406,413)	(345,678)
Interest income		<b>200,434</b>	133,433	136,642
Others - net	25	<b>384,741</b>	(78,870)	(40,098)
		<b>116,331</b>	(351,850)	(249,134)
<b>INCOME BEFORE INCOME TAX</b>		<b>12,204,137</b>	11,124,386	10,557,446
<b>INCOME TAX EXPENSE</b>	28	<b>3,399,340</b>	3,291,071	3,088,052
<b>NET INCOME</b>		<b>P8,804,797</b>	P7,833,315	P7,469,394
<b>Net income attributable to:</b>				
Equity holders of Cosco Capital, Inc.		<b>P5,547,569</b>	P4,924,647	P4,734,101
Non-controlling interests		<b>3,257,228</b>	2,908,668	2,735,293
		<b>P8,804,797</b>	P7,833,315	P7,469,394
Basic/Diluted earnings per share attributable to equity holders of Cosco Capital, Inc.	31	<b>P0.78</b>	P0.69	P0.66

See Notes to the Consolidated Financial Statements.



**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands Pesos)

		Years Ended December 31		
	Note	2018	2017	2016
<b>NET INCOME</b>		<b>P8,804,797</b>	P7,833,315	P7,469,394
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that may be reclassified to profit or loss in subsequent periods</b>				
Changes in fair values of financial assets at FVOCI	9	(1,592)	419	(388)
<b>Item that will never be reclassified subsequently to profit or loss</b>				
Remeasurements of retirement benefits		231,550	77,554	85,948
Income tax effect		(69,107)	(23,253)	(25,763)
		<b>160,851</b>	54,720	59,797
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>P8,965,648</b>	P7,888,035	P7,529,191
<b>Total comprehensive income attributable to:</b>				
Equity holders of Cosco Capital, Inc.		<b>P5,631,435</b>	P4,952,739	P4,763,168
Non-controlling interests		<b>3,334,213</b>	2,935,296	2,766,023
		<b>P8,965,648</b>	P7,888,035	P7,529,191

See Notes to the Consolidated Financial Statements.

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
 (Amounts in Thousands Pesos)

	Attributable to Equity Holders of the Parent Company						
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Remeasurements of Retirement Benefits - Net of tax	Net Unrealized Gain on Financial Assets at FVOCI	Retained Earnings	Non-controlling Interest
Balance at January 1, 2018	P7,405,264	P9,634,644	(P628,203)	P28,365	P5,012	P38,147,384	P23,851,625
Net income for the year	-	-	-	-	-	5,547,569	3,257,228
Other comprehensive loss for the year	-	-	-	85,457	(1,592)	-	76,986
Total comprehensive income for the year	-	-	-	85,457	(1,592)	5,547,569	3,334,214
Acquisition of treasury shares	-	-	(569,524)	-	-	-	-
Balance at December 31, 2018	P7,405,264	P9,634,644	(P1,197,727)	P113,822	P3,420	P43,694,953	P27,185,839
Balance at January 1, 2017	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,565	P21,458,344
Net income for the year	-	-	-	-	-	4,924,647	2,908,668
Other comprehensive loss for the year	-	-	-	27,673	419	-	26,628
Total comprehensive income for the year	-	-	-	27,673	419	4,924,647	2,935,296
Effect of business combination	-	-	-	-	-	150,313	-
Acquisition of treasury shares	-	-	(104,338)	-	-	-	-
Cash dividends	-	-	-	-	-	(736,141)	(542,015)
Balance at December 31, 2017	P7,405,264	P9,634,644	(P628,203)	P28,365	P5,012	P38,147,384	P23,851,625
Balance at January 1, 2016	P7,405,264	P9,634,644	(P440,507)	(P28,577)	P4,981	P29,868,620	P19,099,532
Net income for the year	-	-	-	-	-	4,734,101	2,735,293
Other comprehensive income for the year	-	-	-	29,455	(388)	-	30,730
Total comprehensive income for the year	-	-	-	29,455	(388)	4,734,101	2,766,023
Effect of business combination	-	-	-	(186)	-	(204,124)	(700)
Acquisition of treasury shares	-	-	(83,358)	-	-	-	-
Cash dividends	-	-	-	-	-	(590,032)	(406,511)
Balance at December 31, 2016	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,565	P21,458,344
							P71,788,237

**See Notes to the Consolidated Financial Statements.**



**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands Pesos)

		Years Ended December 31		
	Note	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P12,204,137</b>	P11,124,386	P10,557,445
Adjustments for:				
Depreciation and amortization	12, 13, 14	<b>2,375,513</b>	2,050,105	1,788,344
Interest expense	18	<b>468,844</b>	406,414	345,678
Rent expense in excess of billings		<b>422,342</b>	259,803	416,995
Gain on sale of investment		<b>(362,810)</b>	-	-
Interest income	4, 5	<b>(200,434)</b>	(133,433)	(136,642)
Retirement benefits cost	27	<b>171,120</b>	159,361	132,877
Unrealized foreign exchange loss (gain)		<b>(24,200)</b>	23,468	19,353
Gain on disposal of property and equipment		<b>(15,815)</b>	(206)	(377)
Share in net loss (income) of joint ventures and associates	11, 25	<b>(17,142)</b>	132,872	62,521
Unrealized loss (gain) in financial assets at FVPL	8, 25	<b>10,385</b>	(11,779)	(676)
Gain on insurance claim	26	<b>(3,383)</b>	(14,268)	-
Dividend income		<b>(680)</b>	(1,856)	(825)
Operating income before changes in working capital		<b>15,027,877</b>	13,994,867	13,184,693
Decrease (increase) in:				
Receivables - net		<b>281,137</b>	(1,095,981)	(1,391,862)
Investments in trading securities		-	-	-
Inventories		<b>(3,264,295)</b>	(1,402,325)	(3,051,673)
Prepaid expenses and other current assets		<b>(673,448)</b>	(1,930,501)	(47,677)
Due from related parties		<b>(23,398)</b>	110,782	(28,907)
Increase (decrease) in:				
Accounts payable and accrued expenses		<b>2,640,595</b>	2,175,362	152,687
Due to related parties		<b>578,828</b>	159,437	233,177
Other current liabilities		<b>(69,110)</b>	(37,136)	100,678
Other noncurrent liabilities		-	41,196	(11,401)
Cash generated from operations		<b>14,498,186</b>	12,015,701	9,139,715
Income taxes paid		<b>(3,137,784)</b>	(2,767,602)	(2,651,642)
Interest paid		<b>(458,398)</b>	(495,049)	(346,903)
Retirement benefits paid		-	(1,876)	(13,567)
Net cash provided by operating activities		<b>10,902,004</b>	8,751,174	6,127,603

Forward

<b>Years Ended December 31</b>				
	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to:				
Property and equipment	12	(P4,415,071)	(P4,439,923)	(P3,909,301)
Investment properties	13	(312,657)	(680,527)	(725,371)
Intangibles	14	(41,705)	(30,349)	(70,901)
Investments	11	(32,500)	(140,000)	-
Short-term investments		-	-	(347,973)
Proceeds from:				
Sale of investment		600,000	-	-
Maturity of short-term investments		-	909,929	-
Insurance claim		3,383	14,268	-
Disposal of property and equipment		72,392	9,195	4,559
Cash given up in assets held for sale	34	(1,063,131)	-	-
Effect of business combination		-	(270,000)	(224,627)
Interest received		200,434	133,433	136,642
Increase in other noncurrent assets		(865,381)	(9,640)	(433,128)
Dividends received		676	1,856	824
Increase in oil and mineral exploration		(417)	(1,567)	(486)
Net cash used in investing activities		(5,853,977)	(4,503,325)	(5,569,762)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availment of short-term loans	18	10,220,000	6,749,500	3,205,000
Payment of short-term loans	18	(10,916,200)	(6,549,500)	(2,109,000)
Cash dividends paid		(1,764,740)	(1,431,408)	(1,532,952)
Payment of long-term debts	18	(610,000)	(170,001)	(1,925,180)
Buyback of capital stocks	29	(569,524)	(104,338)	(83,358)
Net cash used in by financing activities		(3,640,464)	(1,505,747)	(2,445,490)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>				
		24,200	(23,468)	(19,353)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		1,431,763	2,718,634	(1,907,002)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
		15,353,098	12,634,464	14,541,466
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	4	P16,784,861	P15,353,098	P12,634,464

See Notes to the Consolidated Financial Statements.



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**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Thousand Pesos, Except Par Value,  
Number of Shares and Per Share Data and Exchange Rates)

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**1. Reporting Entity**

Cosco Capital, Inc. (the Parent Company or Cosco), formerly Alcorn Gold Resources Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 19, 1988. Its shares of stock are publicly traded in the Philippine Stock Exchange (PSE) since September 26, 1988. As at December 31, 2018 and 2017, the Parent Company's public float stood at 24.69% and 26.56%, respectively.

On October 8, 1999, the Parent Company's shareholders approved the amendment of its primary purpose from an oil and mineral exploration and development corporation into a holding company so that it may pursue other businesses as opportunity comes. The original primary purpose is now included as one of the secondary purposes of the Parent Company. On January 13, 2000, the SEC approved the aforementioned amendments of the Parent Company's Articles of Incorporation. As a holding company, Cosco may engage in any business that may add to its shareholders' worth.

On December 10, 2012, in a special meeting, the Board of Directors ("Board" or "BOD") of the Parent Company approved the subscription of the "Lucio L. Co Group" to the unissued authorized capital stock of the Parent Company from the proposed increase in the authorized capital stock of the Parent Company at a subscription price of P15 per share for a total of 4,987,560,379 new shares at an aggregate subscription price of P74.8 billion worth of shares in Puregold Price Club, Inc. (PPCI), Ellimac Prime Holdings, Inc., Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco, Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp., and the corresponding payment thereof by way of assignment of the shares owned by the Lucio L. Co Group in these aforementioned companies, under the terms and conditions to be determined by the Parent Company's BOD.

On December 11, 2012, in a special meeting, the Parent Company's shareholders approved the increase in the Parent Company's authorized capital stock and increase in par value from P3 billion divided into 300 billion common shares with a par value of P0.01 per share to P10 billion divided into 10 billion common shares with a par value of P1 per share. On the same meeting, the Parent Company's shareholders resolved to change the Parent Company's corporate name from Alcorn Gold Resources Corporation to Cosco Capital, Inc. and to reorganize and spin-off its oil and mineral assets and operations into a wholly-owned subsidiary.

On April 22, 2013, the SEC approved the restructuring of the Parent Company's authorized capital stock as well as the change of its corporate name. Further, the SEC confirmed the final number of subscribed shares of 4,987,406,421 at an aggregate revised subscription price of P74.81 billion which will be paid through assignment of shares (share swap). The transaction is exempt from the registration requirements of the Securities Regulation Code of the Philippines.



On May 31, 2013, pursuant to the SEC-approved increase of capital stock and share swap transaction, the Parent Company implemented the following: (a) issuance and listing of 4,987,406,421 new shares of the Parent Company; (b) cross trade at the PSE of PPCI shares to the Parent Company as consideration for the issuance of the new shares; (c) issuance to the subscribers, the Lucio L. Co Group, pursuant to the share swap; and (d) special block sale at the PSE of 1,600,000,000 of the new shares placed to Qualified Institutional Buyers transacted at PSE at P10.50 per share.

As a result of the above transaction, the companies mentioned above became subsidiaries of Cosco. The transaction was accounted for using the pooling of interests method. Accordingly, the Parent Company recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

The Parent Company's principal office, which is also its registered office address, is at 900 Romualdez Street, Paco, Manila.

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## 2. Basis of Preparation

### Statement of Compliance

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

The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on March 29, 2019.

This is the first set of the Company's annual financial statements in which PFRS 15 *Revenue from Contracts with Customers* and PFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 3 to the financial statements.

### Basis of Measurement

The Group's consolidated financial statements have been prepared on the historical cost basis of accounting, except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Bases
Financial assets at FVPL	Fair value
Financial assets at FVOCI (except for unquoted equity investments which are measured at cost)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest thousand pesos (P000), unless otherwise stated.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2018 and 2017 and for each of the three years ended December 31, 2018. The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as “the Group”):

	Effective Percentage of Ownership			
	2018		2017	
	Direct	Indirect	Direct	Indirect
<b>Retail</b>				
Puregold Price Club, Inc. (PPCI) <sup>(a)</sup> and Subsidiaries	51 <sup>(e)</sup>	-	51	-
▪ Kareila Management Corporation (KMC) and Subsidiaries	-	51	-	51
▫ S&R Pizza (Harbor Point), Inc.	-	51	-	51
▫ S&R Pizza, Inc.	-	51	-	51
▪ PPCI Subic, Inc. (PSI)	-	51	-	51
▪ Entenso Equities Incorporated (EEI) and Subsidiaries	-	51	-	51
▫ Goldtempo Company Incorporated (GCI) <sup>(a)</sup>	-	51	-	51
▫ Daily Commodities, Inc. <sup>(a)</sup>	-	51	-	51
▫ First Lane Super Traders Co., Inc. <sup>(a)</sup>	-	51	-	51
▪ Purepadala, Inc. <sup>(c)</sup>	-	51	-	-
<b>Liquor Distribution</b>				
Montosco, Inc.	100	-	100	-
Meritus Prime Distributions, Inc.	100	-	100	-
Premier Wine and Spirits, Inc.	100	-	100	-
<b>Real Estate and Property Leasing</b>				
Nation Realty, Inc.	100	-	100	-
Patagonia Holdings Corp.	100	-	100	-
Ellimac Prime Holdings, Inc. (EPHI)	100	-	100	-
Fertuna Holdings Corp.	100	-	100	-
Pure Petroleum Corp.	100	-	100	-
NE Pacific Shopping Centers Corporation (NPSCC)	100	-	100	-
<b>Specialty Retail</b>				
Office Warehouse, Inc. and a Subsidiary	100	-	100	-
▫ Office Warehouse (Harbor Point), Inc. <sup>(d)</sup>	-	100	-	100
Canaria Holdings Corporation (CHC) and Subsidiaries	90	-	90	-
▪ Liquigaz Philippines Corporation (LPC) <sup>(b)</sup>	-	90	-	90
▪ Calor Philippines Holdings, Inc. (CPHI)	-	90	-	90
<b>Oil and Mining</b>				
Alcorn Petroleum and Minerals Corporation (APMC)	100	-	100	-

<sup>(a)</sup> The merger of PPCI, Goldtempo Company Incorporated, Daily Commodities, Inc., and First Lane Super Traders Co., Inc. (PPCI as the absorbing entity), was approved by SEC on November 22, 2017. PPCI adopts January 1, 2018 as the effective date of the merger.

<sup>(b)</sup> On October 19, 2018, the Board of Directors authorized the sale of LPC, resulting in classification as a disposal group held-for-sale.

<sup>(c)</sup> Incorporated and registered with the Philippine SEC on October 15, 2018 as a money remittance company.

<sup>(d)</sup> Incorporated and registered with the Philippine SEC on December 6, 2017 and started its commercial operations in 2018.

<sup>(e)</sup> On January 16, 2019, PPCI announces that it conducted a Php4,693,500,000 top-up placement of approximately 104 million common shares at a price of Php45.00 per share. PPCI completed the placement upon the approval by its BOD. This resulted in a dilution of ownership of the Parent Company to PPCI from 51.02% to 49.16%.

All subsidiaries are incorporated in the Philippines and the functional currency is the Philippine peso.

### *Subsidiaries*

Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. A subsidiary is an entity that is controlled by the Parent Company (i.e., either directly or through intermediate parent companies within the Group). Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gain control until the date the Parent Company ceases to control the subsidiary.

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

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

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

- derecognizes the carrying amounts of the assets (including goodwill, if any) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, and the cumulative transaction differences recorded in equity;
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and



- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

#### *Non-controlling Interests (NCI)*

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained, and any retained earnings or deficit in consolidated statements of income; and reclassifies the parent's share of components previously recognized in other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate.

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: PPCI, LPC, CHC and CPHI (see Note 29).

#### *Business Combinations other than under Common Control*

Business combinations and acquisition of entities other than those under common control are accounted for using the acquisition method as at the acquisition date - i.e., when control is transferred to the Group. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9, *Financial Instruments* either in profit or loss or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, a bargain purchase gain is recognized immediately in the consolidated statements of income. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

The Group performs its impairment test of goodwill on an annual basis or earlier whenever events or changes in circumstances indicate that goodwill may be impaired.

#### *Common Control Business Combinations*

Business combinations involving entities under common control are business combinations in which all of the entities are controlled by the same party both before and after the business combination. The Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Question and Answer (PIC Q&A) No. 2011-02, *PFRS 3.2 Common Control Business Combinations*.

The purchase method of accounting is used, if the transaction was deemed to have commercial substance from the perspective of the reporting entity. In determining whether the business combination has commercial substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interests method.

In applying the pooling of interests method, the Group follows PIC Q&A No. 2012-01, *PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the acquired company for the reporting period in which the common control business combinations occur, are included in the Group's consolidated financial statements at their carrying amounts from the actual date of the acquisition. No adjustments are made to reflect the fair values, or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired company is considered as equity adjustment from business combinations, included under "Retained earnings" account in the equity section of the statements of financial position; and
- As a policy, no restatement of financial information in the Group's consolidated financial statements for periods prior to the transaction is made.

#### Management's Use of Judgments, Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRS require management to exercise judgments, make accounting estimates and use assumptions that affect the application of accounting policies and the amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

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

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### *Classification of Financial Instruments*

Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. When performing the SPPI test, the Company applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, contingent events that would alter the amount and/or timing of cash flows, prepayment or extension options and other features that may modify the consideration for the time value of money.



The business model assessment (BMA) is the second test. The Group determines its business model at the level that best reflects how it manages groupings of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- a. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- b. The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- c. The expected frequency, value and timing are also important aspects of the Group's assessment.

The BMA is based on reasonably expected scenarios without taking 'worst case' or "stress case" scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### *Revenue Recognition on Sale of Goods*

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

Revenue is recognized as or when performance obligations are satisfied by transferring control of goods to the customer. Control is transferred at the time of delivery of the products to the customers, and under normal credit terms. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, sale of goods is measured at transaction price or the amount to which the Company expects to be entitled in exchange for transferring goods to customer, net of expected discounts, allowances, and certain payments to customers including but not limited to listing/slotting fees and display allowances for which no distinct goods or service is received.

The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered.

#### *Determination of Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the Group has determined its functional currency to be the Philippine peso. It is the currency of the primary economic environment in which the Parent Company operates and the currency that mainly influences the revenue and expenses.

#### *Classification of LPC and CPHI as Assets Held for Sale and Presentation as Discontinued Operations*

On October 19, 2018, the Group sold all its shares thru CHC in LPC and CPHI to Fernwood Holdings, Inc. in order to maximize shareholders' value and to achieve financial flexibility. The sale is subject to the approval of the Philippine Competition Commission (PCC). On the same date, LPC and CPHI were classified as a disposal group held for sale. However, LPC and CPHI were not presented as discontinued operations as at December 31, 2018 for the following reasons: (1) it does not represent a separate major line of business; (2) there is no single plan to dispose of the separate major line of business; and (3) LPC and CPHI were not acquired exclusively with a view to resale (see Note 37).

#### *Evaluating Classification of Lease Agreements*

The Group entered into various lease agreements as a lessee and as a lessor. For lease agreements where the Group is the lessee, the Group determined that the lessors retain all significant risks and rewards of ownership of the properties which are classified as operating leases. For lease agreements where the Group is the lessor, the Group assessed that it retains substantially all the risks and rewards of ownership of the properties which are classified as operating leases.

