June 29, 2020

Securities and Exchange Commission
G/F Secretariat Bldg., PICC Complex
Roxas Blvd., Pasay City 1307

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director, Markets and Securities Regulation Department

Ms. Rachel Esther J. Gumtang-Remalante
Head, Corporate Governance and Finance Department

Philippine Stock Exchange
9th Floor, PSE Tower
28th Street corner 5th Avenue,
Bonifacio Global City, Taguig City

Attention: **Ms. Janet A. Encarnacion**
Head, Disclosure Department

Gentlemen:

For submission is the Annual Report (SEC 17-A) of **Cosco Capital, Inc.** for the year 2019 together with the company's 2019 Consolidated Audited Financial Statements and Sustainability Report.

Thank you,

Candy H. Dacanay – Datuon
Compliance Officer

COVER SHEET

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SEC Registration Number

C O S C O   C A P I T A L , I N C .

(Company's Full Name)

N O .   9 0 0   R O M U A L D E Z   S T . ,   P A C O ,
M A N I L A

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

CANDY H. DACANAY-DATUON

(Contact Person)

(02) 523-3055

(Company Telephone Number)

1 2	3 1	**SEC FORM 17-A**		
Month	**Day**	(Form Type)	**Month**	**Day**

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowing

Total No. of Stockholders

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please sure BLACK ink for scanning purposes.

SEC FORM 17-A, *AS AMENDED*
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2019**

2. SEC Identification Number **147669** 3. BIR Tax Identification No. **000-432-378**

4. Exact name of issuer as specified in its charter **COSCO CAPITAL, INC.**

5. **MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **No. 900 ROMUALDEZ ST., PACO, MANILA** **1007**
Address of principal office Postal Code

8. **632-8523-3055**
Issuer's telephone number, including area code

9. **NOT APPLICABLE**
Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common stocks as of December 31, 2019	**7,238,553,564**
Common stocks as of March 31, 2020	**7,203,253,664**

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

Yes [x] No [ ]

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

12. Check whether the issuer:

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

Yes [x] No [ ]

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

Yes [x] No [ ]

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

Shares held by Non-affiliates as of March 31, 2020	Market Value per Share as of March 31, 2020	Total Market Value
1,682,507,767	4.75	7,991,911,893.25

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) Any annual report to security holders;
(b) Any information statement filed pursuant to SRC Rule 20;
(c) Any prospectus filed pursuant to SRC Rule 8.1.

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PART 1: BUSINESS AND GENERAL INFORMATION

ITEM 1 BUSINESS

(1) Business Development

Cosco Capital, Inc. is an investment holding company. It has a diversified portfolio of business interests in the following industries and business segments:

Retail Segment

Puregold Price Club, Inc.

Puregold Price Club, Inc. ("Puregold" or "the company") was incorporated on September 8, 1998, and opened its first Puregold hypermarket store in Mandaluyong City in December of the same year. In 2001, it began its expansion by building two additional hypermarket stores in the cities of Manila and Parañaque. It also launched its loyalty program, which was eventually renamed "*Tindahan ni Aling Puring*" in 2004. Between 2002 to 2006, Puregold continued its expansion at an average of three new stores every year and established operations in North and South Luzon.

In 2008, Puregold was recognized by Reader's Digest Asia as the Most Trusted Brand in the supermarket category. To expedite market coverage, a new format called "*Puregold Jr. Supermarket*" was introduced in the 4th quarter of 2008. By mid-2009, the company gained market leadership being the second-largest hypermarket and supermarket retailer in the Philippines in terms of net sales. By 2010, it was already operating 62 stores, and launched another format called "*Puregold Extra*." In the same year and henceforth, Puregold was recognized by Retail Asia Pacific as one of the top 500 retailers among the 14 economies of the region.

2011 saw the highest number of store openings in Puregold history with the launch of 38 new stores making its number of stores to a total of 100. In the following year, Puregold acquired another related retail company, which was later called *"S&R Membership Shopping,"* under the corporate name "*Kareila Management Corporation*," with six S&R Membership Shopping Warehouses (patterned after the Costco and Sam's Club in the USA). Puregold also opened 31 new Puregold organic stores and acquired Gant Group of Companies known as "Parco supermarkets" with 19 stores.

In 2013, Puregold acquired another supermarket chain, Company E Corporation, with 15 stores and opened 40 new stores. S&R opened two warehouses located in Davao Province and Mandaluyong City. Company E and Gant Group of Companies later merged with Puregold.

In 2014, Puregold opened 28 stores, one S&R store, and four S&R New York Style Pizza/quick-service restaurants (QSR). In the same year, Puregold partnered with Lawson, Inc. and Lawson Asia Pacific Pte Ltd. under a joint venture company called PG Lawson, Inc. to build and operate a chain of Lawson convenient stores. However, in 2018, Puregold divested from the joint venture and sold to Lawson, Inc. all its share in PG Lawson, Inc.

In 2015, Puregold opened 15 hypermarkets, 11 supermarkets, one S&R Warehouse, and 10 QSRs. Puregold opened another 15 hypermarkets, eight supermarkets, two extras, one minimart, 2 S&R Warehouse, and 7 QSRs in 2016.

In 2017, Puregold opened 35 stores comprising of 25 hypermarkets, five minimarts, and five supermarkets. Another 30 stores, 20 hypermarkets, seven minimarts, and three supermarkets, were opened in 2018.

By the end of 2019, Puregold was operating a total of 229 hypermarkets, 102 supermarkets, 28 extra, 19 minimarts, 18 S&R warehouse clubs, 38 S&R-QSRs, for a total of 434 stores.

Office Warehouse

Office Warehouse was incorporated on August 20, 1997. In 2014, the company bought Office Warehouse with 46 stores. At present, Office Warehouse has 89 stores, mostly in Metro Manila and South Luzon. Under the new management, Office Warehouse has been a provider and a partner consultant to small and medium enterprises when it comes to quality, cost-efficient, and value-adding office solutions.

For the past three years, Office Warehouse consistently surpassed annual historical sales and recorded compounded growth of at least 16.5%. This robust performance is a result of its dedication and persistence in addressing market demands and resiliency to the changing retail landscape. Office Warehouse keeps itself abreast of technological trends and capitalizes on its impact on the macro-economic behavior of businesses.

In 2019, Office Warehouse grew by 17% and ended the year with 89 retail doors, 67 of which are in Metro Manila and 22 in nearby provinces. It operated on a total of brick and mortar space of about 16,300 square meters.

Office Warehouse is likewise present online and does e-commerce using its website. It believes in the power of social media; thus, Office Warehouse also uses this forum for its marketing and advertising initiatives. Conversely, Office Warehouse also strengthens its brand by conducting caravans in various offices and universities. Office Warehouse serves as the physical touchpoints with the market it serves in their place of engagement.

Office Warehouse continues to offer a relevant and up-to-date product mix and assortment at best possible price. It continues to improve its supply chain capability by automating orders for product replenishment and streamlining its cross-docking services. It is still maintaining its transportation fleet for deliveries to store and customers, and at the same time, engaging with third-party logistical services to ensure prompt order fulfillment.

To maximize its online presence, Office Warehouse is now partnering with several marketplaces for e-commerce. It is also working on e-payment platforms and other technology-driven tenders for its general business.

Real Estate Segment

For the past three years, the company consistently maintained its growth in rental revenues. Aside from the annual increment on rental rates, the company was able to develop six new community malls which are strategically located in the following areas: (1) Marikina Heights, Marikina City, (2) General Trias, Cavite, (3) Subic, Zambales, (4) Putatan, Muntinlupa, (5) Maria Aurora, Aurora Province and lastly the recently opened community center in (6) Bayawan City, Negros Oriental. With the most recent development in Bayawan comes two modern movie theatre auditoriums with one hundred two seating capacities each as added amenities for our mall-goers.

The company also was able to partner with a Malaysian-brand "Mr. DIY" to cater more consumers for the coming years. The real estate segment also got to associate itself with Robinson's brands like Handyman, Daiso, and Saver's Appliances. Sy-led businesses like Ace Hardware and Watson's are also aggressive in their partnership with the group. As of year ended 2019, the group has at least 3,500 leasable spaces across NCR, Luzon, and the Visayas, which is growing over the years as the company expands.

The company also acquired four parcels of land held for future development located at Antipolo, Laoag, Cabatuan, Iloilo, and Barotac-Nuevo, Iloilo. These additions contributed a total of 32,940 square meters of land owned by the group.

Ellimac Prime Holdings, Inc. is the flagship of the real estate companies of the company. The commercial retail buildings of Ellimac are being leased out mostly by prominent retail tenants that support the retail customers of Puregold Price Club, Inc. One of which is the 'Fairview Terraces.' The Fairview Terraces is the second commercial shopping complex that was co-developed with Ayala Land, Inc., and it is located in the prime commercial area of Quezon City. The Fairview Terraces houses an extensive mix of foreign and local brands, offering an array of dining and shopping experiences for families and professionals.
Fertuna Holdings Corporation is considered to be the stronghold of the company in Central Luzon. Fertuna, together with Ayala Land Inc., co-developed a commercial

retail complex called "Harbor Point." It is situated in Subic Bay Freeport Zone. Harbor Point opened in September 2012, where Puregold Supermarket became its anchor tenant.

Fertuna's Harbor Point Mall lies within the eco-friendly environment of Subic Bay. The 6.5-hectare mall development is a registered Subic Bay Freeport Enterprise operating in the Freeport Zone. Fertuna is governed by the rules and regulations of the Subic Bay Metropolitan Authority (SBMA) under Republic Act 7277, making it entitled to tax and duty-free importation of certain items.

Patagonia Holdings Corp. is the company's rising force in the Bonifacio Global City acquired parcels of land, summing a total land area of 1.3 hectares. The strategic location of the property in the growing business district is a promising investment venture for the company. Patagonia provided the opportunity to have S&R Membership Shopping operate a retail outlet in its property since 2000. The viable location of the land worked to their advantage. It became accessible to patrons and consumers. It became a steady market for S&R's retail outlet.

Nation Realty, Inc. operates "999 Shopping Mall" located in Binondo, Manila. It is a specialty mall, a modern approach to a flea market, or 'tiangge.' The 999-shopping mall is the shopping hub for Filipino shoppers and resellers who want to purchase useful quality items at low prices.

The 999-shopping mall has two developments. The first development is a four-story building with 31,931 square meters gross floor area, and the second is a seven-story building with a total floor area of 84,292 square meters.

The company acquired NE Pacific Mall in March 2014. It is considered to be the ultimate shopping and family entertainment destination in the province of Nueva Ecija. It is located at km. 111 Maharlika Highway, Cabanatuan City, Nueva Ecija. The 10-hectare parcel of land where the shopping center is built has a total gross floor area of more than 35,000 square meters. The mall has leasable spaces for different brands and establishments and houses a line of tenants such as the supermarket, department store, hardware and appliance centers, restaurants, and many others. One of the key tenants of the mall is Puregold Price Club, Inc. and government satellite offices of Social Security System, Philippine Statistics Authority, and Philippine Health Insurance. This one-stop shopping haven not only provides a unique shopping experience for the family but also brings great value for their money.

Pure Petroleum, Inc. constructed a fuel terminal facility inside the Subic Bay Freeport Zone in 2009, which became operational in December 2012. It currently operates a tank farm of 9 fuel storage tanks with a total capacity of 88.5 Million liters combined Diesel and Gasoline products, 7 Ethanol tanks of various sizes (350KL,100KL, and 50KL) with a total capacity of 700KL and 5 CME storage tank 50KL size with a full capacity of 250KL. The terminal also operates jetty facilities for bulk loading and unloading, two units mooring buoy, water storage tank for fire protection and maintenance as well as truck loading rack. It has adopted the best practices of the oil industry, applicable policies and procedures to ensure safe and efficient operation.

Wine and Liquor Segment

The imported liquor industry continues to grow, driven by the economy and premiumization. It is another industry where the company plays an influential role. The company has trading relationships with the world's biggest spirits and wine producers, carrying either the top or number-two brands in their respective categories in its portfolio.

It also markets key brands in wine, energy drinks, and premium water categories. The three companies within the Cosco umbrella that work closely with brand owners, to build and grow these brands are Montosco Inc., Meritus Prime Distributions, Inc. and Premier Wines and Spirits, Inc.

Montosco is the lead company, having in its portfolio "Alfonso" the number one imported brand in the country by volume and value. It drives the liquor segment's revenue and bottomline. Completing Montosco' s portfolio is Diageo- the leading spirits company in the world - having Johnnie Walker as its leading brand. A unique trading relationship with Diageo has been established, including exclusively on key brands.

Meritus prides itself by carrying the number one bourbon whisky brand in the world, "Jim Beam" and its strong relationship with Beam Suntory group - the third-largest spirits producer in the world. It also represents the portfolio of W. Grants where Glenfiddich, the leading single malt whisky in the world, is among its key brands. Rounding the list for Meritus are Roku and Hendricks- the hottest craft gin brands in the market.

The depth and breadth of Premier's portfolio are difficult to match, having the right balance in its collection of spirits, wines, and premium energy drinks and sparkling water lines.

Strengthening relationships, Premier and Pernod Ricard, the second-largest spirits company in the world, formed a joint venture partnership, establishing Pernod Ricard Philippines, Inc., to be the marketing and distribution arm of Pernod brands in this market. Amongst Premier's key brands is Jose Cuervo, the worlds leading tequila, "Jinro", the top spirits brand in the world, "Penfolds", world's most admired wine brand, "RedBull", world's number 1 energy drink and "Perrier", the leading sparkling water in the world.

With the brands it carries, the relationships it has established, and the organization it has built, the company's liquor segment fundamentals are solid. It is poised to steadily grow and take on the challenges ahead.

Oil & Mining Segment

Alcorn Petroleum and Minerals Corporation was incorporated on July 5, 2013, as a wholly-owned subsidiary of Cosco to pursue the exploration and development of the company's interests in oil and mining business activities. The oil and mining interests include a portfolio of participating investments in petroleum exploration and extraction activities in the Palawan area and Eastern Visayas region.

Store Locations

As of December 31, 2019, the company has stores or branches located in the following areas:

	Puregold	S&R	QSR	Office Warehouse	Real Estate
Metro Manila	130	8	24	67	23
North Luzon	99	3	4	6	17
South Luzon	106	3	6	16	12
Visayas	32	2	4	0	4
Mindanao	11	2	0	0	0
Total	**378**	**18**	**38**	**89**	**56**

The company has never been a subject nor involved in a bankruptcy, receivership, or any similar proceedings since its incorporation.

(2) Business of Issuer

(a) Description of the Registrant

1. Principal Products and Services

Puregold Price Club, Inc. conducts its operations through the following retail formats and store brands, each of which is strategically located to target distinct price points and demographics:

a. Puregold - The company conducts its operations primarily through a hypermarket. These hypermarkets are mostly found in major commercial centers and near transportation hubs. It offers a wide variety of food and non-food products. Generally, it caters to both retail customers and resellers, such as members of the company's pioneering *Tindahan ni Aling Puring*("TNAP") loyalty/marketing program. The average net selling space of the company's hypermarket is 2,000 to 2,500 square meters. Each hypermarket offers more than 25,000 stock-keeping units (SKU).

