

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

### INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement  
 Definitive Information Statement

2. Name of Registrant as specified in its charter

Cosco Capital, Inc.

3. Province, country or other jurisdiction of incorporation or organization

Manila, Philippines

4. SEC Identification Number

147669

5. BIR Tax Identification Code

000-432-378

6. Address of principal office

No. 900 Romualdez St., Paco, Manila

Postal Code

1007

7. Registrant's telephone number, including area code

(632) 522-8801 to 04

8. Date, time and place of the meeting of security holders

June 20, 2019, 9AM, at the Acacia Hotel, Alabang, Muntinlupa City

9. Approximate date on which the Information Statement is first to be sent or given to security holders

May 20, 2019

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

Lucio L. Co, Chairman, or Leonardo B. Dayao, President

Address and Telephone No.

No. 900 Romualdez St., Paco, Manila

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	7,256,251,264

13. Are any or all of registrant's securities listed on a Stock Exchange?

- Yes       No

If yes, state the name of such stock exchange and the classes of securities listed therein:

## The Philippine Stock Exchange, Inc.

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



## Cosco Capital, Inc.

### COSCO

**PSE Disclosure Form 17-5 - Information Statement for Annual or  
Special Stockholders' Meeting**  
*References: SRC Rule 20 and  
Section 17.10 of the Revised Disclosure Rules*

<b>Date of Stockholders' Meeting</b>	Jun 20, 2019
<b>Type (Annual or Special)</b>	Annual
<b>Time</b>	9AM
<b>Venue</b>	Acacia Hotel, Alabang, Muntinlupa City
<b>Record Date</b>	May 10, 2019

**Inclusive Dates of Closing of Stock Transfer Books**

<b>Start Date</b>	Jun 10, 2019
<b>End date</b>	Jun 19, 2019

**Other Relevant Information**

Please see attached Preliminary Information Statement of Cosco Capital, Inc.

**Filed on behalf by:**

<b>Name</b>	Candy Dacanay-Datuon
<b>Designation</b>	Assistant Corporate Secretary / Compliance Officer



May 8, 2019

**Securities and Exchange Commission**  
G/F Secretariat Bldg., PICC Complex  
Roxas Blvd., Pasay City

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**  
Director – Market and Securities Regulation Division

The Philippine Stock Exchange, Inc.  
6/F PSE Tower, BGC, Taguig City

Attention: **Ms. Janet Encarnacion**  
Head – Disclosure Department

Subject: **Preliminary Information Statement**

GENTLEMEN:

For submission is the Preliminary Information Statement of Cosco Capital, Inc. with the following attachments:

- Annex "A" – Proxy Form
- Annex "B" – Management Discussion and Analysis of Financial Position
- Annex "C" – Audited Financial Statement for the year 2017
- Annex "D" – Certificate of Independent Director of Mr. Oscar S. Reyes
- Annex "E" – Certificate of Independent Director of Mr. Robert Y. Cokeng
- Annex "F" – Certificate of Independent Director of Atty. Bienvenido E. Laguesma

The Annual Stockholders' Meeting of Cosco Capital, Inc. will be held on June 20, 2019, 9AM at the Acacia Hotel, Alabang, Muntinlupa City.

Thank you,

  
**ATTY. CANDY H. DACANAY-DATUON**  
Assistant Corporate Secretary

**Securities and Exchange Commission**  
**SEC FORM 20-IS**  
**Information Statement pursuant to Section 20 of the**  
**SECURITIES AND REGULATION CODE**

1.  **Preliminary Information Statement**  
 Definitive Information Statement
2. **COSCO CAPITAL, INC.**  
Name of Registrant as specified in its Charter
3. **Philippines**  
Province, country or other jurisdiction of incorporation or organization
4. **147669**  
SEC Identification Number
5. **000-432-378-000**  
BIR Tax Identification Code
6. **No. 900 Romualdez St., Paco, Manila**                      **1007**  
Address of principal office    Postal Code
7. **(632) 523-3055 | 522-8801**  
Registrant's Telephone Number
8. **June 20, 2019, 9 AM, at the Acacia Hotel, Alabang, Muntinlupa City**  
Date, time and place of the meeting of the security holders
9. **May 20, 2019**  
Approximate date on which the Information Statement is first to be sent or given to security holders
10. **Lucio L. Co, Chairman, or Leonardo B. Dayao, President, No. 900 Romualdez St., Paco, Manila, (632) 523-3055 or 522-8801**  
In case of proxy solicitations, name of person filing the statement or solicitor, address and telephone number
11. **Outstanding common shares – 7,256,251,264 outstanding shares / 149,012,400 treasury shares as of April 30, 2019**  
Securities registered pursuant to Section 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrant)
12. Are any or all registrant's securities listed in a Stock Exchange? Yes.
13. If yes, disclose the name of the such Stock Exchange: Philippine Stock Exchange
14. The class of securities listed therein: Common Shares

MAY 17 2019  
J. M. B. 4/136

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the **ANNUAL STOCKHOLDERS' MEETING OF COSCO CAPITAL, INC.** will be held on **JUNE 20, 2019, 9:00 AM**, at the Acacia Hotel, Alabang, Muntinlupa City with the following agenda:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the previous Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
4. 2018 Annual Report and Audited Financial Statements
5. Election of Directors
6. Re-appointment of External Auditor
7. Amendment of Company's By-laws
8. Other Matters
9. Adjournment

Stockholders of record as of the close of business on May 10, 2019 are entitled to notice of, and to vote at such meeting. The stock and transfer book of the company will be closed from June 10, 2019 to June 19, 2019.

If you do not expect to personally attend the meeting, you may execute and return the Proxy Form to the Office of the Corporate Secretary of the Company at No. 900 Romualdez St., Paco, Manila, 1007. The deadline for submission of proxies is on June 13, 2019.

The Company shall provide without charge to each stockholder a copy of the Information Statement (SEC 20-IS) upon written request of such person addressed to the office of the undersigned.

On the day of the meeting, you or your duly designated proxy are hereby required to bring this Notice and any form of identification such as driver's license, passport, company I.D., voter's I.D., or TIN Card to facilitate registration. Registration shall start at 8:00 a.m. and will close at 8:45 a.m.

Manila, Philippines.

  
**ATTY. JOSE S. SANTOS, JR.**  
Corporate Secretary

## **Explanation of Agenda Items for Stockholders' Approval:**

### **1. Call to Order and Certification of Service of Notice and Existence of Quorum**

The Corporate Secretary will certify that the notice of the annual stockholders' meeting was sent to all stockholders of record and he will also certify that there is a quorum for the transaction of business by determining the number of stockholder present, by person or proxy, in the meeting. The Chairman will, thereafter, call the meeting to order.

### **2. Approval of Minutes of the previous Stockholders' Meeting**

The Minutes of the previous stockholders' meeting and summary of all acts and resolutions of the Board of Directors and Management from the date of the previous stockholders' meeting will be presented for ratification of the stockholders.

The copy of the minutes of the previous stockholders' meeting and summary of all acts and resolutions of the Board of Directors and Management will be attached to the Information Statement.

### **3. Annual Report**

The Audited Financial Statements (AFS) of the Company ending December 31, 2018 will be presented to the stockholders during the meeting for their ratification. Copy of the AFS was submitted to the Securities and Exchange Commission on April 12, 2019.

### **4. Election of Regular and Independent Directors**

The qualification of nominees for regular and independent directors have been duly reviewed by the Nominations Committee. Upon the Committee's recommendation, the Board approved the nomination of the candidates to the election of the Board of Directors on May 3, 2019. The nominees will be present at the meeting.

### **5. Appointment of External Auditor**

The Audit Committee and the Board of Directors will endorse for stockholders' approval the re-appointment of R.G. Manabat & Company as external auditor of the Company for the year 2019.

### **6. Amendment of Company's By-Laws**

The proposed changes in the provisions of the Company's By-Laws were approved by the Board of Directors during its meeting on May 3, 2019. The said changes will be presented for stockholders' approval. For the details of the amendments, please see pages 16 to 18 of the Information Statement.

### **7. Other matters**

The Chairman will open the floor for any question, clarification or suggestion from the stockholders.

## **Part I: Information required in the Information Statement**

### **A: General Information**

#### **Item 1: Date, Time and Place of Meeting**

- A.     Date                             : June 20, 2019, Thursday  
       Time                             : 9 AM  
       Venue                            : Acacia Hotel, Alabang, Muntinlupa City

B. This Information Statement and the accompanying Proxy forms will be first sent to the stockholders on or before May 20, 2019 in accordance with the Company's By Laws and the Securities and Regulation Code.

#### **Item 2: Dissenter's Right of Appraisal**

There are no matters or proposed actions in the Agenda that may give rise to a possible exercise by the shareholders of their appraisal right as provided under Title X of the Corporation Code of the Philippines.

#### **Item 3: Interest of Certain Persons in or Opposition to Matters to be acted upon**

(A) No current director or officer nor any associate thereof of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon other than election of directors.

(B) No director of the Company has given information in writing that he intends to oppose any action to be taken by the Company at the meeting.

### **B. Control and Compensation Information**

#### **Item 4: Voting Securities and Principals thereof**

- A. Outstanding shares of the Company as of April 30, 2019: 7,256,251,264 common shares. Each share is entitled to one vote.
- B. All stockholders as of record date are entitled to notice of, and to vote at, the stockholders meeting.
- C. Election of directors shall be held at the Annual Stockholders' Meeting on the date and place as herein stated. It shall be done by majority of stock represented in the meeting and shall be conducted in the manner provided by the Revised Corporation Code of the Philippines, and with such formalities and in such manner as the presiding officer at the meeting shall then and there determine and provide.

Stockholders entitled to vote at the meeting shall have the right to vote in person or by proxy the number of shares registered in his name in the stock transfer book of the Company for as many persons as there are directors to be elected. Each



stockholder shall have the right to cumulate said shares and give one nominee as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same cumulative voting principle among as many nominees as he shall see fit; *provided*, that the number of votes cast by a stockholder shall not exceed the number of his shares multiplied by the number of directors to be elected. Discretionary authority to cumulate vote is not solicited.

D. (1) Security Holders of more than 5% as of April 30, 2019:

Title of class: Common share

Name, address of record owner and relationship with issuer	Name of beneficial owner and relationship with record owner	Citizenship	Number of shares held	Percentage
Lucio L. Co No. 22 Pili Avenue, Makati City  Major stockholder of the issuer	Direct and indirect ownership; indirectly owned shares are with brokers - Strategic Equities, Inc. and Ansaldo Godinez	Filipino	Direct Shares: 2,251,639,192 Indirect Shares: 114,102,300 Total: 2,365,741,492	33%
Susan P. Co No. 22 Pili Avenue, Makati City  Major stockholder of the issuer	Direct ownership and indirect ownership; indirectly owned shares are with broker - Ansaldo Godinez	Filipino	Direct Shares: 1,760,182,230 Indirect Shares: 20,000,000 Total: 1,780,182,230	25%
The HSBC	Various accounts	Filipino and Non-Filipino	543,667,120	7.5%

No other person is a beneficial owner of at least 5% of the outstanding shares of the Company other than Mr. Lucio Co and Mrs. Susan Co.

Level of foreign ownership as of April 30, 2019:

Local shares	6,123,001,068
Foreign shares	1,133,250,196
Treasury shares	149,012,300
Outstanding shares	7,256,251,264
Issued shares	7,405,263,564



(2) Security Ownership of Management as of April 30, 2019:

Title of Class	Name of beneficial owner	Amount and nature of beneficial ownership	Citizenship	Percentage
Common share	Lucio L. Co, Chairman	Direct Shares: 2,251,639,192 Indirect Shares (under Broker's name): 114,102,300 Total: 2,365,741,492	Filipino	33%
Common share	Susan P. Co, Vice-Chairman	Direct Shares: 1,760,182,230 Indirect Shares (under Broker's name): 20,000,000 Total: 1,780,182,230	Filipino	24.00%
Common share	Leonardo B. Dayao, President	650,982 direct shares	Filipino	0.00%
Common share	Roberto Juanchito T. Dispo, Director	100 indirect shares (under Broker's name)	Filipino	0.00%
Common share	Levi B. Labra, Director	100 indirect shares (under Broker's name)	Filipino	0.00%
Common share	Robert Y. Cokeng, Independent Director	8,155,000 indirect shares (under Broker's name)	Filipino	0.11%
Common share	Oscar S. Reyes, Independent Director	54,264 direct shares	Filipino	0.00%
Common share	Atty. Bienvenido Laguesma, Independent Director	100 indirect shares (under Broker's name)	Filipino	0.00%

(3) To the extent known to the Company, there is no person or group of persons holding more than 5% of the common shares by virtue of a voting trust or similar agreement as there has been no voting trust agreement which has been filed with the Company and the Securities and Exchange Commission.

(4) To the extent known to the Company, there is no arrangement which may result in control of the Company. There was no change in control of the Company since the beginning of its last fiscal year.

**Item 5: Directors and Executive Officers**

(A) There are eight (8) members of the Company's Board of Directors, three (3) of whom are independent directors. All directors were elected during the annual meeting of stockholders for a term of one (1) year and until their successors are elected. Executive officers are appointed or elected annually by the Board of Directors. Appointed or

elected and qualified executive officers hold office until a successor is qualified and elected or appointed.

During the annual stockholders' meeting held on June 29, 2018, the following directors and officers were elected and appointed:

Name	Age	Position
Lucio L. Co	63	Chairman
Susan P. Co	60	Vice-Chairman
Leonardo B. Dayao	74	President
Levi Labra	61	Director
Roberto Juanchito T. Dispo	54	Director
Robert Y. Cokeng	67	Independent Director
Oscar S. Reyes	73	Independent Director
Bievenido Laguesma	68	Independent Director
Teodoro Polinga		Comptroller
Andres S. Santos		Legal Counsel
Jose S. Santos, Jr	78	Corporate Secretary
Candy H. Dacanay-Datuon	40	Assistant Corporate Secretary and Compliance Officer

The profile of the incumbent directors and executive officers of the Company, indicating their respective business experiences for the past five (5) years are as follows:

Lucio L. Co, 64 years old, Filipino, Chairman

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

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

Mr. Co is also the Chairman of the following privately-owned companies: Alcorn Petroleum & Minerals Corporation, Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Entenso Equities Incorporated, Invescap Incorporated, NE Pacific Shopping Centers Corporation, P.G. Holdings, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp. 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, Kareila Management Corp., LCCK & Sons Realty Corporation, League One Finance and Leasing Corporation, Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., PG Lawson Company, Inc., PPCI Subic, Inc., Patagonia Holdings Corp., Premier Wine & Spirits, Inc., S&R Pizza (Harbor Point), Inc., and S&R Pizza, 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 years old, 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., Canaria Holdings Corporation, Ellimac Prime Holdings, Kareila Management Corp., KMC Realty Corp., Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Montosco, Inc., Nation Realty, Inc., NE Pacific Shopping Center Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PG Lawson Company, Inc., PPCI Subic Inc., Premier Wines and Spirits, Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp., Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, 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 years old, 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, Fertuna Holdings Corp., Kareila Management Corporation, League One Finance and Leasing Corporation, PSMT Philippines, Inc., PG Lawson Company, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc.; President of Alcorn Petroleum Minerals Corporation, NE Pacific Shopping Centers Corporation, 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 Canaria Holdings Corporation, Entenso Equities Incorporated, 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 Labra, 61 years old, 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). 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. He was the 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, 54, Filipino, Director

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 the Asian Institute of Management and a diploma course in International Banking and Finance from the Economic Institute, University of Colorado.

Oscar S. Reyes, 73 years old, 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, 67 years old, 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 – F&J Prince Holdings Corporation (PSE-Listed Company); President and CEO–Magellan Capital Holdings, Corp.; President and CEO–Magellan Utilities Dev't. Corp.; Chairman, President and CEO–Consolidated Tobacco Ind. of the Phils.; Chairman and President–Center Industrial and Investment, Inc.; Chairman–Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee – Business Process Outsourcing International; Chairman–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 years old, 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.

(B) There is no director that resigned or declined to stand for election to the board of directors because of any disagreements with the Company on any matter relating to the Company's operations, policies or practices.

Upon recommendation by the Nomination Committee, the following persons were approved by the Board of Directors as nominees for the 2019 election of the Board of Directors:

1. Mr. Lucio L. Co as regular Director
2. Mrs. Susan P. Co as regular Director
3. Mr. Leonardo B. Dayao as regular Director
4. Mr. Levi Labra as regular Director
5. Mr. Roberto Juanchito T. Dispo as regular Director
6. Mr. Oscar S. Reyes as Independent Director
7. Mr. Robert Y. Cokeng as Independent Director
8. Atty. Bienvenido E. Laguesma as Independent Director

The nominees were formally nominated to the Nomination Committee by Mr. Lucio L. Co and Mr. Leonardo B. Dayao. The nominees accepted their respective nominations. The nominees for independent directors are not related to the Company.

The Nomination Committee pre-screened the qualifications of the nominees and prepared the final list of nominees in accordance with SRC Rule 38 and the bylaws of the Company. Pursuant to Securities Regulation Code (SRC) Sec. 38 and Rule 38.1, the Company is required to have at least three (3) independent directors. The Company's incumbent independent directors are Mr. Oscar S. Reyes, Mr. Robert Y. Cokeng and Atty. Bienvenido Laguesma.

The nominees for independent directors were screened in accordance with line with the guidelines on the nominations of independent directors prescribed by SRC Sec. 38 and Rule 38.1 as amended and the Manual on Corporate Governance of the Company. The candidates for independent directors have no relation whatsoever with the nominated directors nor are they employees or consultants of the Company or any of its affiliates. Reyes, Cokeng and Laguesma, all possessed the qualifications and none of the disqualifications of an independent director.

No further nominations will be entertained or allowed on the floor during the annual stockholders' meeting.

The nominees are expected to attend the Annual Stockholders' Meeting.

(2) All employees, working together as one workforce, are considered significant in achieving the Company's vision and mission.

(3) The Company's current Chairman, Mr. Lucio L. Co, is the husband of Director Susan P. Co.