#### *Determining Whether an Acquisition of Group of Assets Represents Asset Acquisition or Business Combination*

At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

When the acquisition of a group of assets does not constitute a business, it is accounted for as an acquisition of assets. The purchase price is allocated to the assets acquired based upon their relative fair values at the date of acquisition and no goodwill or deferred tax is recognized.

#### *Distinction between Investment Properties and Property and Equipment*

Management distinguishes whether the Group's land and buildings are investment properties rather than owner-occupied properties or properties held for sale. The distinction of investment properties is based on whether these properties are held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or for sale in the ordinary course of business. Moreover, an investment property generates cash flows largely independently of the other assets held by an entity.

Management assessed that the Group's land and buildings are held for rentals and are neither held for sale nor owner-occupied properties. Accordingly, these properties are presented as investment properties (see Note 13).

#### *Determining whether Significant Influence or Control Exist in an Investee Company*

Determining whether the Group has significant influence only in an investee requires significant judgment. The Group has significant influence over the investee if it has the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies. Control is achieved when the parent company is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

#### *Assessing Joint Arrangements*

The Group determines the type of joint arrangement in which it is involved by considering its rights and obligations. An entity assesses its rights and obligations by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances. Joint arrangements is classified into two types: joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement.

Upon consideration of these factors, the Group has determined that its joint arrangements in PG Lawson Company, Inc., AyaGold Retailers, Inc. and Mariveles Joint Venture Corporation as joint ventures (see Note 11).

#### *Evaluating Useful Lives of Property and Equipment and Investment Properties with Finite Lives*

The Group estimates the useful lives of property and equipment and investment properties with finite lives based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties with finite lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment properties with finite useful lives is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment properties with finite lives would increase recorded expenses and decrease non-current assets.

No changes in the estimated useful lives of the property and equipment and investment properties with finite useful lives were made in 2018 and 2017.

The carrying amounts of property and equipment and investment properties amounted to P37.18 billion and P37.38 billion as at December 31, 2018 and 2017, respectively (see Notes 12 and 13).

#### *Evaluating Useful Lives of Computer Software and Licenses and Leasehold Rights*

The Group estimates the useful lives and amortization methods of computer software and licenses and leasehold rights are based on the period and pattern in which the assets' future economic benefits are expected to be consumed by the Group. The estimated useful lives and amortization period of computer software and licenses and leasehold rights are reviewed at each reporting date and are updated if there are changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the computer software and licenses and leasehold rights. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the estimates used.

No changes in the estimated useful lives of the computer software and licenses and leasehold rights were made in 2018 and 2017.





The carrying amounts of computer software and licenses and leasehold rights amounted to P242.86 million and P247.56 million as at December 31, 2018 and 2017, respectively (see Note 14).

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

##### *Estimating Allowance for Impairment Losses on Receivables*

The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors and, their payment behavior and known market factors. The Group reviews the age and status of the receivable, and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

Allowance for impairment losses on receivables amounted to P40.30 million and P134.42 million as at December 31, 2018 and 2017, respectively. In 2018 and 2017, the Group, did not recognize an additional allowance for impairment losses on receivables because the Group believes that all outstanding receivables are recoverable. The carrying amount of receivables amounted to P6,630.93 million and P7,901.69 million as at December 31, 2018 and 2017, respectively (see Note 6).

##### *Estimating Realizability of Deferred Tax Assets*

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying amount of deferred tax assets amounted to P22.24 million and P64.44 million as at December 31, 2018 and 2017, respectively (see Note 28).

##### *Estimating Net Realizable Value (NRV) of Inventories*

The Group carries inventories at NRV whenever the utility of it becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes (i.e., pre-termination of contracts). The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

No provision for impairment losses on merchandise inventories, liquor, wines and spirits and LPG, autogas and LPG accessories had been recognized in 2018 and 2017.

The carrying amount of inventories amounted to P23.93 million and P21.19 million as at December 31, 2018 and 2017, respectively (see Note 7).

#### *Estimating Fair Value of Investment Properties*

The fair value of investment properties presented for disclosure purposes is based on market values, being the estimated amount for which the property can be sold, or based on a most recent sale transaction of a similar property within the same vicinity where the investment property is located.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate estimated future cash flows expected to be received from leasing out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation.

Estimated fair value of investment properties is disclosed in Note 13 to the consolidated financial statements. Market data approach is employed in determining the fair market value of the property. This involves the comparison of the subject property with other similar properties which have been sold recently plus current asking prices and offers, thereby establishing a measure of market reaction to the subject property. In the process of comparison, adjustments are usually made to account for its differences with the property on such comparative factors as location, physical characteristics, time and allowances for bargaining. The fair value of the investment properties is classified as Level 2 in the fair value hierarchy.

#### *Assessment of Impairment on Property and Equipment, Investment Properties, Computer Software and Licenses, Leasehold Rights, Deferred Oil and Mineral Exploration Costs, Investments in Associates and Joint Ventures*

PFRS require that an impairment review be performed on property and equipment, investment properties, computer software and licenses, leasehold rights, deferred oil and mineral exploration costs, investments in associates and joint ventures when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the results of operations.

In 2018 and 2017, no impairment loss was recognized on the Group's property and equipment, investment properties, computer software and licenses, leasehold rights, deferred oil exploration costs, investments in associates and joint ventures. As at December 31, 2018 and 2017, deferred mineral exploration cost was fully impaired (see Note 15).

#### *Impairment of Goodwill, Trademarks and Customer Relationships*

The Group performed its annual impairment test as at December 31, 2018. The recoverable amount of each CGU has been determined based on a value-in-use (VIU) calculation using cash flow projections from financial budgets based on long range plans approved by management.

The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 5.00% and 1.00% to 3.00% in 2018 and 2017, respectively, and discount rates of 13.00% and 10.32% to 10.96% in 2018 and 2017, respectively. The values assigned to the key assumptions have been updated to reflect the demand for products and services and are based on internal sources (i.e., historical data).

VIU is the most sensitive to changes in discount rate and growth rate.

- **Growth Rate Estimates**

Growth rates include long-term and terminal growth rates that are based on past experiences and strategies being developed by the management for each segment. The outlook for the industry was also considered in estimating the growth rates. A change in the long-term growth rate by 2.00% to 4.00% would not result to impairment.

- **Discount Rates**

The Group uses the weighted-average cost of capital (WACC) as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated based on publicly available market data. An increase in discount rate of 8.40% to 10.82% and 0.08% to 6.00%, in 2018 and 2017, respectively, would result in impairment.

Management assessed that there is no impairment in the value of goodwill, trademarks and customer relationships as at December 31, 2018 and 2017.

*Estimating Retirement Benefits*

The present value of the defined benefit obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. The defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates.

As of December 31, 2018 and 2017, the Group's present value of defined benefit obligations is shown in Note 27 to the consolidated financial statements.



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### 3. Summary of Significant Accounting Policies

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

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following new standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group applied PFRS 9 using modified retrospective approach, and chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior period is not restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9.
- The Company discloses the accounting policies for both current and comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application is recognized in the opening retained earnings or other component of equity, as appropriate.
- As comparative information is not restated, the Company is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

As at January 1, 2018, the Group has reviewed and assessed all of its existing financial assets.

The adoption of PFRS 9 has no significant impact on the Group's financial statements and additional required disclosures were made as applicable.

The Group has not designated any financial liabilities as FVTPL. There are no changes in classification and measurement for the Group's financial liabilities.

The classification and measurement requirements of PFRS 9 did not have a significant impact on the Group's financial statements.

#### *Impairment of Financial Assets*

PFRS 9 replaces the 'incurred loss' model in PAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under PFRS 9, credit losses are recognized earlier than under PAS 39.

For assets in the scope of the PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

#### *Hedge Accounting*

The Group has not entered into hedge accounting, thus this has no impact on the Group's financial statements.

- *PFRS 15, Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

#### PIC Q&A on Advances to Contractors

The Group adopted PIC Q&A 2018-15, PAS 1, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the consolidated statement of financial position at January 1, 2018:

<i>(In thousands pesos)</i>	Current Assets	Noncurrent Assets
Advances to contractors and suppliers	(P215,534)	P215,534

Advances to contractors and suppliers in relation to the construction of investment properties previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (i.e., inventories, investment properties and property and equipment).

#### Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018. However, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

#### *Effective January 1, 2019*

- *PFRS 16, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

Future adoption of the standards will result in the recognition of the right-of-use (ROU) of asset, lease liability and additional disclosures. Management is still evaluating the financial impact of the new standard on the Group's consolidated financial statements as of the reporting period including the transition approach that will be adopted.

Significant amounts of ROU and lease liability are expected to be recognized given the significance of the future minimum lease payments as at December 31, 2018 which amounted to P46.22 billion (see Note 22). The Group is still currently assessing the transition option to be adopted on the required effective date.





- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12 *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is currently assessing the potential impact of Philippine Interpretation IFRIC-23 and plans to adopt on the required effective date.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

The Group is currently assessing the potential impact of these amendments and plans to adopt on the required effective date.

- *Annual Improvements to PFRSs 2015 - 2017 Cycle.* This cycle of improvements contains amendments to four standards:
  - *Previously held interest in a joint operation (Amendments to PFRS 3 Business Combinations and PFRS 11 Joint Arrangements).* The amendments clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party maintains or obtains joint control, then the previously held interest is not remeasured. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

The amendments apply to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

- *Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12 Income Taxes).* The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, OCI or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

- *Borrowing costs eligible for capitalization (Amendments to PAS 23 Borrowing Costs).* The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool.

The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The amendments are applied to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies the amendments.

- *Definition of a Business (Amendments to PFRS 3 Business Combinations).* The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
  - confirmed that a business must include inputs and a process, and clarified that:
    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs;
  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
  - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - d) clarifying the explanatory paragraphs accompanying the definition; and
  - e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.



The Group is currently assessing the potential impact of these amendments and plans to adopt on the required effective date.

The following amended standards and interpretations are relevant but not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to PFRS 9 Prepayment Features with Negative Compensation*
- *Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards*
- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19 Employee Benefits)*
- *Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Error*)*

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value.

#### Short-term Investments

Short-term investments pertain to money market placements with maturities of more than three months to one year from dates of placement and are subject to an insignificant risk of change in values.

#### Financial Instruments

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

##### *a. Initial Recognition and Subsequent Measurement Prior to January 1, 2018*

#### Financial Assets

*Initial Recognition and measurement.* Financial assets are classified, at initial recognition, as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transactions costs that are attributable to the acquisition of the financial asset. The Group has no financial assets at FVPL and HTM investments.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date the Group commits to purchase or sell the asset.

*Subsequent Measurement.* The subsequent measurement of financial assets depends on their classification as described below:

- *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or FVPL financial assets.



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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired.

Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

The Group's cash and cash equivalents, receivables, advances to contractors and security deposits (included as part of "Other noncurrent assets") are included in this category.

- **AFS Financial Assets.** AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in other comprehensive income and are reported as "Cumulative unrealized gain (loss) on AFS financial assets" in equity. When the financial asset is disposed of, the cumulative gain or loss previously recorded in other comprehensive income is recognized in profit or loss. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on financial assets are recognized in profit or loss as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investments. The major factor of this decision is whether or not the Group will experience inevitable further losses on investments.

These financial assets are classified as noncurrent unless there is intention to dispose of such assets within 12 months of the reporting date.

The Group's AFS financial assets include investment in equity securities.

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

#### Financial Liabilities

*Initial Recognition and Measurement.* Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL or loans and borrowings.

All financial liabilities are recognized initially at fair value and in case of loans and borrowings, net of directly attributable transaction costs.

#### Debt Issue Costs

Debt issue costs are considered as directly attributable transaction costs upon initial measurement of the related debt and are subsequently considered as an adjustment to the amortized cost and effective yield of the related debt using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

*Subsequent Measurement.* After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

The Group's financial liabilities include accounts payable and accrued expenses, dividends payable and long-term debts, except payable to government agencies.

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





*b. Initial Recognition and Subsequent Measurement Effective January 1, 2018*

*Financial Assets*

*Initial Recognition and measurement.* Financial assets are classified as financial assets measured at amortized cost, FVPL and FVOCI.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group has no financial assets at FVOCI with recycling of cumulative gains or losses (debt instruments) as at December 31, 2018.

*Subsequent measurement.* The subsequent measurement of financial assets depends on their classification as described below:

- *Financial assets at Amortized Cost.* This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:
  - The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
  - The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognized in the profit or loss when the asset is derecognized, modified or impaired.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

As at December 31, 2018 and 2017, the Group's financial assets and financial liabilities consist of cash on hand, loans and receivables, financial assets at FVPL, financial assets at FVOCI and other financial liabilities.

- *Financial assets designated at FVOCI (equity instruments).* Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the separate statement of comprehensive income. Dividends earned on financial assets are recognized in profit or loss as “dividend income”, when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

As at December 31, 2018, this category includes the Group’s quoted equity securities. Prior to adoption of PFRS 9, these financial assets were classified as AFS financial assets.

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

#### Financial Liabilities

*Initial Recognition and Measurement.* Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL or loans and borrowings.

All financial liabilities are recognized initially at fair value and in case of loans and borrowings, net of directly attributable transaction costs.

### Debt Issue Costs

Debt issue costs are considered as directly attributable transaction costs upon initial measurement of the related debt and are subsequently considered as an adjustment to the amortized cost and effective yield of the related debt using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

*Subsequent Measurement.* The measurement of financial liabilities depends on their classification as described below:

- *Financial liabilities at FVPL.* Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the separate statement of comprehensive income.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability at FVPL.

- *Loans and borrowings.* This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using EIR method. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest expense in the statement of comprehensive income.

The Group's accounts payable and accrued expenses, loans payable (both short-term loans and long-term debts), due to related parties and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefits liability) (see Notes 17, 18, 19, and 26) are included in this category.

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



### Impairment of Financial Assets

The Group uses the expected credit losses model (“ECL”) which is applied to all financial assets measured at amortized cost or debt instrument at FVOCI as well as to issued loan commitments and most financial guarantee contracts. The ECL is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses. Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or which have low credit risk at the reporting date. For these items, 12-month ECL are recognized. The 12-months ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these items, lifetime expected credit losses are recognized which is the weighted average credit losses with the probability of default as the weight. Stage 3 includes financial assets that are credit impaired at the reporting date. For these items, lifetime expected credit losses are recognized. No impairment loss is recognized on equity investments.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.



### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statements of financial position.

### Customers' Deposits

Refundable noninterest-bearing security deposits from customers under operating lease agreements are initially valued at the fair values based on its present values of the estimates future cash flows. The difference between the cash received and its fair value is recorded as unearned rent income in the consolidated statements of financial position and is amortized to rental income over the lease term. Subsequently, the customers' deposits are carried at amortized cost using the effective interest method.

### Fair Value Measurements

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

### Inventories

Inventories are valued at the lower of cost and net realizable value. Inventories include merchandise inventories, liquefied petroleum gas (LPG), autogas, and LPG accessories and liquors, wines and spirits. Costs incurred in bringing each inventory to its present location and condition are accounted as follows:

Merchandise inventories	-	Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using moving average method
Liquors, wines and spirits.	-	Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using first-in, first-out method
LPG, autogas, and LPG accessories	-	Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using weighted average method

NRV is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

### Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Other current assets are classified in the consolidated statements of financial position as current assets when the cost of goods and services related to the assets are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

### Investments in Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of the investee, but not control over those policies.

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

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

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





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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint. Such impairment loss is recognized in profit or loss.

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

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

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statements of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Buildings	15 - 30
Storage tanks	25 - 40
Furniture and fixtures	2 - 20
Office and store equipment	2 - 15
Transportation equipment	3 - 5

Wells, platforms and other facilities comprising oil and gas property represents the Group's share in the Service Contract (SC) 14's total capitalized exploration and development expenditures. These are depreciated using the unit-of-production method based upon estimates of proven developed reserves. Proven developed reserves are the portion of reserves that are reasonably certain to be produced and sold during the remaining period of existing production licenses and agreements. The effect of revisions of previous estimates of proved developed reserves is taken up prospectively in the unit-of-production calculation.

Estimates of decommissioning and abandonment costs, which are accrued based on unit-of-production rate, which depends on approved budget and reserve estimates, are also included in the wells, platforms and other facilities account as these costs are treated as recoverable costs to be deducted from oil sales proceeds prior to remittance of government share as indicated in the agreement among Consortium members under the SC.

Leasehold improvements are amortized over 3 to 20 years or the lease term, whichever is shorter.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Investment Properties

Investment properties consist of land and buildings held to earn rentals. Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the costs of replacing part of an existing investment property at the time the costs are incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing an investment property. Investment properties, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is stated at cost less any accumulated impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties as follows:

	Number of Years
Land improvements	25
Buildings	10 - 50

The remaining useful lives and depreciation method are reviewed periodically to ensure that such periods and methods of depreciation are consistent with the expected pattern of economic benefits from buildings and land improvements.



Buildings in progress which represents properties under construction are stated at cost and depreciated only from such time as the relevant assets are completed and put into operational use. Upon completion, these properties are classified to the relevant investment property or property and equipment account.

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

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

Investment properties are derecognized when either they have been disposed of, or when investment properties are permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

#### Assets Held for Sale

Noncurrent assets or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be primarily through sale rather through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held for sale, any equity-accounted investee is no longer equity accounted.

#### Construction in Progress

Construction in progress, which are stated at cost, are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. This includes the costs of construction and other direct costs. These assets are not depreciated until such time that the relevant assets are completed and available for use.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.



Intangible assets with finite useful lives are amortized over their useful economic lives and assessed for impairment whenever there is indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in profit or loss in the expense category consistent with the function of the intangible assets. Computer software and licenses and leasehold rights has finite useful lives. Amortization is computed on a straight-line basis over the estimated useful lives of the intangible assets with finite useful lives as follows:

	Number of Years
Computer software and licenses	5
Leasehold rights	20

The Group assessed the useful life of trademark and customer relationship to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

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

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

#### Deferred Oil and Mineral Exploration Costs

Deferred oil and exploration costs are accounted for using the full-cost method, where all acquisition, exploration and development costs are capitalized as deferred costs when incurred and on the basis of each contract area. Where oil and gas of commercial quantity is produced, the exploration and development costs are reclassified to and capitalized as wells, platforms and other facilities under the "Property and equipment" account. Producing and non-producing contract areas are evaluated periodically and considering a number of factors, a determination is made whether it is probable that a significant impairment of the carrying cost of deferred oil and mineral exploration costs of each contract area has occurred. If impairment is believed to have occurred, a further analysis is performed to determine the impairment to be recorded for specific contract areas.

If the Group abandons all exploration efforts in a contract area where there are no proven reserves, all acquisition and exploration costs associated with the contract area are recognized in profit or loss. A contract area is considered abandoned if the contract has expired and/or there are no definite plans for further exploration and development.

Proceeds from the sale of crude oil lifted from an area under production testing during the exploration stage are applied against deferred oil exploration costs.



Expenditures for mineral exploration and development work are capitalized as deferred costs when incurred. These expenditures are provided for with an allowance for impairment when there are indications that the exploration results are negative. These are recognized in profit or loss when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the exploration costs and subsequent development costs are capitalized and amortized using the unit of production method from the start of commercial operations.