The company also has smaller stores with an average net selling space of around 800 square meters. SKUs of product assortment ranges from 8,000 to 12,000. These stores are mostly located in residential areas and offer a higher proportion of food to non-food products vis-a-vis the company's hypermarkets.

b. Puregold Minimart - is the company's smallest store format. It serves as a community store, selling fast-moving essential goods to high-density neighborhoods. It offers a more limited number of products, comprising the company's top-selling SKUs ranging from 4,000 to 5,000. The average net selling space of these stores is around 250 square meters.

c. S & R Membership Shopping - S&R Membership Shopping started operations with 4 locations in Metro Manila in 2006. It opened its Cebu warehouse in November 2010, Pampanga warehouse in November 2011, Davao warehouse in May 2013, Mandaluyong warehouse in November 2013, and Imus warehouse in December 2014. In 2015, it opened one warehouse in Nuvali, Sta. Rosa. Laguna and ten quick-service restaurants (QSR) outlets. It opened two warehouses located in the provinces of Iloilo and Cagayan de Oro and 7 QSR outlets in 2016. In 2017, S&R opened two warehouses in Dau, Pampanga and Commonwealth, Quezon City. By the end of 2019, S&R operates 18 warehouses and 38 QSRs.

S&R has adopted a warehouse club concept where most of the products offered are in club packs. The majority of the merchandise is imported brand names mostly sourced from the United States. Currently, S&R is the biggest reseller of imported quality products, at competitive prices, in the Philippines.

d. Entenso Equities, Inc. is a wholly-owned subsidiary of Puregold holding equity interests in Ayagold Retailers, Inc. and San Roque Supermarkets.

Ayagold Retailers, Inc. is a 50/50 joint venture with Ayala Land. It opened a mall-based supermarket in July 2015 called "Merkado" located at UP Town Center, Quezon City, and Vertis North Mall, Quezon City, on December 8, 2017.

San Roque Supermarkets is also a joint venture with the original family owners of San Roque Supermarkets. It operates 23 supermarkets located mostly in Metro Manila.

e. Purepadala, Inc. is another wholly-owned subsidiary of Puregold. It was incorporated in 2018 mainly to operate the remittance operation of the company. At present, it has P50 million capital stock. Purepadala will focus on the integration and remittance service within the network and platform of Puregold.

The company focuses on two customer segments: retail consumers and resellers. For resellers, the company has a TNAP loyalty/marketing program. It started in 2001, and as of December 31, 2019, the company served around 500,000 TNAP members.

For retail end consumers, the company has implemented a loyalty Perks program. Among the many other programs and promotions, Puregold returns the favor to loyal customers through its "*Perks Card*." It is a loyalty program open to all Puregold shoppers who are 18 years old and above. It is specially designed for customers who do not own sari-sari stores or related businesses. Points earned have an equivalent peso value, which can be converted to a rebate or treat. To further enhance customer experience, Puregold has even tapped its affiliates into doing partnerships so customers can enjoy more benefits. Furthermore, with over 1.2 million Perks members as of December 2019, Puregold tapped various multi-national suppliers to create exclusive programs for Perks cardholders for the entire year.

S&R, on the other hand, serves the "A" "B" and aspirational "C" market segments whose monthly income is over P80,000. The acquisition of S&R enabled the company to widen its market spectrum, comprising practically all the socio-economic brackets.

As of December 2019, S&R has a total active membership of over 800,000. To effectively serve its customer base, the company maintains a strong relationship with suppliers and trade partners, working closely with them to satisfy customers with reliable on-time deliveries.

Office Warehouse's significant products include printer, ink & toner, business machines such as biometrics, copy machine, paper shredder, coin and bill counters, POS machines, etc. for business tech, office & school supplies, paper, writing instruments, desk accessories for offices and school use and office furniture like an office chair, tables, cabinets and shelves, safety vaults, and presentation boards.

Real Estate Group acquires/leases land and develop commercial community establishments on such for leasing purposes. The group then derives rental revenues from contracts with their clients ranging from monthly rent to long-term rental. Aside from the minimum guaranteed rent, the group is also obtaining percentage rent based on their client's sales for the given period.

2. Percentage of sales or revenues of foreign sales

The company or any of its subsidiaries has no branch or sale outside the Philippines.

3. Distribution Methods

Puregold Price Club, Inc. replenishes and distributes its merchandise to various stores in the following manners:

a. Direct-to-store delivery - A substantial portion of the company's inventory and other supplies and materials, about 68%, are delivered directly by suppliers to the stores. Considering the bulk of the business, the company can order a truckload of merchandise direct from the suppliers. The company receives orders and merchandise within an average 7-days from receipt of purchase orders.

b. Cross-dock facilities – About 32% of the suppliers who are unable to deliver to the company's stores directly deliver their products to the company's two out-sourced cross-dock facilities for onward distribution to Puregold stores.

c. Store-to-store transfer – All of the company's stores have a stockroom on-premises with warehousing capabilities for additional inventory. However, there are stores with large warehouses that can accommodate goods intended for nearby small-format stores. As needed, products are transferred from a large store to a small store.

d. Importation - S&R sends out buyers all over the world to source for its best products. S&R imports 45% - 55% of its merchandise. It currently operates its three distribution centers.

Office Warehouse's suppliers directly deliver to stores or cross-dock the items through its warehouse facility. Office Warehouse sells to customers through in-store purchases, phone-in-service for delivery and pick-up, or by an e-commerce shopping site.

4. New Products and Services

Puregold Price Club, Inc. and Globe Telecom, Inc. launched a mobile-based service where a Puregold customer can pay their bills and cash out at any Puregold store. A customer will open a GCash App, enter the amount to cash-in and generate the barcode. Puregold cashier scans the barcode and collects payment. The customer receives confirmation via text message.

Puregold is the first national supermarket chain to integrate mobile payments into point of sale (POS) machines. Last July 2019, the 'scan to pay' (STP) was introduced by

Puregold and GCash, where payments can be accepted via barcode in all 3,000+ POS machines nationwide.

5. Competition

Puregold Price Club, Inc. competes with S.M. Supermarkets, Savemore, SM Hypermarkets, Shopwise/Rustan's, Robinsons, Metro Gaisano, and Walter-Mart. But smaller formats like Alfamart of S.M. group are also becoming our strong competitors; likewise, the online retailers, Lazada, Shoppee, Zalora, Grab Food, Food Panda, and Metromart.

Landers has the same membership shopping format as S&R. It offers imported products as well and caters to the "A" and "B" class segment of our population.

Office Warehouse prides itself as the only retail store with the workplace-solution format, where you can buy everything you may need for your office or business. There are no direct competitors, but it competes with various companies for different categories. For school and office supplies, it competes with National Bookstore with 240 stores, and display spaces are at least 3x the size of an Office Warehouse branch, it has the depth and width of product assortment and has a legacy business appealing primarily to the educational market. It also competes with Pandacan Bookshop with at least 120 branches operating mainly in the provinces of Luzon attracting students and homemakers by its various type of merchandise at very low pricing. For business technology, Octagon with over 150 branches nationwide, specializing in technology items and Silicon Valley with about 60 branches nationwide and competes with Octagon.

Office Warehouse strategies to counter competition: Its mantra of "cost-cutting measures start here" because businesses love to cut costs, and end-consumers love to save money. It offers better pricing and remains competitive. It sells only genuine products from direct sources, particularly with multi-national brands. Its branches are strategically located in Mega Manila and parts of Luzon. Office Warehouse has aggressive promotions such as quarterly themed promos, yard sales and flash events offering price offs and attractive deals and relevant loyalty program for its customers like Points Plus+ Membership Program with exclusive perks and discounts, and point earning and redemption. It also has an online shopping site, www.officewarehouse.com.ph, that caters to many customers across the country.

The real estate group caters to people from all walks of life. Everyone is welcome to enjoy and shop at our community malls to satisfy their needs, whether essential or non-essential.

Our commercial buildings are located in crowded places like public markets, CBD areas, and the likes where competition is fierce. The company is offering competitive rental rates coupled with discounts considering the higher rates within the malls' vicinity. Thus, providing the customers and public an opportunity to start businesses inside our malls opening up to a bigger market of customers.

The group also boasts the most massive classic "tiangge" style of shopping at the heart of Divisoria, Manila, by the brand of "999 Shopping Mall". The mall currently has an inter-connecting two buildings with a total gross leasable area of almost 51,000 square meters with at least 2,700 leasable space. The mall is surrounded by other community malls like "168 Shopping Mall", "11/88 Shopping Mall", and the "Lucky Chinatown Mall." With a higher number of tenants, 999 Shopping Mall can cater to more consumers compared to its competitors within the Divisoria area.

Lastly, the imported wine and spirits industry as of the present is still a niche (single-digit share) to the total alcohol beverage industry in the country (including local).

The group/company has nationwide coverage through sub-distributors, but the bulk of business is mainly in urbanized areas. It sells to all channels of the segment like supermarkets, wholesalers, on-premise outlets (hotels, restaurants, and bars).

The depth, breadth, and leadership position of the brands in the portfolio that the group carries are difficult to match. Major competitors include but not limited to Future Trade Inc., Phil Wine Merchant, Wine Warehouse, among others. They offer different brands that the group carries.

The group believes that they have the brands, the scale, the resources, organization, and infrastructure to compete, succeed, lead, and sustain.

6. Suppliers

With over 2,000 regular suppliers, Puregold's supplier base is diversified between local suppliers such as Universal Robina Corporation, Monde Nissin, Century Pacific Food, Inc., and multi-national corporations such as Nestle, Unilever, and Procter & Gamble. The company selects its suppliers using several criteria, including product assortment and quality, market share of the company in a particular supplier's location, brand reputation, supplier's capacity, Company business plans and budgets, logistic possibilities, and compliance with the company's economic principles.

S&R sources the majority of its merchandise from global vendors who have been supplying to membership clubs worldwide for an extended time.

Office Warehouse imports 95% of office furniture. 95% of its technology products and about 75% of its office and school supplies are from local suppliers. Office Warehouse has imported products exclusively distributed by several suppliers like Fellowes for a shredder, binding and laminating machines, Schneider for writing instruments, and

Eagle for desk accessories and filing supplies. Other significant suppliers are Brother, Epson, Hewlett-Packard, Canon for printing machines, and Mongol for writing tools. Except for office furniture, almost all categories have enough suppliers to make up their needed supply for the market demand.

7. Dependence upon single or few supplier or customer

Puregold Price Club believes that its business is not dependent on any single supplier. The company's three largest food suppliers are Nestlé Philippines, Universal Robina Corporation, and Monde Nissin. The company's three largest non-food suppliers are Procter & Gamble, Unilever Philippines, and Globe Telecom Inc.

Further, the company is not reliant on a single or few customers but to the buying public in general. The company's stores target customers who live within walking distance of its stores and those who use personal or public transport to shop. The company provides suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. The company also offers delivery services to resellers who are unable to travel to the company's stores.

Likewise, S&R is not dependent on a single or few customers but to the buying public in general who become members.

The company believes that its stores can address the needs of its customers through its extensive product range, a large selection of food as well as non-food products, and an increasing share of private label products. The company divides its customers into several categories:

a. *Retail consumers*: S&R is targeting "A" and "B" market class, which comprise 4% of the population of the Philippines. This segment has an average income of over 80,000 per month. Puregold, on the other hand, targets "C" and "D" market class. These consumers have an average income of P12,000 to P80,000. A typical ticket for retail consumers ranges from P600 to P3,000 per shopping trip at a frequency of two to four times per month.

b. *Resellers:* Consisting of resellers, small to medium size *sari-sari* stores, as well as canteens, restaurants, caterers, bakeries, convenience, and drug stores. As of December 31, 2019, there were over 500,000 business owners registered with the company.

Office Warehouse is not dependent upon a single customer or a few customers, but to various customers ranging from students, employees, entrepreneurs, and all types of businesses.

Wine and Liquor Segment brings in finished products from principal suppliers, namely Bodegas Williams & Humbert, Diageo Philippines, Inc., DBBV, William Grants, Brown Forman Brands, Suntory Beam, Treasury Wine Estate, Proximo. Existing supply contracts are on an exclusive and continuing basis, terms reviewed on an annual basis.

8. Transactions with Related Parties

Please refer to 2019 Consolidated Audited Financial Statements (Annex "B") of the company for the complete discussion of the company's transaction with related parties.

9. Trademarks

As of December 31, 2019, the company has secured registration of the following tradenames and trademarks from the Intellectual Property Office of the Philippines.

ALWAYS PANALO	ALWAYS PANALO
ANYWEAR	ANYWEAR
AQUALIFE	AQUALIFE
AQUALIZED	Aqualized
ATLANTIC	ATLANTIC
BELLOTA	BELLOTA
CHEF'S FLAVORS	Chef's Flavors
CLIQUE Logo	Clique
COFFEE MATCH	CoffeeMatch
COFFEE MAX	Coffee MAX
DFP	DFP
DRY PLUS	DRY PLUS

GREAT SUPERMARKET	Great Supermarket
HER COLLECTION/HIS COLLECTION	Her His
HIS KIDS/HER KIDS	His Her
HOME CLEAN	HOME CLEAN
JOOZY	JOOZY
KA-ASENSO	Ka- asenso
KA-ASENSO & Device	
KAINDUSTRIYA	
KITANG-KITA CASE	KITANG-KITA CASE
KOBE CHICKEN	Kobe Chicken
LA FLOR DE LA ISABELA	LA FLOR DE LA ISABELA
MAGIC GLOW	Magic Glow

EASY HOME DEPOT	EASY HOME DEPOT
EQUAL	Equal
EQUIVALENT	EQUIVALENT
EZEE	EZee
FRESH & EASY	Fresh &easy
FRESH & FREE	Fresh Free
GOLD YARN	GOLD Yarn
GOLDEN	GOLDEN
GOPURE	GoPure
GRAND P	Grand P

MARKET 999	MARKET 999
MINI MART BY PUREGOLD	Mini Mart by Puregold
MOMMY MARKET	Mommy Market
MR. PAPER	MR. PAPER
MY BABY PLANET	My Baby Planet
NE KAYA 'YAN CABAYAN!	ne
NEGOSYO MO CABAYAN CARD	negosyo cabayan
PANALO KARD	PANALO KARD
PEOPLE'S GROCER	People's Grocer
PEOPLE'S RICE	PEOPLE'S RICE

PERFECT MATE	PERFECT MATE
PERKS LOYALTY CARD	PERKS LOYALTY CARD
PISO GARANTISADO	Piso Garantisado
POSITIVE 99	POSITIVE ≤99
PREM	PREM
PREMIUM GOLD	Premium Gold

REACH	Reach
SA PUREGOLD, ALWAYS PANALO	SA PUREGOLD, ALWAYS PANALO!
STACK & STOCK RIGHT	Stack & Stock Right
TABACALERA	TABACALERA
Tindahan ni Aling Puring	TINDAHAN NI ALING PURING ABOT KAYA ANG ASENSO!
TINDAHAN NI ALING PURING (Super SIM and Device)	ALING PURING Super Suki Sim

PUHUNAN PLUS	PUHUNAN PLUS
PURE BASICS	PURE BASICS
PURE HEALTH CARE	Pure Health Care
PURE PHARMACY	PUREGOLD JACKPOT
PURE PLUS	Pure Plus
PURECART	PURECART
PURECASH	PureCash
PUREGLIDE	PUREGLIDE
PUREGOLD FREE	Puregold Free
PUREGOLD HOME OFFICE	Puregold Home Office
PUREGOLD NUTRITIONISCOOL	Puregold NutritionIsCool
PUREPADALA	PUREPADALA
PUREPLEASURE	PUREPLEASURE
PUREPLUS	Pureplus

TIPPTOES	TIPPTOES
TWIN ELEPHANT	TWIN ELEPHANT
VINO FONTANA	VINO FONTANA
VIPuring	VIPuring
WRAP & SEAL	Wrap & Seal

International Tradename Application	
Tradename	Country
PUREGOLD	HONG KONG

10. Government approvals

The company and its subsidiaries have obtained all permits, licenses, and approvals from national and local government units and other government agencies necessary to construct and lease supermarket buildings and operate the same.