(4) To the best of Company's knowledge, there are no legal proceedings against the directors and executive officers of the Company within the categories described in SRC

Rule 12, Part IV paragraph (A) (4) within the past five years and up to the latest date. Particularly, the Company is not aware of the following:

- a. Any bankruptcy proceedings filed by or against any director or business of which a director, nominee for election as director or executive officer, or control person of the Company is a party or of which any of their property is subject.
- b. Any director, nominee for election, or executive officer being convicted by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign.
- c. Any director, nominee for election, or executive officer being subject of any judgment or decree not subsequently reversed, superseded or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement of a director, executive officer, or control person in any type of business, securities, commodities or banking activities.
- d. Any director, nominee for election, or executive officer being found by a domestic or foreign court of competent jurisdiction (*in a civil action*), the SEC or comparable foreign body, or a domestic or foreign exchange or electronic market place or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

(5) The members of the Corporate Gove and Audit Committee are as follows:

	Audit	Corporate Governance
Chairman	Robert Cokeng (independent)	Oscar Reyes (independent)
Member	Bienvenido Laguesma (independent)	Bienvenido Laguesma (independent)
Member	Oscar Reyes (independent)	Robert Cokeng (independent)
Member	Susan P. Co	Lucio L. Co
Member	Leonardo B. Dayao	Leonardo B. Dayao

#### (5) Certain relationships and related transactions

A summary of the Company's significant transaction and balances with related parties for the past three (3) years:

	2018	2017	2016
Intercompany leases	650,901,677	576,608,968.92	532,214,536.38
Liquor and wine distribution	2,232,553,787	1,968,376,726.00	1,559,312,469.41
Dividend income earned by Parent from Subsidiaries	600,000,000	1,064,346,875.00	742,719,550.12



**(6) Cosco Capital, Inc. owns the following subsidiaries:**

Puregold Price Club, Inc.	49%
Premier Wine and Spirits, Inc.	100%
Meritus Prime Distributions, Inc.	100%
Montosco, Inc.	100%
Patagonia Holdings Corp.	100%
118 Holdings, Inc.	100%
Fertuna Holdings Corporation	100%
Pure Petroleum Corp.	100%
Ellimac Prime Holdings, Inc.	100%
Nation Realty, Inc.	100%
NE Shopping Centers Corporation	100%
Office Warehouse, Inc.	100%
Alcorn Petroleum and Minerals Corporation	100%
Canaria Holdings Corporation	90%

**Item 6. Compensation of Directors and Executive Officers.**

**A. Executive Compensation**

The table below sets the total annual compensation of the CEO, four most highly compensated executive officers, namely, Lucio Co, Susan Co Leonardo Dayao, Andres Santos and Wyomia Guevarra, and all other officers as a group unnamed for the year 2017, 2018 and projected compensation for 2019:

	Year	Salary	Bonus/Other compensation
CEO and most highly compensated executive officers (Lucio Co, Susan Co Leonardo Dayao, Andres Santos and Wyomia Guevarra)	2017	6,412,772.70	-
	2018	6,412,772.70	-
	2019	6,270,000.00	-
All other officers as group unnamed	2017	1,810,987.32	-
	2018	1,810,987.32	-
	2019	2,563,528.30	-

The total annual compensation includes salaries for all services rendered by the above officers to the Company.

*Standard Arrangements.*

Directors receive per diem of Fifty Thousand Pesos (₱50,000.00) per board and Twenty Thousand Pesos (₱20,000.00) per committee meeting.

*Other Arrangements.*

The Company has no other arrangement related to the remuneration of its existing directors and officers aside from the compensation received as above stated.

### *Employment Contracts and Termination of Employment and Change in Control Arrangements.*

Executive officers are subject to existing Company's policies, rules, regulations and labor laws. Their employment may be terminated for just or authorized causes as provided by labor code.

The executive officers are entitled to receive benefits in accordance with the provisions of the Labor Code and other social legislation.

There is no arrangement with any executive officer to receive any compensation or benefit in case of change-in-control of the Company or change in the officer's responsibilities following such change-in-control.

### **Item 7: Independent Public Accountants**

The External Auditor of the Company for the fiscal year 2018 was R.G. Manabat & Company headed by the partner-in-charge, Mr. Dindo Marco Dioso. The same firm is being recommended for re-election at the stockholders' meeting.

Representatives of R.G. Manabat & Company are expected to be present at the stockholders' meeting and will be available to respond to appropriate inquiry from stockholders regarding the 2018 Audited Financial Statements, if any. They will have the opportunity to make statement if they so desire.

There were no disagreements with R.G. Manabat & Company on any matter of accounting and/or financial disclosure. The Company follows SRC Rule 68, (3), (b), (iv) where it states that changes should be made in assignment of external auditor or assigned partner at least every five (5) years.

The Board of Directors approved the re-election of R.G. Manabat & Co., as recommended by the Audit Committee, as the company's external auditor for 2017 audit.

The Company, and its subsidiaries, paid R.G. Manabat & Company the total of Php8,830,500.00 for the year 2017 and Php8,830,500.00 in 2018 for audit services. The Company did not engage Manabat and Company in any non-audit services.

### **Item 8: Compensation Plans**

No action is to be taken related to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

### **Item 9: Issuance and Exchange of Securities**

No action is to be taken with respect to the authorization or issuance of any securities otherwise than for exchange for outstanding securities of the Company.

**Item 10: Modification or Exchange of Securities**

No action is to be taken with respect to the modification of any class of securities of the Company or the issuance or authorization for issuance of one class of securities of the Company in exchange for outstanding securities of another class.

**Item 11: Financial and Other Information**

The Audited Financial Statements as of December 31, 2018 meeting the requirements of SRC Rule 68, as amended and 68.1, the Statement of Management Responsibility and the Schedules and discussion required under Part IV or Rule 68 are hereto attached as Annex "B".

**Item 12: Merger, Consolidation, Acquisition and similar matters**

No action is to be taken with respect to any transaction involving merger, consolidation, acquisition of securities, sale or transfer of substantial part of the assets or liquidation of assets of the Company.

**Item 13: Acquisition or Disposition of Property**

No action is to be taken up in relation to acquisition or disposition of any property.

**Item 14: Restatement of Accounts**

The accounting policies set out in the attached audited financial statements have been applied consistently to all the years presented.

**D. OTHER MATTERS****Item 15: Action with Respect to Reports**

The following matters will be submitted for approval of the security holders:

**1. Call to Order and Certification of Service of Notice and Existence of Quorum**

The Corporate Secretary will certify that the notice of the annual stockholders' meeting was sent to all stockholders of record and she will also certify that there is a quorum for the transaction of business by determining the number of stockholder present, by person or proxy, in the meeting. The Chairman will, thereafter, call the meeting to order.

**2. Approval of Minutes of the previous Stockholders' Meeting**

The Minutes of the previous stockholders' meeting and summary of all acts and resolutions of the Board of Directors and Management from the date of the previous stockholders' meeting will be presented for ratification of the stockholders.

The copy of the minutes of the previous stockholders' meeting and summary of all acts and resolutions of the Board of Directors and Management will be attached to the Information Statement.

### **3. Annual Report**

The AFS of the Company ending December 31, 2018 will be presented to the stockholders during the meeting. The AFS was submitted to the Securities and Exchange Commission on April 12, 2019. It will be presented to the stockholders for ratification.

### **4. Election of Regular and Independent Directors**

The qualification of nominees for regular and independent directors have been duly reviewed by the Nominations Committee. Upon the Committee's recommendation, the Board approved the nomination of the candidates to the election of the Board of Directors.

### **5. Appointment of External Auditor**

The Audit Committee and the Board of Directors will endorse to the stockholders the re-appointment of R.G. Manabat & Company as external auditor of the Company for the year 2019.

### **6. Other matters**

The Chairman will open the floor for any question, clarification or suggestion from the stockholders.

### **Item 16: Matters Not Required to be Submitted**

No action is to be taken with respect to any matter, which is not required to be submitted to a vote of security holders.

### **Item 17: Amendment of Charter, By-Laws or other Documents**

On May 3, 2019, the Board of Directors of the Company approved the amendment of the following underlined provisions of the by-laws:

#### **“Article III Stockholders' Meeting**

Section 1:

“Annual Meeting—The annual meeting of the stockholders of this Corporation shall be held in Metro Manila on the last Friday of June of each year or at any date that may be determined by the Board of Directors provided it shall not exceed or go beyond the last Friday of June of each year.”

Section 2:

“Special Meeting—The special meetings of the stockholders may be called at the principal office of the Corporation or at any place and time fixed by the Board of Directors or by order of the President.”

Section 3:

“Notices of Meetings— Written notice of annual or special meeting shall be sent to each of the stockholders on record at least 30 days prior to the date set for the meeting either by registered mail, personal service, electronic mail or any other modern means of communication as may be allowed by the Securities and Exchange Commission.

No failure or irregularity of notice of any regular meeting shall invalidate such meeting or any proceeding thereat when the stockholders thereof voted without protest. No publication of notice of meeting in the public newspapers shall be required. Such written notice, however, may be waived in writing by stockholders.”

Section 7:

“Election of Directors—Election of directors shall be held at the annual meeting of stockholders as herein provided and shall be done by a majority of the stock represented in the meeting, and shall be conducted in the manner provided by the Revised Corporation Code of the Philippines and with such formalities and in such manners as the officer presiding at the meeting shall then and there determine and provide. All nominations for the position of director must be received by the Corporate Secretary at least 10 business days prior to submission of the disclosure to the Securities and Exchange Commission as provided in the Securities and Regulation Code.

Xxx”

**Article IV**  
**Directors**

Section 8:

Meeting—The regular meetings of the Board of Directors shall be held in the principal office of the corporation or at such place in or outside of the Philippines as may be determined by the Board of Directors or may be called by the President.

Special meetings may be held at any time and place in or outside of the Philippines as may be determined by the Board of Directors or may be called by the President or without notice by the unanimous written consent of all members of the Board or with the presence and participation of all members of the Board.

Special meetings may also be conducted by tele/video-conferencing in accordance with the regulations issued by the Securities and Exchange Commission.

## Section 9:

Notices of Board Meetings— Written notice of regular or special board meeting shall be sent to each of the directors at least 5 days prior to the date set for the meeting either by registered mail, personal service, electronic mail or any other modern means of communication as may be allowed by the Securities and Exchange Commission, and such notices shall state the objects and the purposes thereof. No publication of notice of meeting in the public newspapers shall be required.”

The Board approved the proposed changes in the Company’s bylaws and endorsed the same for stockholders’ approval.

### **Item 18: Other Proposed Action**

No other proposed action is to be taken or to submitted to a vote of security holders.

### **Item 19: Voting Procedures**

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the affirmative majority vote of stockholders present in person or by proxy and entitled to vote thereat, provided a quorum is present.

For election of directors, a shareholder may vote such number of shares for as many persons as there are for directors to be elected. The shareholder may also cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of shares owned or the shareholder may distribute them on the same principle among as many candidates as they see fit.

Except in cases where voting by ballot is requested, voting and counting shall be by *viva voce*. If by ballot, each ballot shall be signed by the shareholder voting, or in his name by his proxy if there be such proxy and shall state the number of shares voted by him. Such stockholder may or may not cumulate his votes. The counting thereof shall be supervised by the transfer agent, RCBC Trust, G/F West Wing Grepalife Building, 221 Sen. Gil Puyat Avenue, Makati City, telephone no. (632) 892-0426.



## **Part II: Market Information**

The table shows the stock prices of the company for the year 2017, 2018 and 1st Quarter of 2019.

<b>2018</b>	<b>High</b>	<b>Low</b>	<b>2017</b>	<b>High</b>	<b>Low</b>
January	7.77	7.20	January	9.23	8.53
February	7.54	7.30	February	9.28	8.91
March	7.38	7.15	March	8.90	8.48
April	7.30	6.48	April	8.57	8.33
May	6.58	6.14	May	8.35	8.14
June	6.40	6.08	June	8.20	7.89
July	6.21	5.83	July	8.27	7.75
August	6.20	5.97	August	8.07	7.40
September	6.03	5.70	September	8.62	8.00
October	6.98	5.83	October	8.52	8.20
November	7.35	6.89	November	8.5	7.45
December	7.35	6.65	December	7.73	7.40

<b>2019</b>	<b>High</b>	<b>Low</b>
January	7.49	6.70
February	7.87	7.34
March	7.75	7.40
April		

### **Holders**

There are approximately 988 registered holders of common shares as of March 31, 2019 owning at least one board lot per 100 shares (based on number of accounts registered with the Stock Transfer Agent. The top 20 stockholders of the Company as of March 31, 2019 are as follows:

	<b>Name of Stockholders</b>	<b>No. of Shares</b>	<b>%</b>
1	Lucio L. Co	2,365,741,492	32.60%
2	Susan P. Co	1,780,182,230	24.53%
3	The HSBC	543,667,120	7.49%
4	Ellimac Prime Holdings, Inc.	244,228,990	3.37%
5	Deutsche Bank Manila	243,945,535	3.36%
6	VFC Land Resources, Inc.	220,066,929	3.03%
7	Ferdinand Vincent P. Co	219,557,122	3.03%
8	Citibank N/A	219,515,686	3.03%
9	Pamela Justine P. Co	210,535,971	2.90%
10	Ansaldo Godinez & Co.	162,115,825	2.23%
11	KMC Realty Corporation	150,832,231	2.08%
12	Standard Chartered Bank	149,605,382	2.06%
13	SB Equities, Inc.	111,100,158	1.53%
14	Camille Clarisse P. Co	100,625,231	1.39%



## **Dividends**

The summary of dividends declared by the Company are as follows:

Dividend and Declaration Date	Record Date	Payment Date
Php0.06 per share / June 27, 2014	July 11, 2014	July 28, 2014
Php0.08 per share / December 18, 2014	January 12, 2015	February 5, 2015
Php0.08 per share / December 18, 2015	January 8, 2016	January 18, 2016
Php0.08 per share / December 22, 2016	January 12, 2017	January 20, 2017
Php0.10 per share / December 15, 2017	January 2, 2018	January 26, 2018
Php0.10 per share / February 1, 2019	February 15, 2019	March 1, 2019

### **PART III: INFORMATION REQUIRED IN A PROXY FORM**

**Item 1. Solicitor.** The following proxies are being secured for the benefit of the Company. The Company has designated its Chairman, Lucio L. Co and President, Mr. Leonardo B. Dayao, as the persons who shall vote the proxies gathered by the Company. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the Annual Meeting of Stockholders to be held on June 20, 2019 at the Acacia Hotel, Alabang, Muntinlupa City, on the date and time and place stated above and in the Notice accompanying this Information Statement and at any postponements or adjournments thereof.

**Item 2. Instructions.** The Proxy Form, must be properly signed, dated and returned by the stockholder on or before June 13, 2019. Validation of proxies will be held at the Company's principal office on June 13, 2019, 4:00 p.m. For corporate shareholders, the proxy form must be accompanied by a corresponding secretary's certificate confirming the authority of the person executing the proxy.

Validated proxies will be voted at the meeting in accordance with the authority and/or instructions of the stockholder expressed therein. Proxies which are not properly signed and dated, or which are received late, or which do not have an accompanying secretary's certificate (for corporate shareholders) shall not be voted at the meeting.

Subject to a stockholder's right to revoke his own proxy as stated in Item 3 below, the proxy given by a stockholder shall be voted by the Company's Chairman, Lucio L. Co, and/or President, Mr. Leonardo B. Dayao, or in his absence, by the Chairman of the Meeting, with full power of substitution and delegation, in accordance with the authorization specifically granted by the stockholder.

**If no specific authority and/or instruction is made in the Proxy Form, the shares of the stockholder will be voted FOR ALL the nominee directors named in the Proxy Form and FOR THE APPROVAL of all the matters stated in the Proxy Form and all other matters for which stockholders' approval may be sought in the Meeting and at any postponements or adjournments thereof.**

**Item 3. Revocability of Proxy.** A stockholder giving a proxy has the power to revoke it at any time before the right granted under and by virtue of such proxy is exercised, either: (a) by submitting a sworn statement revoking such proxy on or before June 13, 2019; or, (b) by appearing at the Meeting in person and expressing his intention to vote in person.

**Item 4. Persons Making the Solicitation.** The Company is soliciting proxies. The proxy form is intended to facilitate representation by stockholders and will be used for voting at the Annual Meeting of Stockholders to be held on the date and time and place stated above and in the Information Statement, and at any postponements or adjournments thereof. As of the date the Information Statement and this Proxy Form are sent to stockholders of record, NO director has informed the Company in writing that he opposes any action intended to be taken by the Company at the Meeting.

There are no other participants in the solicitation of proxies through this Information Statement.

The proxy forms will be sent to stockholders mainly through the registered mail or electronic mail. Incidental solicitation in person or through telephone reminding stockholders to attend the meeting may be made by the directors, officers and employees of the Company, for which no arrangement is or will be made and no compensation will be paid for such incidental solicitation.

The Company will bear the cost of preparing, collating and delivering to stockholders the Information Statement, the Proxy Form and the accompanying materials and the Company estimates expenditures not exceeding P1,000,000.00.

**Item 5. Interest of Certain Persons in Matters to be Acted Upon.** No current director or officer nor any associate of the Corporation has any substantial interest, direct or indirect, by security holdings or otherwise in any matter to be acted upon except on the election of directors for year the 2019.

**PART IV: SIGNATURE PAGE**

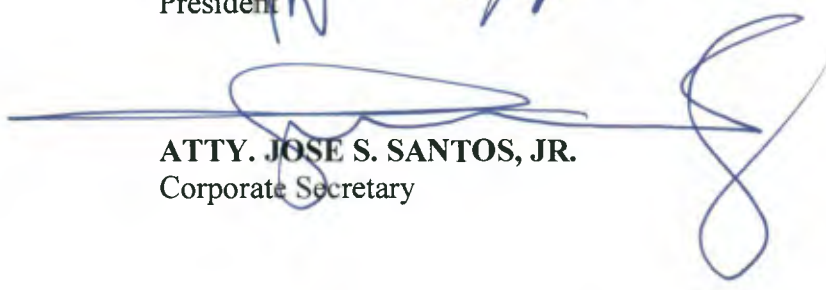
After reasonable inquiry, and to the best of our knowledge and belief, we certify that the information set forth in this report is true, complete and correct.

This report is signed in the City of Manila on May 8, 2019.

**COSCO CAPITAL, INC.**

BY:

  
**MR. LEONARDO B. DAYAO**  
President

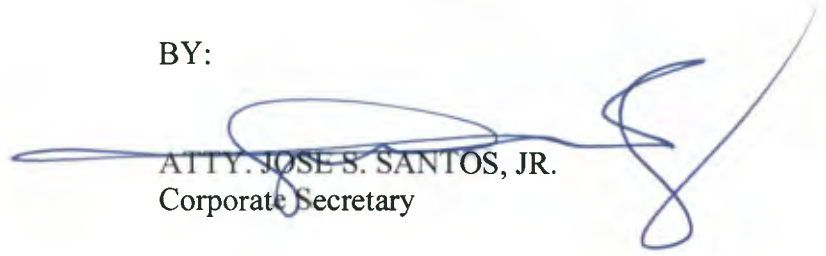
  
**ATTY. JOSE S. SANTOS, JR.**  
Corporate Secretary

**UNDERTAKING**

The company shall provide, without charge to each stockholder, a copy of its Annual Report or SEC Form 17-A upon written request of such person addressed to the Office of the Corporate Secretary, No. 900 Romualdez St., Paco, Manila 1007.