#### Impairment of Non-financial Assets

The Company assesses at end of each reporting period whether there is indication that the noncurrent non-financial assets, other than inventories and deferred tax assets, may be impaired. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or the CGU are written down to their recoverable amounts. The recoverable amount of the noncurrent non-financial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants less the incremental cost directly attributable to disposals. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Employee Benefits

##### *Short-term Employee Benefits*

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

##### *Retirement Benefits*

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan, if any.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

PPCI enters into a non-contributory multi-employer plan which is accounted for as a defined benefit plan. PPCI is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at PPCI's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from PPCI to the Retirement Fund.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### Capital Stock

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity, net of any tax effects, and any excess of the proceeds over the par value of shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

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

#### Retained Earnings and Dividend Distribution

Retained earnings include all current and prior period results as reported in profit or loss, prior period adjustments less declaration of dividends.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to shareholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

### Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group's operating segments and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received excluding any discounts, rebates, returns and sales taxes.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue agreements. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Accordingly, advances received prior to delivery of goods are recorded as unearned revenues and are earned upon physical delivery and acceptance by customer. Unearned revenues are classified as current liabilities.

#### *Production Lifting*

Revenue is recognized at the time of oil lifting on an entitlement basis where revenue is allocated and distributed among the joint venture partners and the Philippine government based on the participating interest in a specific contract area.

#### *Other Operating income*

Other operating income includes commissions, retail display allowances, share from sale of goods under concession arrangements, membership fees, display or slotting fees, and in-store demos and sampling fees and other miscellaneous income which are recognized at the point in time. These are recognized to the extent that the economic benefits will flow to the Company and the amounts can be measured reliably.

Revenues outside the scope of PFRS 15:

#### *Rental*

Revenue is recognized on a straight-line basis over the lease term or based on the terms of the lease, as applicable. It also includes chargeable utilities and common usage service area (CUSA) fees which are recognized and billed based on monthly consumption and/or fixed rate per leased area, whichever is applicable.

#### *Interest Income*

Interest income pertains to income recognized as the interest accrues using the effective interest method.

#### *Dividend Income*

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



### Cost and Expense Recognition

Costs and expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized when they are incurred. The following specific recognition criteria must also be met before costs and expenses is recognized:

#### *Cost of Sales*

Cost of goods sold includes the purchase price of the goods sold, as well as costs that are directly attributable in bringing the inventory to its intended condition and location. These costs include the cost of transporting and handling the goods, and other incidental expenses.

#### *Cost of Sales*

Cost of sales includes the purchase price of the products sold, as well as costs that are directly attributable in bringing the merchandise to its intended condition and location. These costs include the cost of storing and transporting the products (i.e., freight costs or trucking costs, cross-dock delivery fees, and other direct costs). Vendor returns and allowances are generally deducted from cost of sales.

The Group adopted PFRS 15 retrospectively which resulted in the following reclassifications in the statements of income:

<i>(In thousands pesos)</i>	<b>As Previously Classified</b>	<b>Adjustments</b>	<b>As Reclassified</b>
<b>December 31, 2018:</b>			
Cost of Sales	<b>P139,915,696</b>	<b>(P866,692)</b>	<b>P139,049,004</b>
Other Operating Income:			
Display Allowance	<b>635,015</b>	<b>(635,015)</b>	-
Service income	<b>22,989</b>	<b>(22,989)</b>	-
Listing fee	<b>95,246</b>	<b>(95,246)</b>	-
Miscellaneous	<b>113,442</b>	<b>(113,442)</b>	-
<b>December 31, 2017:</b>			
Cost of Sales	P120,510,762	(P821,126)	P119,689,636
Other Operating Income:			
Display Allowance	652,853	(581,265)	-
Service income	98,362	(98,362)	-
Listing fee	69,911	(69,911)	-
Miscellaneous	71,587	(71,588)	-
<b>December 31, 2016:</b>			
Cost of Sales	P106,392,858	(P902,779)	P105,490,079
Other Operating Income:			
Display Allowance	615,884	(615,884)	-
Service income	151,203	(151,203)	-
Listing fee	70,254	(70,254)	-
Miscellaneous	65,437	(65,437)	-

Before adoption of PFRS 15, display allowance and listing fee are classified under other operating income. The classification was based on the Group's assessment that the other income are distinct and separately identifiable. With the implementation of PFRS 15, management assessed that these other income would not occur without the purchase of goods from the suppliers and they are highly dependent on the purchase of the supplier products. Thus, these income are not distinct and should be accounted for as a reduction of the purchase price.

Cost of services pertains to direct expenses incurred in relation to the management of the Group's investment properties. These costs include real property taxes, depreciation, repairs and maintenance, utilities, and other related expenses.



### *Operating Expenses*

Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.

### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Other borrowing costs are expensed as incurred.

### Income Taxes

#### *Current Tax*

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

#### *Deferred Tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

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

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

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

#### *Value Added Tax (VAT)*

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

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

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

#### Operating Leases

*Group as a Lessee.* Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

*Group as a Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

#### Related Parties

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



#### Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 30 to the consolidated financial statements.

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

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

#### Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

#### Contingencies

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

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

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after retroactive adjustment for stock dividend declared in the current period, if any. Diluted EPS is also computed in the same manner as the aforementioned, except that, the net income and the number of common shares outstanding is adjusted for the effects of all potential dilutive debt or equity instruments.

#### Events After the Reporting Date

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



#### 4. Cash and Cash Equivalents

This account consists of:

<i>(In thousand pesos)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
Cash on hand		<b>P1,189,303</b>	P965,557
Cash in banks	32, 33	<b>4,849,703</b>	5,043,320
Money market placements	32, 33	<b>10,745,855</b>	9,344,221
		<b>P16,784,861</b>	P15,353,098

Cash in banks earns interest at the respective bank deposit rates. Money market placements are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing money market placement rates ranging from 2.65%% to 6.9%% in 2018, 0.30% to 3.75% in 2017 and 0.05% to 3.74% in 2016.

Interest income earned from cash in banks and money market placements amounted to P200.43 million, P120.31 million and P127.21 million in 2018, 2017 and 2016, respectively.

#### 5. Short-term Investments

These short-term investments are investments with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term investment rates ranging from 1.0% to 2.50% in 2017.

Interest income earned from short-term investments amounted nil, P13.12 million and P9.43 million in 2018, 2017 and 2016, respectively.

#### 6. Receivables

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
Trade receivables		<b>P5,069,825</b>	P5,933,015
Non-trade receivables		<b>1,475,718</b>	2,034,863
Others		<b>125,682</b>	68,228
		<b>6,671,225</b>	8,036,106
Less allowance for impairment losses on trade receivables		<b>40,298</b>	134,420
	32, 33	<b>P6,630,927</b>	P7,901,686

Trade receivables consist of receivables from retail, specialty retail, liquor distribution and real estate and property leasing segments. These pertain to credit sales significantly from the respective company's credit card acquiring banks as well as credit account holders. These are noninterest-bearing and are generally on a 3-to-90 day credit terms.



Nontrade receivables include receivables from tenants that sublease spaces in the group's retail segment. These also include receivables from suppliers with respect to retail display allowances, share from sale of goods under concession arrangements, display or slotting fees, and in-store demos and sampling fees. These are noninterest-bearing and are generally collectible within 30 to 60 days. The remaining balance consists of noninterest-bearing advances to officers and employees which are due to be liquidated within one year or through salary deduction.

The movements in the allowance for impairment losses in respect of trade receivables are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Beginning balance	<b>P134,420</b>	P134,839
Provisions during the year	<b>12,798</b>	128
Write-offs during the year	-	(547)
Reclassification to assets classified as held-for-sale	<b>(106,920)</b>	-
Ending balance	<b>P40,298</b>	P134,420

## 7. Inventories

This account consist of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
At cost:			
Merchandise inventories		<b>P20,200,962</b>	P18,045,055
Liquors, wines and spirits		<b>3,730,695</b>	2,571,323
LPG, autogas and LPG accessories		-	578,313
	<b>21</b>	<b>P23,931,657</b>	P21,194,691

Inventory charged to cost of sales amounted to P139.05 billion, P119.69 billion and P105.49 billion in 2018, 2017 and 2016, respectively (see Note 21).

## 8. Financial Assets at FVPL

This account represents the Group's investments in stocks listed in the PSE which are accounted for at FVPL. There is no change in management's intention to hold the investments for trading purpose.

The fair values presented have been determined directly by reference to published prices quoted in the PSE as at reporting dates.

Net changes in fair value of investments in trading securities is included in Others - net under "Unrealized valuation gain (loss) on investments in trading securities" account in the consolidated statements of income (see Note 25).

## 9. Financial Assets at FVOCI

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>
Investments in shares of stock			
Quoted	32, 33	<b>P5,956</b>	P6,931
Unquoted	32, 33	<b>2,304</b>	2,304
		<b>8,260</b>	9,235
Investments in equity securities	33, 34	<b>7,262</b>	7,262
		<b>15,522</b>	16,497
Less current portion		<b>7,643</b>	8,618
Non-current portion	11	<b>P7,879</b>	P7,879

The movements in the financial assets are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P16,497</b>	P16,078
Unrealized fair value gains (losses)	<b>(1,592)</b>	419
Balance at end of year	<b>P14,905</b>	P16,497

The movements in the unrealized fair value changes of financial assets are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P5,012</b>	P4,593
Change in fair value during the year	<b>(1,592)</b>	419
Balance at end of year	<b>P3,420</b>	P5,012

Quoted shares of stock represents investments in listed equity securities in the PSE and are readily marketable at the option of the Group.

Unquoted shares of stock represent investments in an unlisted entity incorporated in the Philippines and club shares. These investments are carried at fair value.

Investments in equity securities represent preferred shares in Manila Electric Company which are acquired in connection with the installation of electrical systems for the various stores and offices of the retail segment.

## 10. Prepaid Expenses and Other Current Assets

This account consists of:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Prepaid expenses	<b>P1,646,496</b>	P1,192,488
Input VAT	<b>626,808</b>	716,597
Advances to suppliers	<b>469,961</b>	560,510
Deferred input VAT - current	<b>190,966</b>	262,461
Creditable withholding tax	<b>39,881</b>	53,789
Others	<b>10,405</b>	13,230
	<b>P2,984,517</b>	P2,799,075

The details of prepaid expenses are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Taxes and licenses	<b>P1,024,755</b>	P144,181
Rent	<b>375,291</b>	709,659
Insurance	<b>102,716</b>	97,659
Supplies	<b>26,060</b>	227,853
Repairs and maintenance	<b>6,128</b>	6,228
Advertising and promotion	<b>88,984</b>	-
Others	<b>22,562</b>	6,908
	<b>P1,646,496</b>	P1,192,488

Input VAT represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT received from sale of goods and services subjected to VAT.

Advances to suppliers pertain to partial down payments made by the liquor distribution segment to foreign suppliers which will be applied against future billings.

Creditable withholding tax pertains to the tax withheld at source by the Group's customers and is creditable against the income tax liability of the Group.

Advances to contractors pertain to the Group's advances and down payments for the purchase of construction materials and supplies and contractor services. These are liquidated every progress billing payments.

Deferred input VAT represents accumulated input VAT from purchases of capital goods above P1.0 million. This is amortized for a period of five (5) years.

## 11. Investments

This account consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Investments in associates		<b>P433,543</b>	P508,230
Investments in joint ventures		<b>169,632</b>	417,688
Financial assets at FVOCI - noncurrent	9	<b>7,879</b>	7,879
		<b>P611,054</b>	P933,797



The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of ownership interest are shown below:

<i>(In thousands pesos)</i>	Percentage of Ownership		Carrying Value	
	2018	2017	2018	2017
Associates:				
San Roque Supermarkets Retail Systems, Inc. (SRS)	49	49	P433,543	P433,543
Peninsula Land Bay Realty Corporation (PLBRC)	-	50	-	74,687
			<b>433,543</b>	508,230
Joint ventures:				
AyaGold Retailers, Inc. (AyaGold)	50	50	169,632	123,005
PG Lawson Company, Inc. (PG Lawson)	-	70	-	237,190
Mariveles Joint Venture Corporation (MJVC)	-	50	-	57,493
			<b>169,632</b>	417,688
			<b>P603,175</b>	P925,918

All associates and joint ventures are incorporated in the Philippines.

#### Investments in Associates

##### **SRS**

On December 4, 2013, the Group through Entenso acquired interest in SRS for a total cost of P371.90 million. The acquisition represents 49.34% of SRS' total outstanding common shares. SRS operates 'San Roque Supermarket' stores and 'San Roque Pharmacy' stores in Metro Manila.

On February 28, 2014, the SEC approved the increase in authorized capital stock of SRS. Subsequently, on October 31, 2014, the Group through Entenso subscribed and paid for additional 190,008 common shares for a total cost of P19.00 million, representing 49.34% of the increase in the authorized capital stock of SRS.

##### **PLBRC**

The Group's interest in PLBRC is held indirectly at an effective interest of 45% through LPC (at 20% interest) and through CPHI (at 30% interest). PLBRC is primarily engaged in the business of acquiring, developing and leasing real estate properties to joint venture.

As of December 31, 2018, the investment in PLRBC is presented as part of "assets held-for-sale" (see Note 34).

Following are the unaudited condensed financial information of associates and reconciliation of the summarized financial information to the carrying amount of the Group's interest in the associates as of and for the years ended December 31:

<i>(In thousands pesos)</i>	<b>SRS</b>		<b>PLBRC</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
Current assets	<b>P3,955,182</b>	P1,063,945	<b>P -</b>	P98,227
Noncurrent assets	<b>221,748</b>	205,635	-	59,743
Current liabilities	<b>3,825,817</b>	933,892	-	8,596
Noncurrent liabilities	<b>18,405</b>	16,505	-	-
Net assets	<b>P332,708</b>	P319,183	<b>P -</b>	P149,374
Group's share in net assets	<b>P164,158</b>	P157,485	<b>P -</b>	P74,687
Goodwill	<b>276,058</b>	276,058	-	-
Carrying amount of the investment	<b>P440,216</b>	P433,543	<b>P -</b>	P74,687
Revenue	<b>P7,006,180</b>	P6,513,842	<b>P -</b>	P60,000
Net income/total comprehensive income	<b>P13,526</b>	P18,479	<b>P -</b>	P6,340
Group's share in comprehensive income for the year	<b>P6,674</b>	P9,118	<b>P -</b>	P3,170

#### Investments in Joint Ventures

##### *PG Lawson*

On June 12, 2014, the Group through PPCI entered into a joint venture agreement with Lawson Asia Pacific Holdings Pte. Ltd., a company incorporated in Singapore and a subsidiary of Lawson, Inc. of Japan, to incorporate PG Lawson, a company that will operate 'Lawson' convenience stores in the Philippines.

PPCI contributed cash to PG Lawson upon its incorporation in 2014 amounting to P350 million representing its 70% interest in the joint venture.

In 2017, PPCI subscribed to an additional 1,400,000 common shares at P100 par value for a total amount of P140 million.

In April 2018, PPCI sold all of its investment in PLCI for a total consideration of P600 million which resulted in a gain on sale of P363 million.

##### *AyaGold*

On July 8, 2013, the Group through Entenso entered into a joint venture agreement with Varejo Corp. (now ALI Capital Corp.), a subsidiary of Ayala Land, Inc. (both companies are incorporated in the Philippines), to incorporate AyaGold Retailers, Inc. AyaGold owns and operates 'Merkado Supermarket' stores which will be established in Ayala-run shopping malls.

Entenso contributed cash to AyaGold upon its incorporation in 2013 amounting to P60 million representing its 50% interest in the joint venture.

### MJVC

MJVC is a 50-50 joint venture between LPC and Total Petroleum Philippines Corporation [now Total (Philippines) Corporation]. MJVC is organized primarily to manage, operate and maintain jetties and equipment installed for its benefit and/or for the benefit of owners/operators of storage facilities for oil products and/or LPG and loading facilities and all related equipment; own, manage, operate, upgrade and maintain ancillary facilities dedicated for the common use by the users of the storage facilities, LPG storage tanks, loading facilities and all related equipment; and perform consultancy, supervision and management services concerning the development and/or redevelopment of jetties and the upgrading of equipment and dedicated ancillary facilities installed.

As of December 31, 2018, the investment in MJVC is presented as part of “assets held-for-sale” (see Note 34).

Following are the unaudited condensed financial information of joint ventures and reconciliation of the summarized financial information to the carrying amount of the Group's interest in the joint ventures as of and for the years ended December 31:

(In thousands pesos)	PG Lawson		AyaGold		MJVC	
	2018	2017	2018	2017	2018	2017
Current assets	P -	P230,148	<b>P259,268</b>	P259,743	P -	P67,396
Noncurrent assets	-	254,166	<b>206,524</b>	155,518	-	51,202
Current liabilities	-	127,069	<b>137,334</b>	173,018	-	3,664
Noncurrent liabilities	-	18,295	<b>65,000</b>	-	-	-
Net assets	P -	P338,950	<b>P263,458</b>	P242,243	P -	P114,934
Group's share in net assets	P -	P237,189	<b>P131,729</b>	P121,122	P -	P57,493
Goodwill	-	-	<b>1,883</b>	1,883	-	-
Carrying amount of the investment	P -	P237,189	<b>P133,612</b>	P123,005	P -	P57,493
Revenue	<b>P206,631</b>	P457,912	<b>P607,392</b>	P455,099	P -	P28,000
Net income (loss)/ total comprehensive income (loss)	<b>(P32,005)</b>	(P233,794)	<b>P25,533</b>	P25,308	P -	P3,988
Group's share in comprehensive income (loss) for the year	<b>(P22,403)</b>	(P159,806)	<b>P12,766</b>	P12,655	P -	P1,991



## 12. Property and Equipment

The movements and balances of this account as at and for the years ended December 31 consist of:

(In thousands pesos)	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Platforms and Other Facilities	Construction In-progress	Total
<b>Cost</b>										
January 1, 2017	P3,653,850	P9,745,549	P1,527,919	P2,629,129	P7,141,793	P351,086	P8,021,914	P204,955	P1,251,766	P34,527,961
Additions	29,667	908,441	47,065	208,639	772,806	20,001	489,192	-	2,138,426	4,614,237
Reclassifications	26,752	60,269	-	51,644	337,014	-	905,681	-	(1,598,302)	(216,942)
Disposals	-	(1,736)	(62)	(1,726)	(13,569)	(2,370)	(2,382)	-	-	(21,845)
December 31, 2017	3,710,269	10,712,523	1,574,922	2,887,686	8,238,044	368,717	9,414,405	204,955	1,791,890	38,903,411
Additions	30,448	244,656	71,901	185,003	974,028	17,602	676,026	-	1,874,120	4,074,184
Reclassifications	369,336	975,122	15,015	35,233	333,286	-	1,053,421	-	(2,391,817)	389,596
Disposals	-	-	(2,665)	(4,274)	(34,802)	(1,081)	(11,374)	-	(35,960)	(90,156)
Assets held for sale	(30,448)	(2,522,877)	(1,153,744)	(71,337)	(508,229)	(138,289)	-	-	(94,034)	(4,518,958)
<b>December 31, 2018</b>	<b>4,079,605</b>	<b>9,409,424</b>	<b>462,165</b>	<b>3,032,274</b>	<b>9,009,708</b>	<b>246,949</b>	<b>11,132,478</b>	<b>204,955</b>	<b>1,180,159</b>	<b>38,757,717</b>
<b>Accumulated Depreciation and Amortization</b>										
January 1, 2017	-	2,754,171	507,358	1,209,372	4,196,989	249,873	1,475,206	44,918	-	10,437,887
Depreciation and amortization, as restated	-	314,377	60,113	204,106	859,662	34,368	442,555	-	-	1,915,181
Disposals	-	(554)	(24)	(1,606)	(7,484)	(2,343)	(846)	-	-	(12,857)
Reclassification	-	(53,267)	-	-	-	-	(6,235)	-	-	(59,502)
December 31, 2017	-	3,014,727	567,447	1,411,872	5,049,167	281,898	1,910,680	44,918	-	12,280,709
Depreciation and amortization	-	302,929	74,328	230,380	1,003,551	34,115	567,755	-	-	2,213,058
Disposals	-	-	-	(2,248)	(26,427)	-	(4,904)	-	-	(33,579)
Reclassifications	-	40,303	204	1,832	1,701	711	114	-	-	44,865
Assets held for sale	-	(1,130,339)	(589,322)	(62,015)	(201,081)	(108,372)	-	-	-	(2,091,129)
<b>December 31, 2018</b>	<b>-</b>	<b>2,227,620</b>	<b>52,657</b>	<b>1,579,821</b>	<b>5,826,911</b>	<b>208,352</b>	<b>2,473,645</b>	<b>44,918</b>	<b>-</b>	<b>12,413,924</b>
<b>Carrying Amounts</b>										
December 31, 2017	P3,710,269	P7,697,796	P1,007,475	P1,475,814	P3,188,877	P86,819	P7,503,725	P160,037	P1,791,890	P26,622,702
<b>December 31, 2018</b>	<b>P4,079,605</b>	<b>P7,181,804</b>	<b>P409,508</b>	<b>P1,452,453</b>	<b>P3,182,797</b>	<b>P38,597</b>	<b>P8,658,833</b>	<b>P160,037</b>	<b>P1,180,159</b>	<b>P26,343,793</b>



Transfer from property and equipment with net book value amounting to P344,731 pertain to transfer of “Buildings” account to “Investment properties” due to the change in use as determined by the management.