11. Effect of existing governmental regulations

The company and its subsidiaries do not know of recent or probable government regulations that may have a material adverse effect on the business operation or financial position of the company and its subsidiaries.

12. Cost and effect of compliance with environmental laws

The company estimates its annual cost for maintaining and renewing the ECCs and other environmental permits for all its existing stores to be about P63 million.

13. Employees

As of December 31, 2019, the company has 10, 875 employees. The following table sets out specific details of the employees by location, functions, and status:

Department	Puregold and S&R	Real Estate	Office Warehouse	Wine & Alcohol Distribution	Alcorn	Total
Store Operations	8,512	81	103	58	0	9,354
Head Office	1,831	89	85	115	1	1,521
Total	**10,343**	**170**	**188**	**173**	**1**	**10,875**
Rank						
Executive	22	2	1	4	0	29
Senior Manager	106	2	11	8	0	127
Manager	511	23	30	6	0	570
Officer	573	17	5	0	1	596
Supervisory	3,764	31	94	46	0	3,935
Rank & File	5,367	95	47	109	0	5,618
Total	**10,343**	**170**	**188**	**173**	**1**	**10,875**
Employment Status						
Regular	8,051	120	175	156	1	8,503
Probationary	1,232	50	13	17	0	1,312
Contractual	1,060	0	0	0	0	1,060
Total	**10,343**	**170**	**188**	**173**	**1**	**10,875**

The company anticipates that it will employ around 1,000 employees within the next 12 months for the planned 25 Puregold store openings and four warehouse and 7 QSRs in 2020, and the company does not expect to encounter any difficulty in sourcing the workforce for these additional positions.

The company believes that its relations with its employees are generally good. The company has experienced no material work stoppages or strikes in 2019 and the past five years. The company currently has no labor union nor any collective bargaining agreement with any group of employees.

14. Major Risks

The company considers the following significant risks that may have a potentially adverse effect on its financial condition and operation, as follows:

(1) **Market risk** (a) **Competition** - The company's grocery retailing businesses are highly competitive. The intensity of the competition in the Philippine modern retail industry varies from region to region. Some of the significant competitors considered by the company are the S.M. malls, supermarkets and hypermarkets, Robinson's Supermarkets, Metro Gaisano, All Home, and Rustan's Supercenters. The competition includes product selection, product quality, and customer service, and store locations.

The company performs market research to locate areas that will maximize market coverage and penetrate its targeted customers. This careful selection of store locations and focus on specific markets has enabled it to build brand strength and loyalty across its targeted customer base.

For its specialty mall-999 Shopping Mall, competition is reasonably manageable. The mall is strategically located in Divisoria and very accessible. The risk of low occupancy is remote. The company maintains a group that specializes in marketing, handling, and communicating with the tenants, which are mostly those retailers from Mainland China.

As our liquor distribution business caters to the imported and premium segment of liquor and wines market, we see no significant risk. It has its market niche and does not directly compete with the local brands.

(b) **Supply** - A supply shortage and disruption and the price volatility may adversely affect the operations and financial performance of the company. The company addresses this risk by regularly monitoring its inventories and ensuring that the inventory is always at its optimum level. The company continuously deals with a wide range of suppliers to ascertain that its merchandising requirements are filled through the year.

(c) **Credit** - The company's fast-paced operation requires sufficient liquidity throughout the year. Failure of the company to collect their trade receivables on time could potentially affect its ability to pay its suppliers on time or increase financing cost should working capital financing be resorted to bridge temporary liquidity gaps. The company maintains a credit and collection policy, ensuring that receivables are collected on time.

(d) **Pricing** - The country's economic condition and market competition are the main drivers of this risk. Any adverse change in the economic environment of the Philippines may affect the purchasing power of consumers and unfavorably affect the company's operating results. Low-growth consumer market means a low-demand growth and low turnover for the company. The entry of new competitors may trigger a more aggressive price competition among industry players as they try to dominate the market. The company's continuous expansion and revenue growth help mitigate this risk and allow the company to develop better competitive pricing strategies. Pricing strategies are constantly reviewed to remain competitive and to attract or retain customers. Also, unnecessary costs or expenses are to be avoided by reviewing the supply chain management and eliminating non-value adding activities, which will allow the company to offer lower prices.

(2) **Regulation and compliance risk** - The company monitors and oversees issuances or protocols from regulating bodies and ensures the company's compliance with these regulations.

As liquor is considered as a health hazard when taken in excess, the possible risk would be the issuance of regulation like the ban to alcohol drinking for some age groups, and curfew either or both from the national or local government. We consider this risk, however, as remote.

Oil exploration projects are under the supervision of the Philippine government's Department of Energy. Changes in policies or regulations or legislative and fiscal framework governing these activities may have a material impact on the exploration and development activities of the companies in these sectors. Also, changes in regulations may affect the company's operation and may increase the cost of doing business.

Upon the lapse of approval from regulatory authorities, there is no guarantee that these will be renewed or renewed under the terms acceptable to the company. The company ensures that the approvals and permits are valid by monitoring very well its validity period, compliance with the governmental regulations, constant communication with the authorities, and updating itself with the new laws and regulations.

(3) **Environmental risk** - Environment risk for the real estate business includes the effect of climate change like flooding, erosion, and other unforeseen calamities that might affect the real estate properties. The company mitigates this risk by carefully selecting the sites. There is a group within the company that conducts research and study in site selection, including the environmental factors.

The business of oil exploration and development carry environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions as well as existing Philippine laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on oil spills, releases or emissions of various substances produced in association with oil operations.

The company's compliance with such legislation, including health and safety laws, can involve high costs and expenses and any breach in these laws may result in the imposition of fines and penalties, the amounts of which could be material. There can be no assurance that environmental regulations will not increase exploration and development costs or the curtailment of operations, which could adversely affect the results of operations and financial condition as well as its prospects.

Item 2. Properties

As of December 31, 2019, the company owns the following properties:

(a) Puregold

	Owned parcels of land	Owned buildings	Leased parcels of land	Leased buildings
North Luzon	2	24	25	90
South Luzon	8	27	29	87
Metro Manila	2	30	30	110
Visayas	2	0	0	34
Mindanao	0	3	3	10
Total Number	14	84	87	331
Total Square Meters	37,328.57	309,642.57	314,439.52	689,144.21

(b) Kareila

	Owned parcels of land	Owned buildings	Leased parcels of land	Leased buildings
North Luzon	0	3	3	0
South Luzon	0	3	3	0
Metro Manila	0	8	8	0
Visayas	0	2	2	0
Mindanao	0	2	2	0
Total Number	0	18	18	0
Total Square Meters	0	205,068.64	333,065.06	0

(c) Office Warehouse

The company leases all store spaces of Office Warehouse from various lessors; most of them are major mall operators and affiliate companies. The average area per store is 180 square meters, with varying rental rates depending on the location and lease terms of three to five years.

(d) Real Estate

The group closed 2019 with 34 commercial buildings with at least 277,000 square meters of gross leasable spaces, 97% or 269,000 square meters of which is occupied and leased out.

(e) Alcorn Petroleum has participating interests in the following petroleum and mineral exploration properties in the Philippines:

1. Service Contract (S.C.) No. 14 (B1)-North Matinloc

Service contract No. 14 is located in 350 meters of water, situated approximately offshore 60 kilometers N.W. from Palawan Island. SC No 14 is divided into four blocks (A, B, C & D). The Matinloc oil field is located in Block B1 under SC No. 14, located approximately 60 kilometers offshore from Palawan Island. SC No. 14 is divided into four blocks composed of Nido (Block A), North Matinloc (Block B1), West Linapacan (Block C), and the retention area (Block D). The company has participating interest in all except in the Nido Block A.

2. Service Contract No. 14 (C2)-West Linapacan, Offshore Northwest Palawan

The West Linapacan oil field is located in Block C2 under SC No. 14 and covers a total area of approximately 80 square kilometers. The block has produced more 8.3 million barrels of oil before the shut down because of water intrusion. A separate structure, West Linapacan "B, located 7.5 kilometers from "A" field structure, was drilled in March 1993 with well testing at a rate of 2,860 BOPD.

3. Service Contract No. 14 (D)- Retained Area

The company has a participating interest equivalent to 5.835% in the retained area under SC No. 14. The other members of the consortium are Philodrill Corp. (33.75%); Nido Petroleum Philippines Pty. Ltd. (31.42%); Oriental Petroleum and Mineral Corp. (20.83%); and Forum Energy Philippines Corp. (8.17%). The block is the subject of renewed interest by the partners and prompted the partners to allocate funds for its evaluation. Philodrill completed the geological and geophysical (G&G) assessment of the retained license area. The results are encouraging with promising plays and prospects that will be subject to further and more detailed study. The final recommendation of the study is for the consortium to continue retaining the block. APMC has 5.835% participating interest in the block.

4. Service Contract 6(A)

The SC No. 6(A) field is located in offshore Northwest Palawan covering 165,000 hectares of relatively shallow waters. Philodrill recently completed the resources assessment of Octon, and they came up with substantial figures. As an added highlight of the evaluation is the addition of another prospect in the block named “Barselisa”.

5. Service Contract 6 (BJ-Bonita, Offshore Northwest Palawan

The Bonita field under SC No. 6 (B) is located offshore northwest Palawan, adjacent to the Matinloc field of SC No. 14, with an area of 53,293 hectares. Philodrill continued to implement the approved work program and budget for the block. The work program includes satellite gravity study and its integration into the seismic interpretation,

detailed mapping of Top Nido horizon in the northern part of the block with a focus on the Elephant Prospect, and three other structural closures presently identified and seismic processing of existing lines over the block.
6. Service Contract 51-East Visayan Basin

The contract area is located in the central part of the Philippine Archipelago. The contract area is defined by two disjointed blocks, namely an onshore-offshore block over Northwest Leyte and a largely deep-water block in Cebu Strait, between the islands of Cebu and Bohol with an aggregate area of 444,000 hectares.

Along with our partners in Phinma Petroleum and Geothermal, Inc. and PetroEnergy Resources Corporation, we advised the Department of Energy of our relinquishment of the area on July 4, 2018.

Use of Property

Except for the oil and mining participating interest, the company uses its properties mostly for retail operations. There is no mortgage, lien, or encumbrance over any of the properties owned by the company that may limit or restrict its ownership or usage.

General Leases Provisions

Lease provisions are mutually agreed upon by the parties and based on general standards set by the company in terms of rental, period, and other stipulations. Lease periods are, on average, up to 25 years. Rental rates depend on the location and the condition of the property. All renewal of leases is upon mutual agreement of the parties.

Item 3. Legal Proceedings

There is no material pending legal (civil, criminal, or arbitrary) proceeding in which the company is involved or any of its property is a subject except for minor cases that are incidental in the course of its business.

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

Except for matters that were submitted to stockholders' vote during the stockholders' meeting held on June 20, 2019, there were no other matters submitted during the fiscal year covered by this report to a majority vote of security holders through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. (A) Market for Issuer's Common Equity and Related Stockholder Matters

The company's common stock trades in the Philippine Stock Exchange under the symbol "COSCO." The quarterly high and low of stock prices (in Philippine Peso) for the last two fiscal years and in the current year are in the stated below:

Period	2018		2019		2020	
	High	Low	High	Low	High	Low
1st Quarter	7.77	7.05	7.87	6.70	6.80	4.29
2nd Quarter	7.30	6.08	7.70	6.56	-	-
3rd Quarter	6.21	5.70	7.18	6.53	-	-
4th Quarter	7.40	5.78	7.08	6.39	-	-

(B) Stockholders

As of March 31, 2020, there are 989 stockholders on record, 7,405,263,564 issued shares, 7,203,253,664 outstanding capital stock, and 202,009,900 treasury shares.

Top 20 stockholders as of March 31, 2020:

1	Lucio L. Co	2,380,741,492	33.05%
2	Susan P. Co	1,780,182,230	24.71%
3	The HSBC	463,030,696	6.43%
4	Citibank N.A	281,941,141	3.91%
5	Ellimac Prime Holdings, Inc.	244,228,990	3.39%
6	Deutsche Bank Manila-clients A/C	227,556,911	3.16%
7	VFC Land Resources, Inc.	220,066,929	3.06%
8	Ferdinand Vincent P. Co	219,557,122	3.05%
9	Pamela Justine P. Co	219,535,971	3.05%
10	Standard Chartered Bank	171,692,233	2.38%
11	KMC Realty Corporation	150,832,231	2.09%
12	Camille Clarisse P. Co	100,625,231	1.40%
13	Ansaldo, Godinez & Co.	92,727,525	1.29%
14	SPC Resources, Inc.	58,500,000	0.81%
15	Katrina Marie P. Co	53,299,684	0.74%
16	Jose Paulino Santamarina	35,105,093	0.49%
17	HDI Securities, Inc.	33,428,094	0.46%
18	COL Financial Group, Inc.	33,114,259	0.46%
19	BDO Securities Corporation	32,650,446	0.45%
20	King's Power Securities, Inc.	32,083,630	0.45%

(C) Dividends

The company's dividends from 2014 to 2019:

Declaration Date	Amount and Type of Dividend (R-regular, S-special)	Record Date	Payment Date
June 27, 2014	S – 0.06 per share	July 11, 2014	July 28, 2014
December 18, 2014	R – 0.06 per share S – 0.02 per share	January 12, 2015	February 5, 2015
December 18, 2015	R – 0.06 per share S – 0.02 per share	January 8, 2016	January 18, 2016
December 22, 2016	R – 0.06 per share S – 0.02 per share	January 12, 2017	January 20, 2017
December 15, 2017	R – 0.06 per share S – 0.04 per share	January 2, 2018	January 26, 2018
February 1, 2019	R – 0.06 per share S – 0.04 per share	February 15, 2019	March 1, 2019

**In Philippine Peso*

Cash dividends are upon the declaration of the Board of Directors, but no stockholders' approval is required. Declaration of cash dividend depends on the company's available cash and profitability.