**COSCO CAPITAL, INC.**

BY:

  
**ATTY. JOSE S. SANTOS, JR.**  
Corporate Secretary

**PROXY FORM**

Date : \_\_\_\_\_

The undersigned hereby appoints the Chairman, Mr. Lucio L. Co and or the President, Mr. Leonardo B. Dayao, with full power of substitution and delegation, as proxy to vote all the shares of the undersigned at the Annual Stockholders' Meeting of **COSCO CAPITAL, INC.** to be held on **June 20, 2019, 9 AM**, at the **Acacia Hotel, Alabang, Muntinlupa City**, and at any postponements or adjournments thereof.

The proxy shall vote subject to the instructions indicated below and the proxy is authorized to vote in his discretion on other business as may properly come at the Meeting and any postponements or adjournment thereof. Where no specific authority is clearly indicated below, the proxy shall vote and shall be deemed authorized to vote **FOR THE APPROVAL** of all the corporate matters listed below, and **FOR ALL** the nominated directors named below.

**Corporate Matters:**

Agenda	For	Against	Abstain
1. Call to order			
2. Proof of notice and quorum			
3. Approval of the Minutes of the previous Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the last Stockholders' Meeting			
4. Annual Report and the Audited Financial Statements			
5. Election of Mr. Lucio L. Co			
6. Election of Mrs. Susan P. Co			
7. Election of Mr. Leonardo B. Dayao			
8. Election of Mr. Levi Labra			
9. Election of Mr. Roberto Juanchito T. Dispo			
10. Election of Mr. Robert Cokeng			
11. Election of Mr. Oscar Reyes			
12. Election of Atty. Bienvenido Laguesma			
13. Re-appointment of RG Manabat & Company as External Auditor			
14. Amendment of Company's By-laws			
15. Other Matters			
16. Adjournment			

\_\_\_\_\_  
Printed Name of Stockholder

\_\_\_\_\_  
Signature of Authorized Representative

*For corporate shareholders, the proxy form must be accompanied by a corresponding Secretary's Certificate confirming the appointment of the proxy and the authority of the person signing the proxy.*



**Item 6. Management's Discussion and Analysis of Operations**

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2018 audited consolidated financial statements and notes attached herewith as Annex "B".

**Key Performance Indicators**

The following financial ratios are considered by management as key performance indicators of the Group's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of the Group to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of the Group
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates the Group's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Group's financial leverage

The table below shows the key performance indicators for the past three years:

<b>Performance Indicators</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Return on investment	<b>10.65%</b>	10.43%	10.88%
Profit margin	<b>5.23%</b>	5.37%	5.78%
EBITDA to interest expense	<b>31.76x</b>	34.14x	36.28x
Current ratio	<b>2.49:1</b>	1.97:1	2.14:1
Asset turnover	<b>1.45:1</b>	1.36:1	1.29:1
Asset to equity	<b>1.39:1</b>	1.42:1	1.44:1
Debt to equity ratio	<b>0.39:1</b>	0.42:1	0.44:1

These financial ratios were calculated based on the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries as described more appropriately in Note 1 to the audited financial statements attached in Annex A hereof.

## Comparative Years 2018 and 2017

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2018 and 2017.

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
REVENUES	P168,387,650	100.00%	P145,749,829	100.00%	P22,637,820	15.53%
COST OF SALES/SERVICES	140,128,078	83.22%	120,607,099	82.75%	19,520,979	16.19%
GROSS PROFIT	28,259,572	16.78%	25,142,730	17.25%	3,116,842	12.40%
OTHER OPERATING INCOME	2,994,765	1.78%	2,759,815	1.89%	234,950	8.51%
GROSS OPERATING INCOME	31,254,337	18.56%	27,902,545	19.14%	3,351,792	12.01%
OPERATING EXPENSES	19,166,531	11.38%	16,426,309	11.27%	2,740,222	16.68%
INCOME FROM OPERATIONS	12,087,806	7.18%	11,476,236	7.87%	611,570	5.33%
OTHER INCOME (CHARGES) - net	116,331	0.07%	(351,850)	-0.24%	468,181	-
INCOME BEFORE INCOME TAX	12,204,137	7.25%	11,124,386	7.63%	1,079,751	9.71%
INCOME TAX EXPENSE	3,399,340	2.02%	3,291,071	2.26%	108,269	3.29%
NET INCOME FOR THE YEAR	P8,804,797	5.23%	P7,833,314	5.37%	P971,482	12.40%
Net Income Attributable to:						
Equity holders of the Parent Company	P5,547,569	3.29%	P4,924,646	3.38%	P622,923	12.65%
Non-controlling interests	3,257,227	1.93%	2,908,668	2.00%	348,559	11.98%
	P8,804,797	5.23%	P7,833,314	5.37%	P971,482	12.40%
EPS	P0.78		P0.69			13.39%

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P168.39 Billion for the year ended December 31, 2018 which reflects an increase by P16.56 Billion or representing a growth of 15.53% compared to last year's revenue of P145.75 Billion.

The growth in consolidated revenues in 2018 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; sustained 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; increase revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio coupled by additional leasable spaces from new commercial assets; and the robust sales performance and growth in revenue contributions from the liquor and wine distribution business segment.

### Growth in Net Income

During the same period, the Group realized a consolidated net income of P8.80 Billion which is higher by P971.48 Million representing a 12.40% increase as compared to last year's consolidated net income of P7.83 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P5.54 Billion in 2018 which increased by about P622.93 Million or 12.65% as compared to the 2017 PATMI amounting to P4.92 Billion.



## **Segment Revenue & Net Income Contributions**

### Grocery Retail Segment

During the year 2018, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P140.92 Billion or an increase of P16.42 Billion or about 13.20% growth as compared to the segment's revenue contribution of P124.49 Billion of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

Consolidated net income contribution in 2018 amounted to P6.52 Billion which increased by P679.51 Million or 11.63% as compared to the net income contribution of P5.84 Billion in 2017. This includes the one-time gain amounting to around P363 Million realized from the sale of shares in PG Lawson. Excluding this non-recurring item, core consolidated net income amounted to P6.14 Billion which still registered a growth of 2.8% year on year from the previous year.

### Real Estate Segment

The commercial real estate business segment contributed P1.78 Billion to the Group's consolidated revenue in 2018 representing a growth of about P163.79 Million or 10.14% of the segment's revenue contribution in 2017 amounting to P1.61 Billion. This was mainly attributable to the additional leasable space from four (4) new mall assets added to its portfolio, where three assets were opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Consolidated net income contribution in 2018 amounted to about P1.07 Billion which increased by about P75.79 Million or 7.60% as compared to the net income contribution of P997.23 Million in 2017.

### Liquor Distribution Segment

The liquor distribution business segment contributed about P6.51 Billion to the Group's consolidated revenue in 2018 representing an increase by about P1.82 Billion or 38.77% higher as compared to the 2017 revenue contribution of P4.69 Billion mainly attributable to its strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the year.

Consolidated net income contribution in 2018 amounted to about P743.46 Million which increased by P47.34 Million or 6.80% as compared to the net income contribution in 2017 amounting to P696.12 Million.

### Specialty Retail

The LPG business unit contributed about P17.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P3.96 Billion or 30.18% higher as compared to the 2017 revenue contribution of P13.13 Billion mainly attributable to the effects of the continued improvements and recovery of global petroleum and gas prices in 2018 and on the back of a 9.8% growth in volume sold.

As a result, net income contribution in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On the other hand, our office supplies and technology retail business unit contributed about P2.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P265.44 Million or 14.58% higher as compared to the 2017 revenue contribution of P1.82 Billion mainly attributable to its strong same store sales growth (SSSG) of 9.09% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2018 amounted to about P65.53 Million which increased by P5.53 Million or 11.07% as compared to the net income contribution in 2017 amounting to P58.99 Million.

## **Segment Operating & Financial Highlights**

### **Net Sales**

For the year ended December 31, 2018, the Grocery retail segment posted a consolidated net sales of P140,918 million for an increase of P16,427 million or a growth of 13.2% compared to P124,491 million in the same period of 2017. New organic stores put up in 2017 were fully operating in 2018 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>5.8%</b>	<b>8.0%</b>
Net Ticket	<b>8.1%</b>	<b>7.8%</b>
Traffic	<b>-2.1%</b>	<b>0.2%</b>

### **Gross Profit**

For the year ended December 31, 2018, the Grocery retail segment realized an increase of 11.0% in consolidated gross profit from P21,476 million in 2017 at 17.3% margin to P23,840 million at 16.9% margin in the same period of 2018, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.



### **Other Operating Income**

Other operating income increased by P249 million or 9.2% from P2,692 million in 2017 to P2,941 million in the 2018. This is attributable to increase in concess income and membership income driven mainly by full operation of 2017 new stores and contribution from new stores opened in 2018. In 2017, S&R tied up with Unioil and offered a P3.00 discount on gasoline and P2.00 off on diesel per liter, to all members using their issued membership cards with magnetic stripes. In March 14 to 18 and September 26 to 30, 2018, S&R held its 5-day sale Members' Treat.

### **Operating Expenses**

Operating expenses increased by P2,325 million or 15.0% from P15,516 million in the year ended December 31, 2017 to P17,840 million in 2018. The incremental operating expenses were mainly attributable to manpower costs, as well as rent expenses covering new lease contracts, depreciation expense and taxes, principally related to the establishment and operation of new organic stores.

### **Other Expense - net**

Other income -net amounted to P204 million for year ended December 31, 2018 due to recognition of a one-time gain on sale of investment in joint venture amounting to P363 million. Interest income increased in the year ended December 2018 due to higher placement in short-term investment as compared in 2017.

### **Net Income**

For the year ended December 31, 2018, the Grocery retail segment earned a consolidated net income of P6,520 million at 4.6% net margin and an increase of 11.6% from P5,840 million at 4.7% net margin in the same period of 2017. Excluding the one-time gain on sale of investment in joint venture of P363 million, core consolidated net income for the year ended December 31, 2018 amounted to P6,143 million at 4.4% net margin and an increase of 2.8%.

### **Commercial Real Estate**

The Group's Real Estate Segment posted P2.43 Billion in revenues for the year ended December 31, 2018 or a 10.56% increase from P2.19 Billion from 2017. This was mainly attributable to the additional leasable space from its four new mall assets, where three assets opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Income from operations before depreciation increased by P125.87 Million or 9.5% from P1.32 Billion in 2017 to P1.45 Billion for the year ended December 31, 2018.

Net income for the year ended December 31, 2018 amounted to P1.07 Billion or a 10.42% increase from last year's P971.73 Million brought about by additional rental revenue.

### **Liquor Distribution**

Revenues generated by the Liquor Distribution Segment increased to P8.75 Billion in 2018 or 31.28% growth from last year's P6.66 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 32%. The growth in revenue is still principally driven by its brandy portfolio which accounts for about 67% of sales augmented by the increase in sales of the other spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations increased to P1.0 Billion in 2018 or 12.81% higher from last year's P891.39 Million.

Net income for the 2018 period increased by P110.41 Million from P628.23.46 Million in 2017 to P738.64 Million in 2017 or 17.57% growth.

### **Specialty Retail**

#### *Office Warehouse*

As at December 31, 2018, the company had expanded its retail network to 88 stores from 46 stores at acquisition date. Net selling area also increased to 16,738 sq.m. or a growth by 4.97% in 2018 as compared to 2017.

Sales revenue increased to P2.09 Billion in 2018 or 14.49% higher as compared to the 2017 revenue of P1.82 Billion mainly attributable to its continuing organic stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 9.09% in 2018.

Net income in 2018 amounted to about P65.53 Million which increased by P6.53 Million or 11.07% as compared to the net income in 2017 amounting to P58.99 Million.

#### *Liquigaz*

The company started the commercial operation of its storage facility expansion project in Sariaya, Quezon (Southern Luzon) during the first quarter in 2018. When completed and fully operational, this new facility, which will increase the company's existing capacity to 25,000 MT, will not only strategically serve the Southern Luzon market but also serve as a platform for its planned geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2018 amounted to P17.09 Billion or 30.18% higher as compared to the 2017 revenues of P13.13 Billion mainly attributable to both the continued improvements in global petroleum and gas prices and a 9.80% growth in sales volume in 2018. As a result, net income in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On October 19, 2018, Liquigaz parent company, Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The transaction was subsequently approved by the Philippine Competition Commission on January 17, 2019 paving the way for its closing and completion on February 13, 2019. The divestment transaction and other relevant information will be reflected in the group's financial reports for the first quarter of 2019.



## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	16,784,861	13.94%	15,353,098	13.76%	1,431,763	9.33%
Receivables - net	6,630,927	5.51%	7,901,686	7.08%	(1,270,759)	-16.08%
Financial asset at FVOC	7,643	0.01%	8,618	0.01%	(975)	-11.31%
Financial asset at FVPL	36,503	0.03%	46,888	0.04%	(10,385)	-22.15%
Assets held-for-sale	7,320,895	6.08%	-	0.00%	7,320,895	100.00%
Inventories	23,931,657	19.88%	21,194,691	18.99%	2,736,966	12.91%
Due from related parties	47,971	0.04%	74,354	0.07%	(26,382)	-35.48%
Prepayments and other current assets	2,984,517	2.48%	2,799,075	2.51%	185,442	6.63%
<b>Total current assets</b>	<b>57,744,974</b>	<b>47.97%</b>	<b>47,378,409</b>	<b>42.45%</b>	<b>0,366,565</b>	<b>21.88%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	26,343,793	21.89%	26,622,703	23.85%	(278,910)	-1.05%
Investment properties - net	10,836,618	9.00%	10,753,607	9.63%	83,011	0.77%
Intangible assets	21,095,502	17.53%	22,776,064	20.41%	(1,680,562)	-7.38%
Investments	611,054	0.51%	933,797	0.84%	(322,743)	-34.56%
Deferred oil and mineral exploration costs	123,365	0.10%	122,948	0.11%	417	0.34%
Deferred tax assets-net	27,239	0.02%	64,438	0.06%	(37,199)	-57.73%
Other non-current assets	3,585,284	2.98%	2,962,321	2.65%	622,963	21.03%
<b>Total noncurrent assets</b>	<b>62,622,856</b>	<b>52.03%</b>	<b>64,235,879</b>	<b>57.55%</b>	<b>(1,613,023)</b>	<b>-2.51%</b>
<b>Total Assets</b>	<b>120,367,820</b>	<b>100.00%</b>	<b>111,614,288</b>	<b>100.00%</b>	<b>8,753,541</b>	<b>7.84%</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	13,015,167	10.81%	13,793,132	12.36%	(777,965)	-5.64%
Income tax payable	928,796	0.77%	1,032,749	0.93%	(103,953)	-10.07%
Liabilities directly related to assets held-for-sale	1,834,651	1.52%	-	0.00%	1,834,651	100.00%
Short-term loans payable	4,866,300	4.04%	5,562,500	4.98%	(696,200)	-12.52%
Current portion of long-term borrowing	49,999	0.04%	2,443,402	2.19%	(2,393,404)	-97.95%
Due to relate parties	1,365,863	1.13%	849,772	0.76%	516,091	60.73%
Other current liabilities	436,297	0.36%	505,407	0.45%	(69,110)	-13.67%
<b>Total current liabilities</b>	<b>22,497,073</b>	<b>18.69%</b>	<b>24,186,962</b>	<b>21.67%</b>	<b>(1,689,889)</b>	<b>-6.99%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	508,533	0.42%	592,387	0.53%	(83,854)	-14.16%
Deferred tax liabilities	693,099	0.58%	774,280	0.69%	(81,181)	-10.48%
Long term loans payable - net of debt issue cost	6,572,209	5.46%	4,782,209	4.28%	1,790,000	37.43%
Other non-current liabilities	3,256,701	2.71%	2,834,359	2.54%	422,342	14.90%
<b>Total noncurrent liabilities</b>	<b>11,030,542</b>	<b>9.16%</b>	<b>8,983,235</b>	<b>8.05%</b>	<b>2,047,307</b>	<b>22.79%</b>
<b>Total Liabilities</b>	<b>33,527,615</b>	<b>27.85%</b>	<b>33,170,198</b>	<b>29.72%</b>	<b>357,418</b>	<b>1.08%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	6.15%	7,405,264	6.63%		0.00%
Additional paid-in capital	9,634,644	8.00%	9,634,644	8.63%		0.00%
Remeasurement of retirement liability - net of tax	113,822	0.09%	28,364	0.03%	85,457	301.28%
Reserve for fluctuations in value of financial assets at FVOC	3,420	0.00%	5,013	0.00%	(1,592)	-31.76%
Treasury shares	(1,197,727)	-1.00%	(628,203)	-0.56%	(569,524)	90.66%
Retained earnings	43,694,952	36.30%	38,147,383	34.18%	5,547,569	14.54%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>59,654,376</b>	<b>49.56%</b>	<b>54,592,465</b>	<b>48.91%</b>	<b>5,061,911</b>	<b>9.27%</b>
Non-controlling interest	27,185,838	22.59%	23,851,625	21.37%	3,334,213	13.98%
<b>Total Equity</b>	<b>86,840,214</b>	<b>72.15%</b>	<b>78,444,090</b>	<b>70.28%</b>	<b>8,396,124</b>	<b>10.70%</b>
<b>Total Liabilities and Equity</b>	<b>120,367,829</b>	<b>100.00%</b>	<b>111,614,288</b>	<b>100.00%</b>	<b>8,753,541</b>	<b>7.84%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P16.78 Billion as at December 31, 2018 with an increase of P1.43 Billion or 9.33% from December 31, 2017 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2017 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Receivables** decreased by 16.08% from December 31, 2017 balance of P7.90 Billion to this year's balance of P6.63 Billion due mainly to the collections made and reclassification to assets held-for-sale.

**Assets held-for-sale** pertain to current and noncurrent assets of Liquigaz Philippine Corporation (LPC) which were reclassified in view of the sale of the group's equity interest in LPC) through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019

**Financial assets at fair value through comprehensive income (FVOC)** decreased by 11.31% from December 31, 2017 balance of P8.62 Million to this year's balance of P7.64 Million due mainly to the effect of changes in stock prices.

**Financial assets at fair value through profit or loss (FVPL)** decreased by 22.15% from December 31, 2017 balance of P46.89 Million to this year's balance of P36.50 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 12.91% from 2017 balance of P21.19 Billion to this year's balance of P23.93 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.73 Billion.

**Prepaid expenses and other current assets** increased by P185.44 Million or 6.63% at the end of December 2018, mainly due to prepayments made for advertising, prepayments for taxes and licenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores Grocery Retail segment.