Depreciation and amortization charged to profit and loss are as follows:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cost of sales	21, 36	<b>P289,669</b>	P251,714	P221,657
Operating expenses	24, 36	<b>1,923,394</b>	1,663,467	1,464,391
		<b>P2,213,063</b>	P1,915,181	P1,686,048

### 13. Investment Properties

This account consists of:

<i>(In thousands pesos)</i>	<b>Land</b>	<b>Building</b>	<b>Construction in-Progress</b>	<b>Total</b>
<b>Cost</b>				
January 1, 2017	P6,236,741	P4,343,457	P273,890	P10,854,088
Additions	314,903	42,826	322,797	680,526
Reclassifications	-	246,256	(29,313)	216,943
December 31, 2017	6,551,644	4,632,539	567,374	11,751,557
Additions	5,267	498,493	153,628	657,388
Reclassifications	(123,174)	195,422	(461,844)	(389,596)
Assets held-for-sale	(60,989)	(55,551)	-	(116,540)
<b>December 31, 2018</b>	<b>6,372,748</b>	<b>5,270,903</b>	<b>259,158</b>	<b>11,902,809</b>
<b>Accumulated Depreciation</b>				
January 1, 2017	-	843,281	-	843,281
Depreciation	-	95,167	-	95,167
Reclassifications	-	59,502	-	59,502
December 31, 2017	-	997,950	-	997,950
Depreciation	-	121,290	-	121,290
Reclassification	-	(44,865)	-	(44,865)
Assets held-for-sale	-	(8,184)	-	(8,184)
<b>December 31, 2018</b>	<b>-</b>	<b>1,066,191</b>	<b>-</b>	<b>1,066,191</b>
<b>Carrying Amounts</b>				
December 31, 2017	P6,551,644	P3,634,589	P567,374	P10,753,607
<b>December 31, 2018</b>	<b>P6,372,748</b>	<b>P4,204,712</b>	<b>P259,158</b>	<b>P10,836,618</b>

Transfers from investment property amounting P5,270 pertain to transfer of “Construction in-progress “ account to “Property and equipment” due to the change in use as determined at the end of construction or development.

Depreciation expense are charged to cost of sales (see Note 21).

As at December 31, 2018 and 2017, the fair value of the investment properties amounted to P23.5 billion based on independent appraisals obtained in 2012. The fair value of the land and buildings is determined based on the comparative sales of similar or substitute properties and related market data and is based on current cost and comparison with similar new properties, respectively, which is categorized as Level 2 under the fair value hierarchy. Management believes that the appraisal in 2012 is still applicable for disclosure purposes as at December 31, 2018 as there are no significant changes in the condition of its land and buildings.

The rental income earned by the real estate and property leasing segment of the Group from these properties amounted to P1,778.43 million, P1,614.64 million and P1,778.29 million in 2018, 2017 and 2016, respectively (see Note 23).

Direct costs incurred pertaining to the lease of these properties amounted to P1,079.07 million, P917.46 million and P887.91 million in 2018, 2017 and 2016, respectively (see Note 22).

#### 14. Intangibles and Goodwill and Business Combination

This account consists of:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Goodwill	<b>P16,253,526</b>	P17,929,386
Trademark	<b>3,709,661</b>	3,709,661
Customer relationships	<b>889,453</b>	889,453
Leasehold rights	<b>54,882</b>	58,649
Computer software and licenses - net	<b>187,980</b>	188,915
	<b>P21,095,502</b>	P22,776,064

##### Goodwill

The goodwill represents the excess of the total acquisition cost over the fair value of the identifiable assets and liabilities assumed on the acquisitions made by the Group.

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
<b>Retail</b>		
KMC	<b>P12,079,474</b>	P12,079,474
Budgetlane Supermarkets	<b>837,974</b>	837,974
Gant	<b>742,341</b>	742,341
NE Supermarkets	<b>685,904</b>	685,904
Company E	<b>358,152</b>	358,152
B&W Supermart	<b>187,204</b>	187,204
PJSI	<b>11,374</b>	11,374
<b>Specialty Retail</b>		
LPC	-	1,624,428
OWI	<b>893,790</b>	893,790
CPHI	-	51,432
CHC	<b>9</b>	9
<b>Real Estate and Property Leasing</b>		
NPSCC	<b>457,304</b>	457,304
	<b>P16,253,526</b>	P17,929,386

Movement in goodwill is as follows:

<i>(In thousands pesos)</i>	2018	2017
Balance at beginning of the year	<b>P17,929,386</b>	P17,742,733
Reclassification of goodwill to assets held for sale <sup>(1)</sup>	<b>(1,675,860)</b>	-
Additions	-	187,204
Fair value adjustments	-	(551)
	<b>P16,253,526</b>	P17,929,386

<sup>(1)</sup> Since the investment in LPC and CPHI were classified as disposal group as at December 31, 2018, the related goodwill was reclassified to held for sale (see Note 34).

*Acquisition of B and W Supermart, Black and White Supermart and Goodshop Supermart (collectively referred to as “B&W Supermart”)*

On September 26, 2017, PPCI acquired the fixed assets and rights of B&W Supermart and took over the operations of five (5) supermarkets located in Roxas City, Capiz.

The Group completed the purchase price allocation exercise on the acquisition of B&W Supermart. The identifiable net assets at fair value are based on provisional amounts as at the acquisition date which is allowed under PFRS 3, *Business Combination*, within one year from the acquisition date.

The following summarizes the consideration transferred, and the recognized amounts of net assets acquired at the acquisition date:

Acquisition cost	P270,000
Fair value of property and equipment	82,796
Goodwill	P187,204

There was no identifiable intangible asset as at acquisition date. The excess of the purchase price over the net assets acquired and the liabilities assumed is attributable to goodwill. The goodwill comprises the fair value of expected synergies arising from the acquisition.

For the three months ended December 31, 2017, B&W Supermart contributed revenue of P70.77 million and net loss of P4.42 million to the Group's results.

Key Assumptions on Impairment Testing of Goodwill

The Group performs impairment testing of goodwill annually. The recoverable amount of the cash generating units containing the goodwill is based on the value-in-use which is determined on discounting the future cash flows to be generated from the continuing use of the cash generating units.

The following are the key assumptions used by the management in the estimation of the recoverable amount:

*Net Sales.* Growth rates and gross profit margins used to estimate future performance are highly dependent on past performance and experience of growth rates and operating gross profit margins achievable in the relevant industry and in line with the economy or with the nominal Gross Domestic Product. This assumes that the market share of the subsidiaries in their respective territories will also grow at par with the economy.



The revenue growth rates used for the gross revenues are as follows:

*Operating Expenses.* Operating expenses are projected to increase at a single-digit growth rate and at a slower pace than revenue.

*Discount Rate.* Discount rates are derived from the Group's Weighted Average Cost of Capital (WACC) which is used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to various market information, including, but not limited to, five-year government bond yield, bank lending rates and market risk premium. The pre-tax discount rates used are as follows:

	2018	2017
Kareila	<b>13.30%</b>	15.67%
Budgetlane Supermarkets	<b>13.10%</b>	11.94%
Gant	<b>13.60%</b>	15.77%
DCI and FLSTCI	<b>13.60%</b>	10.19%
Company E	<b>13.50%</b>	15.77%
B&W Supermart	<b>13.00%</b>	15.50%
PJSI	<b>13.50%</b>	15.77%
OWI	<b>13.60%</b>	11.32%
NPSCC	<b>14.00%</b>	11.00%

*Terminal Growth Rate.* The long-term rate used to extrapolate the cash flow projections of the acquired investments beyond the period covered by the recent budget excludes expansions and possible acquisitions in the future. Management also recognizes the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management however, believes that new entrants will not have a significant adverse impact on the forecast included in the cash flow projections. The terminal growth rates used in the cash flow projections for all cash generating units are 5.00% and 3.00% in 2018 and 2017, respectively.

In 2018, the management has identified that a reasonable change of the following assumptions would cause the carrying amount to equal the recoverable amounts of Budgetlane and B&W Supermarkets.

	Revenue Growth Rate	Discount Rate
Budget lane Supermarkets	<b>12.00%</b>	<b>16.60%</b>
B&W Supermart	<b>19.00%</b>	<b>15.26%</b>

In 2018, the management assessed reasonable changes for other key assumptions and has not identified any that could cause the carrying amounts to exceed the recoverable values of Budgetlane Supermarkets and B&W Supermart. Management believes that any reasonable change in any of the key assumptions would not cause the carrying amounts of the cash generating units for Gant, DCI and FLSTCI, Company E, and PJSI to exceed the recoverable values.



In 2018, the management assessed reasonable changes for other key assumptions and has not identified any that could cause the carrying amounts to exceed the recoverable values of Budgetlane Supermarkets and B&W Supermart. Management believes that any reasonable change in any of the key assumptions would not cause the carrying amounts of the cash generating units for Gant, DCI and FLSTCI, Company E, and PJSI to exceed the recoverable values.

The recoverable amounts of Budgetlane Supermarkets and B&W Supermart are estimated to exceed their carrying amounts as at December 31, 2018 by P63.27 million and P11.33 million, respectively.

#### Trademark and Customer Relationships

This account represents the 'S&R' trade name and customer relationships which were recognized at fair value as part of the acquisition to KMC in 2013 and assessed to have indefinite useful lives. Following initial recognition, the trademarks and customer relationships are carried at cost and subject to annual impairment testing.

#### Impairment of Goodwill, Trademark and Customer Relationships

The recoverable amounts of goodwill, trademark and customer relationships has been determined based on value in use (VIU), using cash flow projections covering a five-year period. It is based on a long range plan approved by management. The VIU is based on a 5.00% terminal growth rate and discount rate of 14.36%. The terminal growth rate used is consistent with the long-term average growth rate for the Group's industry. The discount rate is based on the weighted average cost of capital (WACC) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium. The financial projection used in the VIU is highly dependent on the gross sales and gross profit margin. For purposes of growth rate sensitivity, a growth rate scenario of 2% and 3% is applied on the discounted cash flow analysis. Based on the sensitivity analysis, any reasonably possible change in the key assumptions would not cause the carrying amount of goodwill, trademark and customer relationship to exceed its recoverable amount.

#### Leasehold Rights

On January 25, 2013, PPCI executed a memorandum of agreement with various lessors, namely, BHF Family Plaza, Inc., Lim Y-U Group, Inc., and R&A Malvar Trading Company, Inc. which paved the way for the establishment of five (5) Puregold stores previously owned and operated by these lessors. Under the agreement, the lessors agreed to sell to PPCI all merchandise inventories, equipment, furniture and fixtures as well as granting of rights to lease the buildings owned by each lessor for a period of 20 years upon compliance of the conditions set forth in the memorandum of agreement. As a result of the transaction, the Group recognized leasehold rights representing the excess of cost paid over the fair value of all assets acquired which will be amortized on a straight-line basis over the lease period.

The movements and balances of leasehold rights and computer software and licenses as at and for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<b>Computer Software and Licenses</b>	<b>Leasehold Rights</b>
<b>Cost</b>		
January 1, 2017	P346,444	P75,355
Additions	30,352	-
December 31, 2017	376,796	75,355
Additions	41,705	-
Adjustment	(213)	-
Reclassification to assets classified as held- for-sale	(33,952)	-
<b>December 31, 2018</b>	<b>384,336</b>	<b>75,355</b>
<b>Accumulated Amortization</b>		
January 1, 2017	152,192	12,938
Amortization	35,989	3,768
December 31, 2017	188,181	16,706
Amortization	37,392	3,767
Reclassification to assets classified as held- for-sale	(29,220)	-
<b>December 31, 2018</b>	<b>196,353</b>	<b>20,473</b>
<b>Carrying Amounts</b>		
December 31, 2017	P188,615	P58,649
<b>December 31, 2018</b>	<b>P187,983</b>	<b>P54,882</b>

Amortization is charged to operating expenses (see Note 24).

## 15. Deferred Oil and Mineral Exploration Costs

This account consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>Participating Interest</b>	<b>2018</b>	<b>2017</b>
<b>I. Oil exploration costs:</b>				
SC 14	<i>a</i>			
Block C2 (West Linapacan)		6.12%	<b>P55,347</b>	P55,024
Block D		5.84%	<b>8,071</b>	8,071
Block B1 (North Matinloc)		13.55%	<b>2</b>	2
			<b>63,420</b>	63,097
SC 6A	<i>b</i>	1.67%		
Octon Block			<b>17,355</b>	17,260
North Block			<b>600</b>	600
SC 6B (Bonita)	<i>d</i>	8.18%	<b>8,027</b>	8,027
			<b>25,982</b>	25,887
SC 51	<i>c</i>		<b>32,817</b>	32,817
Other oil projects			<b>527</b>	527
			<b>33,344</b>	33,344
<b>Balance at end of year</b>			<b>122,746</b>	122,328

Forward

<i>(In thousands pesos)</i>	<b>Note</b>	<b>Participating Interest</b>	<b>2018</b>	<b>2017</b>
<b>II. Mineral exploration costs:</b>				
Nickel project	e, f	100.00%	<b>P19,208</b>	P19,208
Anoling gold project	g	3.00%	<b>13,817</b>	13,817
Gold projects	h	100.00%	<b>13,036</b>	13,036
Cement project	i	100.00%	<b>9,603</b>	9,603
Other mineral projects	j, k		<b>382</b>	382
			<b>56,046</b>	56,046
<b>Accumulated impairment losses for unrecoverable deferred mineral exploration costs:</b>				
			<b>(56,046)</b>	(56,046)
<b>Balance at end of year</b>				
			-	-
<b>III. Other deferred charges</b>				
			<b>619</b>	619
			<b>P123,365</b>	P122,947

On July 2, 2015, the Department of Energy (DOE) approved the transfer of all participating interest of the Parent Company in its various petroleum service contracts in the Philippines to APMC. APMC hereby assumes the responsibility and work commitments on the service contracts.

All deferred oil and mineral exploration costs are classified as intangible assets on the basis that these costs are recognized in respect of licenses and surveys. These costs were incurred in developing an intangible asset. Oil and mineral explorations are governed by permits issued by the Philippine Government either through DOE under SC or by DENR under Exploration Permit (EP) or MPSA.

a) SC 14 Gabon - Etame, Offshore Gabon, West Africa

On February 23, 2001, Cosco executed Heads of Agreement (HOA) and Deed of Assignment with Sojitz Etame, Ltd. (formerly Nissho Iwai Corporation of Japan) for its 2.625% interest in Etame oil field in Gabon, West Africa. The agreements provide that payment of capped amount of US\$1,000,000 conditioned on production out of revenue derived from the assigned Participating Interest (2.428%) of 15% of Profit Oil [as defined in the Joint Operating Agreement (JOA)], payable quarterly and in accordance with the following:

- (i) should the amount of proved recoverable reserves as submitted in the Development Plan by the Operator be less than 65 million barrels in the Etame Exploration Blocks, Buyer shall pay US\$800,000; and
- (ii) should the oil reserves be greater than 65 million barrels, Buyer shall pay an additional amount of US\$200,000.

As at December 31, 2011, the Parent Company already received US\$800,000 (peso equivalent: P35.1 million) as proceeds on production of 65 million barrels.

The Parent Company is still seeking the additional US\$200,000 (peso equivalent: P8.8 million) as stated in provision (ii) of the above agreement for the computed oil reserves in excess of 65 million barrels as at December 31, 2012.

In 2018, continuous geological and geophysical evaluation integrates with the results of the different projects and studies into the potential of the SC14 block. The Consortium is reviewing production viability and is receiving interest from other parties.

In 2018 and 2017, additional deferred charges amounting to P323 and P1,318, respectively, was capitalized.

b) SC 6A (Octon and North Block) - Offshore Northwest Palawan Philippines

The SC 6A oil field, discovered in 1990, is located in Offshore Northwest Palawan near Galoc Block. This oil field was not put into production due to low oil price in 1990 and also due to limited data. As at December 31, 2018, the Company has participating interest of 1.67%.

The impending expiry of SC 6A-Octon Block was finally resolved in a DOE letter on June 18, 2009. The letter informed the Operator, Philodrill, of the 15-year contract extension of the SC Octon Block subject to some terms and conditions.

On December 8, 2011, the DOE approved the transfer of Filipino Consortium's 70% undivided interest to PLL. DOE has also approved the appointment of PLL as the Operator in accordance with the Deed of Assignment and Assumption dated July 1, 2011.

The work commitments approved by the DOE for 2012 include the seismic acquisition, processing and interpretation of 500 square kilometers of 3D data area in Octon. The Company for its part will be carried free up to the drilling of the two exploration wells on the block.

In 2013, the 3D seismic acquisition has been completed and the data is now in Vietnam for data processing and interpretation. Oil reserves have already been determined and would be further refined and fine-tuned by the complete seismic acquisition.

In 2018 and 2017, additional deferred charges amounting to P94 and P248 were capitalized, respectively.

c) SC 51 - East Visayan Basin

The contract area is defined by two (2) separate blocks, namely (1) an on shore-off shore block over Northwest Leyte and (2) a deepwater block in the Cebu Strait. The Parent Company together with other members of the SC 51 Consortium, assigned their collective 80% interest to NorAsian Energy Limited (NorAsian) in consideration for the latter to conduct and finance the seismic survey and drill one well.

In a DOE letter dated June 20, 2009, DOE informed the Operator NorAsian that Executive Order No. 10 dated May 29, 2009 has been issued by the Cebu Provincial Governor which effectively lifts the Cease and Desist Order along the municipal waters of Argao, Sibonga and Cebu.