The company has not yet declared stock or property dividends; it would require approval from stockholders and the SEC.

(D) Recent Sales of Securities

On January 16, 2019, Puregold conducted a top-up placement of around 104 million common shares at P45.00 per share. The placement price was equivalent to a 6.8% discount from its last close of P48.30 as of January 16, 2019.

The shares sold represented 3.8% of Puregold's outstanding stocks at the time of the sale. The proceeds of around P4.7 billion were used for general corporate purposes and other capital expenditures.

On January 25, 2019, Puregold filed to the Securities and Exchange Commission a 'Notice of Exempt Transaction' based on Section 10.1 (e) of the Securities and Regulation Code. Mr. Co signed a Subscription Agreement for the same number of shares and price per share.

The deal was done via an overnight book-built offering with Mr. Lucio L. Co as the sole selling shareholder. Deutsche Bank AG acted as the placing agent for the transaction.

Item 6. Management's Discussion and Analysis of Financial Position and Results of Operation

Please refer to Annex "A" hereto attached.

Item 7. Financial Statements

The board of directors approved the company's 2019 Consolidated Audited Financial Statement on June 9, 2020, a copy of which is hereto attached as Annex "B".

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

(a) Audit Fees

Cosco Group	2017	2018	2019
	7,830,500	8,780,500	8,360,500

The company did not engage the services of R.G. Manabat (KPMG) for non-audit services.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

(A) Directors

The board of directors of the company is composed of nine members, eight males and one female, and one board consultant. No director of the company concurrently serves as a director in five or more listed companies. The business experience of the directors are as follows:

LUCIO L. CO, Filipino, 65 years old, Chairman of the Board of Directors since 2012.

Mr. Co is also the Chairman and President of the following companies: Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Invescap Incorporated, Puregold Duty Free, Inc., and Puregold Properties, Inc.

He is the Chairman of the Alcorn Petroleum and Minerals Corporation, Entenso Equities, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Pajusco Holdings Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.

He is one of the Directors of these companies: Catuiran Hydropower Corporation, Cleangreen Energy Corporation, Forbes Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corporation, LCCK & Sons Realty Corporation, Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., League One Finance and Leasing Corporation, Pamana Water Corporation, Tower 6789 Corporation and VS Gripal Power Corporation.

Mr. Co is holding the following positions in other Philippine listed companies: Director of Philippine Bank of Communications, Chairman of Puregold Price Club, Inc. and Chairman & President of Da Vinci Capital Holdings, 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, Filipino, 62 years old, Vice-Chairman of the Board since 2013.

Mrs. Co concurrently holds the following positions in other companies: Chairman and President of Cosco Price, Inc., Chairman of Tower 6789 Corporation and Director of

Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Kareila Management Corporation, KMC Realty Corp., Meritus Prime Distributions, Inc., Montosco, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PPCI Subic, Inc., Premier Wine and Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., Union Energy Corporation and Union Equities, Inc.

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

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

LEONARDO B. DAYAO, Filipino, 76 years old, President of the company since 2010.

Mr. Dayao was the President of Puregold from 2005 to 2014. He was first elected on the board in 1998. He is also the Chairman and President of Fertuna Holdings Corp.; Chairman of Catuiran Hydropower Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Kareila Management Corporation, League One Finance and Leasing Corporation, Pamana Water Corporation, PSMT Philippines, Inc., S&R Pizza, (Harbor Point) Inc., S&R Pizza, Inc.; Vice-Chairman of Ayagold Retailers, Inc.; President of 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 Duty Free, Inc., Puregold Properties, Inc. and Union Equities, Inc.; and Director of Canaria Holdings Corporation, Entenso Equities Incorporated, Karayan Hydropower Corporation and Puregold Realty Leasing & Management, Inc.

Mr. Dayao is holding the following positions in other Philippine listed companies: Executive Director of Puregold Price Club, Inc. and Vice-Chairman of Philippine Bank of Communications.

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

LEVI LABRA, Filipino, 62 years old, Executive Director since 2017.

Mr. Labra also serves as Director of Hope Philippines, Inc. He is holding the following positions in other Philippine listed companies: Board Consultant of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

Before joining the company, Mr. Labra worked in Procter & Gamble for 35 years. He was the Sales Head and a member of the management committee for 20 years. He was Regional Sales Manager for three years building sales organization and systems for India, Indonesia, Malaysia, Singapore, South Korea, and Thailand.

He graduated with honor, *cum laude*, from the University of San Carlos in 1978 of a degree of Bachelor of Science, major in Business Administration.

ROBERTO JUANCHITO T. DISPO, Filipino, 56 years old, Director since 2017.

Mr. Dispo is currently the President/CEO of League One Finance and Leasing Corporation, Chairman of Mercantile Insurance Corporation, Blacksburg Corporation, Pontificio Collegio Filipino in Rome, and Vice Chairman of New San Jose Builders.

Mr. Dispo was the former Vice Chairman and President of Cirtek Philippines from 2016 to 2019 and CEO of Quintel USA/UK from 2017 to 2019. He became President of First Metro Investment Corporation from 2011 to 2015, Senior Vice President and Executive Vice President of First Metro Investment Corporation from 1998 to 2010. He was a former Deputy Treasurer of the Philippines, National Treasury, Department of Finance from 1990 to 1997. Mr. Dispo started his career as Financial Analyst in the Department of Trade and Industry from 1988 to 1990 and Administrative Officer in the Department of National Defense from 1987 to 1988.

Mr. Dispo graduated with a degree of Bachelor of Science in Economics from the San Sebastián College, Manila in 1984. He took Bachelor of Science major in management from the Pamantasan ng Lungsod ng Maynila in 1990 and Masters in Business Administration from the same school in 1991. He completed a Diploma Program from the International Banking and Finance, Economic Institute, University of Colorado in 1994 and Masters in Business Economics from the University of Asia and the Pacific in 2014.

He is a member of the Money Market Association of the Philippines since 1998 and FINEX since 2012.

Mr. Dispo was the CEO of the Year awardee in 2014 given by Asia CEO Awards and became Finalist in CNBC Asia Best CEO in 2014.

ROBERT Y. COKENG, Filipino, 69 years old, Lead Independent Director since 2013 and Lead Independent Director since 2017.

Mr. Cokeng is the Chairman of the Audit Committee of the company.

Mr. Cokeng is currently the Chairman and President, F&J Prince Holdings Corporation (PSE-Listed), Magellan Capital Holdings Corporation, Center Industrial and Investment, Inc., and Consolidated Tobacco Industries of the Philippines. He is also the Chairman of Pointwest Technologies Corp., Ipads Developers Corp., Chairman of the Executive Committee of BPO International.

Mr. Cokeng started as Senior Investment Officer and Philippine Country Officer in International Finance Corp. (world bank group), Washington, D.C. from 1976 to 1986 and Planning Associate in Mobil Oil Philippines from 1971 to 1972.

Mr. Cokeng is a member of Wack - Wack Golf & Country Club, Tagaytay Midlands Golf & Country Club, Balesin Island Club, Management Association of the Philippines, and an Advisory Board Member of Harvard Business School Club of the Philippines.

Mr. Cokeng graduated with honors from the Ateneo University with a degree of Bachelor of Arts in Economics Honors Program in 1971, *magna cum laude*. He took a Masters in Business Administration program from Harvard University in 1976 and completed it with high distinction.

OSCAR S. REYES, Filipino, 74 years old, Independent Director since 2013.

Mr. Reyes is currently the Chairman of Link Edge, Inc. from 2002 up to the present. He was the former President & CEO of Manila Electric Company from 2012 to 2019, Senior Executive Vice–President & Chief Operating Officer of Manila Electric Company from 2010 to 2012. He was the Country Chairman of Shell Companies in the Philippines from 1997 to 2001 and held various executive positions in Pilipinas Shell Petroleum Corporation from 1971 to 2001.

Mr. Reyes completed Commercial Management Study Program, Shell International, United Kingdom in 1986, Program for Management Development at Harvard Business School in 1976, and with academic units completed in MBA at the Ateneo Graduate School of Business in 1971.

He is a member of the Management Association of the Philippines, FINEX, Asia Society of the Philippines, and the Employers Confederation of the Philippines.

Mr. Reyes is a graduate of the Ateneo de Manila University with a degree of Bachelor of Arts major in Economics in 1965 with a distinction of *cum laude*.

BIENVENIDO E. LAGUESMA, Filipino, 69 years old, Independent Director since 2017.

Mr. Laguesma is a Senior Partner at Laguesma Magsalin Consulta Law Offices, Independent Director of Philippine Bank of Communications (PSE-Listed), and Director of Rural Bank of Angeles, Cavite United Rural Bank, Asia United Leasing & Finance Corp., and Asia United Fleet Management Services, Inc.

He served as Secretary of the Department of Labor and Employment from 1998 to 2001, Commissioner of Social Security System from 2011 to 2016. He also became Presidential Assistant of the Office of the President of the Republic of the Philippines from 1996 to 1998, Undersecretary of the Department of Labor and Employment from 1990 to 1996, Administrator in the National Conciliation and Mediation Board from 1987 to 1990, Regional Director of the Department of Labor and Employment from 1982 to 1986, Assistant Regional Director from 1981-1982, and Executive Labor Arbiter, National Labor Relations Commission from 1979 to 1981. Mr. Laguesma started his public service as Labor Arbiter of the National Labor Relations Commission in 1979 and Provincial Director of Bataan Provincial Labor Office 1978 to 1979, and Mediator-Arbiter of the Bureau of Labor Relations from 1976 to 1978.

Atty. Laguesma completed his Career Executive Development Course from the Development Academy of the Philippines from 1984 to 1985 and Public Administration Course from the Royal Institute of Public Administration in London, United Kingdom in 1985. Lyceum of the Philippines awarded Atty. Laguesma, with an Outstanding Alumnus award in 1971, Doctor of Humanities, Honoris Causa, by the Adamson University in 1999, and Doctor of Humanities, Honoris Causa, by the Central Colleges of the Philippines in 2016.

He is a member of the Integrated Bar of the Philippines since 1976, the Philippine Bar Association since 2004, and the Rotary Club of Manila since 2002.

Atty. Laguesma graduated from the Lyceum of the Philippines with a degree of Bachelor of Arts major in Political Science in 1971 and Ateneo de Manila University College of Laws with a degree of Bachelor of Laws in 1975.

JAIME J. BAUTISTA, Filipino, 63 years old, Board Consultant since 2019.

Mr. Bautista is currently a member of the Board of Trustees of the University of the East, UE Ramon Magsaysay Memorial Medical Center, International School of Sustainable Tourism, Philippine Eagle Foundation Inc. and member of the Board of Directors of Airspeed International Corp., Alphaland Corp., Gothong Southern Shipping Lines, Inc., Sabre Travel Network Phils. Inc.

He used to be the President of the Philippine Airlines, Inc. (PAL) from 2014 to 2019 and from 2004 to 2012. He was the Executive Vice-President of PAL from 1999 to 2004 and Senior Vice President – Chief Finance Officer from 1994 to 1998.

Mr. Bautista is a graduate of Colegio de San Juan de Letran, Intramuros, Manila, with a degree of Bachelor of Science in Commerce, Major in Accounting, 1977.

He completed a post-graduate course of Doctor of Philosophy in Humanities (Honoris Causa) from the Central Luzon State University, Muñoz, Nueva Ecija in 2018, and a Canada International Entrepreneurial Program from Capilano College, North Vancouver, British Columbia in 1990.

(B) Executive Officers

Every after the annual stockholders' meeting, the board convenes for an organizational meeting and appoint officers who will assume the positions of President, Treasurer, Corporate Secretary, Compliance Officer, Lead Independent Director, Internal Auditor, and the members of the committee. For the year 2019, the organizational meeting took place on June 20, 2019. The board renewed the appointment of the following officers:

TEODORO A. POLINGA, Filipino, 61 years old, Comptroller.

Mr. Polinga was the Senior Accounting Manager of the company in 2013 and became Comptroller in 2015.

He was the founding President and Director of MTM Ship Management (Philippines), Inc., 2013 to 2014, and Executive Director and Chief Finance Officer of Alchem Energy Limited from 2010 to 2012.

Mr. Polinga is a Sustaining Life Member of the Philippine Institute of Certified Public Accountants (PICPA), Member/Past Director of the Rotary Club of Makati – Legazpi and Director & Vice President of B.F. International Homeowners Association.

Mr. Polinga graduated with honors, *Magna Cum Laude*, from the Holy Name University (Formerly Divine Word College of Tagbilaran City) with a degree of Bachelor of Science major in Accounting in 1978 and completed a Management Development Program from the Asian Institute of Management in 1990.

JOSE S. SANTOS, JR., Filipino, 80 years old, Corporate Secretary since 2013.

Atty. Santos is a practicing lawyer. He is a graduate of Lyceum of the Philippines with a degree of Bachelor of Laws in 1961. He became a member of the Philippine bar in 1961.

CANDY H. DACANAY–DATUON, Filipino, 41 years old, Assistant Corporate Secretary and Compliance Officer since 2013.

Atty. Dacanay is a graduate of Colegio De San Juan de Letran with a degree of Bachelor of Arts in Political Science, with a distinction of *cum laude*. She finished Bachelor of Laws from the University of Santo Tomas in 2003 and admitted to the Philippine Bar in 2004.

She started her career as Associate Counsel of Puregold Price Club, Inc. from 2004 to 2011. She became the company's Assistant Corporate Secretary and at the same time Compliance Officer in 2012, and Data Privacy Officer in 2018.

Concurrently, she is the Assistant Corporate Secretary and Compliance Officer of Puregold Price Club, Inc. (a listed company) and Corporate Secretary of Da Vinci Capital Holdings, Inc. (a listed company), Kareila Management Corporation (S&R warehouse) and Corporate Secretary and Compliance Officer of League One Finance and Leasing Corporation.

Atty. Dacanay has recently completed the Harvard Business School Online Certificate Program, "Sustainable Business Strategy".

EMERLINDA D. LLAMADO, Filipino, 58 years old, Internal Auditor

Ms. Llamado joined the company in 2012. Before joining the company, she worked as System Assistant and Audit Manager from 1984 to 2012 with the Ever Gotesco group of companies. She graduated from the Far Eastern University with a degree of Bachelor of Science in Accountancy in 1984. Ms. Llamado is a Certified Public Accountant.

(C) Key Officers in Subsidiaries

FERDINAND VINCENT P. CO, Filipino, 38 years old, President of Puregold Price Club, Inc. since 2015.

He concurrently holds the following positions: (1) Chairman and President of Alerce Holdings Corp., Blue Ocean Foods, Inc., Forbes Corporation, Invesco Company, Inc., KMC Realty Corporation, League One, Inc., PPCI Subic Inc., Patagonia Holdings Corp., Purepadala, Inc., and VFC Land Resources, Inc.; (2) President of Ayagold Retailers, Inc., Entenso Equities, Inc., and Union Equities, Inc.; (3) Director of Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Cosco Price, Inc., Ellimac Prime Holdings, Inc., Fertuna Holdings Corp., Meritus Prime Distributions, Inc., P.G. Holdings, Inc., Premier Wine and Spirits, Inc., PSMT Philippines, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City Power Corp., Tower 6789 Corporation and Union Energy Corporation.