**Due from related parties** decreased by P26.38 Million at the end of December 2018, due primarily to settlements made.

### **Non-current Assets**

As at December 31, 2018 and 2017, total non-current assets amounted to P62.62 Billion or 52.03% of total assets, and P64.23 Billion or 57.55% of total assets, respectively, for a decrease of P1.61 Billion or 2.51%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment decreased by P278.71 Million from P26.62 Billion in December 2017 to P26.34 Billion in December 2018 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and the effect of reclassifying the fixed assets owned by LPC to assets held-for-sale.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P83.01 Million from P10.75 Billion in December 2017 to P10.84 Billion in December 2018.



**Investments** decreased by P322.74 Million from P933.80 Million in December 2017 to P611.05 Million in December 2018 primarily due to the sale of investment in PG Lawson joint venture net of additional investments in Ayagold Retailers by the Grocery Retail segment and reclassification to assets held-for-sale by LPC.

**Intangibles and goodwill-net** decreased by P1.63 Billion from P22.77 Billion in December 2017 to P21.14 Billion in December 2018 primarily due to the reclassification of goodwill pertaining to LPC to assets held-for-sale.

**Deferred tax assets** decreased by P37.20 Million or 57.73% from P64.44 Million in December 2017 to P27.24 Million in December 2018 resulting mainly from the reversal of deferred tax assets.

**Other non-current assets** increased by P622.96 Million from P2.96 Billion in December 2017 to P3.588 Billion in December 2018. About 59% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2018 and 2017, total current liabilities amounted to P22.50 Billion and P24.18 Billion respectively, for a decrease of P1.69 Billion or 6.99%.

About 86% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P777.96 Million or 5.64% was primarily due to net settlement of trade and non-trade liabilities and payment of dividends by the Grocery Retail, Real Estate, Specialty and Parent Company in 2017.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P103.95 Million from P1.03 Billion as at December 2017 to P928.79 Million as at December 31, 2018 is mainly due to settlement of income tax pertaining to 2017 and the reclassification by LPC to liabilities directly related to assets held-for-sale.

**Liabilities directly related to assets held-for-sale** pertain to current and noncurrent liabilities under LPC which were reclassified in view of the sale of the group's equity interest in LPC through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019.

**Short-term loans payable** account decreased by P696.20 Million mainly due to settlements made by the Grocery Retail, Real Estate, Specialty Retail and Liquor Distribution segments.

**Current portion of long-term borrowing** decreased by P2.39 Billion mainly due to settlements made by the Grocery Retail segment and Parent Company and the effect of reclassification to long term loans resulting from refinancing.

**Due to related parties** increased by P516.09 Million mainly due to the additional advances.

**Other current liabilities** decreased by 13.67% from P505.41 Million as at December 31, 2017 to P436.30 Million as at December 31, 2018 relatively due to redemption of gift checks and perks points benefits by the Grocery Retail segment.



### **Noncurrent Liabilities**

As at December 31, 2018 and December 31, 2017, total non-current liabilities amounted to P11.03 Billion and P8.98 Billion, respectively, for an increase of P2.04 Billion or 22.79%.

**Long-term loans payable-net of current portion** increased by P1.79 Billion mainly due to the Grocery Retail segment's refinancing of maturing long term loans.

**Retirement benefit liability** decreased by P83.85 Million mainly due to the net effect of recognition of additional benefit cost during 2018 and the reclassification to liabilities directly related to assets held-for-sale.

**Other non-current liabilities** increased by P422.34 million or 14.90% from P2.83 Billion in December 2017 to P3.26 Billion as at December 31, 2018 due to recognition of rent expense for lease contracts entered into by the Grocery Retail segment in compliance with PAS 17 – Leases.

### **Equity**

As at December 31, 2018 and December 31, 2017, total equity amounted to P59.65 Billion and P54.59 Billion, respectively, for an increase of P5.06 Billion or 9.27%.

**Re-measurements of retirement liability - net of tax** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2018, the account increased by P85.46 million due to unrealized gain on re-measurement of defined benefit liability.

**Treasury shares** increased by P569.52 million from P628.20 Million in December 2017 to P1.20 Billion as at December 31, 2018 due to additional buyback by the Parent Company during the year in relation to the buyback program.

**Retained earnings** increased by P5.55 Billion or 14.54% from P38.15 Billion in December 2017 to P43.69 Billion as at December 31, 2018 due to profit realized by the Group.

**Non-controlling interest** increased by P3.33 Billion or 13.98% from P23.85 Billion in December 2017 to P27.18 Billion as at December 31, 2018 mainly due to share in the consolidated profit.

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
<i>(In thousands)</i>	<b>2018</b>	<b>2017</b>
Net cash flows from (used in) operating activities	<b>P10,926,204</b>	P8,774,641
Net cash flows used in investing activities	<b>(5,853,974)</b>	(4,503,325)
Net cash flows used in financing activities	<b>(3,640,464)</b>	(1,505,747)
Net increase in cash and cash equivalents	<b>P1,431,763</b>	P2,718,634

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, payment of 2018 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Comparative Years 2017 and 2016

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2017 and 2016.

<i>(In Thousands)</i>	2017		2,016		INCREASE (DECREASE)	
		%		%		%
<b>REVENUES</b>	<b>P145,749,829</b>	<b>100.00%</b>	<b>P129,186,201</b>	<b>100.00%</b>	<b>P16,563,628</b>	<b>12.82%</b>
<b>COST OF SALES/SERVICES</b>	<b>120,607,099</b>	<b>82.75%</b>	<b>106,377,984</b>	<b>82.34%</b>	<b>14,229,115</b>	<b>13.38%</b>
<b>GROSS PROFIT</b>	<b>25,142,730</b>	<b>17.25%</b>	<b>22,808,217</b>	<b>17.66%</b>	<b>2,334,513</b>	<b>10.24%</b>
<b>OTHER OPERATING INCOME</b>	<b>2,759,815</b>	<b>1.89%</b>	<b>2,524,485</b>	<b>1.95%</b>	<b>235,330</b>	<b>9.32%</b>
<b>GROSS OPERATING INCOME</b>	<b>27,902,545</b>	<b>19.14%</b>	<b>25,332,702</b>	<b>19.56%</b>	<b>2,628,489</b>	<b>10.40%</b>
<b>OPERATING EXPENSES</b>	<b>16,426,309</b>	<b>11.27%</b>	<b>14,526,122</b>	<b>11.20%</b>	<b>1,958,833</b>	<b>13.48%</b>
<b>INCOME FROM OPERATIONS</b>	<b>11,476,236</b>	<b>7.87%</b>	<b>10,806,579</b>	<b>8.37%</b>	<b>669,656</b>	<b>6.20%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>(351,850)</b>	<b>-0.24%</b>	<b>(249,135)</b>	<b>-0.19%</b>	<b>(102,716)</b>	<b>41.23%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>11,124,386</b>	<b>7.63%</b>	<b>10,557,445</b>	<b>8.17%</b>	<b>566,941</b>	<b>5.37%</b>
<b>INCOME TAX EXPENSE</b>	<b>3,291,071</b>	<b>2.26%</b>	<b>3,088,051</b>	<b>2.39%</b>	<b>203,021</b>	<b>6.57%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>P7,833,314</b>	<b>5.37%</b>	<b>P7,469,394</b>	<b>5.78%</b>	<b>P363,920</b>	<b>4.87%</b>
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	<b>P4,924,646</b>	<b>3.38%</b>	<b>P4,734,101</b>	<b>3.66%</b>	<b>P190,545</b>	<b>4.02%</b>
Non-controlling interests	<b>2,908,668</b>	<b>2.00%</b>	<b>2,735,293</b>	<b>2.12%</b>	<b>173,375</b>	<b>6.34%</b>
	<b>P7,833,314</b>	<b>5.37%</b>	<b>P7,469,394</b>	<b>5.78%</b>	<b>P363,920</b>	<b>4.87%</b>

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P145.75 Billion for the year ended December 31, 2017 which reflects an increase by P16.56 Billion or representing a growth of 12.82% compared to last year's revenue of P129.18 Billion.

The growth in consolidated revenues in 2017 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; 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; revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio; and sustained growth in revenue contributions from the liquor and wine distribution business segment;

### Growth in Net Income

During the same period, the Group realized a consolidated net income of P7.83 Billion which is higher by P363.92 Million representing a 4.87% increase as compared to last year's consolidated net income of P7.47 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.92 Billion in 2017 which increased by about P190 Million or 4.02% as compared to the 2016 PATMI amounting to P4.73 Billion.



## ***Segment Revenue & Net Income Contributions***

### **Grocery Retail Segment**

During the year 2017, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P124.49 Billion or an increase of P11.90 Billion or 10.6% growth as compared to the segment's revenue contribution of P112.59 Billion in 2016 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions.

Consolidated net income contribution in 2017 amounted to P5.84 Billion which increased by P314 Million or 5.68% as compared to the net income contribution of P5.52 Billion in 2016.

### **Real Estate Segment**

The commercial real estate business segment contributed P1.61 Billion to the Group's consolidated revenue in 2017 representing a decrease of about P178.66 Million or 9.96% as compared to last year amounting to P1.79 Billion principally brought about by the complete temporary closure of one of its recently acquired mall assets to give way for a major renovation and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Net income contribution in 2017 amounted to about P997.23 Billion which correspondingly decreased by about P55.96 Million or 5.31% as compared to the net income contribution of P1.053 Billion in 2016.

### **Liquor Distribution Segment**

Similarly, the liquor distribution business segment contributed about P4.69 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P350.17 Million or 8.06% higher as compared to the 2016 revenue contribution of P4.34 Billion on the back of its growth in volume of cases sold during the year mainly attributable to its aggressive sales and marketing campaign.

Net income contribution in 2017 amounted to about P696.12 Million which decreased by P52.62 Million or 7.03% as compared to the net income contribution in 2016 amounting to P748.74 Million on account of incremental marketing and promotion costs and expenses.

### Specialty Retail

Liquigaz Philippines Corporation contributed about P13.3 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P4.20 Billion or 47.07% higher as compared to the 2016 revenue contribution of P8.92 Billion mainly attributable to the effects of the improvements and recovery of global petroleum and gas prices in 2017 and on the back of an exceptional growth in volume sold. Net income contribution in 2017 amounted to P469.20 Million or a substantial increase by P196.01 Million or 71.75% as compared to the net income contribution in 2016 amounting to P273.18 Million.

On the other hand, Office Warehouse, Inc. contributed about P1.82 Billion to the Group's consolidated revenue during the year 2017 representing an increase by about P289.17 Million or 18.88% higher as compared to the 2016 revenue contribution of P1.53 Million mainly attributable to its strong same store sales growth of 5.88% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2017 amounted to about P58.99 Million which increased by P1.54 Million or 3.0% as compared to the net income contribution in 2016 amounting to P57.45 Million.

## **Segment Operating & Financial Highlights**

### Grocery Retail

#### **Net Sales**

For the year ended December 31, 2017, the Grocery Retail segment posted a consolidated net sales of P124,491 million for an increase of P11,902 million or a growth of 10.6% compared to P112,589 million in the same period of 2016. New stores put up in 2016 were fully operating in 2017 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>4.4%</b>	<b>6.5%</b>
Net Ticket	<b>3.9%</b>	<b>5.3%</b>
Traffic	<b>0.5%</b>	<b>1.2%</b>

#### **Gross Profit**

For the year ended December 31, 2017, the Grocery Retail segment realized an increase of 11.4% in consolidated gross profit from P18,538 million in 2016 to P20,655 million in 2017 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin remain stable at 16.6% and 16.5% for the years ended December 31, 2017 and 2016, respectively.

#### **Other Operating Income**

Other operating income increased by P247 million or 7.6% from P3,266 million in the year ended December 31, 2016 to P3,513 million in 2017 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.



### **Operating Expenses**

Operating expenses increased by P1,808 million or 13.2% from P13,707 million in the year ended December 31, 2016 to P15,516 million in 2017 of the same period. The increase was mainly attributable to the Grocery Retail segment's operating costs and expenses in establishing new organic stores and warehouses clubs including the operation of the QSR food service outlets such as manpower costs, as well as rent expenses relative to new lease contracts, supplies expense and business permits and taxes, all related to full year operation of acquired stores and operation of new organic stores.

### **Other Expense - net**

Other expenses net of other income amounted to P268 million and P101 million for the years ended December 31, 2017 and 2016, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of joint venture operations.

### **Net Income**

For the year ended December 31, 2017, the Grocery Retail segment earned a consolidated net income of P5,840 million at 4.7% net margin and an increase of 5.7% from P5,526 million at 4.9% net margin in 2016 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

### **Commercial Real Estate**

The Group's Real Estate Segment posted P2.19 Billion in revenues for the year ended December 31, 2017 but registered a slight decrease of about 5.52% from P2.32 Billion revenues in 2016. The net decrease is mainly attributable to the temporary complete closure of one of its recently acquired mall assets which is undergoing reconstruction and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Income from operations before depreciation decreased by P69.26 Million from P1.39 Billion of the year ended December 31, 2016.

Net income for the period amounted to P971.73 Million or 4.99% lower compared to last year's P1.023 Billion.

In December 2017, the group opened its latest community mall asset called Arvo Mall located in Marikina, Rizal which is its third joint development project with Ayala Land with Puregold as its anchor tenant. Also during the year, the group continued its ongoing development and construction pipeline of four (4) other community mall development assets located in Cavite, Muntinlupa, Subic and Las Pinas involving an additional GLA of 5,368 square meters which could be operational within the first half of 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 sq.m., thereby expanding its landbank portfolio to a total of nine (9) assets with a gross land area of 146,148.70 sq.m. It was also awarded as a winning bidder for a property located in Bayawan, Negros Oriental with an area of 12,052 sq. m. also for future development.

## **Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P6.66 Billion in 2017 or 12.86% growth from last year's P5.90 Billion on the back of a sustained 19% growth in volume of cases sold during the year. Sales mix was still principally driven by its brandy portfolio which accounts for more than 60% of sales augmented by the increase in sales of the spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations decreased to P823.82 Million in 2017 or 11.36% lower from last year's P929.40 Million due to incremental marketing and promotion expenses incurred to promote sales given its competitive environment.

Net income for the 2017 increased by P46.87 Million or 8.06% from P581.36 million in 2016 to P628.23 Million in 2017.

## **Specialty Retail**

### *Office Warehouse*

Office Warehouse operates a chain of specialty retail outlets engaged in selling school and office supplies, technology products, home/office furniture and equipment and related products. Since its acquisition in May 2014, the company embarked and successfully implemented a strategic organic expansion program through the establishment of additional new organic store outlets within its target market principally in Metro Manila coupled with a diversification of its product offerings. This expansion program has been funded from internally generated funds from its operating profits and cash flows.

As at December 31, 2017, the company had expanded its retail network to 82 stores from 47 stores at acquisition date. Net selling area also increased to 15,945 sq.m. or a growth by 13.78% in 2017 as compared to 2016.

Sales revenues increased to P1.82 Billion in 2017 or 18.92% higher as compared to the 2016 revenue contribution of P1.53 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 5.88% in 2017.

Net income contribution in 2017 amounted to about 58.99 Million which increased by P1.54 Million or 3.0% as compared to the net income contribution in 2016 amounting to P57.45 Million

### *Liquigaz*

The company substantially completed its storage capacity facility expansion project in Sariyaya, Quezon (Southern Luzon) which involved the rehabilitation of an existing 5,100 MT capacity storage tanks for Phase 1 and development and the construction of a jetty and additional 12,000 MT storage tanks for Phase 2 development. When completed and fully operational, this facility will not only strategically serve the Southern Luzon market but also serve as a platform for its geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2017 amounted to P13.13 Billion or 47.07% higher as compared to the 2016 revenues of P8.93 Billion mainly attributable to the combined effects of the improvement in volume sold and of continued recovery of global petroleum and gas prices in 2017. Net income in 2017 amounted to P469.20 Million which increased by P196.01 Million or 71.75% as compared to that of 2016 amounting to P273.18 Million.



## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

(In Thousands)	2017	%	2016	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	P15,353,098	13.75%	P12,634,464	12.31%	P2,718,634	21.52%
Receivables - net	7,902,970	7.08%	6,805,704	6.63%	1,095,982	16.12%
Available-for-sale financial assets	8,618	0.01%	8,199	0.01%	419	5.11%
Short-term investments		0.00%	909,928	0.89%	(909,928)	-100.00%
Investment in trading securities	46,888	0.04%	35,109	0.03%	11,779	33.55%
Inventories	21,194,691	18.98%	19,792,366	19.29%	1,402,324	7.09%
Due from related parties	74,354	0.07%	185,136	0.18%	(110,782)	-59.84%
Prepayments and other current assets	3,014,609	2.70%	1,626,699	1.59%	1,387,910	85.32%
	47,595,227	42.63%	41,997,606	40.93%	5,597,621	13.33%
<b>Noncurrent Assets</b>						
Property and equipment - net	26,622,703	23.85%	24,090,074	23.48%	2,532,629	10.51%
Investment properties - net	10,753,607	9.63%	10,010,807	9.76%	742,800	7.42%
Intangible assets	22,776,064	20.40%	22,598,516	22.03%	177,548	0.79%
Investments	933,797	0.84%	926,669	0.90%	7,128	0.77%
Deferred oil and mineral exploration costs	122,948	0.11%	121,382	0.12%	1,566	1.29%
Deferred tax assets-net	64,438	0.08%	116,587	0.11%	(52,150)	-44.73%
Other non-current assets	2,746,788	2.46%	2,736,900	2.67%	9,887	0.36%
	64,020,345	57.37%	60,600,937	59.07%	3,419,408	5.64%
<b>TOTAL ASSETS</b>	<b>P111,643,672</b>	<b>100.00%</b>	<b>P102,598,543</b>	<b>100.00%</b>	<b>P9,017,029</b>	<b>8.79%</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	P13,790,325	12.35%	P11,775,810	11.48%	P2,014,516	17.11%
Income tax payable	1,032,749	0.93%	1,102,118	1.07%	(69,369)	-6.29%
Short-term loans payable	5,562,500	4.98%	5,362,500	5.23%	200,000	3.73%
Current portion of long-term borrowing	2,443,402	2.19%	164,434	0.16%	2,278,969	-
Due to relate parties	849,772	0.76%	690,335	0.67%	159,437	100.00%
Trust receipts payable	4,091	0.00%		0.00%	4,091	100.00%
Other current liabilities	505,407	0.45%	542,543	0.53%	(37,136)	-6.84%
	24,188,247	21.67%	19,637,739	19.14%	4,550,508	23.17%
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	592,387	0.53%	513,453	0.50%	78,934	15.37%
Deferred tax liabilities	774,280	0.69%	751,935	0.73%	22,345	2.97%
Long term loans payable - net of debt issue cost	4,782,209	4.28%	7,223,505	7.04%	(2,441,296)	-33.80%
Deposits for future stock subscription		0.00%	150,313	0.15%	(150,313)	-100.00%
Non-current accrued rent	2,421,313	2.17%	2,088,230	2.04%	333,083	15.95%
Other non-current liabilities	413,046	0.37%	445,130	0.43%	(32,084)	-7.21%
	8,983,235	8.05%	11,172,567	10.89%	2,189,332	-19.60%
<b>TOTAL LIABILITIES</b>	<b>33,171,482</b>	<b>29.72%</b>	<b>30,810,306</b>	<b>30.03%</b>	<b>2,361,176</b>	<b>7.66%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	6.63%	7,405,264	7.22%		0.00%
Additional paid-in capital	9,634,644	8.63%	9,634,644	9.39%		0.00%
Remeasurement of retirement liability - net of tax	30,640	0.03%	692	0.00%	29,949	-
Reserve for fluctuations in value of AFS financial assets	5,013	0.00%	4,593	0.00%	419	9.12%
Treasury shares	(628,203)	-0.56%	(523,865)	-0.51%	(104,338)	19.92%
Retained earnings	38,147,383	34.18%	33,808,565	32.95%	4,338,818	12.83%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>54,592,465</b>	<b>48.91%</b>	<b>50,329,893</b>	<b>49.06%</b>	<b>4,262,572</b>	<b>8.47%</b>
<b>Non-controlling interest</b>	<b>23,851,625</b>	<b>21.37%</b>	<b>21,458,344</b>	<b>20.91%</b>	<b>2,393,282</b>	<b>11.15%</b>
<b>TOTAL EQUITY</b>	<b>78,444,090</b>	<b>70.28%</b>	<b>71,788,237</b>	<b>69.97%</b>	<b>6,655,853</b>	<b>9.27%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P111,615,572</b>	<b>100.00%</b>	<b>P102,598,543</b>	<b>100.00%</b>	<b>P9,017,029</b>	<b>8.79%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P15.35 Billion as at December 31, 2017 with an increase of P2.72 Billion or 21.52% from December 31, 2016 balance. The increase was due basically to the net effect of cash generated from operations and the settlement of trade and non-trade payables principally from the Grocery Retail Segment, payment of 2016 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Short-term investments** decreased by P909.93 Million from December 31, 2016 balance due mainly to the transfer to cash and cash equivalents made by the Real Estate segment.