In line with this, DOE instructs NorAsian to resume petroleum exploration activities in the service contract area.

In July 2011, NorAsian has executed a farm-out of its SC-51 participating interest to Swan Oil and Gas (SWAN). The agreement has been approved by the SC51 Joint Venture Partners and the DOE. In the Consortium meeting on October 27, 2011, NorAsian informed the partners that DOE has accepted DUHAT-1 as compliance of its 3rd Sub-Phase work program. DOE has also approved the 100 kilometers of 2D seismic data acquisition in on-shore Leyte as its commitment for the 4th Sub-Phase work program rather than drill another well onshore.

NorAsian has elected to discontinue its participation in the South block and with the drilling of Argao prospect. NorAsian will give to SWAN all of its 80% participating interest and its operatorship in the Southern block. NorAsian will still retain a 40% working interest in the Northern block and the remaining 40% to SWAN.



Relative thereto, SWAN has requested the Filipino partners to approve the revised Farm in agreement. The Farm-in agreement revisions was approved subsequently but remained unexecuted as at December 31, 2011.

In the first half of 2012, after trying to raise funds for its committed drilling program, SWAN was unable to show proof of its financial capability and its commitment to drill the Argao structure in due time as per provisions of the amended Farm-In Agreement. The Filipino partners in the South Block declared SWAN in default of its Farm-In Agreement commitments. Otto Energy (Otto) also declared SWAN in default of its JOA commitments in the North Block. SWAN contested the default but later settled amicably in September 2012, after it was able to secure a reasonable walk-away package from Otto.

After SWAN's exit from the SC-51 contract area, Frontier Oil Corporation (Frontier) manifested its interest to become Operator of SC-51 South Block and has agreed to the key terms of the proposed Farm-In Agreement. Frontier Oil was still within its requested due diligence period when the year ended. A third party, Arex Energy, was commissioned by Frontier to conduct due diligence study of the block. Frontier requested for an extension until January 31, 2013 before it decides on its option.

On July 2012, 102 line kilometers of seismic lines were completed by the seismic survey party in the North Block. The Seismic survey was completed under budget despite a month-long cessation of operation due to the military stand-off between China and the Philippines at the Scarborough Shoals. Initially-processed seismic lines disclosed very promising seismic features and more enhanced drilling target. The confidence of optimally locating the proposed Duhat-2 is now much higher.

Otto informed that its Board has already approved the drilling budget of \$6,600,000 for next year's drilling program which is likely to occur during third quarter of 2013. A much larger rig is being sought for the drilling Duhat 2 to avoid the problem in Duhat 1/1A. So far, two serious drilling outfits heeded the call for rig by Otto.

In 2013, Otto Energy, despite its two failed wells, has declared a mean probable reserve of more than 20MBO.

As at December 31, 2018 and 2017, there were no further developments on the said project.

d) SC 6B (Bonita) - Offshore Northwest Palawan, Philippines

The SC 6B Bonita oil field is located in Offshore Northwest Palawan adjacent to Matinloc. Currently, Venture Oil is evaluating the area for development. On October 28, 2011, Peak Oil and Gas Philippines Ltd, Blade Petroleum Philippines Ltd, and Venture Oil Philippines Inc signed a Farm-In agreement with SC-6B joint venture partners to acquire 70% of the consortium's aggregate participating interests. After executing the Deed of Assignment and Assumption of Interest, the Parent Company as at December 31, 2011 has a residual participating interest of 2.11% from the original 7.03% after the farm-out.

The impending expiry of SC 6B-Bonita Block was also resolved in a DOE letter of June 17, 2009. The letter informed the Operator, Philodrill, of the 15-year contract extension of the SC Bonita Block subject to terms and conditions.

In 2012, DOE approved the amendments to the Farm-In agreement between the Filipino farmers and the Group of Operators. The Operators proposed to conduct a simultaneous study of Bonita with Cadlao. The \$200,000 approved budget will be shared halfway. However, the Group of Operators failed to submit the financial documents required by the DOE which would prove that it has the financial capability to implement the work programs.

During the last quarter of 2012, Philodrill, as previous operator of Bonita, served notice to the current Group of Operators that the farmers are cancelling the farm-in agreement.

In 2016, additional deferred charges amounting to P72 was capitalized.

As at December 31, 2018, there were no further developments on the said project.

- e) Exploration Permit Application No. 175-IVB - Nickel Project Aborlan, Palawan  
An Order of Denial has been issued by MGB-IVB during the last quarter of 2010 due to inactivity and lack of NCIP clearance among others. The Parent Company submitted a letter of reconsideration and MGB-IVB granted a temporary reprieve in order for the Parent Company to show commitment in completing the application.

The Parent Company submitted the same letter of reprieve to NCIP Region IV so the latter can facilitate the reactivation of the Parent Company's request of NCIP clearance.

As at December 31, 2012, the appeal for reconsideration remained at the MGB Central Office in Quezon City awaiting for the deliberation and resolution.

In December 2013, the application permit remained languishing at the MGB Central under appeal for reinstatement. However the recent turn of events in Palawan brought about by the assigning of EO-79, which categorized Palawan as a No-Go Zone for mining, has forced the Parent Company to accept the previous cancellation and withdraw its appeal for reinstatement.

As at December 31, 2018 and 2017, there were no further developments on the said project.

- f) Exploration Permit Application No. 196-IVB - Nickel Project Rizal, Palawan  
The declaration of Mount Mantalingaan as Palawan Protected Landscape gravely affected the surface extent of the applied area. From the original area of 2,477 hectares the net free area has been reduced to a mere 396 hectares or 15% of the original applied area.

On October 12, 2011, the Parent Company received the Notice of Denial for further processing of its exploration permit application. With the current anti-mining sentiments in Palawan, the Parent Company has decided to forgo any appeal for reinstatement.

In December 2013, this has been cancelled several years back due to the inclusion of its most potential areas in the recently declared Mt. Mantalingaan National Park in Southern Palawan. This forced the Parent Company to accept the cancellation notice without any qualms, after filing two motions for reconsideration.

As at December 31, 2018 and 2017, there were no further developments on the said project.

g) MPSA Application No. 039-XIII - Gold Project Anoling, Agusan Del Sur

The project, located in Agusan del Sur, has an area of 204 hectares. In November 2005, the Parent Company executed a Mines Operating Agreement (MOA) with Phsamed Mining Corporation (PHSAMED) whereby the latter assumes operatorship of the Anoling Project, including, among others, all rights, duties and obligations of the Parent Company as previous operator of the Anoling Project. In return, PHSAMED seeks the approval of MPSA and complies with all the work obligation on the area. Moreover, the Parent Company receives 3% royalty and 10% net profit interest share before income tax, depreciation and amortization of up to P11 million. The agreement has an initial term of ten (10) years.

PHSAMED, with the assistance of the Parent Company, is pursuing the final approval of the MPSA. Additional documentary requirements were submitted to MGB-Caraga in Surigao City. All mining operations remained suspended as at December 31, 2012 until final approval of MPSA.

In 2012, the Parent Company received a formal notice from the project operator that they are no longer pursuing the project development program of Anoling Gold Mine.

The Parent Company has assumed operatorship of the project once again and currently securing all the mine tunnels and assets left behind by the project operator. The Parent Company is also securing all technical data and reports that the project operator acquired during their seven years of operatorship.

The return of the unapproved tenements was completed in 2013 and Bernster has already acknowledged receipt of the MOA termination in their reply letter. The MPSA application is still held-up at the sala of the Mines Adjudication Board but Bernster has to pursue the approval themselves.

As at December 31, 2018 and 2017, there were no further developments on the said project.

h) Exploration Permit Application No. 080 - Gold Project, Tinongdan Itogon, Benguet

As at December 31, 2012, all field activities and IP negotiations are suspended. The Parent Company is currently finding a solution to move the project forward and convince the big land owners to give their consent and complete the FPIC process. A final appeal for reinstatement has been lodged before the MGB Central office.

In 2013, due to the continued non-consent vote from the indigenous people in the area, it was deemed justified to withdraw the appeal for reinstatement.

As at December 31, 2018 and 2017, there were no further developments on the said project.

i) MPSA No. 066-97-VIII - Cement Project, Isabel, Merida, Leyte

The MPSA was assigned last June 1997 and calls for the extraction of limestone as raw material for the manufacture of cement. The assignment is for 25 years with an option to extend for another 25 years.

On March 4, 2003, the DENR granted the Parent Company's application for a 2-year exploration period in its Cement Leyte Project which ended on March 14, 2005.

On September 9, 2011, the Parent Company received the approval for the second extension of the MPSA Exploration. The approved exploration and environmental work programs shall end with the Declaration Mining Project Feasibility in September 2013 or earlier.

The Parent Company, as part of new requirements, is required to conduct a new round of Information, Education and Communication (IEC) before implementing the exploration surveys. The Parent Company has also committed to participate in the National Greening Program initiated by the President.

For the first half of 2012, the Parent Company continued in preparation to conduct a new IEC campaign for the drilling operation it committed to conduct in the contract area within the 2-year extension of the MPSA exploration period.

In 2013, the project was considered delinquent and may soon be cancelled by the regional mining office.

In 2016, the Company paid occupation amounting to P0.502 million for the project.

As at December 31, 2018, there were no further developments on the said project.

j) Exploration Permit Application No. 009-2010-V - Copper Gold Project, Oas, Albay

The Exploration Permit Application EXPA-000072-V has been signed and approved on May 5, 2010 at the Central office of the Mines and Geosciences Bureau in Quezon City and registered with the Mines Geosciences Bureau Regional Office No. 5 in Legaspi City on May 12, 2010 as EP-009-2010-V.

On May 17, 2011, the Parent Company signed a MOA with Bentley Fairview Resources Corporation after Bentley decided to exercise its option upon expiration of the Option and Due Diligence Agreement last May 1, 2011.

In August 2011, the Parent Company and Bentley have completed the IEC campaign. Bentley advised that ground activities will commence in the middle of January 2012. Their schedules were set back by bad weather and shortage of technical personnel.

During the first quarter of 2012, a 3-year MOA between the Parent Company and Barangay Maramba was signed and executed in compliance and fulfillment of the Parent Company's commitments with the National Greening Program (NGP). Bentley, as project operator and in pursuance to the mines operating agreement with the Parent Company, will finance the reforestation of a 6-hectare area in Maramba and Barangay Maramba will be the implementing partner of the NGP MOA. A 3-year financial plan has been crafted for that matter.

In 2012, the implementation of signed NGP-MOA between the Parent Company and Barangay Maramba was completed. A total of 2,500 mahogany seedlings were planted in the area located within the jurisdiction of Barangay Maramba, Oas, Albay. The tree-planting site has been inspected by representative of the MGB.



As at December 31, 2012, the Parent Company submitted its application for the renewal of the exploration permit and waits for the renewal of the exploration permit.

In 2013, the documents for the relinquishment of the tenements have been prepared. The EP was renewed but the claim perfection remained incomplete due to non-payment of the mining occupation fees. The Parent Company has already made several postponements of inspection trips by MGB-5 to the project site.

The Parent Company has not implemented its mandatory community development program. It has stalled the implementation of the tree-planting program and has not undertaken the environmental baseline survey. Commitments are piling up after the pull out of Bentley and the Parent Company has suspended all compliance activities on the area.

In 2013, the EP is now delinquent in status and the continued delinquency is decreasing the value of the project.

As at December 31, 2018 and 2017, there were no further developments on the said project.

k) Exploration Permit No. 000071 - Copper Project, Concepcion, Iloilo

On June 22, 2010, the exploration permit application was registered and approved by the regional office of MGB-6 in Iloilo City. All surface activities remained suspended. The Parent Company is currently preparing the budget for work programs and IEC presentations for approval by the BOD.

The Parent Company has completed its Project IEC campaign before all concerned and affected Local Government Units in Concepcion and Iloilo.

MGB-6 now requires the Parent Company to secure Affidavit of Consents from the private landowners. The Parent Company complied with the MGB guidelines.

As at December 31, 2012, the Parent Company completed its documentary submissions with respect to its application for the renewal of the exploration permit. The Parent Company is patiently waiting for the renewal of the exploration permit so that it can implement the other peripheral requirements of the CDP, NGP and geohazard mapping.

In December 2013, the signing of the Option to Purchase agreement with Vale Exploration, Philippines (Vale) has been completed.

On January 13, 2014, Vale took over of the project Operation. The US\$20,000 cash consideration was paid to the Parent Company on January 23, 2014. If the surface exploration activities confirmed the expected results, Vale has the option to exercise immediately the purchase of the mineral rights from the Parent Company at the cost of US\$1.25 million. Vale would still pay the US\$ 30,000 regardless of the early exercise of the purchase option. The Parent Company's residual 1.35% share on the net smelter return will only kick in when production has been realized. The Parent Company will be carried free in all exploration activities even in the event of confirmatory drilling operations in the later stages.

As at December 31, 2018 and 2017, there were no further developments on the said project.



## 16. Other Noncurrent Assets

This account consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Security deposits	22	<b>P1,852,095</b>	P1,658,440
Accrued rent income	22	<b>391,808</b>	582,693
Deferred input VAT - net of current portion		<b>400,121</b>	199,029
Prepaid rent	22	<b>623,245</b>	304,222
Advances to contractors		<b>313,180</b>	215,534
Others		<b>4,836</b>	2,406
		<b>P3,585,285</b>	P2,962,324

The Group's other noncurrent assets consists of other investments, environmental funds, cash guarantees, and other deposits made to individual lessors by a subsidiary.

## 17. Accounts Payable and Accrued Expenses

This account consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Trade payables		<b>P9,811,921</b>	P8,643,738
Non-trade payables		<b>1,205,116</b>	1,644,108
Dividends payable	29	-	1,200,393
Due to government agencies		<b>620,671</b>	660,554
Retention payable		<b>73</b>	74,437
Construction bonds		<b>20,541</b>	26,371
Advance rentals	22	<b>11,753</b>	16,293
Trust receipts payable		-	4,091
Accrued expenses:			
Manpower agency services		<b>909,613</b>	913,056
Utilities		<b>200,381</b>	164,612
Rent		<b>62,280</b>	104,846
Professional fees		<b>5,493</b>	61,929
Inventory		-	26,753
Interest		<b>10,674</b>	6,825
Fixed asset acquisition		<b>1,657</b>	5,712
Others		<b>154,994</b>	239,414
		<b>P13,015,167</b>	P13,793,132

Trade payables represent payable arising mainly from purchases of inventories. These are noninterest-bearing and are generally have a 30 to 60 days payment terms.

Nontrade payables consist mainly of obligations to nontrade suppliers related to the purchases of supplies, fixed assets acquisitions and structures under construction and liabilities in line with the Group's operating expenses. These are normally settled within 12 months.



## 18. Loans Payable

As at December 31, 2018 and 2017, the Group has the following outstanding loans:

### a. Short-term Loans

Details of peso-denominated short-term loans follow:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P5,562,500</b>	P5,362,500
Availments	<b>10,220,000</b>	6,749,500
Payments	<b>(10,916,200)</b>	(6,549,500)
Balance at end of year	<b>P4,866,300</b>	P5,562,500

The balances of peso-denominated short-term loans of each segment as at December 31 follow:

Segment	Purpose(s)	Interests	<b>2018</b>	<b>2017</b>
Grocery retail	- Inventory financing - Working capital requirements	2.875% to 5.75%	<b>P3,856,300</b>	P3,742,500
Liquor distribution	- Inventory financing	3.57% to 5.63%	<b>710,000</b>	850,000
Real estate	- Capital expenditure requirements	2.88% to 5.25%	<b>300,000</b>	600,000
Specialty retail	- Working capital requirements	2.38% to 2.88%	-	370,000
			<b>P4,866,300</b>	P5,562,500

### b. Long-term Debts

Details of long-term debts follow:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P7,225,612</b>	P7,387,939
Payments during the year	<b>(610,000)</b>	(170,001)
Amortization of debt issue cost	<b>6,596</b>	7,674
	<b>6,622,208</b>	7,225,612
Less current portion	<b>49,999</b>	2,443,402
	<b>P6,572,209</b>	P4,782,210

The balance of long-term debts of the Parent Company and subsidiaries follow:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Cosco:			
Fixed-rate peso-denominated loan of 5.267%	<i>a</i>	<b>P3,827,355</b>	P3,862,264
Fixed-rate peso-denominated loan of 5.579%	<i>b</i>	<b>954,853</b>	964,143
PPCI:			
Fixed-rate peso-denominated note of 6.40%	<i>d</i>	<b>1,440,000</b>	1,999,205
KMC			
Fixed-rate peso-denominated loan of 3.50%	<i>e</i>	<b>400,000</b>	400,000
		<b>6,622,208</b>	7,225,612
Less current portion		<b>49,999</b>	2,443,402
		<b>P6,572,209</b>	P4,782,210

#### **Cosco**

On May 6, 2014, Cosco signed and executed a P5.0 billion corporate financing facility. The proceeds were used to finance the Group's strategic acquisition plans and/or for other general corporate requirements. Subsequently, Cosco issued the following:

- a. 7-year, unsecured, peso-denominated loan with a consortium of six (6) local banks for P4.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. Debt issuance costs related to this loan amounted to P34.17 million. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the sixth anniversary; and 94.0% of the principal amount on maturity date.
- b. 10-year, unsecured, peso-denominated loan with a consortium of two (2) local banks for P1.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. Debt issuance costs related to this loan amounted to P8.54 million. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the ninth anniversary; and 91.0% of the principal amount on maturity date.

The above mentioned loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on guarantees, and payments of dividends.

As of December 31, 2018 and 2017, Cosco complied with the covenants of the aforementioned loans.

#### **PPCI**

- a. On June 13, 2013, the Company issued a P2 billion promissory note to a local bank, which is payable on May 21, 2018 and bears interest at 3.50% per annum. The interest is payable every month.

On May 2, 2018, the Company partially paid the loan and the remaining balance of P1.44 billion was rolled over which is payable after 7 years and bears interest at 6.40% per annum.



The movements in debt issue costs are as follows:

	2018	2017
Balance at beginning of the year	<b>P795,346</b>	P2,903,342
Amortizations	<b>(795,346)</b>	(2,107,996)
Balance at end of year	<b>P -</b>	P795,346

- b. On April 14, 2013, PPCI signed and executed a 2-year, peso-denominated promissory note amounting to P963.70 million. The note bears a fixed interest of 3.25% and shall be repaid in a single payment on maturity.

In 2015, PPCI paid a total of P393.70 million of the principal amount; subsequently, the remaining principal amount was rolled-over at fixed interest of 2.375% and payable on January 11, 2016.

In 2016, PPCI paid a total of P450.00 million of the principal amount; subsequently, the remaining loan amount was rolled-over and payable on January 4, 2017. In 2017, PPCI paid the note in full.

PPCI is not subject to any covenant for the aforementioned loans.

#### KMC

On July 23, 2013, Kareila signed and executed a P500.00 million unsecured loan agreement with a local bank. The loan shall be repaid in lump sum after five (5) years. Its related interest is at 3.50% per annum. In 2015, P100.00 million of the loan was repaid in advance by the Company. The remaining balance of P400.00 million was renewed in 2018 for another seven year at 6.40% interest rate per annum.

KMC is not subject to any covenant for the aforementioned loan.

Total interest incurred on the above-mentioned loans payable amounted to P468.84 million, P406.41 million and P345.68 million for the years ended 2018, 2017 and 2016, respectively. Capitalized interest in 2018, 2017 and 2016 amounted to P81.73 million, P91.52 million and P143.81 million, respectively (see Notes 13 and 14).