Mr. Vincent Co received a Bachelor of Science degree in Entrepreneurial Management from the University of Asia and the Pacific in 2003.

ANTHONY SY, Filipino, 59 years old, S&R President

Mr. Sy joined the company in 2006. Before joining the company, Mr. Sy worked as President of Visual Merchandising Center from 1986 to 2006. He graduated from the Ateneo De Manila University with a degree of Bachelor of Science in Management Engineering in 1982.

JOSEPH U. SY, Filipino, 57 years old, Operations Manager of Ayagold since 2017.

Mr. Sy is one of the pioneer employees of Puregold. He was the first store manager in the first branch of the company in Mandaluyong City. Because of his long retail experience, Mr. Sy manages the big stores of Puregold in Metro Manila, and he is also heading the operation of 2 branches of Merkado, a joint venture project with Ayala Land, Inc.

He graduated from the Philippine School of Business Administration major in Accountancy in 1983. Mr. Sy is a Certified Public Accountant.

IRAIDA B. DE GUZMAN, Filipino, 60 years old, President of Office Warehouse.

Before joining Office Warehouse in 2014, Ms. De Guzman worked as Senior Vice-President of Puregold from 1999 to 2014. She is a graduate of Polytechnic University of the Philippines with a degree of Bachelor of Science in Commerce major in Economics.

GIRLIE M. SY, Filipino, 57 years old, President of Nation Realty, Inc.

Ms. Sy started her career in Puregold Finance, Inc. as Finance and Administration Manager in 1995 up to the present and Finance and Admin Manager for Bellagio Holdings, Inc. in 2005 up to the present.

Ms. Sy is a graduate of Far Eastern University with a degree of Bachelor of Science in Psychology in 1983.

JOAN C. JUSTO, Filipino, 45 years old, Operations Manager of NE Pacific Shopping Centers Corporation.

Ms. Justo has been with NE Pacific since 1997 under its previous and founding owners. She is a graduate of Lyceum of the Philippines with a degree of Bachelor of Science in Foreign Service in 1995.

CAMILLE CLARISSE P. CO, Filipino, 32 years old, Chairman and President of Meritus Prime Distributions, Inc.

Ms. Camille Co is a Director of Alerce Holdings, Corp., Blue Ocean Holdings, Corp., CHMI Hotels and Residences, Inc., Fertuna Holdings, Corp., Invesco Company, Inc., KMC Realty Corporation, League One, Inc., Montosco, Inc., Nation Realty Inc., P.G. Holdings, Inc., Patagonia Holdings, Corp., Pure Petroleum Corp., Premier Wine and Spirits, Inc. Puregold Properties, Inc., S&R Pizza, Inc., SPC Resources, Inc., Union Equities, Inc., VFC Land Resources, Inc.

Ms. Co is a graduate of Dela Salle University with a degree of Bachelor of Arts in Psychology in 2009.

JANELLE O. UY, Filipino, 33 years old, Chairman and President of Montosco, Inc.

Prior to joining the company, Ms. Uy worked as a Key Account Manager in Unilever Philippines from 2009 to 2013. She graduated from the Dela Salle University with a degree in Applied Corporate Management in 2009.

ROBIN DERRICK C. CHUA, Filipino, 30 years old, Managing Director of Premier Wine and Spirits, Inc. from 2018 up to the present.

Before joining the company, Mr. Chua worked in various consumer marketing and sales roles in Unilever Philippines and overseas from 2012 to 2018. He is a graduate of Ateneo de Manila University with a degree of Bachelor in Management and a Minor in Entrepreneurship in 2012.

JOSE PAULINO L. SANTAMARINA, Filipino, 56 years old, President of Premier Wines and Spirits, Inc. from 1996 up to the present. Mr. Santamarina is a graduate of the Ateneo De Davao University with a degree of Bachelor of Science in Accountancy.

(D) Significant Employees

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business. The business of the company is not highly dependent on the services of certain key personnel.

(E) Family Relationships

1. Mr. Lucio L. Co and Mrs. Susan P. Co are husband and wife.
2. Mr. Ferdinand Vincent P. Co and Ms. Camille Clarisse P. Co are two of the four children of Mr. and Mrs. Lucio and Susan Co.

(F) Involvement in Certain Legal Proceedings

As of December 31, 2019, and the past five years, the company has no director, executive officer or principal officer who is involved in the following:

(1) Bankruptcy case.

(2) Convicted by final judgment of any criminal proceeding, domestic or foreign.

(3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.

(4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Item 10. Executive Compensation

The company pays a fixed monthly compensation to its employees. The members of the board receive per diem allowances of P50,000.00 per attendance in board meetings and P20,000 per attendance in committee meetings.

The total annual compensation of the President and the four most highly compensated officers amounted to P6,406,199.02 in 2018 and P7,200,000.00 in 2019 and their projected total annual compensation for the year 2020 is P7,200,000.00, please see table below:

(A) Summary Compensation Table

Name and Position	Year	Salary	Bonus	Other Annual Compensation
Lucio L. Co, Chairman				
Susan P. Co, Vice-Chairman				
Leonardo B. Dayao, President				
Teodoro A. Polinga, Comptroller				
Andres S. Santos, Legal Counsel				

Aggregate compensation of the President and the four most highly compensated officers	2017	P6,412,772.70	-	-
	2018	P6,406,199.02	-	-
	2019	P7,200,000.00	-	-
	2020 projected	P7,200,000.00	-	-
Aggregate compensation paid to all other officers and managers	2017	P2,512,772.70	-	-
	2018	P2,506,199.02	-	-
	2019	P3,960,000.00	-	-
	2020 projected	P3,960,000.00	-	-

(B) Standard Arrangements

The company has no standard arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

(C) Other Arrangements

The company has no other arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

(D) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All employees, including executive and principal officers, have employment contracts with the company, which are following the existing labor laws of the country. The company has a retirement plan for its employees that is also in concordance with current labor laws.

(E) Warrants and Options

None.

Item 11. Security Ownership of Certain Beneficial Owners and Management

A. Security ownership of more than 5% of the stock of the company as of March 31, 2020:

Title of Class	Name, address of record owner	Relationship with the Company	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of shares held	Percent
Common	Lucio L. Co, No. 2 Pili Avenue, South Forbes Park, Makati City	Chairman	Direct	Filipino	2,380,741,492	33.05%
Common	Susan P. Co, No. 2, Pili Avenue, South Forbes Park, Makati City	Vice-Chairman	Direct	Filipino	1,780,182,230	24.71%
Common	The HSBC	Various accounts	Indirect		463,030,696	6.43%

B. Security Ownership of Directors and Executive Officers of the company as of March 31, 2020:

Title of Class	Name of Beneficial Owner	Nature of beneficial ownership	Citizenship	Number of shares	Percent of Outstanding Voting Shares
Common	Lucio L. Co	Direct	Filipino	2,380,741,492	33.05%
Common	Susan P. Co	Direct	Filipino	1,780,182,230	24.71%
Common	Leonardo B. Dayao	Direct	Filipino	750,982	0.01%
Common	Levi B. Labra	Direct	Filipino	100	0.00%
Common	Roberto Juanchito T. Dispo	Direct	Filipino	100	0.00%
Common	Robert Y. Cokeng	Direct	Filipino	8,155,000	0.11%
Common	Oscar S. Reyes	Direct	Filipino	54,264	0.00%
Common	Bienvenido E. Laguesma	Direct	Filipino	100	0.00%

Mr. and Mrs. Lucio and Susan Co do not have any voting trust agreement for their ownership of more than 5% of the stock of the company.

There has been no change in control of the company in the last fiscal period.

Item 12. Certain Relationships and Related Transactions

For discussion of related party transactions, please refer to 2019 Consolidated Audited Financial Statements hereto attached as Annex "B."

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

(a) The company has a Revised Manual on Corporate Governance approved by the board in May 2017. The company aims to improve such a manual to reflect more detailed policies of the company related to corporate governance, including adopting an evaluation system.

(b) The company has three independent directors to ensure that the management has independent views and is abreast of the practices of other companies in keeping good corporate governance.

(c) There has been no report of violation of Revised Manual on Corporate Governance since the board adopted it.

(d) The company conducts annual corporate governance training for all its directors and officers.

Year	Date	Time	Venue	Seminar Provider
2015	June 22	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	Center for Training and Development
2016	March 4	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	Center for Training and Development
2017	February 28	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company
2018	February 23	1:00-5:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company
2019	May 14	1:00-5:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company

The company's directors act on a fully informed basis, with due diligence and care required from them by law and taking into consideration all the stakeholders. The board regularly approves company objectives and plans and monitors its implementation. It is headed by a competent and qualified Chairman who has more than 40 years of experience in retail operations. The board meets at least six times a year and schedules the meetings before the start of the financial year. In 2019, it held meetings on February 1, March 29, May 3, May 14, August 2, and November 8.

The company has no agreement with shareholders, arrangements, or any bylaw provisions that constrain or may limit the director's ability to vote or express his views independently.

The company adheres to the nine cumulative years fixed term for directors and has not requested the stockholders for any exemption thereof.

Directors do not participate in the discussion fixing his/her remuneration.

To further improve the company's communication with the stockholders and members of the board, it amended its articles and bylaws in 2019 to expressly allow notices for stockholders meeting to be sent through any digital or electronic mode at least 30 days before the meeting. The amendment will enable special meetings of the board of directors in any digital or electronic manner approved by the SEC. The amended portions of the articles and bylaws are as follows:

"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 any place and time fixed by the Board of Directors or by order of the President."

Section 3:
"Notices of Meetings— Written notice of the 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 five 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 on May 3, 2019, and the stockholders approved the same on June 20, 2019.

(e) Committee Membership

The company has two board committees, Corporate Governance Committee, and the Audit Committee. The board appointed their members during the organizational meeting held on June 20, 2019:

Corporate Governance Committee	Audit Committee
Oscar Reyes (I.D.) Chairman	Robert Y. Cokeng (I.D.) Chairman/Lead ID
Bienvenido E. Laguesma (I.D.)	Bienvenido E. Laguesma (I.D.)
Roberto Juanchito T. Dispo (Regular)	Susan P. Co (Executive)
Leonardo B. Dayao (Executive)	Leonardo B. Dayao (Executive)

The internal and external auditors are reporting directly to the Audit Committee. The external auditor reports to the committee annually, and the internal auditor reports to the committee quarterly.

In 2019, the Audit Committee convened four meetings held on March 26, July 29, November 4, and December 2.

PART V - EXHIBITS AND SCHEDULES

A. Annexes

Annex "A"	Management's Discussion and Analysis
Annex "B"	Consolidated Audited Financial Statement 2019
Annex "C"	Supplementary Schedules
Annex "D"	Sustainability Report

B. Reports on SEC Form 17-C

Date of Report: January 21, 2019 Date filed: January 22, 2019	Philippine Competition Commission Decision dated January 17, 2019
Date of Report: January 21, 2019 Date filed: January 22, 2019	Buy Back of 500,000 shares
Date of Report: January 23, 2019 Date filed: January 24, 2019	Buy Back of 130,000 shares
Date of Report: January 24, 2019 Date filed: January 28, 2019	Buy Back of 335,000 shares
Date of Report: January 25, 2019 Date filed: January 28, 2019	Buy Back of 145,000 shares
Date of Report: January 28, 2019 Date filed: January 29, 2019	Buy Back of 116,300 shares
Date of Report: January 29, 2019 Date filed: January 30, 2019	Buy Back of 147,000 shares
Date of Report: January 31, 2019 Date filed: January 31, 2019	Buy Back of 115,000 shares
Date of Report: January 31, 2019 Date filed: January 31, 2019	Buy Back of 140,000 shares
Date of Report: January 31, 2019 Date filed: February 1, 2019	Buy Back of 115,000 shares
Date of Report: February 4, 2019 Date filed: February 6, 2019	Buy Back of 945,000 shares
Date of Report: February 4, 2019 Date filed: February 6, 2019	Result of Board Meeting dated February 1, 2019: Declaration of Cash Dividend
Date of Report: February 4, 2019 Date filed: February 6, 2019	Buy Back of 85,000 shares

Date of Report: February 6, 2019 Date filed: February 7, 2019	Buy Back of 125,000 shares
Date of Report: February 7, 2019 Date filed: February 8, 2019	Buy Back of 240,000 shares
Date of Report: February 8, 2019 Date filed: February 11, 2019	Buy Back of 50,000 shares
Date of Report: February 11, 2019 Date filed: February 12, 2019	Buy Back of 80,700 shares
Date of Report: February 12, 2019 Date filed: February 13, 2019	Buy Back of 720,000 shares
Date of Report: February 13, 2019 Date filed: February 14, 2019	Buy Back of 115,000 shares
Date of Report: February 15, 2019 Date filed: February 18, 2019	Buy Back of 4,910,000 shares
Date of Report: February 18, 2019 Date filed: February 19, 2019	Buy Back of 122,000 shares
Date of Report: February 19, 2019 Date filed: February 20, 2019	Buy Back of 400,000 shares
Date of Report: February 20, 2019 Date filed: February 21, 2019	Result of Board Meeting dated February 14, 2019: Approval of the Amendment on the Second Article of the Articles of Incorporation.
Date of Report: February 20, 2019 Date filed: February 21, 2019	Buy Back of 230,000 shares
Date of Report: February 22, 2019 Date filed: February 26, 2019	Buy Back of 146,600 shares
Date of Report: February 27, 2019 Date filed: February 28, 2019	Buy Back of 200,000 shares
Date of Report: February 28, 2019 Date filed: March 1, 2019	Buy Back of 298,000 shares
Date of Report: March 5, 2019 Date filed: March 6, 2019	Buy Back of 11,500 shares
Date of Report: March 11, 2019 Date filed: March 12, 2019	Buy Back of 250,000 shares
Date of Report: March 27, 2019 Date filed: March 28, 2019	Written Assent Vote Form