**Receivables** increased by 16.12% from December 31, 2016 balance of P6.81 Billion to this year's balance of P7.90 Billion due mainly to the increase in sales in 2017.

**Available-for-sale financial assets** increased by 5.11% from December 31, 2016 balance of P8.20 Million to this period's balance of P8.62 Million due mainly to the effect of changes in stock prices.

**Investment in trading securities** increased by 33.55% from December 31, 2015 balance of P35.11 Million to this period's balance of P46.89 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 7.09% from 2016 balance of P19.79 Billion to this year's balance of P21.19 Billion due to the grocery retail segment's expansion and additional stocking requirement of the new organic stores established during the year as well as the additional stocking requirements of the segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the grocery retail segment amounting to P17.69 Billion.

**Prepayments and other current assets** increased by P1.38 Billion at the end of December 2017, due to purchase of supplies for store and office use, input VAT on purchase of inventory and payment of various expenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** decreased by P110.78 Million at the end of December 2017, due primarily to settlements made by the Real Estate segment.

### **Non-current Assets**

As at December 31, 2017 and 2016, total non-current assets amounted to P64.05 Billion or 57.36% of total assets, and P60.60 Billion or 59.07% of total assets, respectively, for an increase of P3.45 Billion or 5.64%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P2.53 Billion from P24.09 Billion in December 2016 to P26.62 Billion in December 2017 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and capital expenditures from Specialty Retail segment.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P742.80 Million or 7.42% from P10.01 Billion in December 2016 to P10.75 Billion in December 2017.

**Investments** increased by P7.13 Million from P926.67 Million in December 2016 to P933.80 Million in December 2017 resulting from the share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.



**Deferred tax assets** decreased by P22.76 Million or 19.53% from P116.59 Million in December 2016 to P93.82 Million in December 2017 resulting mainly from the reversal deferred tax assets.

**Other non-current assets** increased by P9.89 Million from P2.73 Billion in December 2016 to P2.74 Billion in December 2017. About 61% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2017 and 2016, total current liabilities amounted to P24.18 Billion and P19.64 Billion respectively, for an increase of P4.55 billion or 23.17%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P2.01 Billion or 17.11% was primarily due to increase in trade and non-trade liabilities and dividends payable by the Grocery Retail and Parent Company as at December 31, 2017.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P69.67 Million from P1.10 Billion as at December 2016 to P1.03 Billion as at December 2017 is mainly due to savings by the Liquor Distribution and Real Estate segments during the year 2017 in relation to the same period in 2016.

**Short-term loans payable** account decreased by P200 Million mainly due to net effect of additional loans availed during 2017 principally by the Specialty Retail and and Liquor Distribution segments to augment working capital requirements and repayment by the Grocery Retail segment.

**Current portion of long term borrowing** increased by P2.28 Billion due to reclassification made by the Grocery Retail Segment long term loans payable.

**Due to related parties** increased by P159.44 Million mainly due to the additional advances made by the Real Estate segment during 2017.

**Other current liabilities** decreased by 6.84% from P542.54 Million as at December 31, 2016 to P505.41 Million as at December 31, 2017.

### **Noncurrent Liabilities**

As at December 31, 2017 and 2016, total non-current liabilities amounted to P8.98 Billion and P11.17 Billion, respectively, for a decrease of P2.18 Billion or 19.60%.

**Retirement benefit cost** increased by P78.93 Million or 15.37% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P2.44 Billion pertains to the reclassification of long term loans to short term loans by the Grocery Retail segment.

**Noncurrent accrued rent** increased by P333.08 million or 15.95% from P2.09 Billion in December 2016 to P2.42 Billion in December 2017 due to recognition of rent expense for lease contracts entered into by the Grocery Retail segment in compliance with PAS 17 – Leases.



## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	For the years ended December 31	
	2017	2016
Net cash flows from (used in) operating activities	<b>P8,727,706</b>	P6,077,795
Net cash flows from (used in) investing activities	<b>(4,503,325)</b>	(5,539,307)
Net cash flows from financing activities	<b>(1,505,747)</b>	(2,445,489)
Net increase in cash and cash equivalents	<b>P2,718,634</b>	(1,907,001)

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, payment of 2016 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Comparative Years 2016 and 2015

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2016 and 2015.

<i>(In Millions)</i>	2016	%	2015	%	<b>INCREASE (DECREASE)</b>	%
REVENUES	129,186	100.00%	116,752	100.00%	12,434	10.65%
COST OF SALES/SERVICES	107,274	83.04%	96,788	82.90%	10,485	10.83%
GROSS PROFIT	21,912	16.96%	19,964	17.10%	1,949	9.76%
OTHER OPERATING INCOME	3,280	2.54%	2,925	2.51%	355	12.13%
GROSS OPERATING INCOME	25,192	19.50%	22,888	19.60%	2,303	10.06%
OPERATING EXPENSES	14,467	11.20%	12,876	11.03%	1,592	12.36%
INCOME FROM OPERATIONS	10,724	8.30%	10,013	8.58%	712	7.11%
OTHER INCOME (CHARGES) - net	-167	-0.13%	-208	-0.18%	42	-19.93%
INCOME BEFORE INCOME TAX	10,557	8.17%	9,804	8.40%	753	7.68%
INCOME TAX EXPENSE	3,088	2.39%	2,817	2.41%	271	9.62%
NET INCOME FOR THE YEAR	7,469	5.78%	6,987	5.98%	482	6.90%
Net Income Attributable to:						
Equity holders of the Parent Company	4,734	3.66%	4,491	3.85%	243	5.42%
Non-controlling interests	2,735	2.12%	2,497	2.14%	239	9.56%
	7,469	5.78%	6,987	5.98%	482	6.90%
<i>Basic earnings per share</i>	0.663347		0.628180			5.60%

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P129.18 Billion for the year ended December 31, 2016 which reflects an increase by P12.43 Billion or representing a growth of 10.65% compared to last year's revenue of P116.75 Billion.

The growth in consolidated revenues has been largely driven by a combination of the Group's sustained organic growth from its grocery retail segment's aggressive stores expansion program, acquisitions of additional commercial real estate assets by its real estate segment augmented by improved capacity utilization of the oil storage business unit, sustained growth in revenue contributions from the liquor and wine distribution business segment in spite of the reduced revenue contribution from one of its major brandy brands recently acquired by a competitor. Revenue contributions from its LPG business unit, however, experienced a decline by 24.70% in 2016 principally due to the direct effect of the continuing depressed global prices of petroleum products.



### **Growth in Net Income**

During the same period, the Group realized a consolidated net income of P7.47 Billion which is higher by P482 Million representing a 6.90% increase as compared to last year's consolidated net income of P6.99 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.73 Billion in 2016 which increased by about P243 Million or 5.42% as compared to the 2015 PATMI amounting to P4.49 Billion.

### **Segment Revenue & Net Income Contributions**

#### **Grocery Retail Segment**

During 2016, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P112.59 Billion or an increase of P15.42 Billion or 15.90% growth as compared to the segment's revenue contribution of P97.17 Billion in 2015 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions.

Consolidated net income contribution in 2016 amounted to P5.52 Billion which increased by P524 Million or 10.48% as compared to the net income contribution of P5.00 Billion in 2015.

#### **Real Estate Segment**

The commercial real estate business segment contributed P1.79 Billion to the Group's consolidated revenue in 2016 representing a decrease of about P54.75 Million or 2.96% as compared to last year amounting to P1.85 Billion. This was mainly attributable to the segment's reduction in revenue of its NE Pacific Mall unit resulting from its competitive marketing strategies.

Net income contribution in 2016 amounted to about P1.053 Billion which increased by about P25.30 Million or 2.46% as compared to the net income contribution of P1.028 Billion in 2015.

#### **Liquor Distribution Segment**

Similarly, the liquor distribution business segment contributed about P4.34 Billion to the Group's consolidated revenue during the same period in 2016 representing a decrease by about P229.79 Million or 5.02% lower as compared to the 2015 revenue contribution of P4.57 Billion mainly attributable to revenue reduction from its Fundador brandy category which was recently sold to a local competitor.

Net income contribution in 2016 amounted to about P748.74 Million which increased by P89.11 Million or 13.51% as compared to the net income contribution in 2015 amounting to P659.63 Million.

#### **Specialty Retail**

Office Warehouse, Inc. contributed about P1.53 Billion to the Group's consolidated revenue during the year 2016 representing an increase by about P229.44 Million or 17.62% higher as compared to the 2015 revenue contribution of P1.30 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Consolidated net income contribution in 2016 amounted to about P64.75 Million which increased by P11.22 Million or 20.96% as compared to the net income contribution in 2015 amounting to P53.52 Million.

On the other hand, Liquigaz Philippines Corporation contributed about P8.92 Billion to the Group's consolidated revenue during the same period in 2016 representing a decrease by about P2.92 Billion or 24.70% lower as compared to the 2015 revenue contribution of P11.85 Billion mainly attributable to the effects of the continuing depressed global petroleum and gas prices in 2016. Due to the decline in revenue, net income contribution in 2016 amounted to P273.18 Million, decrease by P181.53 Million or 39.92% as compared to the net income contribution in 2015 amounting to P454.72 Million.

## Segment Operating & Financial Highlights

### Grocery Retail

#### Net Sales

For the year ended December 31, 2016, the Grocery Retail segment posted a consolidated net sales of P112,589 million for an increase of P15,418 million or a growth of 15.9% compared to P97,172 million in the same period of 2015. New stores put up in 2015 were fully operating in 2016 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	PGOLD	S&R
Net Sales	6.2%	4.4%
Net Ticket	5.5%	2.0%
Traffic	0.6%	2.4%

#### Gross Profit

For the year ended December 31, 2016, the Grocery Retail segment realized an increase of 12.4% in consolidated gross profit from P16,489 million in 2015 to P18,538 million in 2016 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 16.5% and 17.0% for the years ended December 31, 2016 and 2015, respectively.

#### Other Operating Income

Other operating income increased by P380 million or 13.2% from P2,886 million in the year ended December 31, 2015 to P3,266 million in 2016 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

#### Operating Expenses

Operating expenses increased by P1,482 million or 12.1% from P12,225 million in the year ended December 31, 2015 to P13,707 million in 2016 of the same period. The increase was mainly attributable to manpower cost of the Grocery Retail segment's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to full year operation of acquired stores and operation of new organic stores.



**Other Expense - net**

Other expenses net of other income amounted to P101 million and P45 million for the years ended December 31, 2016 and 2015, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of Joint Venture.

**Net Income**

For the year ended December 31, 2016, the Grocery Retail segment earned a consolidated net income of P5,526 million at 4.9% net margin and an increase of 10.5% from P5,002 million at 5.1% net margin in 2015 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

**Real Estate**

The Group's Real Estate Segment posted P2.325 Billion in revenues for the year ended December 31, 2016 or a slight decrease of about 4% from P2.422 Billion revenues in the previous year. The net decrease is mainly attributable to the reduced revenue from its NE Pacific Mall unit as a result from its competitive marketing strategies. The revenues realized from the six (6) community malls acquired in 2015, expanded the Group's commercial mall portfolio, and the higher capacity utilization of its oil storage tanks facility in SBMA, mainly contributed to the increase of the segment's revenues in 2015.

Capital expenditures program for the current period include the refurbishment and rehabilitation of the six (6) community malls acquired in 2015 as well as the establishment of two (2) community malls located in Marikina, Rizal and Biñan, Laguna.

Income from operations before depreciation decreased by P110.17 Million from P1.50 Billion of the year ended December 31, 2016.

Real Estate Segment's net income for the period amounted to P1.023 Billion or basically just a flat growth rate compared to last year's P1.028 Million.

**Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P5.90 Billion in 2016 or 4.0% growth from last year's P5.68 Billion on the back of a sustained 18% growth in volume of cases sold during the year. Sales mix was still principally driven by its brandy portfolio which accounts for more than 60% of sales augmented by the increase in sales of the spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations increased to P929 Million in 2016 or 1.71% higher from last year's P914 Million.

Net income for the 2015 decreased by P78 Million or 11.87% from P660 million in 2015 to P581 Million in 2016.



## **Specialty Retail**

### *Office Warehouse*

The Group's Specialty Retail Segment was initially established with the acquisition of 100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of specialty retail outlets engaged in selling school and office supplies, technology products, home/office furniture and equipment and related products.

As at December 31, 2016, the company had expanded its retail network to 71 stores from 47 stores at acquisition date. Net selling area also increased to 14,014 sq.m. or a growth by 26.98% in 2016 as compared to 2015.

Sales revenues increased to P1.53 Billion in 2016 or 17.9% higher as compared to the 2015 revenue contribution of P1.30 Million mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 9.0% in 2016.

Net income contribution in 2016 amounted to about P65 Million which increased by P11 Million or 21.0% as compared to the net income contribution in 2015 amounting to P44 Million

### *Liquigaz*

In July 2014, Cosco Capital, Inc., through a 90%-owned subsidiary, Canaria Holdings, Inc., acquired 100% equity interest in Liquigaz Philippines Corporation, a company engaged in the wholesale and distribution of LPG in the Philippines. Liquigaz operates through its Bataan terminal and depot facility which has a storage capacity of 12,500 MT of LPG supported by its hubs located in Bulacan with a capacity of 75 metric tons with 5 cylinder refilling facilities and another one located in Canlubang, Laguna with a capacity of 40 metric tons.

The company is currently embarking its storage capacity expansion project in Sariyaya, Quezon (Southern Luzon) involving the rehabilitation of an existing 5,100 MT capacity storage tanks for Phase 1 development and the construction of a jetty and additional 12,000 MT storage tanks for Phase 2 development. When completed and fully operational, this facility will serve as the platform for its geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2016 amounted to P8.93 Billion or 24.70% lower as compared to the 2015 revenues of P11.85 Billion mainly attributable to the effect of the continued depressed state of global petroleum and gas prices in 2016. Due to the decline in revenue, net income in 2016 amounted to P273 Million which decreased by P126 Million or 31.61% as compared to that of 2015 amounting to P399 Million.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Millions)</i>	2016	%	2015	%	<b>INCREASE (DECREASE)</b>	%
<b>A S S E T S</b>						
<b>Current Assets</b>						
Cash and cash equivalents	12,634	12.22%	14,541	14.90%	-1,907	-13.11%
Receivables - net	6,792	6.57%	5,648	5.79%	1,144	20.25%
Available-for-sale financial assets	8	0.01%	9	0.01%		-4.52%
Short-term investments	910	0.88%	562	0.58%	348	61.92%
Investment in trading securities	35	0.03%	34	0.04%	1	1.96%
Inventories	19,792	19.14%	16,741	17.15%	3,052	18.23%
Due from related parties	185	0.18%	156	0.16%	29	18.66%
Prepayments and other current assets	1,641	1.59%	1,808	1.85%	-167	-9.26%
	<b>41,998</b>	<b>40.61%</b>	<b>39,499</b>	<b>40.46%</b>	<b>2,498</b>	<b>6.32%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	18,663	18.05%	16,137	16.53%	2,526	15.65%
Investment properties - net	15,438	14.93%	14,843	15.21%	595	4.01%
Intangible assets	22,599	21.85%	22,558	23.11%	40	0.18%
Investments	927	0.90%	989	1.01%	-63	-6.32%
Deferred oil and mineral exploration costs	121	0.12%	121	0.12%		0.40%
Deferred tax assets - net	117	0.11%	344	0.35%	-227	-66.08%
Loans to related parties- noncurrent portion		0.00%		0.00%		100.00%
Other non-current assets	3,559	3.44%	3,125	3.20%	433	13.86%
	<b>61,423</b>	<b>59.39%</b>	<b>58,117</b>	<b>59.54%</b>	<b>3,305</b>	<b>5.69%</b>
<b>TOTAL ASSETS</b>	<b>103,420</b>	<b>100.00%</b>	<b>97,617</b>	<b>100.00%</b>	<b>5,803</b>	<b>5.95%</b>

<i>(In Millions)</i>	2016	%	2015	%	<b>INCREASE (DECREASE)</b>	%
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	11,776	11.39%	12,175	12.47%	-399	-3.28%
Income tax payable	1,102	1.07%	1,076	1.10%	27	2.47%
Short-term loans payable	5,363	5.19%	4,316	4.42%	1,046	24.24%
Current portion of long-term borrowing	164	0.16%	570	0.58%	-406	-71.15%
Trust receipts payable		0.00%	5	0.01%	-5	100.00%
Due to related parties	690	0.67%	457	0.47%	233	51.01%
Other current liabilities	543	0.52%	442	0.45%	101	22.78%
	<b>19,638</b>	<b>18.99%</b>	<b>19,041</b>	<b>19.51%</b>	<b>597</b>	<b>3.13%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	513	0.50%	480	0.49%	34	7.01%
Deferred tax liabilities	752	0.73%	759	0.78%	-7	-0.90%
Long term loans payable - net of debt issue cost	7,224	6.98%	8,693	8.91%	-1,470	-16.91%
Deposits for future stock subscription	150	0.15%	150	0.15%	-	0.00%
Non-current accrued rent	2,910	2.81%	2,493	2.55%	417	16.73%
Other non-current liabilities	445	0.43%	457	0.47%	-11	-2.50%
	<b>11,994</b>	<b>11.60%</b>	<b>13,032</b>	<b>13.35%</b>	<b>-1,038</b>	<b>-7.96%</b>
<b>TOTAL LIABILITIES</b>	<b>31,632</b>	<b>30.59%</b>	<b>32,073</b>	<b>32.86%</b>	<b>-441</b>	<b>-1.37%</b>
<b>EQUITY</b>						
Capital stock	7,405	7.16%	7,405	7.59%	-	0.00%
Additional paid-in capital	9,635	9.32%	9,635	9.87%	-	0.00%
Remeasurement of retirement liability - net of tax	1	0.00%	-29	-0.03%	29	102.42%
Reserve for fluctuations in value of AFS financial assets	5	0.00%	5	0.01%		-7.79%
Treasury shares	-524	-0.51%	-441	-0.45%	-83	18.92%
Retained earnings	33,809	32.69%	29,869	30.60%	3,940	13.19%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>50,330</b>	<b>48.67%</b>	<b>46,444</b>	<b>47.58%</b>	<b>3,885</b>	<b>8.37%</b>
<b>Non-controlling interest</b>	<b>21,458</b>	<b>20.75%</b>	<b>19,100</b>	<b>19.57%</b>	<b>2,359</b>	<b>12.35%</b>
<b>TOTAL EQUITY</b>	<b>71,788</b>	<b>69.41%</b>	<b>65,544</b>	<b>67.14%</b>	<b>6,244</b>	<b>9.53%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>103,420</b>	<b>100.00%</b>	<b>97,617</b>	<b>100.00%</b>	<b>5,803</b>	<b>5.95%</b>



### **Current Assets**

**Cash and cash equivalents** amounted to P12.63 Billion as at December 31, 2016 with a decrease of P1.91 Billion or 13.11% from December 31, 2015 balance. The decrease was due basically to the net effect of the settlement of trade and non-trade payables principally from the Grocery Retail Segment, payment of 2015 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Short-term investments** increased by 61.90% from December 31, 2015 balance of P561 Million to this year's balance of P910 Million due mainly to the additional short term placements made by the Real Estate segment.