The reconciliation of liabilities arising from financing activities in 2018 and 2017 are presented below. The details of net cash flows are presented in the consolidated statements of cash flows.

	December 31, 2018				
(In thousands pesos)	Short-term Loans	Long-term Debts	Interest Payable	Dividend Payable	Total
<b>Balance at beginning of year</b>	<b>P5,562,500</b>	<b>P7,225,612</b>	<b>P6,825</b>	<b>P1,200,393</b>	<b>P13,995,330</b>
Proceeds from loans	10,220,000	-	-	-	10,220,000
Payment of loans	(10,916,200)	(610,000)	-	-	(11,526,200)
Interest expense	-	-	468,844	-	468,844
Interest paid	-	-	(458,398)	-	(458,398)
Total changes from financing cash flows	(696,200)	(610,000)	10,446	1,200,393	(1,295,754)
Amortization of debt issue cost	-	6,596	-	-	6,596
<b>Balance at end of year</b>	<b>P4,866,300</b>	<b>P6,622,208</b>	<b>P17,271</b>	<b>P -</b>	<b>P12,706,172</b>

	December 31, 2017				
<i>(In thousands pesos)</i>	Short-term Loans	Long-term Debts	Interest Payable	Dividends Payable	Total
Balance at beginning of year	P5,362,500	P7,387,939	P95,461	P1,353,645	P14,199,545
Proceeds from loans	6,749,500	-	-	-	6,749,500
Payment of loans	(6,549,500)	(170,001)	-	-	(6,719,501)
Interest expense	-	-	406,413	-	406,413
Interest paid	-	-	(495,049)	-	(495,049)
Cash dividends declared	-	-	-	1,278,156	1,278,156
Cash dividends paid	-	-	-	(1,431,408)	(1,431,408)
Total changes from financing cash flows	200,000	(170,001)	(88,636)	(153,252)	(211,889)
Amortization of debt issue cost	-	7,674	-	-	7,674
Balance at end of year	P5,562,500	P7,225,612	P6,825	P1,200,393	P13,995,330

## 19. Other Current Liabilities

This account as at December 31 consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Customers' deposits	23, 33, 34	<b>P250,749</b>	P252,426
Unredeemed gift certificates		<b>127,913</b>	89,840
Loyalty and rewards		<b>11,190</b>	85,730
Output VAT		<b>40,659</b>	32,251
Promotion fund		<b>4,621</b>	19,997
Others	33, 34	<b>1,165</b>	25,163
		<b>P436,297</b>	P505,407

Unredeemed gift certificates represent issued yet unused gift certificates. The corresponding sale will be recognized upon redemption by the customers or upon expiration.

Loyalty and rewards is provided for the points' redemption of "Tindahan ni Aling Puring" (TNAP) and PERKS card members. These points allow their members to redeem or use to pay for the purchase of the PPCI's merchandise inventories.

Promotion fund is the promotional discount granted for the Group's promotion and advertising activities in partnership with its suppliers.

## 20. Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods in the following major product lines as follows:

<i>(In thousands pesos)</i>			
<b>Major Products/Service Lines</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Grocery	<b>P140,918,008</b>	P124,491,023	P112,589,366
LPG	<b>17,090,512</b>	13,128,497	8,926,568
Wines and liquor	<b>6,514,653</b>	4,694,538	4,344,365
Office and technology supplies	<b>2,086,043</b>	1,820,605	1,531,429
	<b>P166,609,216</b>	P144,134,663	P127,391,728

### Disaggregated Revenue Information

Presented below is the Group's sources of revenue, further disaggregated to revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2018:

(In thousands pesos)

Major Products/Service Lines	Goods/Services Transferred at a Point in Time	Revenue not under Scope of PFRS 15	Total
Sale of consumer goods	P140,918,008	P -	P140,918,008
Sale of LPG and petroleum products	17,090,512	-	17,090,512
Sale from distribution of wines and liquor products	6,514,653	-	6,514,653
Sale of office and technology supplies	2,086,043	-	2,086,043
Rental income	-	1,778,434	1,778,434
	P166,609,216	P1,778,434	P168,387,650

The Group has recognized the following assets related to contracts with customers:

(In thousands pesos)	Note	2018	2017	2016
Receivables which are included under trade and other receivables	6	P5,069,825	P5,798,595	P5,993,015
Receivables which are included in the assets held for sale	34	990,137	-	-
Balance at end of year		P6,059,962	P5,798,595	P5,993,015

## 21. Cost of Goods Sold and Services

Cost of goods sold consists of:

(In thousands pesos)	2018	2017	2016
Beginning inventory	P21,194,691	P19,792,366	P16,740,693
Purchases	141,257,245	120,527,031	107,988,194
Overhead costs	528,725	564,930	553,558
Total goods available for sale	162,980,661	140,884,327	125,282,445
Ending inventory	23,931,657	21,194,691	19,792,366
	P139,049,004	P119,689,636	P105,490,079

Overhead costs pertain to other costs directly attributable in bringing the LPC's inventories to its intended condition and location. Details of overhead costs follow:

(In thousands pesos)	Note	2018	2017	2016
Freight-in		P222,752	P336,611	P352,494
Depreciation and amortization	12	275,973	162,722	140,352
Throughput fees	26	30,000	30,000	30,000
Brokers' and other fees		-	15,880	13,376
Filling costs		-	14,888	15,162
Other overhead cost		-	4,829	2,174
		P528,725	P564,930	P553,558

Cost of services consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Utilities		<b>P428,703</b>	P357,787	P383,928
Depreciation	12, 13, 14	<b>198,709</b>	184,159	153,147
Taxes and licenses		<b>89,023</b>	86,795	84,483
Rentals	22	<b>83,506</b>	37,362	32,774
Security services		<b>80,947</b>	83,439	73,720
Repairs and maintenance		<b>56,774</b>	47,125	46,692
Janitorial services		<b>56,205</b>	49,469	39,515
Management fees	26	<b>40,968</b>	29,568	42,238
Salaries and wages		<b>19,927</b>	18,035	14,893
Insurance		<b>19,213</b>	18,104	8,792
Amusement tax		<b>2,052</b>	1,970	1,943
Retirement benefit cost		<b>374</b>	664	170
Operator services		-	-	2,460
Others		<b>2,673</b>	2,986	3,150
		<b>P1,079,074</b>	P917,463	P887,905

## 22. Lease Agreements

### As Lessor

The Group leases out its investment properties to various lessees. These non-cancellable leases have lease terms of up to twenty five (25) years. Some of the leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease agreements, among others, include customers' deposits. These deposits shall answer for any unpaid obligations of the lessee to the Group including damages to the leased properties. Customers' deposits, which are carried at amortized cost, are non-interest bearing and refundable upon termination of the lease agreement, provided that there is no outstanding charges against the tenant. Customers' deposits amounted to P318.12 million and P301.13 million as at December 31, 2018 and 2017, respectively. These are included under "Other noncurrent liabilities" account in the consolidated statements of financial position.

Customers' deposits are recognized initially at fair value and subsequently carried at amortized cost. The fair values of customers' deposits are determined using risk-free interest rates. These are amortized on a straight-line basis.

Rent income is accounted on a straight-line basis over the lease term. The excess of the total lease income over rental collections amounted to P391.81 million and P582.69 million as at December 31, 2018 and 2017, respectively, and are accounted under "Other noncurrent assets" account in the consolidated statements of financial position (see Note 16).

Rent income recognized as part of "Services" account in profit or loss amounted to P1,778.43 million, P1,614.64 million and P1,778.30 million in 2018, 2017 and 2016, respectively.



The future minimum lease collections under non-cancellable operating leases as at December 31 are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	2017	2016
Due within one year	<b>P345,681</b>	P467,283	P675,624
Due more than one year but not more than five years	<b>1,493,239</b>	1,875,070	1,098,879
Due more than five years	<b>2,547,926</b>	2,074,126	3,064,695
	<b>P4,386,846</b>	P4,416,479	P4,839,198

The retail segment of the Group subleases portion of its store space to various lessees for an average lease term of one (1) to ten (10) years. The lease contracts may be renewed upon mutual agreement by the parties. Rental payments are computed either based on monthly sales or a certain fixed amount, whichever is higher. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is shown under "Other current liabilities" account in the consolidated statements of financial position (see Note 19).

Rent income recognized as part of "Other Operating Income" account in profit or loss amounted to amounted P407.25 million, P388.65 million and P379.27 million, in 2018, 2017 and 2016, respectively (see Note 23).

The future minimum lease collections under non-cancellable operating leases as at December 31 are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	2017	2016
Due within one year	<b>P260,145</b>	P186,083	P213,715
Due more than one year but not more than five years	<b>357,318</b>	237,501	257,952
Due more than five years	<b>95,071</b>	100,984	148,073
	<b>P712,534</b>	P524,568	P619,740

#### As Lessee

The Group enters into lease agreements for the Group's retail stores, warehouses, corporate office spaces, equipment, plant facilities and refilling stations. These leases have terms ranging from one (1) to fifty (50) years and generally provide for either: (a) fixed amounts which are calculated either fixed monthly rent or is calculated in reference to a fixed sum per square meter of area leased based on the contracts; or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market conditions.

The Group is required to pay advance rental payments and security deposits on the above leases which are either fixed monthly rent or are calculated in reference to a fixed sum per square meter of area leased. These are shown under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position (see Notes 11 and 17).

Rent expense is accounted on a straight-line basis over the lease term. The excess of the total rent expense over the rental payments amounting to P2,829.95 million and P2,412.14 million as at December 31, 2018 and 2017, respectively, are accounted for under "Other noncurrent liabilities" in the consolidated statements of financial position.

Rent expense charged as at December 31 are as follows:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cost of services	21	<b>P83,506</b>	P37,362	P32,774
Operating expenses	25	<b>2,670,280</b>	2,375,871	2,196,065
		<b>P2,753,786</b>	P2,413,233	P2,228,839

The future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Due within one year	<b>P2,351,269</b>	P1,787,121	P1,634,856
Due more than one year but not more than five years	<b>9,568,276</b>	7,203,212	6,038,491
Due more than five years	<b>34,301,806</b>	28,062,979	26,233,968
	<b>P46,221,351</b>	P37,053,312	P33,907,315

## 23. Other Operating Income

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Concession income		<b>P1,878,359</b>	P1,647,845	P1,517,080
Membership income		<b>513,589</b>	452,974	399,966
Rent income	22	<b>407,251</b>	388,645	379,265
Commission income		<b>53,674</b>	67,567	82,317
Miscellaneous		<b>141,892</b>	202,784	145,857
		<b>P2,994,765</b>	P2,759,815	P2,524,485

Concession income refers to the share of the Group's retail segment from sale of goods under concession arrangements.

Membership income pertains to fees from members of Kareila, PPCI and Subic wherein such fees permit only membership, and all other services or products are paid for separately.

Rent income refers to the income earned by the Group's retail segment for the store spaces leased by its tenants.

Commission income is earned by the Group's liquor distribution segment from intermediating between local distributors of wines and liquors and foreign suppliers.

Miscellaneous account consists of amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others.

## 24. Operating Expenses

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Manpower agency		<b>P3,019,535</b>	P2,509,972	P2,138,732
Rent	22	<b>2,670,280</b>	2,375,871	2,196,065
Communication, light and water		<b>2,382,827</b>	1,952,586	1,721,292
Salaries and wages		<b>2,276,378</b>	2,152,204	1,911,550
Depreciation and amortization	12, 13, 14	<b>1,964,554</b>	1,703,223	1,494,847
Outside services		<b>1,684,369</b>	1,519,908	1,364,839
Advertising and marketing		<b>859,855</b>	524,284	322,057
Taxes and licenses		<b>841,909</b>	703,329	575,972
Store and office supplies		<b>624,228</b>	556,194	483,352
Concession expense	26	<b>522,931</b>	503,476	477,642
Repairs and maintenance		<b>490,665</b>	393,479	402,930
Distribution costs		<b>257,833</b>	330,494	203,530
Insurance		<b>225,757</b>	204,470	192,353
Transportation		<b>188,404</b>	140,532	130,392
Retirement benefits cost	27	<b>170,746</b>	158,377	132,707
SSS/Medicare and HDMF contributions		<b>157,949</b>	139,091	118,674
Input VAT allocable to exempt sales		<b>131,257</b>	110,968	93,803
Representation and entertainment		<b>129,864</b>	85,283	80,910
Fuel and oil		<b>81,565</b>	57,937	45,918
Royalty expense	26	<b>54,343</b>	46,332	42,220
Professional fees		<b>51,222</b>	46,380	49,782
Impairment loss on receivables	6	<b>12,798</b>	128	-
Deficiency tax		-	-	51,390
Others		<b>367,262</b>	211,791	295,165
		<b>P19,166,531</b>	P16,426,309	P14,526,122

## 25. Others

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	2017	2016
Unrealized valuation gain (loss) on investments in trading securities		<b>(P10,385)</b>	P11,779	P676
Gain on disposal of property and equipment		<b>15,815</b>	206	377
Share in net income (loss) of joint ventures and associates	11	<b>17,142</b>	(132,872)	(62,521)
Bank charges		<b>(49,042)</b>	(36,735)	(39,754)
Gain on sale of investment	11	<b>362,810</b>	-	-
Foreign exchange gain (loss)	11	<b>24,200</b>	(23,468)	(19,353)
Gain (loss) on insurance claim		<b>3,383</b>	(14,268)	-
Reimbursement of expenses		-	-	790
Miscellaneous		<b>20,818</b>	116,488	79,687
		<b>P384,741</b>	(P78,870)	(P40,098)

Reimbursements of expenses pertain to recovery of expenses charged by the Group's retail segment for promoting the products of its major suppliers.

Gain (loss) on insurance claim represents the excess of (short on) the insurance proceeds received over the cost of the inventories and machineries damaged by flood and fire.



**26. Related Party Transactions**

The Group's transactions and balances with its related parties follow:

Related Party	Year	Note	Amount of Transactions for the Year	Due from Related Parties	Due to Related Parties	Terms	Conditions
<b>Under Common Control</b>							
▪ Advances	2018	a	P38	P -	P363,146	Due and demandable;	Unsecured
	2017	a	24,570	26,328	387,850	non-interest bearing	
▪ Management fees	2018	d	34,585	-	-	Due and demandable;	Unsecured
	2017	d	23,183	-	-	non-interest bearing	
▪ Rent income	2018	e	125,909	-	-	Due and demandable;	Unsecured
	2017	e	125,909	-	-	non-interest bearing	
▪ Rent expense	2018	f	24,000	-	-	Due and demandable;	Unsecured
	2017	f	24,000	-	-	non-interest bearing	
<b>Associates</b>							
▪ Throughput fees	2018	b	30,000	-	-	Outstanding balance is	Unsecured
	2017	b	30,000	-	8,572	settled in cash within a month	
						after the end of each quarter;	
	2018	c	522,931	-	-	non-interest bearing	Unsecured
	2017	c	503,476	-	-	Due and demandable;	
						non-interest bearing	
<b>Key Management Personnel</b>							
▪ Advances	2018	a	689,098	47,971	959,243	Due and demandable;	Unsecured
	2017	a	32,790	48,026	453,350	non-interest bearing	
▪ Royalty expense	2018	g	54,343	-	43,474	Due and demandable;	Unsecured
	2017	g	46,332	-	-	non-interest bearing	
▪ Short-term benefits	2018		-	-	-		
	2017		13,492	-	-		
<b>Total</b>	<b>2018</b>			<b>P47,971</b>	<b>P1,365,863</b>		
<b>Total</b>	<b>2017</b>			<b>P74,354</b>	<b>P849,772</b>		

a. Advances

The Group obtains and extends cash advances from/to its affiliates and key management personnel cash for working capital requirements.

b. Throughput Agreement

On December 15, 2000, the Group through LPC, together with its co-joint venture in MJVC, as “Users” entered into a throughput agreement (TA) with MJVC and PLBRC. Under the TA, MJVC will provide the services to enable basis, each of the users to load and off-load products from vessels and receive products from MJVC’s storage facilities. LPC, as the User, shall pay the services and annual fees based on a certain formula agreed upon under the TA. The fee shall be shared between the users based on the actual tonnage off-loaded or loaded from and to ships. The term of the agreement is for 25 years and shall expire on December 15, 2025.

Throughput fees are shown as part of “Cost of Sales” in the consolidated statements of comprehensive income.

c. On September 27, 2006, PSMT Philippine, Inc. (PriceSmart), referred to as the “Consignee,” an entity under common control, entered into a consignment and concession contract with the Group through KMC, referred to as the “Consignor.” The Consignee is the owner and operator of four (4) Warehouse, (1) Fort Bonifacio Global City, Taguig City, Metro Manila; (2) Congressional Avenue, Bago-Bantay, Quezon City; (3) Aseana Business Park, Brgy. Tambo, Paranaque City; and (4) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment presently situated therein.

Under the contract, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) stores.
- The Consignor shall give the Consignee a trade or volume discount of its gross sales.
- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.
- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) stores whichever is later, renewable upon mutual agreement of the parties.
- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to fifteen percent (15%) of the consignee’s gross sales which was decreased to ten percent (10%) through an amendment of the contract on January 1, 2011. On February 23, 2012, the contract was further amended giving the consignee a trade or volume discount of five percent (5%) of the consignee’s gross sales.

On February 23, 2012, a new agreement was made between the Consignor and Consignee. Under the new agreement, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignor shall pay the Consignee four percent (4%) monthly consignment/concession fee based on the Consignor's monthly gross sales.
  - Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.
  - Ownership of the goods delivered to the Consignor at the stores shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.
  - The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.
- d. The Group entered into a management agreement with Puregold Realty Leasing and Management, Inc. (PRLMI), an entity under common control. Under the agreement, PRLMI shall handle the leasing and marketing, billing and collection, documentation, and property management services of the properties owned by the realty segment of the Group. In consideration of such services, the Group shall pay monthly management fee to PRLMI equivalent to 5.0% to 8.5% of rental collected by PRLMI. The agreement is valid for a year, and is renewable upon mutual agreement of both parties.
- e. The Group and PriceSmart entered into lease agreement for the rental of land. The term of the lease is twenty three (23) years and renewable under such terms and conditions that shall be agreed upon by the parties.
- f. The Group entered into lease agreement with Union Equities, Inc., an entity under common control. The lease covers a parcel of land where the Group's Sariaya Facilities are located. The term of the lease is for 10 years commencing on December 16, 2015 and may be terminated by the Group at any time with cause and prior notice to the lessor.
- g. On August 15, 2011, PPCI ("licensee") entered into a license agreement with a stockholder ("licensor") for its use of trademark and logo. The licensee will pay the licensor royalties in an amount equivalent to 1/20 of 1% of net sales for the period of thirty (30) years, renewable upon mutual written consent of the parties. These royalty fees and payables are unsecured, non-interest bearing and due and demandable.
- h. A stockholder has granted PPCI the right to use the trademark used in the stores of KMC as part of the sale of KMC to PPCI (see Note 14).

Amounts owed by and owed to related parties are to be settled in cash.

#### Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation in 2018 and 2017 are as follows:

a. Advances from the Parent Company to its subsidiaries

<i>(In thousands pesos)</i>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P9,877,372</b>
<b>2017</b>	<b>9,531,783</b>

These advances are unsecured and with various terms. These are payable in cash.