Date of Report: April 1, 2019 Date filed: April 1, 2019	Result of Board Meeting dated March 29, 2019: Approval of 2018 Consolidated Audited Financial Statement and Annual Stockholders Meeting held on June 20, 2019, at 9am at the Acacia Hotel Alabang, Muntinlupa City.
Date of Report: April 3, 2019 Date filed: April 5, 2019	Notice of Investor Briefing Full Year 2018 Result
Date of Report: April 15, 2019 Date filed: April 15, 2019	Company Presentation for Investors' Briefing Teleconference held on April 12, 2019, 4:30 PM
Date of Report: April 15, 2019 Date filed: April 15, 2019	Press Release Entitled "Cosco Capital nets PHP 8.8 billion up 12.4% in 2018."
Date of Report: April 16, 2019 Date filed: April 17, 2019	Result of Written Assent submitted by Stockholders of Cosco Capital, Inc/.
Date of Report: April 29, 2019 Date filed: April 29, 2019	Notice of Investor Briefing 1st Quarter 2019 Result
Date of Report: May 6, 2019 Date filed: May 6, 2019	Result of Board Meeting dated May 3, 2019: Approval of the 1st Quarter – 2019 Consolidated Financial Statements and nominees for the election of 2019 Board of Directors.
Date of Report: May 17, 2019 Date filed: May 20, 2019	Certificate of Attendance of Directors and Officers to Corporate Governance Seminar
Date of Report: June 20, 2019 Date filed: June 26, 2019	Result of Annual Stockholders Meeting and Organizational Meeting
Date of Report: June 26, 2019 Date filed: June 27, 2019	Certificate of Attendance of Mr. Robert Y. Cokeng to Corporate Governance Seminar
Date of Report: August 5, 2019 Date filed: August 5, 2019	Result of Board Meeting dated August 2, 2019: Approval of the Consolidated Financial Statement of the Company for 1H-2019 and Material Related Party Transaction.
Date of Report: August 5, 2019 Date filed: August 5, 2019	Notice of Investor Briefing 2nd Quarter 2019 Result
Date of Report: August 9, 2019 Date filed: August 14, 2019	Buy Back of 100,000 shares
Date of Report: August 13, 2019 Date filed: August 14, 2019	Press Release Entitled "Cosco Capital net income almost triple to PHP 12.08 billion in 1H2019
Date of Report: August 13, 2019	Buy Back of 100,000 shares

Date filed: August 14, 2019	
Date of Report: August 14, 2019	Buy Back of 200,000 shares
Date filed: August 15, 2019	
Date of Report: August 15, 2019	Buy Back of 300,000 shares
Date filed: August 19, 2019	
Date of Report: September 2, 2019	Buy Back of 500,000 shares
Date filed: September 3, 2019	
Date of Report: September 5, 2019	Buy Back of 99,000 shares
Date filed: September 6, 2019	
Date of Report: September 6, 2019	Buy Back of 284,500 shares
Date filed: September 9, 2019	
Date of Report: September 12, 2019	Buy Back of 150,000 shares
Date filed: September 16, 2019	
Date of Report: September 13, 2019	Buy Back of 250,000 shares
Date filed: September 16, 2019	
Date of Report: September 16, 2019	Buy Back of 250,000 shares
Date filed: September 18, 2019	
Date of Report: September 19, 2019	Buy Back of 515,000 shares
Date filed: September 23, 2019	
Date of Report: September 20, 2019	Buy Back of 350,000 shares
Date filed: September 23, 2019	
Date of Report: September 27, 2019	Buy Back of 250,000 shares
Date filed: October 1, 2019	
Date of Report: September 30, 2019	Buy Back of 235,500 shares
Date filed: October 1, 2019	
Date of Report: October 2, 2019	Buy Back of 114,100 shares
Date filed: October 3, 2019	
Date of Report: October 4, 2019	Buy Back of 200,000 shares
Date filed: October 7, 2019	
Date of Report: October 30, 2019	Notice of Investor Briefing 3rd Quarter Result
Date filed: November 4, 2019	
Date of Report: November 4, 2019	Buy Back of 150,000 shares
Date filed: November 4, 2019	
Date of Report: November 6, 2019	Buy Back of 1,400,000 shares

Date filed: November 8, 2019	
Date of Report: November 8, 2019 Date filed: November 8, 2019	Result of Board Meeting dated November 7, 2019: Approval of the Consolidated Financial Statement of the Company for 3Q-2019 and appointment of Mr. Jaime J. Bautista as Board adviser.
Date of Report: November 12, 2019 Date filed: November 14, 2019	Buy Back of 7,180,000 shares
Date of Report: November 13, 2019 Date filed: November 14, 2019	Company Presentation for Investor Briefing Teleconference
Date of Report: November 19, 2019 Date filed: November 20, 2019	Buy Back of 200,000 shares
Date of Report: November 20, 2019 Date filed: November 21, 2019	Buy Back of 200,000 shares
Date of Report: November 28, 2019 Date filed: November 29, 2019	Buy Back of 200,000 shares
Date of Report: December 2, 2019 Date filed: December 4, 2019	Buy Back of 32,800 shares
Date of Report: December 3, 2019 Date filed: December 4, 2019	Buy Back of 4,600 shares
Date of Report: December 10, 2019 Date filed: December 11, 2019	Result of Board Meeting dated December 10, 2019: Approval of Audit Plan by the External Auditor, renewal of buyback program, renewal of authority of the company signatories, and cash dividend declaration.
Date of Report: December 12, 2019 Date filed: December 13, 2019	Buy Back of 205,700 shares
Date of Report: December 13, 2019 Date filed: December 16, 2019	Buy Back of 86,500 shares
Date of Report: December 23, 2019 Date filed: January 2, 2019	Buy Back of 200,000 shares

SIGNATURES

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

JUN 29 2020

By:

COSCO CAPITAL, INC.

LUCIO L. CO
Chairman

LEONARDO B. DAYAO
President

TEODORO A. POLINGA
Comptroller

JOSE S. SANTOS, JR.
Corporate Secretary

CANDY H . DACANAY – DATUON
Assistant Corporate Secretary/Compliance Officer

JUN 29 2020

SUBSCRIBED AND SWORN to before me this _____ day of June 2020 in the City of Manila, Philippines. Affiants exhibited to me competent proof of their respective identities.

LUCIO L. CO	TIN ID No. 108-975-971
LEONARDO B. DAYAO	TIN ID No. 135-546-815
TEODORO A. POLINGA	TIN ID No. 104-883-077
JOSE S. SANTOS, JR.	TIN ID No. 136-370-998
CANDY H . DACANAY – DATUON	TIN ID No. 233-200-394

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Series of 2020.

EMMA RHEA B. SADURAL-CAPISTRANO
Notary Public for the City of Manila
Commission No. 2019-100 until December 31, 2020
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 9123815 / 01-03-2020 / Mla
MCLE No. VI-0022489 / 04-16-19
No. 900 Romualdez St., Paco, Manila

ANNEX A

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 2019 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:

Performance Indicators	**2019**	**2018**	**2017**
Return on investment	**16.60%**	10.47%	10.10%
Profit margin	**9.27%**	5.04%	5.13%
EBITDA to interest expense	**8.65x**	8.64x	8.71x
Current ratio	**3.45:1**	2.47:1	1.88:1
Asset turnover	**1.13:1**	1.25:1	1.17:1
Asset to equity	**1.54:1**	1.64:1	1.67:1
Debt to equity ratio	**0.54:1**	0.64:1	0.67:1

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 2019 and 2018

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2019 and 2018.

(In Thousands)	FY2019	%	FY2018	%	*INCREASE (DECREASE)*	%
REVENUES	166,066,712	100.00%	168,210,357	100.00%	(2,143,644)	-1.27%
COST OF SALES/SERVICES	136,177,666	82.00%	139,809,619	83.12%	(3,631,953)	-2.60%
GROSS PROFIT	29,889,046	18.00%	28,400,738	16.88%	1,488,308	5.24%
OTHER OPERATING INCOME	3,262,853	1.96%	2,994,765	1.78%	268,088	8.95%
GROSS OPERATING INCOME	33,151,900	19.96%	31,395,503	18.66%	1,756,397	5.59%
OPERATING EXPENSES	19,147,089	11.53%	18,326,809	10.90%	820,280	4.48%
INCOME FROM OPERATIONS	14,004,811	8.43%	13,068,694	7.77%	936,117	7.16%
OTHER INCOME (CHARGES) - net	4,909,862	2.96%	(1,301,028)	-0.77%	6,210,890	477.38%
INCOME BEFORE INCOME TAX	18,914,673	11.39%	11,767,667	7.00%	7,147,007	60.73%
INCOME TAX EXPENSE	3,521,465	2.12%	3,285,862	1.95%	235,604	7.17%
NET INCOME FOR THE YEAR	15,393,208	9.27%	8,481,805	5.04%	6,911,403	81.49%
Equity Holders of the Parent Company	11,597,381	6.98%	5,381,485	3.20%	6,215,896	115.51%
Non-controlling interests	3,795,827	2.29%	3,100,319	1.84%	695,508	22.43%
	15,393,208	9.27%	8,481,805	5.04%	6,911,404	81.49%
EARNINGS PER SHARE (EPS)	1.65437		0.75975			117.75%
CORE EPS	0.83754		0.73362			14.16%

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the “Group”) posted a consolidated revenue of P166.06 Billion during the year ended December 31, 2019 which reflects a decrease by P2.14 Billion or 1.27% compared to last year’s revenue of P168.21 Billion.

The 2019 revenue figures do not anymore include the revenue contributions from Liquigaz in view of the divestment of the group’s equity interests which was closed and completed on February 13, 2019. Excluding Liquigaz’s revenue contribution in 2018 amounting to about P17.09 Billion, for like for like comparability, consolidated revenues of all the business segments in 2019 would reflect a normalized growth of 9.89% year on year over 2018 performance.

Growth in Net Income

During the same year, the Group realized a consolidated net income of P15.39 Billion which is higher by P6.91 Billion representing a growth of 81.49% as compared to last year’s net income of P8.48 Billion which was restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments’ net income.

The 2019 net income includes a one-time gain realized from the sale of the group’s equity interest in Liquigaz Philippines Corporation amounting to P6.07 Billion. Excluding this one-time gain on sale of investment, core consolidated net income for the year ended December 31, 2019 amounted to P9.32 Billion at 5.61% net margin and for a growth of 14.79%.

As discussed more fully in Note 33 to the audited financial statements, the gain on sale previously reported and presented in the quarterly reports in 2019 represents the gain on sale before the effect of share in income recognized from date of acquisition to date of sale which were directly derecognized from the retained earnings account.

Net income attributable to equity holders of the parent company (PATMI) in 2019 amounted to about P11.60 Billion which increased by about P6.21 Billion or 115.51% as compared to the 2018 PATMI amounting to P5.38 Billion. Similarly, excluding the one-time gain from the sale of investment abovementioned, core PATMI in 2019 would amount to P5.87 Billion which is 13.0% higher than the 2018 PATMI of P5.19 Billion.

Segment Revenue & Net Income Contributions

Grocery Retail Segment

During the year 2019, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P154.49 Billion or an increase of P13.35 Billion or about 9.46% growth as compared to the segment's revenue contribution of P141.14 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 2019 amounted to P6.77 Billion which increased by P573.29 Million or 9.25% as compared to the net income contribution of P6.20 Billion in 2018. 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 P6.75 Billion which registered a growth of 16.0% year on year from the previous year.

Real Estate Segment

The commercial real estate business segment contributed P1.49 Billion to the Group's consolidated revenue in 2019 representing a growth of about P118.54 Million or 8.59% of the segment's revenue contribution in 2018 amounting to P1.38 Billion. This was mainly attributable to the additional leasable area from the new mall assets added to the portfolio during the first quarter of 2018 and in 2019, sustained 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 P1.17 Billion which increased by about P85.79 Million or 7.90% as compared to the net income contribution of P1.08 Billion in 2018, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Liquor Distribution Segment

The liquor distribution business segment contributed about P7.63 Billion to the Group's consolidated revenue in 2019 representing an increase by about P1.11 Billion or 17.12% higher as compared to the 2018 revenue contribution of P6.51 Billion mainly attributable to its continued strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the period.

Consolidated net income contribution in 2019 amounted to about P1.21 Billion which increased by P470.15 Million or 63.26% as compared to the net income contribution in 2018 amounting to P743.18 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Specialty Retail
In view of the group's divestment in Liquigaz which was completed in February 2019 following the approval of the transaction by the Philippine Competition Commission, the financial performance of the Specialty Retail segment in 2019 covers only that of Office Warehouse.

Office Warehouse, Inc. contributed about P2.45 Billion to the Group's consolidated revenue during the fiscal year 2019 representing an increase by about P361.83 Million or 17.35% higher as compared to the 2018 revenue contribution of P2.08 Billion mainly attributable to its strong same store sales growth (SSSG) of 12.19% and its enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48.0% as compared to 2018 amounting to P65.58 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Segment Operating & Financial Highlights

Grocery Retail

Net Sales
For the year ended December 31, 2019, the Grocery Retail Segment posted a consolidated net sales of P154,490 million for an increase of P13,351 million or a growth of 9.5% compared to P141,139 million in 2018. New organic stores put up in 2018 were fully operating in 2019 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:

	PGOLD	S&R
Net Sales	**4.6%**	**8.3%**
Net Ticket	**8.5%**	**7.3%**
Traffic	**-3.5%**	**0.9%**

Gross Profit
For the year ended December 31, 2019, the Grocery Retail Segment realized an increase of 8.5% in consolidated gross profit from P23,929 million in 2018 at 17.0% margin to P25,951 million at 16.8% margin in 2019, 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. The margin slightly declined during the current period accounting primarily to lower supplier support in relation to product cost.

Other Operating Income
Other operating income increased by P322 million or 10.9% from P2,941 million in 2018 to P3,263 million in 2019. This is attributable to increase in concess income, membership income and rent income driven mainly by new stores opened during the year and full operation of new stores opened in 2018.

Operating Expenses
Operating expenses increased by P1,191 million or 7.2% from P16,639 million in December 31, 2018 to P17,830 million in 2019. The incremental operating expenses were mainly attributable to depreciation expense, taxes and licenses, repairs and maintenance, advertising and promotion, credit card charges and manpower expenses principally related to the establishment and operation of new organic stores.

Other Expense - net
Other expenses net of other income amounted to P1,804 million and P1,528 million in December 31, 2019 and 2018, respectively. Interest income increased in December 2019 due to higher placement in short-term investment as compared to placements made in 2018. Interest expense comprised bulk of the account as a result of adoption of the new accounting standard, PFRS 16 – Leases.

Net Income
For the year ended December 31, 2019, the Grocery Retail Segment earned a consolidated net income of P6,773 million at 4.4% net margin and an increase of 9.2% from P6,200 million at 4.4% net margin in 2018. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income grew by 16.0% at 4.4% and 4.1% net margin in 2019 and 2018, respectively. This was principally driven by the continuous organic expansion of the Grocery Retail Segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from the base stores as well as new stores and constant management efforts to strategically control operating expenses.

Commercial Real Estate

The Group's Real Estate Segment posted P2.14 Billion in revenues for the year ended December 31, 2019 or a 5.71% increase from P2.03 Billion from 2018. This was mainly attributable to the additional leasable area from its new mall assets added to its portfolio in early 2018 and 2019, 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 P69.43 Million or 4.5% from P1.53 Billion in 2018 to P1.60 Billion for the year ended December 31, 2019.

Net income for the year ended December 31, 2019 amounted to P1.22 Billion or a 12.8% increase from last year's P1.08 Billion brought about by additional rental revenue.

Liquor Distribution

Revenues generated by the Liquor Distribution Segment increased to P10.72 Billion in 2019 or 22.52% growth from last year's P8.74 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 43%. The strong sales performance is still principally driven by its brandy portfolio which accounts for more than 70% of sales augmented by the strong performance of the other spirits sector.