**Receivables** increased by 20.49% from December 31, 2015 balance of P5.65 Billion to this year's balance of P6.80 Billion due mainly to the increase in sales in 2016.

**Available-for-sale financial assets** decreased by 4.52% from December 31, 2015 balance of P9 Million to this period's balance of P8 Million due mainly to the effect of changes in stock prices.

**Investment in trading securities** increased by 1.96% from December 31, 2015 balance of P34 Million to this period's balance of P35 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 18.23% from 2015 balance of P16.74 Billion to this year's balance of P19.79 Billion due to the grocery retail segment's expansion and additional stocking requirement of the new organic stores during the year as well as the additional stocking requirements of the specialty segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the grocery retail segment amounting to P16.48 Billion.

**Prepayments and other current assets** decreased by P181 Million or 10.03% at the end of December 2016, due to application of input VAT, against output VAT, on purchase of inventory and payment of various expenses. This was slightly offset by the increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** increased by P29 Million at the end of December 2016, due primarily to additional advances made by the Real Estate segment.

### **Non-current Assets**

As at December 31, 2016 and 2015, total non-current assets amounted to P61.42 Billion or 59.39% of total assets, and P58.12 Billion or 59.54% of total assets, respectively, for an increase of P3.30 Billion or 5.69%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P2.52 Billion from P16.14 Billion in December 2015 to P18.66 Billion in December 2016 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and capital expenditures from Specialty Retail and Real Estate segments.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P595 Million or 4.01% from P14.84 Billion in December 2015 to P15.44 Billion in December 2016.

**Investments** decreased by P63 Million or 6.32% from P989 Million in December 2015 to P927 Million in December 2016 resulting from the share in results of operations of joint venture and

associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

**Deferred tax assets** decreased by P227 Million or 66.08% from P344 Million in December 2015 to P117 Million in December 2016 resulting mainly from the reversal deferred tax assets.

**Other non-current assets** increased by P433 Million from P3.12 Billion in December 2015 to P3.56 Billion in December 2016. About 42% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2016 and 2015, total current liabilities amounted to P19.64 Billion and P19.0 Billion respectively, for an increase of P597 Million or 3.13%.

About 74% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P399 Million or 3.28% was primarily due to net settlement of trade and non-trade liabilities and payment of dividends by the Grocery Retail, Real Estate, Specialty and Parent Company in 2016.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P27 Million from P1.07 Million as at December 2015 to P1.10 Billion as at December 2016 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2016 in relation to the same period in 2015.

**Short-term loans payable** account increased by P1.05 Billion mainly due to additional loans availed during 2016 principally by the Grocery Retail, Real Estate and Liquor Distribution segments to augment working capital requirements, offset by the payments made.

**Current portion of long term borrowing** decreased by P406 Million due to settlement made by the Grocery Retail Segment.

**Due to related parties** increased by P233 Million mainly due to the additional advances made by the Real Estate segment during 2016.

**Other current liabilities** Increased by 22.78% from P442 Million as at December 31, 2015 to P543 Million as at December 31, 2016 relatively due to redemption of PERKS points earned by members and recognition of other income from promotions for the period by the Grocery Retail Segment and additional deposits recognized by Real Estate segment.

### **Noncurrent Liabilities**

As at December 31, 2016 and 2015, total non-current liabilities amounted to P11.99 Billion and P13.04 Billion, respectively, for a decrease of P1.03 Billion or 7.96%.

**Retirement benefit cost** increased by P34 Million or 7.01% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P1.47 Billion pertains to the settlement of loan made by Real Estate segment.



**Noncurrent accrued rent** increased by P417 million or 16.73% from P2.49 Billion in December 2015 to P2.91 Billion in December 2016 due to recognition of rent expense for lease contracts entered into by the Grocery Retail segment in compliance with PAS 17 – Leases.

### Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
	<b>2016</b>	<b>2015</b>
Net cash flows from (used in) operating activities	<b>P6,077,794,908</b>	5,493,212,316
Net cash flows from (used in) investing activities	<b>(5,539,306,996)</b>	(6,872,357,680)
Net cash flows from financing activities	<b>(2,445,489,307)</b>	239,599,896
<b>Net increase in cash and cash equivalents</b>	<b>(P1,907,001,395)</b>	<b>(P1,139,545,468)</b>

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year to avail early payment discounts, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Real Estate and Liquor Distribution segments during the year, payment of 2015 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. This can be augmented through availment from existing untapped banking and credit facilities as and when required.



## Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (i) Seasonal aspects that had a material effect on the financial condition or results of the Group's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow, cash recently received from the sale of shares to the equity market and from debt market;
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to the Group's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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**COMPANY NAME**

C	O	S	C	O		C	A	P	I	T	A	L	,		I	N	C	.		A	N	D					
S	U	B	S	I	D	I	A	R	I	E	S																

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

9	0	0		R	o	m	u	a	l	d	e	z		S	t	r	e	e	t		P	a	c	o				
M	a	n	i	l	a																							

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S		

**COMPANY INFORMATION**

Company's email Address	Company's Telephone Number/s	Mobile Number
www.coscocapital.com	(02) 548-7110	
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	March 31	December 31

**CONTACT PERSON INFORMATION**

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Teodoro A. Polinga	tedpolinga@coscocapital.com.ph	(02) 548-7110	

**CONTACT PERSON'S ADDRESS**

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

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

# **COSCO CAPITAL, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2018, 2017 and 2016**





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 presentation 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 [Handwritten Signature]
LUCIO L. CO/Chairman of the Board

Signature [Handwritten Signature]
LEONARDO B. DAYAO/ President

Signature [Handwritten 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:

Table with 2 columns: Name, TIN. Rows include LUCIO L. CO, LEONARDO B. DAYAO, and TEODORO A. POLINGA with their respective TINs.

Doc. No. 163;
Page No. 24;
Book No. 20;
Series of 2019

Notary Public signature and stamp: CHERIE LYNNE 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. 3025123/01-03-19/Manila, MCLE Compliance No. V-0012777/12-15-2015, No. 900 Romualdez St., Paco, Manila



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## 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

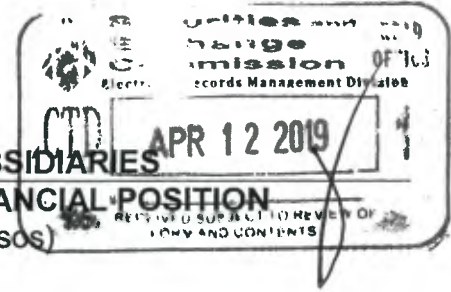
PTR No. MKT 7333616

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)

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

Forward

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

*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		P166,609,216	P144,134,663	P127,406,728
Services		1,778,434	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		139,049,004	119,689,636	105,490,079
Cost of services		1,079,074	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	(468,844)	(406,413)	(345,678)
Interest income		200,434	133,433	136,642
Others - net	25	384,741	(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 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		P12,204,137	P11,124,386	P10,557,445
Adjustments for:				
Depreciation and amortization	12, 13, 14	2,375,513	2,050,105	1,788,344
Interest expense	18	468,844	406,414	345,678
Rent expense in excess of billings		422,342	259,803	416,995
Gain on sale of investment		(362,810)	-	-
Interest income	4, 5	(200,434)	(133,433)	(136,642)
Retirement benefits cost	27	171,120	159,361	132,877
Unrealized foreign exchange loss (gain)		(24,200)	23,468	19,353
Gain on disposal of property and equipment		(15,815)	(206)	(377)
Share in net loss (income) of joint ventures and associates	11, 25	(17,142)	132,872	62,521
Unrealized loss (gain) in financial assets at FVPL	8, 25	10,385	(11,779)	(676)
Gain on insurance claim	26	(3,383)	(14,268)	-
Dividend income		(680)	(1,856)	(825)
Operating income before changes in working capital		15,027,877	13,994,867	13,184,693
Decrease (increase) in:				
Receivables - net		281,137	(1,095,981)	(1,391,862)
Investments in trading securities		-	-	-
Inventories		(3,264,295)	(1,402,325)	(3,051,673)
Prepaid expenses and other current assets		(673,448)	(1,930,501)	(47,677)
Due from related parties		(23,398)	110,782	(28,907)
Increase (decrease) in:				
Accounts payable and accrued expenses		2,640,595	2,175,362	152,687
Due to related parties		578,828	159,437	233,177
Other current liabilities		(69,110)	(37,136)	100,678
Other noncurrent liabilities		-	41,196	(11,401)
Cash generated from operations		14,498,186	12,015,701	9,139,715
Income taxes paid		(3,137,784)	(2,767,602)	(2,651,642)
Interest paid		(458,398)	(495,049)	(346,903)
Retirement benefits paid		-	(1,876)	(13,567)
Net cash provided by operating activities		10,902,004	8,751,174	6,127,603

Forward

**Years Ended December 31**

	<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.



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

	Attributable to Equity Holders of the Parent Company							Total Equity
	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	P78,444,091
Net income for the year	-	-	-	-	-	5,547,569	3,257,228	8,804,797
Other comprehensive loss for the year	-	-	-	85,457	(1,592)	-	76,986	160,851
Total comprehensive income for the year	-	-	-	85,457	(1,592)	5,547,569	3,334,214	8,965,648
Acquisition of treasury shares	-	-	(569,524)	-	-	-	-	(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	P86,840,215
Balance at January 1, 2017	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,565	P21,458,344	P71,788,237
Net income for the year	-	-	-	-	-	4,924,647	2,908,668	7,833,315
Other comprehensive loss for the year	-	-	-	27,673	419	-	26,628	54,720
Total comprehensive income for the year	-	-	-	27,673	419	4,924,647	2,935,296	7,888,035
Effect of business combination	-	-	-	-	-	150,313	-	150,313
Acquisition of treasury shares	-	-	(104,338)	-	-	-	-	(104,338)
Cash dividends	-	-	-	-	-	(736,141)	(542,015)	(1,278,156)
Balance at December 31, 2017	P7,405,264	P9,634,644	(P628,203)	P28,365	P5,012	P38,147,384	P23,851,625	P78,444,091
Balance at January 1, 2016	P7,405,264	P9,634,644	(P440,507)	(P28,577)	P4,981	P29,868,620	P19,099,532	P65,543,957
Net income for the year	-	-	-	-	-	4,734,101	2,735,293	7,469,394
Other comprehensive income for the year	-	-	-	29,455	(388)	-	30,730	59,797
Total comprehensive income for the year	-	-	-	29,455	(388)	4,734,101	2,766,023	7,529,191
Effect of business combination	-	-	-	(186)	-	(204,124)	(700)	(205,010)
Acquisition of treasury shares	-	-	(83,358)	-	-	-	-	(83,358)
Cash dividends	-	-	-	-	-	(590,032)	(406,511)	(996,543)
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**  
**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.

### 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	<b>P120,510,762</b>	<b>(P821,126)</b>	<b>P119,689,636</b>
Other Operating Income:			
Display Allowance	<b>652,853</b>	<b>(581,265)</b>	-
Service income	<b>98,362</b>	<b>(98,362)</b>	-
Listing fee	<b>69,911</b>	<b>(69,911)</b>	-
Miscellaneous	<b>71,587</b>	<b>(71,588)</b>	-
<b>December 31, 2016:</b>			
Cost of Sales	<b>P106,392,858</b>	<b>(P902,779)</b>	<b>P105,490,079</b>
Other Operating Income:			
Display Allowance	<b>615,884</b>	<b>(615,884)</b>	-
Service income	<b>151,203</b>	<b>(151,203)</b>	-
Listing fee	<b>70,254</b>	<b>(70,254)</b>	-
Miscellaneous	<b>65,437</b>	<b>(65,437)</b>	-

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>	2017
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>	2017
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
<b>Associates:</b>				
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>	<b>508,230</b>
<b>Joint ventures:</b>				
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>	<b>417,688</b>
			<b>P603,175</b>	<b>P925,918</b>

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 PLBRC 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>	SRS		PLBRC	
	2018	2017	2018	2017
Current assets	<b>P3,955,182</b>	P1,063,945	P -	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	P -	P149,374
Group's share in net assets	<b>P164,158</b>	P157,485	P -	P74,687
Goodwill	<b>276,058</b>	276,058	-	-
Carrying amount of the investment	<b>P440,216</b>	P433,543	P -	P74,687
Revenue	<b>P7,006,180</b>	P6,513,842	P -	P60,000
Net income/total comprehensive income	<b>P13,526</b>	P18,479	P -	P6,340
Group's share in comprehensive income for the year	<b>P6,674</b>	P9,118	P -	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:

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

<i>(In thousands pesos)</i>	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Wells, 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)
<b>December 31, 2017</b>	<b>3,710,269</b>	<b>10,712,523</b>	<b>1,574,922</b>	<b>2,887,686</b>	<b>8,238,044</b>	<b>368,717</b>	<b>9,414,405</b>	<b>204,955</b>	<b>1,791,890</b>	<b>38,903,411</b>
Additions	30,448	244,656	71,901	185,003	974,428	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)
<b>December 31, 2017</b>	<b>-</b>	<b>3,014,727</b>	<b>567,447</b>	<b>1,411,872</b>	<b>5,049,167</b>	<b>281,898</b>	<b>1,910,680</b>	<b>44,918</b>	<b>-</b>	<b>12,280,709</b>
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
December 31, 2018	P4,079,605	P7,181,804	P409,508	P1,452,453	P3,182,797	P38,597	P8,658,833	P160,037	P1,180,159	P26,343,793



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>	2017	2016
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>	Land	Building	Construction in-Progress	Total
<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>	2017
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>	2017
<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	P17,929,386	P17,742,733
Reclassification of goodwill to assets held for sale <sup>(1)</sup>	(1,675,860)	-
Additions	-	187,204
Fair value adjustments	-	(551)
	<b>P16,253,526</b>	<b>P17,929,386</b>

<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	13.30%	15.67%
Budgetlane Supermarkets	13.10%	11.94%
Gant	13.60%	15.77%
DCI and FLSTCI	13.60%	10.19%
Company E	13.50%	15.77%
B&W Supermart	13.00%	15.50%
PJSI	13.50%	15.77%
OWI	13.60%	11.32%
NPSCC	14.00%	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	12.00%	16.60%
B&W Supermart	19.00%	15.26%

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.



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	<b>a</b>			
Block C2 (West Linapacan)		6.12%	P55,347	P55,024
Block D		5.84%	8,071	8,071
Block B1 (North Matinloc)		13.55%	2	2
			<b>63,420</b>	<b>63,097</b>
SC 6A	<b>b</b>	1.67%		
Opton Block			17,355	17,260
North Block			600	600
SC 6B (Bonita)	<b>d</b>	8.18%	8,027	8,027
			<b>25,982</b>	<b>25,887</b>
SC 51	<b>c</b>		32,817	32,817
Other oil projects			527	527
			<b>33,344</b>	<b>33,344</b>
<b>Balance at end of year</b>			<b>122,746</b>	<b>122,328</b>

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

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>	<i>Note</i>	<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>	<i>Note</i>	<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>	2018	2017
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	2018	2017
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>	2018	2017
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>
<b>Cosco:</b>			
Fixed-rate peso-denominated loan of 5.267%	<b>a</b>	<b>P3,827,355</b>	P3,862,264
Fixed-rate peso-denominated loan of 5.579%	<b>b</b>	<b>954,853</b>	964,143
<b>PPCI:</b>			
Fixed-rate peso-denominated note of 6.40%	<b>d</b>	<b>1,440,000</b>	1,999,205
<b>KMC</b>			
Fixed-rate peso-denominated loan of 3.50%	<b>e</b>	<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	P795,346	P2,903,342
Amortizations	(795,346)	(2,107,996)
Balance at end of year	P -	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.