Interest income from these advances amounted to P29.80 million and P20.57 million in 2018 and 2017, respectively.

b. Advances from subsidiaries to their fellow subsidiaries

<i>(In thousands pesos)</i>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P244,000</b>
<b>2017</b>	<b>296,512</b>

These advances are unsecured and with various terms. These are payable in cash.

Interest income from these advances amounted to P770 in 2017.

c. Sale of goods of the subsidiaries within the Group

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P2,235,888</b>	<b>P515,533</b>
<b>2017</b>	<b>1,972,635</b>	<b>597,635</b>

Receivables from sale of goods are non-interest bearing are generally on a 30-day credit terms.

d. Sale of services of the subsidiaries within the Group

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P650,902</b>	<b>P10,927</b>
<b>2017</b>	<b>582,570</b>	<b>82,414</b>

Receivables from sale of services are unsecured, non-interest bearing are generally on a 30-day credit terms.

e. Dividend income received by the Parent Company from dividends declared by its subsidiaries

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P600,000</b>	<b>P1,674,762</b>
<b>2017</b>	<b>1,064,347</b>	<b>1,739,347</b>

Cash dividends are due on payment date.



- f. Dividend income received by a subsidiary from dividends declared by a fellow subsidiary

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>80</b>	<b>238</b>
2017	78	56

Cash dividends are due on payment date.

- g. Dividend income received by a subsidiary from dividends declared by the Parent Company

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P -</b>	<b>P40,426</b>
2017	24,501	P40,426

Cash dividends are due on payment date.

- h. Management fees charged by the Parent Company to its subsidiaries

<i>(In thousands pesos)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2018</b>	<b>P -</b>	<b>P142,000</b>
2017	P110,000	P142,000

Receivables from management fees are non-interest bearing and are due and demandable and payable in cash.

## 27. Retirement Benefit Costs

The Group has an unfunded, non-contributory, defined benefit plan covering all of its permanent employees. The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. Valuations are obtained on a periodic basis.

The retirement benefits liability recognized in the consolidated statements of financial position as at December 31 are as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Present value of defined benefits obligation	<b>P534,446</b>	P618,300
Fair value of plan assets	<b>(25,913)</b>	(25,913)
	<b>P508,533</b>	P592,387

The following table shows reconciliation from the opening balances to the closing balances of the present value of defined benefits obligations:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P618,300</b>	P538,453
Included in profit or loss:		
Current service cost	<b>138,527</b>	125,920
Interest cost	<b>34,114</b>	29,035
Return on plan assets	<b>(1,477)</b>	-
Past service cost	<b>-</b>	5,831
	<b>171,164</b>	160,786
Included in other comprehensive income		
Remeasurements gain:		
Financial assumptions	<b>(352,383)</b>	(40,467)
Experience adjustments	<b>121,726</b>	(38,596)
	<b>(230,657)</b>	(79,063)
Benefits paid	<b>(1,675)</b>	(1,876)
Reclass to liabilities directly related to assets held-for-sale	<b>(22,686)</b>	-
Balance at end of year	<b>P534,446</b>	P618,300

The following table shows reconciliation from the opening balances to the closing balances for fair value of plan assets:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Balance at beginning of year	<b>P25,913</b>	P25,000
Interest income	<b>-</b>	1,425
Return on plan asset excluding interest	<b>-</b>	(512)
Balance at end of year	<b>P25,913</b>	P25,913

The Group's plan assets as at December 31 consist of the following:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Cash in banks	<b>P2,033</b>	P2,033
Debt instruments - government bonds	<b>23,648</b>	23,648
Trust fees payable	<b>(13)</b>	(13)
Other	<b>245</b>	245
	<b>P25,913</b>	P25,913

The following were the principal actuarial assumptions at the reporting date:

	<b>2018</b>	<b>2017</b>
Discount rate	<b>7.50% to 7.53%</b>	5.29% to 5.70%
Future salary increases	<b>5.00% to 7.00%</b>	3.00% to 8.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 25.8 years.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

#### *Sensitivity Analysis*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

#### **2018**

<i>(In thousands pesos)</i>	<b>Increase</b>	<b>Decrease</b>
Discount rate (1% movement)	<b>(P112,481)</b>	<b>(P91,475)</b>
Future salary increase rate (1% movement)	<b>110,943</b>	<b>(88,056)</b>

#### **2017**

<i>(In thousands pesos)</i>	<b>Increase</b>	<b>Decrease</b>
Discount rate (1% movement)	<b>(P141,076)</b>	<b>P110,151</b>
Future salary increase rate (1% movement)	<b>125,099</b>	<b>(104,120)</b>

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

#### Funding Arrangements

Since the Group does not have a formal retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

Maturity analysis of the benefit payments:

<i>(In thousands pesos)</i>	<b>2018</b>				
	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>Within 1-5 Years</b>	<b>Within 5-10 Years</b>
Defined benefit obligation	<b>P534,446</b>	<b>P231,232</b>	<b>P31,463</b>	<b>P35,173</b>	<b>P161,692</b>

<i>(In thousands pesos)</i>	<b>2017</b>				
	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>Within 1-5 Years</b>	<b>Within 5-10 Years</b>
Defined benefit obligation	<b>P618,300</b>	<b>P176,287</b>	<b>P25,637</b>	<b>P26,616</b>	<b>P124,034</b>

#### Multi-employer Retirement Plan

On February 17, 2014, the PPCI entered into a multi-employer retirement plan agreement with a trust company. PPCI made an initial cash contribution of P25 million pesos.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Company's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

The Group does not expect to contribute to the plan in 2019.

#### Asset-liability Matching (ALM)

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

The Group has no expected future contribution for 2019.

## 28. Income Taxes

The income tax expense for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<b>2018</b>	2017	2016
Current tax	<b>P3,532,242</b>	P3,216,409	P2,842,064
Deferred tax	<b>(132,902)</b>	74,662	245,988
	<b>P3,399,340</b>	P3,291,071	P3,088,052

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense as shown in profit or loss for the years ended December 31 is as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	2017	2016
Income before income tax	<b>P12,204,137</b>	P11,124,386	P10,557,445
Income tax expense at the statutory income tax rate:			
30%	<b>P3,752,279</b>	P3,439,307	P3,294,853
5%	<b>55,286</b>	12,833	15,845
Income tax effects of:			
Dividend income exempt from final tax	<b>(180,011)</b>	(150,407)	(223,048)
Deduction from gross income due to availment of optional standard deduction	<b>(116,168)</b>	(170,482)	(21,720)
Non-taxable income-net	<b>(109,047)</b>	(3,749)	-
Nondeductible other expenses	<b>33,534</b>	6,368	34,121
Interest income subjected to final tax	<b>(29,707)</b>	(12,223)	(31,600)
Recognition of unrecognized DTA	<b>(21,468)</b>	-	-
Nondeductible expense	<b>18,720</b>	164,576	1,146
Non-taxable rental income	<b>(8,104)</b>	(2,735)	(1,032)
Non-deductible interest expense	<b>4,809</b>	7,291	10,268
Share in net income of an associates/joint venturers	<b>(783)</b>	(953)	(1,779)
Changes in unrecognized DTA	<b>-</b>	1,245	10,998
	<b>P3,399,340</b>	P3,291,071	P3,088,052



The components of the Group's deferred tax liabilities (DTL) net of deferred tax assets (DTA) in respect to the following temporary differences are shown below:

<i>(In thousands pesos)</i>	2018	2017
	DTA (DTL)	DTA (DTL)
Accrued rent expense	<b>P1,125,840</b>	P1,039,731
Retirement benefits liability	<b>280,163</b>	227,447
Advance rentals	<b>14,590</b>	1,653
Allowance for impairment losses on receivables	<b>4,411</b>	41,916
Recognition of DTA	<b>117</b>	117
Unrealized foreign exchange loss	-	617
NOLCO	-	4,610
Actuarial losses	-	3
<b>DTA</b>	<b>1,425,121</b>	1,316,094
Fair value of intangible assets from business combination	<b>(1,379,734)</b>	(1,379,734)
Accrued rent income	<b>(475,848)</b>	(448,013)
Remeasurement on retirement liability	<b>(116,946)</b>	(50,358)
Prepaid rent	<b>(118,317)</b>	(113,791)
Unrealized foreign exchange gain	<b>(136)</b>	(121)
Borrowing cost	-	(4,535)
<b>DTL</b>	<b>(2,090,981)</b>	(1,996,552)
<b>Net</b>	<b>(P665,860)</b>	(P680,458)

The realization of these deferred tax assets is dependent upon future taxable income that temporary differences and carry forward benefits are expected to be recovered or applied. Deferred tax expense recognized in other comprehensive income pertains to the remeasurements of the retirement benefit liability.

The Group has temporary differences for which deferred tax assets were not recognized because management believes that it is not probable that sufficient taxable profits will be available against which the benefits of the deferred taxes can be utilized.

The unrecognized deferred tax assets as at December 31 are as follows:

<i>(In thousands pesos)</i>	2018	2017
NOLCO	<b>P117,430</b>	P290,009
MCIT	<b>21,838</b>	19,745
	<b>P139,268</b>	P309,754

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below:

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2015	P471,225	(P471,225)	P -	2018
2016	261,275	-	261,275	2019
2017	130,158	-	130,158	2020
	<b>P862,658</b>	<b>(P471,225)</b>	<b>P391,433</b>	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below:

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2015	P4,071	(P4,071)	P -	2018
2016	9,512	-	9,512	2019
2017	3,593	-	3,593	2020
2018	8,733	-	8,733	2021
	<b>P25,909</b>	<b>(P4,071)</b>	<b>P21,838</b>	

## 29. Equity

### Capital Stock

The details of the Parent Company's common shares follow:

	2018		2017	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - P1.00 par value	<b>10,000,000,000</b>	<b>P10,000,000</b>	10,000,000,000	P10,000,000
Issued and outstanding:				
Issued	<b>7,405,263,564</b>	<b>P7,405,264</b>	7,405,263,564	P7,405,264
Less: Treasury shares	<b>(381,629,190)</b>	<b>(1,197,727)</b>	(288,081,290)	(628,203)
Outstanding	<b>7,023,634,374</b>	<b>P6,207,537</b>	7,117,182,274	P6,777,061
Treasury shares:				
Balance at beginning of year	<b>288,081,290</b>	<b>P628,203</b>	274,083,590	P523,865
Share buyback	<b>93,547,900</b>	<b>569,524</b>	13,997,700	104,338
Balance at end of year	<b>381,629,190</b>	<b>P1,197,727</b>	288,081,290	P628,203

### Treasury Shares

On December 18, 2014, the Parent Company's BOD approved to buy back its common shares up to P1 billion within one year from the approval. This aims to enhance the shareholders' value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Parent Company as not reflective of its fair corporate value. In 2018 and 2017, the Parent Company renewed its program to buy back its shares for another year.

### Retained Earnings

#### *Declaration of Cash Dividends*

In 2018, 2017 and 2016, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Cash	December 22, 2016	January 12, 2017	January 20, 2017	0.06
Cash	December 22, 2016	January 12, 2017	January 20, 2017	0.02
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.06
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.04

As of December 31, 2018 and 2017, total unpaid cash dividends on common shares amounting to nil and P1.20 billion, respectively, are included as part of as "Accounts payable and accrued expenses" in the consolidated statements of financial position (see Note 17).

### Non-controlling Interests

For the years ended December 31, 2018, and 2017, movements in NCI pertain to the share in net earnings of and dividends paid to non-controlling shareholders, and NCI on business combinations.

The following table summarizes the financial information of subsidiaries that have material non-controlling interests:

(In thousands pesos)	2018				2017			
	PPCI	LPC	CHC	CPHI	PPCI	LPC	CHC	CPHI
NCI percentages	49%	10%	10%	10%	49%	10%	10%	10%
Carrying amounts of NCI	P26,772,622	P380,498	(P22,311)	P541	P23,501,309	P317,393	P10,194	P593
Current assets	P36,491,361	P2,642,136	P2,793	P24	P31,556,445	P2,120,921	P2,913	P23
Noncurrent assets	41,951,804	2,958,653	3,528,451	44,222	39,905,913	2,711,600	3,528,451	43,816
Current liabilities	17,662,655	1,773,127	3,754,356	38,837	17,461,565	1,634,254	3,429,418	37,913
Noncurrent liabilities	6,142,506	22,686	-	-	6,038,937	24,328	-	-
Net assets	P54,638,004	P3,804,976	(P223,112)	P5,409	P47,961,856	P3,173,939	P101,946	P5,926
Net income attributable to NCI	P3,194,663	P62,623	(P32,506)	(P530)	P2,861,704	P28,925	P5	P50
Other comprehensive attributable to NCI	P76,650	P336	P -	P -	P26,629	(P584)	P -	P -
Revenue	P140,918,008	P17,090,512	P -	P -	P124,491,024	P13,128,497	P1,464	P1,464
Net income (loss)	P6,519,720	P626,230	(P325,058)	(P530)	P5,840,212	P469,202	(P52)	P502
Other comprehensive income (loss)	156,428	3,362	-	-	54,345	(5,840)	-	-
Total comprehensive income (loss)	P6,676,148	P629,592	(P325,058)	(P530)	P5,894,557	P463,362	(P52)	P502
Net cash flows provided by (used in):								
Operating	P7,180,667	P1,108,560	(P57)	P848	P7,870,357	P391,638	(P50)	P24
Investing	(3,264,812)	(29,354)	-	-	(4,035,979)	(923,700)	50	-
Financing	(1,322,352)	(375,690)	-	(848)	(2,184,614)	369,043	-	-
Net increase (decrease) in cash and cash equivalents	P2,593,503	P703,516	(P57)	P -	P1,649,764	(P163,019)	P -	P24

This information is based on amounts before inter-company eliminations.



### 30. Segment Information

Segment information reported externally was analyzed on the basis of types of goods supplied and services provided by the Group's operating divisions. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of goods or services delivered or provided. The Group's reportable segments are as follows:

Retail	Includes selling of purchased goods to a retail market
Specialty retail	Includes selling of office supplies both on wholesale and retail business and import, export, storage and transshipment of LPG, filling and distributions of LPG cylinders as well as distributions to industrials, wholesale and other customers.
Liquor distribution	Includes selling of purchased goods based on a distributorship channel to a wholesale market
Real estate and property leasing	Includes real estate activities such as selling and leasing of real properties
Oil and mining	Includes exploration, development and production of oil, gas, metallic and nonmetallic reserves

The following segment information does not include any amounts for discontinued operations.

Information regarding the Group's reportable segments is presented hereunder:

#### Segment Revenue and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

(In thousands pesos)	Segment Revenues			Segment Profit		
	2018	2017	2016	2018	2017	2016
Grocery retail	<b>P140,918,008</b>	P124,491,023	P112,589,366	<b>P6,519,720</b>	P5,840,212	P5,526,230
Specialty retail	<b>19,179,889</b>	14,947,399	10,461,156	<b>691,760</b>	528,199	337,935
Liquor distribution	<b>8,747,207</b>	6,662,915	5,903,677	<b>738,639</b>	628,232	581,362
Real estate and property leasing	<b>2,429,336</b>	2,203,169	2,325,509	<b>1,073,024</b>	971,732	1,022,806
Holding, oil and mining	-	528	1,177	<b>403,650</b>	953,756	743,781
Total	<b>171,274,440</b>	148,305,034	131,280,885	<b>9,426,793</b>	8,922,131	8,212,114
Eliminations of intersegment revenue/profit	<b>2,886,790</b>	2,555,205	2,094,684	<b>621,996</b>	1,088,848	742,720
	<b>P168,387,650</b>	P145,749,829	P129,186,201	<b>P8,804,797</b>	P7,833,283	P7,469,394

Revenue reported above represents revenue generated from external customers and inter-segment sales and is broken down as follows:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Grocery retail:		
From external customers	<b>P140,918,008</b>	P124,491,023
Specialty retail:		
From external customers	<b>19,176,555</b>	14,943,141
From intersegment sales	<b>3,334</b>	4,258
	<b>19,179,889</b>	14,947,399
Liquor distribution:		
From external customers	<b>6,514,653</b>	4,694,538
From intersegment sales	<b>2,232,554</b>	1,968,377
	<b>8,747,207</b>	6,662,915
Real estate and property leasing:		
From external customers	<b>1,778,434</b>	1,620,599
From intersegment sales	<b>650,902</b>	582,570
	<b>2,429,336</b>	2,203,169
Oil and mining:		
From external customers	-	528
Total revenue from external customers	<b>P168,387,650</b>	P145,749,829
Total intersegment revenue	<b>P2,886,790</b>	P2,555,205

No single customer contributed 10% or more to the Group's revenue for the years ended December 31, 2018 and 2017.

The Group's reportable segments are all domestic operations.

#### Segment Assets and Liabilities

Below is the analysis of the Group's segment assets and liabilities:

<i>(In thousands pesos)</i>	<b>2018</b>	<b>2017</b>
Segment assets:		
Grocery retail	<b>P78,443,165</b>	P71,462,359
Specialty retail	<b>6,440,917</b>	5,500,231
Liquor distribution	<b>7,201,753</b>	6,069,221
Real estate and property leasing	<b>24,489,235</b>	22,990,939
Oil and mining	<b>96,874,958</b>	97,498,623
Total segment assets	<b>213,450,028</b>	203,521,373
Intercompany assets	<b>93,082,198</b>	91,907,084
Total assets	<b>P120,367,830</b>	P111,614,289
Segment liabilities:		
Grocery retail	<b>P23,805,161</b>	P23,500,503
Specialty retail	<b>2,185,282</b>	1,942,052
Liquor distribution	<b>2,989,000</b>	2,434,362
Real estate and property leasing	<b>9,363,190</b>	8,244,281
Oil and mining	<b>8,974,933</b>	9,431,182
Total segment liabilities	<b>47,317,566</b>	45,552,380
Intercompany liabilities	<b>13,789,951</b>	12,382,182
Total liabilities	<b>P33,527,615</b>	P33,170,198

### 31. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

<i>(In thousands pesos)</i>	<b>2018</b>	2017	2016
Net income attributable to equity holders of the Parent Company (a)	<b>P5,547,569</b>	P4,924,615	P4,734,101
Weighted average number of common shares (b)	<b>7,083,274,757</b>	7,129,817,457	7,136,692,757
Basic/diluted EPS (a/b)	<b>P0.78</b>	P0.69	P0.66

There were no potential dilutive common shares in 2018, 2017 and 2016.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

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

#### Objectives and Policies

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

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Other Market Price Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and detriment forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Credit Risk

Credit risk represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

Exposure to credit risk is monitored on an ongoing basis. Credit is not extended beyond authorized limits. Credit granted is subject to regular review, to ensure it remains consistent with the customer's credit worthiness and appropriate to the anticipated volume of business.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The credit risk for due from related parties and security deposits was considered negligible since these accounts have high probability of collection and there is no current history of default.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents <sup>(1)</sup>	4	<b>P15,595,558</b>	P14,387,541
Receivables - net	6	<b>6,630,927</b>	7,901,686
Due from related parties	26	<b>47,971</b>	74,354
Security deposits <sup>(2)</sup>	16	<b>1,852,095</b>	1,658,440
Financial asset at FVPL	8	<b>36,503</b>	46,888
Financial asset at FVOCI	9	<b>15,522</b>	16,497
		<b>P24,178,576</b>	P24,085,406

<sup>(1)</sup> Excluding cash on hand amounting to P1,189.30 million.

<sup>(2)</sup> Included as part of "Other noncurrent assets".