Income from operations increased to P1.68 Billion in 2019 or 66.63% higher from last year's P1.01 Billion.

Net income for the 2019 period increased by P474.09 Million from P738.36 Million in 2018 to P1.21 Billion in 2019 or 64.20% growth.

Specialty Retail

Office Warehouse

As at December 31, 2019, the company had expanded its retail network to 89 stores from 46 stores at acquisition date sometime in May 2014. Net selling area also increased to 15,589 sq.m. or a cumulative growth by 41.25% from the date of acquisition. Sales revenues increased to P2.45 Billion in 2019 or 17.3% higher as compared to the 2018 revenue of P2.09 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 12.19% during the fiscal year 2019. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48% as compared to the net income contribution in 2018 amounting to P65.58 Million

Liquigaz

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 sale of investment in Liquigaz resulted to a one-time gain of P6.07 Billion, net of capital gains tax.

Revenues generated in 2018 amounted to P17.09 Billion and net income of P626.23 Million.

Consolidated Statements of Financial Position

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

(In Thousands)	2019	%	2018 (As Restated)	%	INCREASE (DECREASE)	%
Current Assets						
Cash and cash equivalents	**24,402,014**	15.80%	16,784,861	12.03%	**7,617,153**	45.38%
Receivables - net	**16,637,892**	10.77%	6,630,927	4.75%	**10,006,966**	150.91%
Financial asset at FVOCI	**9,209**	0.01%	7,026	0.01%	**2,182**	31.06%
Financial asset at FVPL	**34,921**	0.02%	36,503	0.03%	**(1,582)**	-4.33%
Inventories	**24,722,271**	16.01%	23,931,657	17.15%	**790,614**	3.30%
Due from related parties	**192,068**	0.12%	47,971	0.03%	**144,096**	300.38%
Prepayments and other current assets	**2,000,502**	1.30%	2,609,348	1.87%	**(608,846)**	-23.33%
	67,998,876	44.03%	50,048,292	35.87%	**17,950,584**	35.87%
Assets of disposal group classified as held for sale	**-**	-	7,320,895	5.25%	**(7,320,895)**	-100.00%
Total current assets	**67,998,876**	44.03%	57,369,187	41.11%	**10,629,689**	18.53%
Noncurrent Assets						
Property and equipment - net	**27,927,953**	*18.08%*	26,343,793	*18.88%*	**1,584,160**	6.01%
Right-of-use assets	**21,700,103**	*14.05%*	20,082,426	*14.39%*	**1,617,676**	8.06%
Investment properties - net	**11,125,998**	*7.20%*	10,836,618	*7.77%*	**289,379**	2.67%
Intangibles and goodwill - net	**21,089,717**	*13.65%*	21,095,502	*15.12%*	**(5,786)**	-0.03%
Investments	**741,175**	*0.48%*	603,175	*0.43%*	**138,000**	22.88%
Deferred oil and mineral exploration costs		*0.00%*	123,365	*0.09%*	**(123,365)**	-100.00%
Deferred tax assets-net	**566,284**	*0.37%*	96,263	*0.07%*	**470,021**	488.27%
Other non-current assets	**3,299,789**	*2.14%*	2,987,211	*2.14%*	**312,578**	10.46%
Total noncurrent assets	**86,451,018**	*55.97%*	82,168,354	*58.89%*	**4,282,665**	5.21%
Total Assets	**154,449,894**	*100.00%*	139,537,541	*100.00%*	**14,912,354**	10.69%
LIABILITIES						
Current Liabilities						
Accounts payable and accrued expenses	**15,127,981**	*9.79%*	13,016,166	*9.33%*	**2,111,814**	16.22%
Income tax payable	**1,164,727**	*0.75%*	930,909	*0.67%*	**233,818**	25.12%
Short-term loans payable	**871,124**	*0.56%*	4,866,300	*3.49%*	**(3,995,176)**	-82.10%
Current portion of long-term borrowing	**43,685**	*0.03%*	49,999	*0.04%*	**(6,314)**	-12.63%
Lease liabilities due within one year	**567,682**	*0.37%*	725,846	*0.52%*	**(158,164)**	-21.79%
Due to related parties	**1,343,460**	*0.87%*	1,365,863	*0.98%*	**(22,403)**	-1.64%
Other current liabilities	**596,992**	*0.39%*	434,901	*0.31%*	**162,091**	37.27%
	19,715,651	*12.77%*	21,389,984	*15.33%*	**(1,674,333)**	-7.83%
Liabilities of disposal group classified as held for sale	**-**	-	1,834,651	*1.31%*	**(1,834,651)**	-100.00%
Total current liabilities	**19,715,651**	*12.77%*	23,224,635	*16.64%*	**(3,508,984)**	-15.11%
Noncurrent Liabilities						
Retirement benefit liability	**955,818**	*0.62%*	508,533	*0.36%*	**447,285**	87.96%
Lease liabilities	**26,101,259**	*16.90%*	23,496,626	*16.84%*	**2,604,632**	11.09%
Deferred tax liabilities	**128,586**	*0.08%*	177,626	*0.13%*	**(49,040)**	-27.61%
Long term loans payable - net of debt issue cost	**5,094,577**	*3.30%*	6,572,209	*4.71%*	**(1,477,632)**	-22.48%
Other non-current liabilities	**393,219**	*0.25%*	433,342	*0.31%*	**(40,123)**	-9.26%
Total noncurrent liabilities	**32,673,459**	*21.15%*	31,188,337	*22.35%*	**1,485,123**	4.76%
Total Liabilities	**52,389,110**	*33.92%*	54,412,971	*39.00%*	**(2,023,861)**	-3.72%
EQUITY						
Capital stock	**7,405,264**	*4.79%*	7,405,264	*5.31%*	**-**	-
Additional paid-in capital	**9,634,644**	*6.24%*	9,634,644	*6.90%*	**-**	-
Retirement benefits reserve	**5,412**	*0.00%*	113,822	*0.08%*	**(108,410)**	-95.25%
Other reserve	**5,602**	*0.00%*	3,420	*0.00%*	**2,182**	63.78%
Treasury shares	**(1,403,974)**	*-0.91%*	(1,197,727)	*-0.86%*	**(206,247)**	17.22%
Retained earnings	**54,167,212**	*35.07%*	42,775,502	*30.66%*	**11,391,710**	26.63%
Total Equity Attributable to Equity Holders of Parent Company	**69,814,160**	*45.20%*	58,734,925	*42.09%*	**11,079,235**	18.86%
Non-controlling interest	**32,246,624**	*20.88%*	26,389,644	*18.91%*	**5,856,980**	22.19%
Total Equity	**102,060,784**	*66.08%*	85,124,569	*61.00%*	**16,936,215**	19.90%
Total Liabilities and Equity	**154,449,894**	*100.00%*	139,537,541	*100.00%*	**14,912,353**	10.69%

Current Assets

Cash and cash equivalents amounted to P24.40 Billion as at December 31, 2019 with an increase of P7.62 Billion or 45.38% from December 31, 2018 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 2019 cash dividends, settlement of loans and payments for capital expenditures during the year.

Receivables increased by 150.91% from December 31, 2018 balance of P6.63 Billion to this year's balance of P16.64 Billion due mainly to the net effect of collections made and the loans granted to companies under common control.

Assets of disposal group classified as held for sale pertain to current and noncurrent assets of Liquigaz Philippine Corporation (LPC) which were reclassified as at December 31, 2018 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. The sale transaction was closed and completed on February 13, 2019, thus paving the way for the derecognition of these assets in the consolidated statements of financial position.

Financial assets at fair value through comprehensive income (FVOC) increased by 31.06% from December 31, 2018 balance of P7.02 Million to this year's balance of P9.21 Million due mainly to the effect of changes in stock prices.

Financial assets at fair value through profit or loss (FVPL) decreased by 4.33% from December 31, 2018 balance of P36.50 Million to this year's balance of P34.92 Million due mainly to the effect of changes in stock market prices.

Inventories increased by 3.30% from 2018 balance of P23.93 Billion to this year's balance of P24.72 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 P19.53 Billion.

Prepaid expenses and other current assets decreased by P608.85 Million or 23.33% at the end of December 2019, mainly due to amortization of prepayments made for advertising, taxes and licenses, availment of new policies for insurance of new stores and application of input VAT by Grocery Retail, Real Estate and Liquor Distributions segments.

Due from related parties increased by P144.09 Million at the end of December 2019, due primarily to additional advances made.

Non-current Assets

As at December 31, 2019 and 2018, total non-current assets amounted to P86.41 Billion or 55.96% of total assets, and P82.17 Billion or 58.89% of total assets, respectively, for an increase of P4.24 Billion or 5.17%.

Property and equipment-net pertains to the buildings and equipment owned mostly by the Grocery Retail segment. Book values of property and equipment increased by P1.58 Billion from P26.34 Billion in December 2018 to P27.93 Billion in December 2019 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.62 Billion from P20.08 Billion in December 2018 to P21.70 Billion in December 2019 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

Investment properties-net pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P289.38 Million from P10.84 Billion in December 2018 to P11.12 Billion in December 2019.

Investments increased by P138 Million from P603.17 Million in December 2018 to P741.17 Million in December 2019 representing the additional equity investments by the Liquor Distribution segment in Pernod Philippines.

Intangibles and goodwill-net decreased by P5.78 Million from P21.09 Billion in December 2018 to P21.09 Billion in December 2019 primarily due to the periodic amortizations of computer software cost recognized during the year.

Deferred tax assets increased by P432.59 Million or 448.35% from P96.26 Million in December 2018 to P527.86 Million in December 2019 resulting mainly from the additional recognition of deferred tax assets by the Grocery Retail segment from ROU assets recognized.

Other non-current assets increased by P312.58 Million from P2.99 Billion in December 2018 to P3.30 Billion in December 2019. About 73% 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, 2019 and 2018, total current liabilities amounted to P19.71 Billion and P23.22 Billion respectively, for a decrease of P3.51 Billion or 15.11%.

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 P2.11 Billion or 16.22% was primarily due to increase of trade and non-trade liabilities and declaration of dividends by the Grocery Retail segment and Parent Company in 2019.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P233.82 Million from P930.31 Million as at December 2018 to P1.16 Billion as at December 31, 2019 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2019 in relation to the same period in 2018.

Liabilities of disposal group classified as held for sale pertain to current and noncurrent liabilities under LPC which were reclassified as at December 31, 2018 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. The sale transaction was closed and completed on February 13, 2019, thus paving the way for their derecognition from the consolidated statements of financial position.

Short-term loans payable account decreased by P3.99 Billion mainly due to settlements made by the Grocery Retail, Real Estate and Liquor Distribution segments.

Current portion of long-term borrowing decreased by P6.1 Million mainly due to amortization of debt issue cost.

Lease liabilities due within one year account increased by P82.35 Million from P643.49 Million in December 2018 to P725.85 Million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Due to related parties decreased by P22.40 Million mainly due to the settlements made.

Other current liabilities decreased by 37.27% from P434.90 Million as at December 31, 2018 to P597.0 Million as at December 31, 2019 relatively due to deposits from tenants and sale of gift certificates during the year by the Grocery Retail segment.

Noncurrent Liabilities

As at December 31, 2019 and December 31, 2018, total non-current liabilities amounted to P32.67 Billion and P31.19 Billion, respectively, for an increase of P1.48 Billion or 4.76%.

Long-term loans payable-net of current portion decreased by P1.48 Billion mainly due to the settlements by the Grocery Retail segment of its long term bank loans.

Lease liabilities represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Liquor Distributions, Real Estate and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.60 Billion from P23.50 Billion in December 2018 to P26.10 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

Retirement benefit liability increased by P447.28 Million mainly due to the net effect of recognition of additional benefit cost during 2019 and the effect of additional remeasurements arising from the effect of changes in financial assumptions and experience adjustments.

Other non-current liabilities decreased by P40.12 Million or 9.26% from P433.34 Million in December 2018 to P393.22 Million as at December 31, 2019 due to application of customer deposits and advance rentals by the Real Estate segment.

Equity

As at December 31, 2019 and December 31, 2018, total equity amounted to P102.02 Billion and P85.12 Billion, respectively, for an increase of P16.90 Billion or 19.85%.

Retirement benefits reserve pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2019, the account decreased by P108.41 Million due to unrealized loss on re-measurement of defined benefit liability as a result of changes in financial assumptions and experience adjustments.

Treasury shares increased by P206.25 million from P1.20 Billion in December 2018 to P1.40 Billion as at December 31, 2019 due to additional buyback by the Parent Company during the year in relation to its existing buyback program.

Retained earnings increased by P11.39 Billion or 26.63% from P42.77 Billion in December 2018 to P54.17 Billion as at December 31, 2019 due to profit realized by the Group, net of cash dividend declaration and the effect of adoption of PFRS 16, *Leases*.

Non-controlling interest increased by P5.85 Billion or 22.19% from P26.39 Billion in December 2018 to P32.25 Billion as at December 31, 2019 mainly due to share in the consolidated profit and the effect of top-up placement by the Grocery Retail segment.

Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	For the years ended December 31	
(In thousands)	**2019**	2018
Net cash flows from operating activities	**P17,139,067**	P12,184,405
Net cash flows used in investing activities	**(4,544,140)**	(5,259,386)
Net cash flows used in financing activities	**(5,006,579)**	(5,517,456)
Net increase in cash and cash equivalents	**P7,617,153**	P1,431,763

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 from and 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 by the Real Estate segment and Specialty Retail segment and the proceeds from divestment of Liquigaz.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Liquor Distribution, Real Estate and Parent Company during the year, repayment of principal and interest by the group relating to lease liability, payment of 2019 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 2018 and 2017

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

(In Thousands)	**2018**	*%*	2017	*%*	***INCREASE (DECREASE)***	*%*
REVENUES	**168,210,357**	***100.00%***	145,638,800	*100.00%*	***22,571,556***	***15.50%***
COST OF SALES/SERVICES	**139,809,619**	***83.12%***	120,260,991	*82.57%*	***19,548,628***	***16.26%***
GROSS PROFIT	**28,400,738**	***16.88%***	25,377,809	*17.43%*	***3,022,929***	***11.91%***
OTHER OPERATING INCOME	**2,994,765**	***1.78%***	2,760,841	*1.90%*	***233,924***	***8.47%***
GROSS OPERATING INCOME	**31,395,503**	***18.66%***	28,138,650	*19.32%*	***3,256,853***	***11.57%***
OPERATING EXPENSES	**18,326,809**	***10.90%***	15,854,229	*10.89%*	***2,472,580***	***15.60%***
INCOME FROM OPERATIONS	**13,068,694**	***7.77%***	12,284,421	*8.43%*	***784,273***	***6.38%***
OTHER INCOME (CHARGES) - net	**(1,301,028)**	***-0.77%***	(1,638,282)	*-1.12%*	***337,254***	***20.59%***
INCOME BEFORE INCOME TAX	**11,767,667**	***7.00%***	10,646,139	*7.31%*	***1,121,527***	***10.53%***
INCOME TAX EXPENSE	**3,285,862**	***1.95%***	3,175,439	*2.18%*	***110,423***	***3.48%***
NET INCOME FOR THE YEAR	**8,481,805**	***5.04%***	7,470,701	*5.13%*	***1,011,104***	***13.53%***
Net Income Attributable to:						
Equity holders of the Parent Company	**5,381,485**	***3.20%***	4,731,617	*3.25%*	***649,869***	***13.73%***
Non-controlling interests	**3,100,319**	***1.84%***	2,739,084	*1.88%*	***361,235***	***13.19%***
	8,481,805	***5.04%***	7,470,701	*5.13%*	***1,011,104***	***13.53%***
EPS	**0.75975**		0.66364			***14.48%***

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P168.21 Billion for the year ended December 31, 2018 which reflects an increase by P22.57 Billion or representing a growth of 15.50% compared to last year's revenue of P145.64 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 P8.48 Billion which is higher by P1.01 Billion representing a 13.53% increase as compared to last year's consolidated net income of P7.47 Billion which were restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments' net income.. Net income attributable to equity holders of the parent company (PATMI) amounted to P5.38 Billion in 2018 which increased by about P649.87 Million or 13.73% as compared to the 2017 PATMI amounting to P4.73 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 P141.14 Billion or an increase of P16.43 Billion or about 13.18% growth as compared to the segment's revenue contribution of P124.70 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 P6.2 Billion which increased by P705.38 Million or 12.84% as compared to the net income contribution of P5.49 Billion in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard. 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 P5.84 Billion which still registered a growth of 3.2% year on year from the previous year.