<i>(In thousands pesos)</i>	December 31, 2018				
	Short-term Loans	Long-term Debts	Interest Payable	Dividend Payable	Total
<b>Balance at beginning of year</b>	P5,562,500	P7,225,612	P6,825	P1,200,393	P13,995,330
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>	P4,866,300	P6,622,208	P17,271	P -	P12,706,172

<i>(In thousands pesos)</i>	December 31, 2017				
	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>	Note	2018	2017
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 "Tindakan 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>	2018	2017	2016
<b>Major Products/Service Lines</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
	<b>P166,609,216</b>	<b>P1,778,434</b>	<b>P168,387,650</b>

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		<b>P6,059,962</b>	<b>P5,798,595</b>	<b>P5,993,015</b>

## 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	<b>162,980,661</b>	<b>140,884,327</b>	<b>125,282,445</b>
Ending inventory	23,931,657	21,194,691	19,792,366
	<b>P139,049,004</b>	<b>P119,689,636</b>	<b>P105,490,079</b>

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
		<b>P528,725</b>	<b>P564,930</b>	<b>P553,558</b>

Cost of services consists of:

<i>(In thousands pesos)</i>	<b>Note</b>	<b>2018</b>	<b>2017</b>	<b>2015</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 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 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>	2017	2016
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>	2017	2016
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>	2017	2016
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>	<b>2017</b>	<b>2016</b>
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	<i>a</i>	<b>P38</b>	<b>P -</b>	<b>P363,146</b>	Due and demandable; non-interest bearing	Unsecured
	2017	<i>a</i>	24,570	26,328	387,850		
▪ Management fees	2018	<i>d</i>	<b>34,585</b>	-	-	Due and demandable; non-interest bearing	Unsecured
	2017	<i>d</i>	23,183	-	-		
▪ Rent income	2018	<i>e</i>	<b>125,909</b>	-	-	Due and demandable; non-interest bearing	Unsecured
	2017	<i>e</i>	125,909	-	-		
▪ Rent expense	2018	<i>f</i>	<b>24,000</b>	-	-	Due and demandable; non-interest bearing	Unsecured
	2017	<i>f</i>	24,000	-	-		
<b>Associates</b>							
▪ Throughput fees	2018	<i>b</i>	<b>30,000</b>	-	-	Outstanding balance is settled in cash within a month after the end of each quarter; non-interest bearing	Unsecured
	2017	<i>b</i>	30,000	-	8,572		
▪ Concession expense	2018	<i>c</i>	<b>522,931</b>	-	-	Due and demandable; non-interest bearing	Unsecured
	2017	<i>c</i>	503,476	-	-		
<b>Key Management Personnel</b>							
▪ Advances	2018	<i>a</i>	<b>689,098</b>	<b>47,971</b>	<b>959,243</b>	Due and demandable; non-interest bearing	Unsecured
	2017	<i>a</i>	32,790	48,026	453,350		
▪ Royalty expense	2018	<i>g</i>	<b>54,343</b>	-	<b>43,474</b>	Due and demandable; non-interest bearing	Unsecured
	2017	<i>g</i>	46,332	-	-		
▪ Short-term benefits	2018		-	-	-		
	2017		13,492	-	-		
<b>Total</b>	<b>2018</b>			<b>P47,971</b>	<b>P1,365,863</b>		
Total	2017			P74,354	P849,772		

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 contact 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>
2017	9,531,783

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>
2017	296,512

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>
2017	1,972,635	597,635

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>
2017	582,570	82,414

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>
2017	1,064,347	1,739,347

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>	Amount of Transactions	Outstanding Balance
<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>	Amount of Transactions	Outstanding Balance
<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>	Amount of Transactions	Outstanding Balance
<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>	2018	2017
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>	2017
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>	2017
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>	2017
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>	2017
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>(P112,48)</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>	2018	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>	2018	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>	<b>2018</b>	<b>2017</b>
	<b>DTA (DTL)</b>	<b>DTA (DTL)</b>
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>	<b>2018</b>	<b>2017</b>
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
	P862,658	(P471,225)	P391,433	

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
	P25,909	(P4,071)	P21,838	

## 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	10,000,000,000	P10,000,000	10,000,000,000	P10,000,000
Issued and outstanding:				
Issued	7,405,263,564	P7,405,264	7,405,263,564	P7,405,264
Less: Treasury shares	(381,629,190)	(1,197,727)	(288,081,290)	(628,203)
Outstanding	7,023,634,374	P6,207,537	7,117,182,274	P6,777,061
Treasury shares:				
Balance at beginning of year	288,081,290	P628,203	274,083,590	P523,865
Share buyback	93,547,900	569,524	13,997,700	104,338
Balance at end of year	381,629,190	P1,197,727	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:

<u>Type</u>	<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividend Per Share</u>
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:

<i>(In thousands pesos)</i>	2018				2017			
	PPCI	LPC	CHC	CPHI	PPCI	LPC	CHC	CPHI
<b>NCI percentages</b>	49%	10%	10%	10%	49%	10%	10%	10%
<b>Carrying amounts of NCI</b>	<b>P26,772,622</b>	<b>P380,498</b>	<b>(P22,311)</b>	<b>P541</b>	<b>P23,501,309</b>	<b>P317,393</b>	<b>P10,194</b>	<b>P593</b>
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	-	-
<b>Net assets</b>	<b>P54,638,004</b>	<b>P3,804,976</b>	<b>(P223,112)</b>	<b>P5,409</b>	<b>P47,961,856</b>	<b>P3,173,939</b>	<b>P101,946</b>	<b>P5,926</b>
<b>Net income attributable to NCI</b>	<b>P3,194,663</b>	<b>P62,623</b>	<b>(P32,506)</b>	<b>(P530)</b>	<b>P2,861,704</b>	<b>P28,925</b>	<b>P5</b>	<b>P50</b>
<b>Other comprehensive attributable to NCI</b>	<b>P76,650</b>	<b>P336</b>	<b>P -</b>	<b>P -</b>	<b>P26,629</b>	<b>(P584)</b>	<b>P -</b>	<b>P -</b>
<b>Revenue</b>	<b>P140,918,008</b>	<b>P17,090,512</b>	<b>P -</b>	<b>P -</b>	<b>P124,491,024</b>	<b>P13,128,497</b>	<b>P1,464</b>	<b>P1,464</b>
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)	-	-
<b>Total comprehensive income (loss)</b>	<b>P6,676,148</b>	<b>P629,592</b>	<b>(P325,058)</b>	<b>(P530)</b>	<b>P5,894,557</b>	<b>P463,362</b>	<b>(P52)</b>	<b>P502</b>
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	-	-
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>P2,593,503</b>	<b>P703,516</b>	<b>(P57)</b>	<b>P -</b>	<b>P1,649,764</b>	<b>(P163,019)</b>	<b>P -</b>	<b>P24</b>

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:

<i>(In thousands pesos)</i>	Segment Revenues			Segment Profit		
	2018	2017	2016	2018	2017	2016
Grocery retail	P140,918,008	P124,491,023	P112,589,366	P6,519,720	P5,840,212	P5,526,230
Specialty retail	19,179,889	14,947,399	10,461,156	691,760	528,199	337,935
Liquor distribution	8,747,207	6,662,915	5,903,677	738,639	628,232	581,362
Real estate and property leasing	2,429,336	2,203,169	2,325,509	1,073,024	971,732	1,022,806
Holdings oil and mining	-	528	1,177	403,650	953,756	743,781
Total	171,274,440	148,305,034	131,280,885	9,426,793	8,922,131	8,212,114
Eliminations of intersegment revenue/profit	2,886,790	2,555,205	2,094,684	621,996	1,088,848	742,720
	P168,387,650	P145,749,829	P129,186,201	P8,804,797	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>	2017
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>	2017
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>	2018	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".



<i>(In thousands pesos)</i>	December 31, 2017			
	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:

- a. 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.
- b. 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.
- c. 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:

December 31, 2018					
<i>(In thousands pesos)</i>	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".

December 31, 2017					
<i>(In thousands pesos)</i>	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:

<i>(In thousands)</i>	December 31, 2018					PHP
	USD	SGD	GBP	AUD	EUR	Equivalent
<b>Foreign Currency-denominated Monetary Assets</b>						
Cash	1,035	0.30	0.01	.01	-	54,581
Trade receivables	1,658	-	-	-	-	87,433
	2,693	0.30	0.01	.01	-	142,014
<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>

<i>(In thousands)</i>	December 31, 2017					PHP
	USD	SGD	GBP	AUD	EUR	Equivalent
<b>Foreign Currency-denominated Monetary Assets</b>						
Cash	596	-	-	-	-	29,766
Trade receivables	3,397	-	-	-	6	169,962
	3,993	-	-	-	6	199,728
<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.

<i>(In thousands pesos)</i>	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

December 31, 2017		
<i>(In thousands pesos)</i>	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.

<i>(In thousands pesos)</i>	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:

<b>Type</b>	<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividends Per Share</b>
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

- a. The Group adopted PFRS 9 resulting in the reclassifications of financial instruments.
- b. 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.



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## REPORT OF INDEPENDENT AUDITORS

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cosco Capital, Inc and Subsidiaries (the "Group") as at and for the years ended December 31, 2018 and 2017, included in this Form 17-A, and have issued our report thereon dated March 29, 2019.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of Conglomerate
- Schedule of Philippine Financial Reporting Standards
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

### R.G. MANABAT & CO.

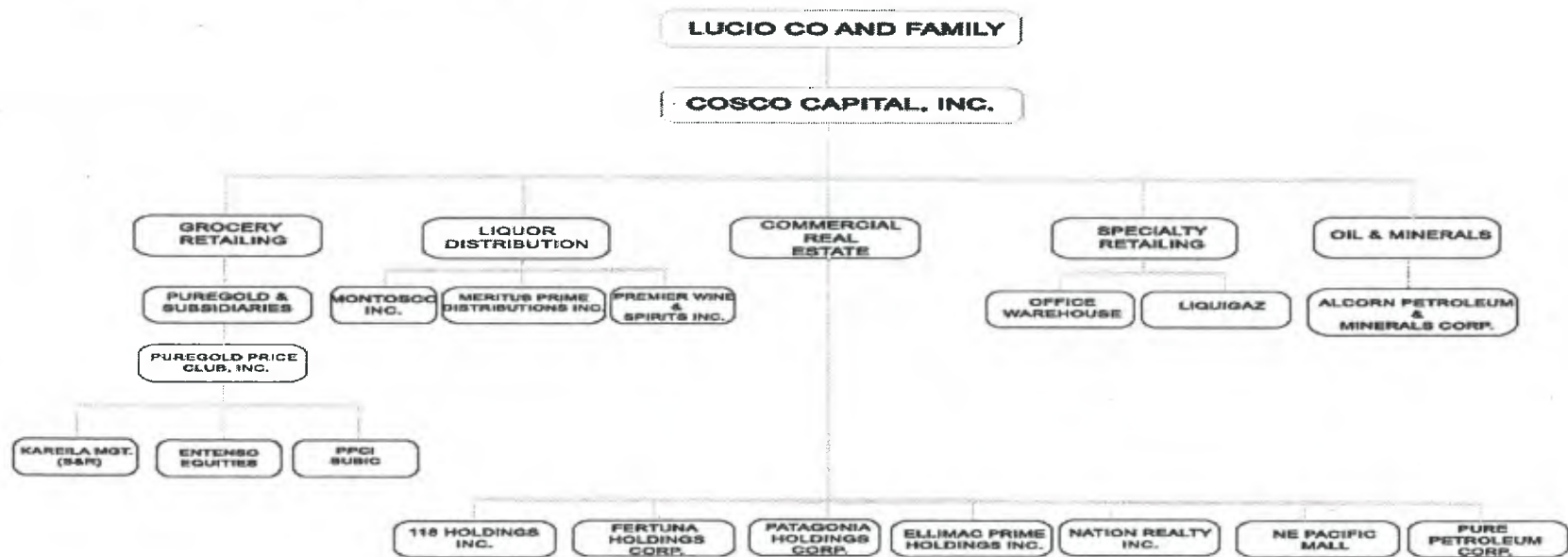
DINDO MARCO M. DIOSO  
Partner  
CPA License No. 0095177  
SEC Accreditation No. 1387-AR-1, Group A, valid until May 31, 2020  
Tax Identification No. 912-365-765  
BIR Accreditation No. 08-001987-30-2016  
Issued October 18, 2016; valid until October 17, 2019  
PTR No. MKT 7333616  
Issued January 3, 2019 at Makati City

March 29, 2019  
Makati City, Metro Manila

**COSCO CAPITAL, INC.**  
**As At December 31, 2018**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**(Amounts in Thousands)**

<b>Total Retained Earnings, beginning available for dividend distribution</b>	<b>P169,872</b>
<b>Add: Net Income based on the face of audited financial statement</b>	<b>723,529</b>
Less: Non-actual/unrealized income, net of tax	-
Deferred tax benefit	<b>(1,152)</b>
<b>Net income actually earned during the period</b>	<b>892,249</b>
Less: Acquisition of treasury shares	<b>(569,524)</b>
<b>Unappropriated retained earnings, end available for distribution</b>	<b>P322,725</b>

**SCHEDULE I: CONGLOMERATE MAP**



On March 25, 2014, the BOD approved the merger of the Parent Company with Company E Corporation (Company E, entity under common control). It was then ratified by at least two-thirds (2/3) votes of the stockholders on May 13, 2014 during the annual stockholders' meeting with salient features. The Parent Company's application was filed on September 19, 2014 and is still awaiting approval from SEC and Department of Justice.

The merger of Nation Realty, Inc., Go Fay & Co, Inc., SVF Corporation and 999 Shopping Mall, Inc. (Nation Realty, Inc. as the absorbing entity), was approved by SEC on January 29, 2014.

Cosco Capital, Inc. finalized the acquisition of the outstanding shares of Office Warehouse, Inc. pursuant to agreement to purchase signed on February 18, 2014. Office Warehouse, Inc.

On July 21, 2014, Canaria Holdings Corporation, a Philippine registered corporation which is owned 90% by Cosco Capital, Inc. entered into a Deed of Assignment with PR Gaz, Inc. for the acquisition of 100% equity of Liquigaz Philippines.

Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement on October 19, 2018 whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. subject for approval of the Philippine Competition Commission (PCC).



**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**SCHEDULE OF PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**  
**Effective as at December 31, 2018**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
<b>Philippine Financial Reporting Standards</b>		-	-	-
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	-	-	✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	-	-	✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	-	-	✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	-	-	✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	-	-	✓
	Amendments to PFRS 1: Government Loans	-	-	✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1	-	-	✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption	-	-	✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply	-	-	✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters	-	-	✓
<b>PFRS 2</b>	Share-based Payment	-	-	✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations	-	-	✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	-	-	✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	-	-	✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	-	-	✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓	-	-
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	-	-	✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation	-	✓	-
	Amendments to PFRS 3: Definition of a Business	-	✓	-

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts	-	-	✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	-	-	✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	-	-	✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓	-	-
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal	-	-	✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓	-	-
PFRS 7	Financial Instruments: Disclosures	✓	-	-
	Amendments to PFRS 7: Transition	✓	-	-
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓	-	-
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓	-	-
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓	-	-
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓	-	-
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓	-	-
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓	-	-
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts	-	-	✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements	-	-	✓
PFRS 8	Operating Segments	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓	-	-
PFRS 9	Financial Instruments (2014)	✓	-	-
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	-	-	✓
PFRS 10	Consolidated Financial Statements	✓	-	-
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓	-	-
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	-	-	✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-	-	✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	-	-	✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓	-	-
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓	-	-
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	-	-	✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation	-	-	✓
PFRS 12	Disclosure of Interests in Other Entities	✓	-	-
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓	-	-
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	-	-	✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	-	-	✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard	-	-	✓
PFRS 13	Fair Value Measurement	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓	-	-
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	-	-	✓
PFRS 14	Regulatory Deferral Accounts	-	-	✓
PFRS 15	Revenue from Contracts with Customers	✓	-	-
PFRS 16	Leases	-	✓	-
PFRS 17	Insurance Contracts	-	-	✓
<b>Philippine Accounting Standards</b>		-	-	-
PAS 1 (Revised)	Presentation of Financial Statements	✓	-	-
	Amendment to PAS 1: Capital Disclosures	✓	-	-
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	-	-	✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓	-	-
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓	-	-
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓	-	-
	Amendments to PAS 1: Disclosure Initiative	✓	-	-
	Amendments to PAS 1 and PAS 8: Definition of Material	-	✓	-
PAS 2	Inventories	✓	-	-
PAS 7	Statement of Cash Flows	✓	-	-
	Amendments to PAS 7: Disclosure Initiative	✓	-	-



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓	-	-
	Amendments to PAS 1 and PAS 8: Definition of Material	-	✓	-
PAS 10	Events after the Reporting Period	✓	-	-
PAS 12	Income Taxes	✓	-	-
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓	-	-
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	-	✓	-
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 12 - Income tax consequences of payments on financial instruments classified as equity	-	✓	-
PAS 16	Property, Plant and Equipment	✓	-	-
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	-	-	✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	-	-	✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants	-	-	✓
PAS 17	Leases	✓	-	-
PAS 19 (Amended)	Employee Benefits	✓	-	-
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	-	-	✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone	-	-	✓
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement	-	-	✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	-	-	✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓	-	-
	Amendment: Net Investment in a Foreign Operation	-	-	✓
PAS 23 (Revised)	Borrowing Costs	-	-	✓
	Annual Improvements to PFRSs 2015-2017 Cycle: Amendments to PAS 23 - Borrowing costs eligible for capitalization	-	✓	-
PAS 24 (Revised)	Related Party Disclosures	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓	-	-
PAS 26	Accounting and Reporting by Retirement Benefit Plans	-	-	✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓	-	-
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities	-	-	✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	-	-	✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓	-	-
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-	✓	-
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception	-	-	✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	-	-	✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures	-	-	✓
PAS 29	Financial Reporting in Hyperinflationary Economies	-	-	✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓	-	-
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	-	-	✓
	Amendment to PAS 32: Classification of Rights Issues	-	-	✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓	-	-
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions	-	-	✓
PAS 33	Earnings per Share	✓	-	-
PAS 34	Interim Financial Reporting	-	-	✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities	-	-	✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information "elsewhere in the interim financial report"	-	-	✓
PAS 36	Impairment of Assets	✓	-	-
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓	-	-
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓	-	-
PAS 38	Intangible Assets	✓	-	-
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)	-	-	✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	-	-	✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: Recognition and Measurement	✓	-	-
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓	-	-
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	-	-	✓
	Amendments to PAS 39: The Fair Value Option	-	-	✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	-	-	✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓	-	-
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓	-	-
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	-	-	✓
	Amendment to PAS 39: Eligible Hedged Items	-	-	✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	-	-	✓
	PAS 40	Investment Property	✓	-
Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)		-	-	✓
Amendments to PAS 40: Transfers of Investment Property		-	✓	-
PAS 41	Agriculture	-	-	✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants	-	-	✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	-	-	✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	-	-	✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓	-	-
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	-	-	✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	-	-	✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	-	-	✓
IFRIC 10	Interim Financial Reporting and Impairment	-	-	✓
IFRIC 12	Service Concession Arrangements	-	-	✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	-	-	✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	-	-	✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	-	-	✓
IFRIC 17	Distributions of Non-cash Assets to Owners	-	-	✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	-	-	✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	-	-	✓
IFRIC 21	Levies	-	-	✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
IFRIC 22	Foreign Currency Transactions and Advance Consideration	-	-	✓
IFRIC 23	Uncertainty over Income Tax Treatments	-	✓	-
SIC-7	Introduction of the Euro	-	-	✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities	-	-	✓
SIC-15	Operating Leases - Incentives	-	-	✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	-	-	✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓	-	-
SIC-29	Service Concession Arrangements: Disclosures.	-	-	✓
SIC-32	Intangible Assets - Web Site Costs	-	-	✓
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts	-	-	✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	-	-	✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates	-	-	✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	-	-	✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓	-	-
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern	-	-	✓
PIC Q&A 2010-02	PAS 1R. 16 - Basis of preparation of financial statements	✓	-	-
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan	-	-	✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓	-	-
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓	-	-
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	-	-	✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost	-	-	✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	-	✓	-
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	-	✓	-
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	-	-	✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	-	-	✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	-	-	✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓	-	-
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓	-	-
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	-	-	✓
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations	-	-	✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts	-	-	✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓	-	-
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	-	-	✓
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓	-	-
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓	-	-
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	-	-	✓
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items	-	-	✓
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures	-	-	✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture	-	-	✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	-	-	✓
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓	-	-
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	-	-	✓
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	-	-	✓
PIC Q&A 2018-01	Voluntary changes in accounting policy	-	-	✓
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test	✓	-	-
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost	-	-	✓
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41	-	-	✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease	-	-	✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied	✓	-	-
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements	✓	-	-
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business	✓	-	-
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items	✓	-	-
PIC Q&A 2018-10	Scope of disclosure of inventory write-down	✓	-	-
PIC Q&A 2018-11	Classification of land by real estate developer	-	-	✓
PIC Q&A 2018-12	PFRS 15 implementation issues affecting the real estate industry	-	-	✓
PIC Q&A 2018-13	Conforming Changes to PIC Q&As - Cycle 2018	✓	-	-
PIC Q&A 2018-14	PFRS 15 - Accounting for Cancellation of Real Estate Sales	-	-	✓
PIC Q&A 2018-15	PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	✓	-	-
PIC Q&A 2018-16	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	-	-	✓
PIC Q&A 2019-01	Accounting for service charges under PFRS 15, Revenue from Contracts with Customers	-	-	✓
PIC Q&A 2019-02	Accounting for cryptographic assets	-	-	✓

**Legend:**

**Adopted** - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** - means the standard or interpretation is not relevant at all to the operations of the entity.