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands pesos)</i>	<b>December 31, 2018</b>			
	<b>Neither Past Due nor impaired</b>	<b>Past Due but not Impaired</b>	<b>Impaired</b>	<b>Total</b>
<b>Loans and Receivables</b>				
Cash and cash equivalents <sup>(1)</sup>	<b>P15,595,558</b>	<b>P -</b>	<b>P -</b>	<b>P15,595,558</b>
Receivables	<b>4,360,646</b>	<b>2,229,983</b>	<b>40,298</b>	<b>6,630,927</b>
Due from related parties	<b>47,971</b>	<b>-</b>	<b>-</b>	<b>47,971</b>
Security deposits <sup>(2)</sup>	<b>1,852,095</b>	<b>-</b>	<b>-</b>	<b>1,852,095</b>
<b>Financial Assets at FVPL</b>				
Investments in trading securities	<b>36,503</b>	<b>-</b>	<b>-</b>	<b>36,503</b>
<b>Financial Assets at FVOCI</b>				
Investments in equity securities	<b>7,262</b>	<b>-</b>	<b>-</b>	<b>7,262</b>
Quoted	<b>5,956</b>	<b>-</b>	<b>-</b>	<b>5,956</b>
Unquoted	<b>2,304</b>	<b>-</b>	<b>-</b>	<b>2,304</b>
	<b>P21,908,295</b>	<b>P2,229,983</b>	<b>P40,298</b>	<b>P24,178,576</b>

<sup>(1)</sup> Excluding cash on hand amounting to P1,189.30 million.

<sup>(2)</sup> Included as part of "Other noncurrent assets".



December 31, 2017				
(In thousands pesos)	Neither Past Due nor impaired	Past Due but not Impaired	Impaired	Total
Loans and Receivables				
Cash and cash equivalents <sup>(1)</sup>	P14,387,541	P -	P -	P14,387,541
Receivables	5,585,612	2,181,654	134,420	7,901,686
Due from related parties	74,354	-	-	74,354
Security deposits <sup>(2)</sup>	1,658,440	-	-	1,658,440
Financial Assets at FVPL				
Investments in trading securities	46,888	-	-	46,888
Financial Assets at FVOCI				
Investments in equity securities	7,262	-	-	7,262
Quoted	6,931	-	-	6,931
Unquoted	2,304	-	-	2,304
	P21,769,332	P2,181,654	P134,420	P24,085,406

<sup>(1)</sup> Excluding cash on hand amounting to P965.56 million.

<sup>(2)</sup> Included as part of "Other noncurrent assets".

The Group has assessed the credit quality of the following financial assets that are neither past due nor impaired as high grade:

- Cash in banks and cash equivalents and short-term investments were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit risk for investment in debt securities are considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.
- Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- Due from related parties and security deposits were assessed as high grade since these have a high probability of collection and there is no history of default.

The Group applies the simplified approach using provision matrix in providing for ECL which permits the use of the lifetime expected loss provision for trade and other receivables. The expected loss rates are based on the Group's historical observed default rates. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of this macroeconomic factor has not been considered significant within the reporting period.

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

(In thousands pesos)	December 31, 2018				
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
<b>Other Financial Liabilities</b>					
Accounts payable and accrued expenses <sup>(1)</sup>	P12,394,496	P12,394,496	P12,394,496	P -	P -
Short-term loans	4,866,300	4,866,300	-	-	-
Due to related parties	1,365,863	1,365,863	-	-	-
Long-term debts <sup>(2)</sup>	6,622,208	6,622,208	7,522,901	321,292	7,201,609
Customers' deposits <sup>(3)</sup>	250,749	250,749	-	-	-
	<b>P25,499,616</b>	<b>P25,499,616</b>	<b>P19,917,397</b>	<b>P321,292</b>	<b>P7,201,609</b>

<sup>(1)</sup> Excluding due to government agencies.

<sup>(2)</sup> Including current and non-current portion.

<sup>(3)</sup> Included as part of "Other current liabilities".

(In thousands pesos)	December 31, 2017				
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
<b>Other Financial Liabilities</b>					
Accounts payable and accrued expenses <sup>(1)</sup>	P13,180,435	P13,180,435	P13,176,344	P -	P -
Short-term loans	5,562,500	5,562,500	5,562,500	-	-
Due to related parties	849,772	849,772	849,772	-	-
Long-term debts <sup>(2)</sup>	7,225,612	8,349,818	2,745,807	4,616,045	987,966
Customers' deposits <sup>(3)</sup>	252,426	252,426	252,426	-	-
	<b>P27,070,745</b>	<b>P28,194,951</b>	<b>P22,586,849</b>	<b>P4,616,045</b>	<b>P987,966</b>

<sup>(1)</sup> Excluding due to government agencies.

<sup>(2)</sup> Including current and non-current portion.

<sup>(3)</sup> Included as part of "Other current liabilities".

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices that will adversely affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company is subject to various market risks, including risks from changes in foreign currency risk, interest rate risk and equity price risk.

### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Company's exposure to the risks for changes in market interest rates relates mainly to the Group's loan payables (both short-term loans and long-term debts). The Group manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Group does not have significant interest rate risk.

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk relates primarily to the Group's foreign currency-denominated monetary assets and liabilities. The currencies in which these transactions are primarily denominated are United States dollar (USD), Singaporean dollar (SGD), British pound (GBP), Australian dollar (AUD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso (PHP) equivalents as at December 31:

(In thousands)	December 31, 2018					PHP Equivalent
	USD	SGD	GBP	AUD	EUR	
<b>Foreign Currency-denominated Monetary Assets</b>						
Cash	1,035	0.30	0.01	.01	-	54,581
Trade receivables	1,658	-	-	-	-	87,433
	<b>2,693</b>	<b>0.30</b>	<b>0.01</b>	<b>.01</b>	<b>-</b>	<b>142,014</b>
<b>Foreign Currency-denominated Monetary Liabilities</b>						
Trade payable	16,498	53	-	-	(8,305)	1,372,743
<b>Net Foreign Currency-Denominated Monetary Liabilities</b>	<b>(13,805)</b>	<b>(52.7)</b>	<b>0.01</b>	<b>0.01</b>	<b>(8,305)</b>	<b>(1,230,729)</b>

(In thousands)	December 31, 2017					PHP Equivalent
	USD	SGD	GBP	AUD	EUR	
<b>Foreign Currency-denominated Monetary Assets</b>						
Cash	596	-	-	-	-	29,766
Trade receivables	3,397	-	-	-	6	169,962
	<b>3,993</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>199,728</b>
<b>Foreign Currency-denominated Monetary Liabilities</b>						
Trade payable	8,792	36	22	126	893	499,971
<b>Net Foreign Currency-Denominated Monetary Liabilities</b>	<b>(4,799)</b>	<b>(36)</b>	<b>(22)</b>	<b>(126)</b>	<b>(887)</b>	<b>(300,243)</b>

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2018	2017
USD	52.72	49.93
SGD	38.47	37.32
GBP	67.07	67.12
AUD	37.08	38.91
EUR	60.31	59.61

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

(In thousands pesos)	December 31, 2018	
	Percentage Increase (Decrease) in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5.6%	P40,729 decrease
SGD	3%	63 decrease
GBP	(0.1%)	0.001 decrease
AUD	(5%)	0.22 decrease
EUR	1%	5,890 decrease

(In thousands pesos)	December 31, 2017	
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P8,386 decrease
SGD	7%	65 decrease
GBP	10%	105 decrease
AUD	3%	103 decrease
EUR	9%	3,354 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### *Equity Price Risk*

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity price risk because of equity securities held as financial assets at FVPL and AFS investments by the Group.

The table below shows the sensitivity to a reasonably possible change in equity prices, with all other variables held constant, of the Group's equity securities due to changes in their carrying values.

(In thousands pesos)	Percentage Increase (Decrease) in Equity Price	Effect in Total Comprehensive Income
<b>2018</b>	<b>25%</b>	<b>P7,618 increase</b>
2017	25%	P13,455 increase

The sensitivity range is based on the historical volatility of the Philippine Stock Exchange index (PSEi) for the past year. A movement in the opposite direction would increase/decrease total comprehensive income by the same amount, on the basis that all other variables remains constant.

#### Capital Management

The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

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

The Group defines capital as paid-up capital, remeasurements and retained earnings.

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



The Parent Company maintains equity at a level that is compliant with its loan covenants.

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### 33. Fair Value of Financial Instruments

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2018 and 2017.

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

*Cash and Cash Equivalents, Short-term Investments, Receivables, Due from Related Parties*

The carrying amounts of cash and cash equivalents, short-term investments, receivables and due from related parties approximate their fair values due to the relatively short-term maturities of these financial instruments.

*Security Deposits*

The estimated fair value of security deposits is based on the present value of expected future cash flows using the applicable discount rates based on the current market rates of identical or similar types of loans and receivables as at reporting date. The difference between the carrying amount and fair value of security deposits is considered immaterial by management.

*Financial Assets at FVPL and Financial Assets at FVOCI - Quoted (Level 1)*

The fair values of financial assets at FVPL and quoted financial assets at FVOCI and similar investments are based on quoted market prices in an active market.

*Financial Assets at FVOCI - Unquoted*

Unquoted equity securities at FVOCI are carried at fair value since the carrying value and fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

*Accounts Payable and Accrued Expenses, Short-term Loans, Due to Related Parties and Customers' Deposits*

The carrying amounts of accounts payable and accrued expenses, short-term loans, due to related parties and customers' deposits approximate the fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debts*

The fair value of long-term debts is based on the discounted value of expected future cash flows using the applicable market rates for similar types of loans as at reporting date. The difference between the carrying amount and fair value of long-term debts is considered immaterial by management.

As at December 31, 2018 and 2017, the Group has no financial instruments valued based on Level 2 and unquoted equity securities are valued based on Level 3. During the year, there were no transfers into and out of Level 3 fair value measurements.

### 34. Assets and Liabilities of Disposal Group Classified as Held for Sale

These represent the carrying values of the total assets and liabilities of LPC and CPHI as at December 31, 2018 which are being reclassified and presented as part of current assets and current liabilities accordingly by virtue of the subsequent sale of the entire equity interests of Canaria Holdings, Inc., a 90% owned subsidiary of Cosco, in both LPC and CPHI through a Share Purchase Agreement (SPA) executed on October 19, 2018 with Fernwood Holdings, Inc.

As at December 31, 2018, LPC and CPHI were classified as disposal group held for sale.

The PCC subsequently granted its approval to the share purchase transaction on January 17, 2019, which paved the way for the completion and closing of the transaction between the parties on October 19, 2018.

The major classes of assets and liabilities of both LPC and CPHI at the end of the reporting period are as follows:

<i>(In thousands pesos)</i>	<b>LPC</b>	<b>CPHI</b>	<b>Total</b>
Cash and cash equivalents	<b>P1,063,107</b>	<b>P24</b>	<b>P1,063,131</b>
Receivables - net	<b>990,137</b>	-	<b>990,137</b>
Due from related parties	<b>49,781</b>	-	<b>49,781</b>
Inventories	<b>527,329</b>	-	<b>527,329</b>
Prepaid expenses and other current assets	<b>11,782</b>	-	<b>11,782</b>
Property and equipment - net	<b>2,424,343</b>	-	<b>2,424,343</b>
Investments	<b>90,906</b>	<b>44,222</b>	<b>135,128</b>
Investment properties - net	<b>108,356</b>	-	<b>108,356</b>
Goodwill and intangibles	<b>1,632,160</b>	<b>51,432</b>	<b>1,683,592</b>
Deferred tax assets - net	<b>87,898</b>	-	<b>87,898</b>
Other non-current assets	<b>239,418</b>	-	<b>239,418</b>
Assets classified as held for sale	<b>7,225,217</b>	<b>95,678</b>	<b>7,320,895</b>
Accounts payable, accrued expenses and other liabilities	<b>1,640,316</b>	<b>402</b>	<b>1,640,718</b>
Income tax payable	<b>91,559</b>	-	<b>91,559</b>
Current maturities of long-term debt, net of debt issue costs	-	<b>16,951</b>	<b>16,951</b>
Due to related parties	<b>41,252</b>	<b>21,485</b>	<b>62,737</b>
Retirement benefits liability	<b>22,686</b>	-	<b>22,686</b>
Liabilities related to assets held for sale	<b>1,795,813</b>	<b>38,838</b>	<b>1,834,651</b>
Net assets classified as held for sale	<b>P5,429,404</b>	<b>P56,840</b>	<b>P5,486,244</b>

No impairment loss was recognized on reclassification of the land as held for sale nor at the end of the reporting period.

For the year ended 2018, results of operations of LPC and CPHI are as follows:

<i>(In thousands pesos)</i>	<b>LPC</b>	<b>CPHI</b>	<b>Total</b>
Revenue	<b>P17,090,512</b>	<b>P -</b>	<b>P17,090,512</b>
Cost of sales	<b>15,811,326</b>	<b>-</b>	<b>15,811,326</b>
Gross profit	<b>1,279,186</b>	<b>-</b>	<b>1,279,186</b>
Operating expenses	<b>391,671</b>	<b>88</b>	<b>391,759</b>
Income from operations	<b>887,515</b>	<b>(88)</b>	<b>887,427</b>
Other income charges:			
Interest expense	<b>(5,690)</b>	<b>(847)</b>	<b>(6,537)</b>
Interest income	<b>3,750</b>	<b>-</b>	<b>3,750</b>
Others- net	<b>10,279</b>	<b>406</b>	<b>10,685</b>
Income before income tax	<b>895,854</b>	<b>(529)</b>	<b>895,325</b>
Income tax expense	<b>269,624</b>	<b>-</b>	<b>269,624</b>
Net income (loss)	<b>P626,230</b>	<b>(P529)</b>	<b>P625,701</b>

### 35. Subsequent Events

The following are the events occurring after the reporting period:

*a) Approval by PCC on the Sale of Liquigaz*

The Philippine Competition Commission (PCC) resolved to take no further action on the acquisition of Liquigaz Philippines Corporation by Fernwood Holdings, Inc. in its decision dated January 17, 2019, in relation to Share Purchase Agreement (SPA) dated October 19, 2018, signed by Canaria Holdings Corporation and Fernwood Holdings, Inc. whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc.

*b) Declaration of Cash Dividends*

In February 2019, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividends Per Share
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.06
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.04

### 36. Reclassification of Accounts

Certain accounts in 2017 consolidated financial statements have been reclassified to conform with the 2018 consolidated financial statements presentation as follows:

		January 1, 2017		
(In thousands pesos)	Note	As Previously Reported	Reclassification	As Restated
<b>Statement of Financial Position</b>				
Current assets:				
Available-for-sale financial assets	a	P8,199	(P8,199)	P -
Financial assets at FVOCI	a	-	8,199	8,199
Investment in trading securities	a	35,109	(35,109)	-
Financial assets at FVPL	a	-	35,109	35,109
Prepaid expenses and other current assets	b	1,640,687	(13,988)	1,626,699
Noncurrent assets:				
Other noncurrent assets	b	3,558,554	13,988	3,572,542
<b>Statement of Income</b>				
Other operating income	c	3,361,826	(837,342)	2,524,484
Cost of goods sold	c	106,187,068	(837,342)	105,349,726

		December 31, 2017		
(In thousands pesos)	Note	As Previously Reported	Reclassification	As Restated
<b>Statement of Financial Position</b>				
Current assets:				
Available-for-sale financial assets	a	P8,618	(P8,618)	P -
Financial assets at FVOCI	a	-	8,618	8,618
Investment in trading securities	a	46,888	(46,888)	-
Financial assets at FVPL	a	-	46,888	46,888
Prepaid expenses and other current assets	b	3,014,609	(215,534)	2,799,075
Noncurrent assets:				
Other noncurrent assets	b	2,746,790	215,534	2,962,324
<b>Statement of Income</b>				
Other operating income	c	3,580,941	(821,126)	2,759,815
Cost of goods sold	c	120,510,762	(821,126)	119,689,636

- The Group adopted PFRS 9 resulting in the reclassifications of financial instruments.
- The Group adopted PIC Q&A 2018-15, PAS 1, *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the consolidated statement of financial position at January 1, 2018.

Advances to contractors and suppliers in relation to the construction of investment properties previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (i.e., inventories, investment properties and property and equipment).

- c. Before adoption of PFRS 15, display allowance and listing fee are classified under other operating income. The classification was based on the Group's assessment that the other income are distinct and separately identifiable. With the implementation of PFRS 15, management assessed that these other income would not occur without the purchase of goods from the suppliers and they are highly dependent on the purchase of the supplier products. Thus, these income are not distinct and should be accounted for as a reduction of the purchase price.



# CORPORATE DIRECTORY

## Grocery Retailing

### **Puregold Price Club, Inc.**

No. 900 Romualdez St., Paco, Manila  
Tel No.: (632) 522-8801 to 04

### **Kareila Management Corporation**

(S&R Membership Shopping)  
32nd St., 5th Avenue  
Bonifacio Global City, Taguig City  
Tel No.: (632) 888-0433

## Specialty Retailing

### **Office Warehouse, Inc.**

Lot 1 Blk 13, E. Rodriguez Jr. Ave.  
Bagumbayan, Quezon City  
Tel. No.: (632) 437-5680

### **Liquigaz Philippines Corporation**

3/F NOL Tower, Commerce Avenue  
Madrigal Business Park, Alabang  
Muntinlupa City  
Tel. No.: (632) 771-0560

## Wine and Liquor Distribution

### **Montosco, Inc.**

Unit 1501 Federal Tower  
Dasmariñas St., Binondo, Manila  
Tel. No.: (632) 243-5530/243-8343

### **Meritus Prime Distributions, Inc.**

Unit 704 Federal Tower  
Dasmariñas St., Binondo, Manila  
Tel. No.: (632) 242-0635/242-0645

### **Premier Wine & Spirits, Inc.**

Gate 1 Tabacalera Compound  
No. 900 Romualdez St., Paco, Manila  
Tel. No.: (632) 524-2117/524-2165

## Real Estate

### **Canaria Holdings Corporation**

No. 900 Romualdez St., Paco, Manila  
Tel. No.: (632) 522-8801 to 04

### **Ellimac Prime Holdings, Inc.**

No. 900 Tabacalera Compound  
Romualdez St., Brgy. 664 Zone 71  
Dist. V, Paco, Manila  
Tel No.: (632) 522-8801 to 04

### **Fertuna Holdings Corp.**

Rizal Highway cor. Magsaysay Ave.  
Subic Bay Freeport Zone, Zambales  
Tel No.: (632) 522-2312/523-8633/ 523-8635

### **Nation Realty, Inc.**

No. 900 Tabacalera Compound  
Romualdez St., Brgy. 664 Zone 71  
Dist. V, Paco, Manila  
Tel No.: (632) 522-2312/523-8635

### **Patagonia Holdings Corp.**

No. 900 Romualdez St., Paco, Manila  
Tel No.: (632) 242-5069/242-8343

### **NE Pacific Shopping Centers Corporation**

Km 111 Maharlika Highway  
H. Concepcion, Cabanatuan City  
Tel. No.: (632) 522-8801 to 04

### **Pure Petroleum Corp.**

Lot Adjacent to Boton Wharf  
Subic Bay Freeport Zone, Zambales  
Tel. No.: (632) 522-8801 to 04

## Oil and Minerals

### **Alcorn Petroleum and Minerals Corporation**

No. 900 Romualdez St., Paco, Manila  
Tel. No.: (632) 257-0851



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