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE A. FINANCIALS ASSETS**

**DECEMBER 31, 2018**

(Amounts in Thousands Pesos)

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at balance sheet date (iii)	Income received and accrued
Cash and cash equivalents	P -	P16,832,635	P16,832,635	P200,434
Receivables-net	-	6,634,305	6,634,305	-
Financial asset at fair value through profit or loss	954,935	36,503	36,503	680
Financial asset at fair value through other comprehensive income	862,165	7,026	7,026	-
Due from related parties		133,963	133,963	-
Other non-current assets		3,585,284	3,585,284	-
	<b>P1,817,100</b>	<b>P27,229,716</b>	<b>P27,229,716</b>	<b>P201,114</b>

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE B. SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES).**

**DECEMBER 31, 2018**

**(Amounts in Thousands Pesos)**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of period
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NOT APPLICABLE

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS.**

**DECEMBER 31, 2018**

**(Amounts in Thousands Pesos)**

Name and Designation of debtor (i)	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
<b>Advances</b>							
Meritus Prime Distributions, Inc.	P20,000		P20,000				
Montosco, Inc.	234,000		234,000				
Premier Wine and Spirits, Inc.	191,000		86		105,000		
Ellimac Prime Holdings, Inc.	3,727,232		38		3,727,194		
Fertuna Holding Corporation	104,441				104,441		
Patagonia Holdings Corp.	917,808				917,808		
Nation Realty, Inc.	300,966				300,966		
Liquigaz Philippine Corporation	14		14				
Calor Philippine Holdings, Inc.	37,512		37,512		37,512		
Office Warehouse, Inc.	1,519				1,519		
Canaria Holdings Corporation	3,429,215					3,429,215	
Alcorn Petroleum and Minerals Corporation	391,602		373		391,229		
Fertuna Holdings Corp.	15,000		15,000				
Kareila Management	300,000	600,000			900,000		
NE Pacific Shopping Centers Corp.	9		9		9		
<b>Dividends</b>							
Puregold Price Club, Inc.	564,347		564,347				
NE Pacific Shopping Centers Corporation	125,000	50,000	50,000		125,000		
Nation Realty, Inc.	100,000	179,762			279,762		
Patagonia Holdings Corp.	360,000	100,000			360,000		
Ellimac Prime Holdings, Inc.	200,000	115,000			315,000		
Fertuna Holdings Corp.	150,000	50,000			150,000		
Pure Petroleum Corporation	150,000	70,000	50,000		170,000		
Montosco, Inc.	100,000	100,000			200,000		
Meritus Prime Distributions, Inc.	50,000	25,000			75,000		
Premier Wine and Spirits, Inc.	100,000				100,000		
<b>Trade and other receivables</b>							
Puregold Price Club, Inc.	672,540		672,540				
Meritus Prime Distributions, Inc.	29,100		29,100				
Montosco, Inc.	67,900		67,900				
Premier Wine and Spirits, Inc.	45,000	48,500			93,500		
Nation Realty, Inc.	42,500	48,500	42,500		48,500		
<b>Totals</b>	<b>P12,233,162</b>	<b>P1,386,762</b>	<b>P1,890,451</b>	<b>P -</b>	<b>P8,302,431</b>	<b>P3,429,215</b>	

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE D. INTANGIBLE ASSETS - OTHER ASSETS**



DECEMBER 31, 2018

(Amounts in Thousands Pesos)

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) (iii)	Ending balance
Goodwill	P17,929,387	P -	P1,675,860	P -	P -	P1,675,860
Trademark	3,709,661	-	-	-	-	3,709,661
Customer relationships	889,453	-	-	-	-	889,453
Computer software and license - net	188,615	2,923	3,558	-	-	187,979
Leasehold rights - net	58,649	-	3,768	-	-	54,882
	<b>P22,775,765</b>	<b>P2,923</b>	<b>P1,683,186</b>	<b>P -</b>	<b>P -</b>	<b>P21,095,502</b>

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE E. LONG TERM DEBT**

**DECEMBER 31, 2018**

(Amounts in Thousands Pesos)

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments	Final Maturity
Long-term debt	Land Bank of the Philippines	P960,000,000	P10,000,000	P950,000,000	5.267%	7	May 2021
Long-term debt	Rizal Commercial Banking Corporation	960,000,000	10,000,000	950,000,000	5.267%	7	May 2021
Long-term debt	Maybank Philippines, Inc.	480,000,000	5,000,000	475,000,000	5.267%	7	May 2021
Long-term debt	Robinsons Bank Corporation	480,000,000	5,000,000	475,000,000	5.267%	7	May 2021
Long-term debt	Security Bank Corporation	480,000,000	5,000,000	475,000,000	5.267%	7	May 2021
Long-term debt	United Coconut Planter's Bank	480,000,000	5,000,000	475,000,000	5.267%	7	May 2021
Long-term debt	The Insular Life Insurance Company, Ltd.	480,000,000	5,000,000	475,000,000	5.579%	10	May 2024
Long-term debt	Security Bank Corporation	480,000,000	5,000,000	475,000,000	5.579%	10	May 2024
<b>Totals</b>		<b>P4,800,000,000</b>	<b>P50,000,000</b>	<b>P4,750,000,000</b>			

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE F. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)**

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Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
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NOT APPLICABLE

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**SCHEDULE G. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

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Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
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NOT APPLICABLE



**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**SCHEDULE H. CAPITAL STOCK**  
December 31, 2018

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common Shares	10,000,000,000	7,405,263,564	-	722,739	4,154,584	2,527,941
<b>Totals</b>	<b>10,000,000,000</b>	<b>7,405,263,564</b>	<b>-</b>	<b>722,739</b>	<b>4,154,584</b>	<b>2,527,941</b>

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE I. FINANCIAL INDICATORS**

December 31, 2018

Ratio	As of		Formula
	December 31, 2018	December 31, 2017	
CURRENT RATIO	2.49	1.96	$\frac{\text{Current assets}}{\text{Current liabilities}}$
CASH RATIO	0.74	0.63	$\frac{\text{Cash and cash equivalents}}{\text{Current liabilities}}$
DEBT-TO-EQUITY RATIO	0.39	0.42	$\frac{\text{Total liabilities}}{\text{Total equity}}$
DEBT-TO-ASSET RATIO	0.28	0.30	$\frac{\text{Total liabilities}}{\text{Total assets}}$
ASSET-TO-EQUITY RATIO	1.39	1.42	$\frac{\text{Total assets}}{\text{Total equity}}$
INTEREST RATE COVERAGE RATIO	26.60		$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$
NET INCOME MARGIN	0.05	0.05	$\frac{\text{Net income}}{\text{Net revenues}}$
INVESTMENT RATIO	0.29	0.34	$\frac{\text{Total investment and advances}}{\text{Total assets}}$
RETURN ON ASSETS	0.08	0.07	$\frac{\text{Net income}}{\text{Average total assets}}$
EARNINGS PER SHARE	0.78	0.69	$\frac{\text{Net income}}{\text{Weighted average number of ordinary shares}}$

## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **OSCAR S. REYES**, Filipino, of legal age and a resident of Unit 6 Kasiyahan Homes, 58 McKinley Road, Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee identified as Independent Director of **COSCO CAPITAL INC.** since 2009.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/ Relationship	Period of Service
Manila Electric Company	President & CEO/ Director	2012-present 2010-present
PLDT, Inc.	Director Member, Advisory Board	2001-2010 2010 - present
Bank of the Philippine Islands	Director Member, Advisory Council	2003 – 2016 2016-present
Basic Energy Inc.	Independent Director	2007 - present
Manila Water Co., Inc.	Independent Director	2005 - present
Pepsi Cola Products Philippines Inc.	Chairman	2007-present
Sun Life Financial Plans Inc.	Independent Director	2006 - present
Sun Life Prosperity Funds	Independent Director	2002 – present
Grepalife Dollar Bond Fund Corporation	Independent Director	2011 - present
Grepalife Fixed Income Fund Corporation	Independent Director	2011 - present
Grepalife Bond Fund Corporation	Independent Director	2011 - present
Petrolift Inc.	Independent Director	2007 – present
PLDT Communications & Energy Ventures Inc.	Director	2013- present
Meralco Powergen Corporation	President/Director Co-Chair	2010 – 2017 2017-present
Redondo Peninsula Energy Inc.	Chairman	2011- present
Meralco Industrial Engineering Services Inc.	Chairman	2010 - present
Meralco Energy Inc.	Chairman	2010 - present
CIS Bayad Center, Inc.	Chairman	2010 – present
PacificLight Power Pte Ltd.	Chairman	2013 - present
MRail Inc.	Chairman	2015 - present
MSpectrum Inc.	Chairman	2015- present
Atimonan One Energy Inc.	Chairman	2016 -present
Aurora Managed Power Services Inc.	Chairman	2016 - present

Republic Surety & Insurance Co./MPioneer Insurance Corp.	Director	2010 - present
Clark Electric Development Corporation	Director	2013-present
Asian Eye Institute	Director	2010-present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **COSCO CAPITAL, INC.**, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations and other SEC issuances
4. I am not related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/OFFICER/SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding/I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

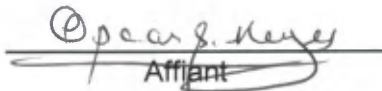
OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A

6. (For those in government service/affiliated with government agency or GCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in COSCO CAPITAL, INC, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulations Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.



8. I shall inform the corporate secretary of COSCO CAPITAL, INC. of any changes in the abovementioned information within five days from its occurrence.


Done, this 29 APR 2019 day of April 2018 at Manila, Philippines.

  
Affiant

SUBSCRIBED AND SWORN to before me, a notary public in and for the City of \_\_\_\_\_ this \_\_\_ day of 29 APR 2019. The Affiant, whom I identified through the following competent evidence of identity: Philippine Passport No. P5302920A expiring on 10 December 2022, personally signed the foregoing instrument before me and avowed under penalty of law to the whole truth of the contents of said instrument.

WITNESS MY HAND AND SEAL on the date and at the place first abovementioned.

Doc. No. 161 ;  
Page No. 34 ;  
Book No. 14 ;  
Series of 2019.

  
A NOTARY PUBLIC SANTOS  
Notary Public  
Pasig, San Juan and Pateros  
Issued on February 18, 2019 at Pasig City  
Appointment No. 102(2019-2020)  
Roll No. 64977/IBP No. 060140/1-9-19 RSM Chapter  
PTR No. 5312076/1-21-19 Pasig City  
MCLE VI-0023958-10/04/16  
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

## CERTIFICATE OF INDEPENDENT DIRECTOR

I, ROBERT Y. COKENG, Filipino, of legal age and resident of the Philippines, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Cosco Capital, Inc. and have been its independent director since August 30, 2013 (where applicable).
2. I am affiliated with the following companies or organizations (including Government Owned and Controlled Corporations):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
F&J Prince Holdings Corp. (PSE Listed Co.)	Chairman-President	More than 20 years
Magellan Capital Holdings Corp.	Chairman/President	"
Magellan Utilities Dev. Corp.	Chairman/President	"
Pinamucan Industrial Estate Inc.	Chairman	"
Consolidated Tobacco Ind. of the Phils.	Chairman/President	"
Center Industrial and Investment Inc.	Chairman/President	"
Malabrigo Corp.	Chairman/President	"
Pinamucan Power Corp.	Chairman/President	"
Essential Holdings Ltd.	Managing Director	"
Pointwest Technologies Corp.	Director	More than 10 years
Pointwest Innovation Corp.	Director	"
Business Process Outsourcing Int'l.	Chairman/Exec. Comm. Director	"
IPADS Developers Inc.	Chairman	5 years

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director Cosco Capital, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rule and Regulations and other SEC issuances.
4. I am related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/OFFICER/SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
Mary K. Cokeng	F&J Prince Holdings Corp.	Spouse
Mark Ryan K. Cokeng	F&J Prince Holdings Corp.	Son
Francisco Y. Cokeng Jr.	F&J Prince Holdings Corp.	Brother
Johnson U. Co	F&J Prince Holdings Corp.	Cousin

*R. Y. Cokeng*

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding/I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
NONE		

6. (For those in government service/affiliated with government agency or GOCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in \_\_\_\_\_, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulation, Code of Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of Cosco Capital, Inc. of any changes in the above-mentioned information within five days from its occurrences.

Done, this \_\_\_ day of April 2019, at City of Manila.



ROBERT Y. COKENG  
Affiant

SUBSCRIBED AND SWORN to before me this APR 26 2019 day of April 2019 at City of Manila, affiant personally appeared before me and exhibited to his/her \_\_\_\_\_ issued at \_\_\_\_\_ on \_\_\_\_\_.



**CAROLINE G. EXCONDE**  
Notary Public for the City of Manila  
Commission No. 2018-035 until Dec. 31, 2019  
Roll No. 55392 / 05-02-2008  
IBP No. 097712 / 01-04-2019  
PTR No. 8023126 / Manila 01-03-2019  
MCLE Compliance No. V-0014291 / 02-16-2016  
No. 900 Romualdez St., Paco, Manila 1007

Doc. No. 310 ;  
Page No. 123 ;  
Book No. XII ;  
Series of 2019.

## CERTIFICATE OF INDEPENDENT DIRECTOR

I, Atty. Bienvenido E. Laguesma, Filipino, of legal age and resident of 19 Acacia St., South Green Park Village, Tandang Sora, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Cosco Capital, Inc. and have been its independent director since June 30, 2017.
2. I am affiliated with the following companies or organizations (including Local Government Educational Institution):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Laguesma Magsalin Consulta & Gastardo Law Offices	Senior Partner	2012 to present
Camerton Holdings, Inc.	Director	2016 to present
Pamantasan ng Lungsod ng Maynila	Member, Board of Regents	2015 to present
DARE Philippines, Inc.	Director	2015 to present
Maritime Academy of Asia and the Pacific	Trustee	2 March 2019 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Cosco Capital, Inc., as provided for in Section 38 of the Securities Regulation Code, its Implementing Rule and Regulations and other SEC issuances.
4. I am not related to the following director/officer/substantial shareholder of (covered company and its subsidiaries and affiliates) other than the relationship provided under Rule 38.2.3 of the Securities Regulation Code. (where applicable)

NAME OF DIRECTOR/OFFICER/SUBSTANTIAL SHAREHOLDER	COMPANY	NATURE OF RELATIONSHIP
N/A	N/A	N/A

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding/I disclose that I am the subject of the following criminal/administrative investigation or proceeding (as the case may be):

OFFENSE CHARGED/ INVESTIGATED	TRIBUNAL OR AGENCY INVOLVED	STATUS
N/A	N/A	N/A



6. (For those in government service/affiliated with government agency or GOCC) I have the required written permission or consent from the (head of the agency/department) to be an independent director in COSCO CAPITAL, INC, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulations Code and its implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the corporate secretary of COSCO CAPITAL, INC. of any changes in the abovementioned information within five days from its occurrence.

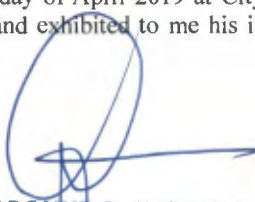
**MAY 07 2019**  
Done, this \_\_\_ day of April 2019 at Manila, Philippines.

  
**ATTY. BIENVENIDO E. LAGUESMA**  
Affiant

**MAY 07 2019**

SUBSCRIBED AND SWORN to before me this \_\_\_ day of April 2019 at City of Manila, Atty. Bienvenido E. Laguesma personally appeared before me and exhibited to me his identification card bearing his photograph and signature.

Doc. No. 389;  
Page No. 138;  
Book No. XII;  
Series of 2019.

  
**CAROLINE G. EXCONDE**  
Notary Public for the City of Manila  
Commission No. 2018-035 until Dec. 31, 2019  
Roll No. 55892 / 05-02-2008  
IBP No. 097712 / 01-04-2019  
PTR No. 8023126 / Manila 01-03-2019  
MCLE Compliance No. V-0014291 / 02-16-2016  
No. 900 Romualdez St., Paco, Manila 1007