Real Estate Segment

The commercial real estate business segment contributed P1.38 Billion to the Group's consolidated revenue in 2018 representing a growth of about P88.69 Million or 6.87% of the segment's revenue contribution in 2017 amounting to P1.29 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 P1.08 Billion which increased by about P138.37 Million or 14.60% as compared to the net income contribution of P947.59 Million in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

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 P743.18 Million which increased by P44.63 Million or 6.39% as compared to the net income contribution in 2017 amounting to P698.58 Million, which was restated to reflect the retrospective effect of the adoption of new lease accounting standard.

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, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

Segment Operating & Financial Highlights

Net Sales

For the year ended December 31, 2018, the Grocery Retail segment posted a consolidated net sales of P141,139 million for an increase of P16,436 million or a growth of 13.2% compared to P124,703 million in 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:

	PGOLD	S&R
Net Sales	**5.7%**	**8.4%**
Net Ticket	**8.0%**	**8.1%**
Traffic	**-2.1%**	**0.2%**

Gross Profit

For the year ended December 31, 2018, the Grocery Retail segment realized an increase of 10.3% in consolidated gross profit from P21,688 million in 2017 at 17.4% margin to P23,929 million at 17.0% margin in 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 2018. This is attributable to increases 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 P2,028 million or 13.9% from P14,611 million in the year ended December 31, 2017 to P16,639 million in 2018. The incremental operating expenses were mainly attributable to manpower costs, utilities, depreciation expense and taxes, principally related to the establishment and operation of new organic stores.

Other Expense - net
Other expenses net of other income amounted to P1,528 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 P6,200 million at 4.4% net margin and an increase of 12.8% from P5,494 million at 4.4% net margin in 2017. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income for the year ended December 31, 2018 amounted to P5,820 million at 4.1% net margin and an increase of 3.2%. This was principally driven by the continuous organic expansion of the Grocery Retail segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores established in 2018.

Commercial Real Estate

The Group's Real Estate Segment posted P2.03 Billion in revenues for the year ended December 31, 2018 or a 8.38% increase from P1.87 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 P82.53 Million or 9.7% from P1.45 Billion in 2017 to P1.53 Billion for the year ended December 31, 2018.

Net income for the year ended December 31, 2018 amounted to P1.08 Billion or a 6.2% increase from last year's P922.09 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 12.43% higher from last year's P896.28 Million.

Net income for the 2018 period increased by P107.13 Million from P631.23.46 Million in 2017 to P738.37 Million in 2017 or 16.97% 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 P65.58 Million which increased by P10.01 Million or 18.0% as compared to the net income in 2017 amounting to P55.57 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:

(In Thousands)	**2018**	*%*	2017	*%*	***INCREASE (DECREASE)***	*%*
ASSETS						
Current Assets						
Cash and cash equivalents	**16,784,861**	***12.00%***	15,353,098	*11.90%*	***1,431,763***	***9.33%***
Receivables - net	**6,630,927**	***4.74%***	7,902,970	*6.12%*	***(1,272,044)***	***-16.10%***
Financial asset at FVOC	**7,026**	***0.01%***	8,618	*0.01%*	***(1,592)***	***-18.47%***
Financial asset at FVPL	**36,503**	***0.03%***	46,888	*0.04%*	***(10,385)***	***-22.15%***
Inventories	**23,931,657**	***17.12%***	21,194,691	*16.43%*	***2,736,966***	***12.91%***
Due from related parties	**47,971**	***0.03%***	74,354	*0.06%*	***(26,382)***	***-35.48%***
Prepayments and other current assets	**2,609,349**	***1.87%***	2,159,188	*1.67%*	***450,162***	***20.85%***
	50,048,293	***35.80%***	46,739,806	*36.22%*	***3,308,488***	***7.08%***
Assets-held-for sale	**7,320,895**	***5.24%***	-	*0.00%*	***7,320,895***	***100.00%***
Total current assets	**57,369,188**	***41.03%***	46,739,806	*36.22%*	***10,629,382***	***22.74%***
Noncurrent Assets						
Property and equipment - net	**26,343,793**	***18.84%***	26,622,703	*20.63%*	***(278,910)***	***-1.05%***
Right-of-use assets	**20,082,426**	***14.36%***	18,164,367	*14.08%*	***1,918,059***	***10.56%***
Investment properties - net	**10,836,618**	***7.75%***	10,753,607	*8.33%*	***83,011***	***0.77%***
Intangible assets	**21,095,502**	***15.09%***	22,776,064	*17.65%*	***(1,680,562)***	***-7.38%***
Investments	**603,175**	***0.43%***	933,797	*0.72%*	***(330,622)***	***-35.41%***
Deferred oil and mineral exploration costs	**123,365**	***0.09%***	122,948	*0.10%*	***417***	***0.34%***
Deferred tax assets-net	**377,910**	***0.27%***	278,008	*0.22%*	***99,902***	***35.94%***
Other non-current assets	**2,987,211**	***2.14%***	2,638,683	*2.05%*	***348,528***	***13.21%***
Total noncurrent assets	**82,450,001**	***58.97%***	82,290,178	*63.78%*	***159,823***	***0.19%***
Total Assets	**139,819,189**	***100.00%***	129,029,984	*100.00%*	***10,789,206***	***8.36%***
LIABILITIES						
Current Liabilities						
Accounts payable and accrued expenses	**13,016,166**	***9.31%***	13,788,692	*10.69%*	***(772,526)***	***-5.60%***
Income tax payable	**930,909**	***0.67%***	1,032,749	*0.80%*	***(101,840)***	***-9.86%***
Short-term loans payable	**4,866,300**	***3.48%***	5,562,500	*4.31%*	***(696,200)***	***-12.52%***
Current portion of long-term borrowing	**49,999**	***0.04%***	2,443,402	*1.89%*	***(2,393,404)***	***-97.95%***
Lease liabilities due within one year	**725,846**	***0.52%***	643,493	*0.50%*	***82,353***	***12.80%***
Due to relate parties	**1,365,863**	***0.98%***	849,772	*0.66%*	***516,091***	***60.73%***
Other current liabilities	**434,901**	***0.31%***	509,498	*0.39%*	***(74,597)***	***-14.64%***
	21,389,984	***15.30%***	24,830,106	*19.24%*	***3,440,122)***	***-13.85%***
Liabilities-held-for sale	**1,834,651**	***1.31%***		*0.00%*	***1,834,651***	***100.00%***
Total current liabilities	**23,224,634**	***16.61%***	24,830,106	*19.24%*	***(1,605,472)***	***-6.47%***
Noncurrent Liabilities						
Retirement benefit liability	**508,533**	***0.36%***	592,387	*0.46%*	***(83,854)***	***-14.16%***
Lease liabilities	**23,496,626**	***16.81%***	20,906,226	*16.20%*	***2,590,400***	***12.39%***
Deferred tax liabilities	**548,200**	***0.39%***	515,657	*0.40%*	***32,543***	***6.31%***
Long term loans payable - net of debt issue cost	**6,572,209**	***4.70%***	4,782,209	*3.71%*	***1,790,000***	***37.43%***
Other non-current liabilities	**433,342**	***0.31%***	421,929	*0.33%*	***11,412***	***2.70%***
Total noncurrent liabilities	**31,558,911**	***22.57%***	27,218,409	*21.09%*	***4,340,502***	***15.95%***
Total Liabilities	**54,783,545**	***39.18%***	52,048,515	*40.34%*	***2,735,030***	***5.25%***
EQUITY						
Capital stock	**7,405,264**	***5.30%***	7,405,264	*5.74%*		***0.00%***
Additional paid-in capital	**9,634,644**	***6.89%***	9,634,644	*7.47%*		***0.00%***
Retirement benefits reserve	**114,048**	***0.08%***	28,591	*0.02%*	***85,457***	***298.90%***
Other reserve	**3,420**	***0.00%***	5,013	*0.00%*	***(1,592)***	***-31.76%***
Treasury shares	**(1,197,727)**	***-0.86%***	(628,203)	*-0.49%*	***(569,524)***	***90.66%***
Retained earnings	**42,216,430**	***30.19%***	36,853,901	*28.56%*	***5,362,529***	***14.55%***
Total Equity Attributable to Equity Holders of Parent Company	**58,176,080**	***41.61%***	53,299,210	*41.31%*	***4,876,871***	***9.15%***
Non-controlling interest	**26,859,564**	***19.21%***	23,682,259	*18.35%*	***3,177,305***	***13.42%***
Total Equity	**85,035,645**	***60.82%***	76,981,469	*59.66%*	***8,054,176***	***10.46%***
Total Liabilities and Equity	**139,819,189**	***100.00%***	129,029,984	*100.00%*	***10,789,206***	***8.36%***

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 16.10% 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 P450.16 Million or 20.85% 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 by Grocery Retail and Liquor Distribution segments.

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 P82.45 Billion or 58.97% of total assets, and P82.29 Billion or 63.78% of total assets, respectively, for a increase of P159.82 Million or 0.19%.

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.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.92 Billion from P18.6 Billion in December 2017 to P20.08 Billion in December 2018 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

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 increased by P99.90 Million or 35.94% from P278.01 Million in December 2017 to P377.91 Million in December 2018 resulting mainly from the recognition of deferred tax assets from the adoption of new lease accounting for leases.

Other non-current assets increased by P348.53 Million from P2.64 Billion in December 2017 to P2.99 Billion in December 2018. About 78% 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 P23.22 Billion and P24.83 Billion respectively, for a decrease of P1.60 Billion or 6.47%.

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 P772.53 Million or 5.60% 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.

Lease liabilities due within one year account increased by P82.35 Million from P643.49 Million in December 2017 to P725.85 Million in December 2018 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P101.84 Million from P1.03 Billion as at December 2017 to P930.91 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 aShare 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 14.64% from P509.50 Million as at December 31, 2017 to P434.90 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 P31.56 Billion and P27.22 Billion, respectively, for an increase of P4.34 Billion or 15.95%.

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.

Lease liabilitiesrepresents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.59 Billion from P20.91 Billion in December 2018 to P23.50 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

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 P11.41 million or 2.7% from P421.93 Million in December 2017 to P433.34 Million as at December 31, 2018 due to recognition of advance rental and deposits.

Equity

As at December 31, 2018 and December 31, 2017, total equity amounted to P85.03 Billion and P76.98 Billion, respectively, for an increase of P8.05 Billion or 10.46%.

Retirement benefits reseve 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 P5.36 Billion or 14.55% from P36.85 Billion in December 2017 to P42.22 Billion as at December 31, 2018 due to profit realized by the Group.

Non-controlling interest increased by P3.18 Billion or 13.42% from P23.68 Billion in December 2017 to P26.86 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:

	For the years ended December 31	
(In thousands)	**2018**	2017
Net cash flows from (used in) operating activities	**P10,926,204**	P8,774,641
Net cash flows used in investing activities	**(5,853,974)**	(4,503,325)
Net cash flows used in financing activities	**(3,640,464)**	(1,505,747)
Net increase in cash and cash equivalents	**P1,431,763**	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, repayment by the group of principal and interest relating to lease liability, 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.

(In Thousands)	**2017**	*%*	2,016	*%*	***INCREASE (DECREASE)***	***%***
REVENUES	**145,638,800**	***100.00%***	128,861,520	*100.00%*	***16,777,280***	***13.02%***
COST OF SALES/SERVICES	**120,260,991**	***82.57%***	106,108,685	*82.34%*	***14,152,307***	***13.34%***
GROSS PROFIT	**25,377,809**	***17.43%***	22,752,836	*17.66%*	***2,624,974***	***11.54%***
OTHER OPERATING INCOME	**2,760,841**	***1.90%***	2,524,484	*1.96%*	***236,357***	***9.36%***
GROSS OPERATING INCOME	**28,138,650**	***19.32%***	25,277,320	*19.62%*	***2,861,330***	***11.32%***
OPERATING EXPENSES	**15,854,229**	***10.89%***	14,007,353	*10.87%*	***1,846,876***	***13.19%***
INCOME FROM OPERATIONS	**12,284,421**	***8.43%***	11,269,967	*8.75%*	***1,014,455***	***9.00%***
OTHER INCOME (CHARGES) - net	**(1,638,282)**	***-1.12%***	(991,189)	*-0.77%*	***(647,092)***	***65.28***
INCOME BEFORE INCOME TAX	**10,646,139**	***7.31%***	10,278,777	*7.98%*	***367,362***	***3.57%***
INCOME TAX EXPENSE	**3,175,439**	***2.18%***	3,101,734	*2.41%*	***73,705***	***2.38%***
NET INCOME FOR THE YEAR	**7,470,701**	***5.13%***	7,177,043	*5.57%*	***293,658***	***4.09%***
Net Income Attributable to:						
Equity holders of the Parent Company	**4,731,617**	***3.25%***	4,605,339	*3.57%*	***126,278***	***2.74%***
Non-controlling interests	**2,739,084**	***1.88%***	2,571,704	*2.00%*	***167,380***	***6.51%***
	7,470,701	***5.13%***	7,177,043	*5.57%*	***293,658***	***4.09%***

<u>Growth in Revenues</u>

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P145.64 Billion for the year ended December 31, 2017 which reflects an increase by P16.78 Billion or representing a growth of 13.16% compared to last year's revenue of P128.86 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;

<u>Growth in Net Income</u>

During the same period, the Group realized a consolidated net income of P7.47 Billion which is higher by P293.66 Million representing a 4.09% increase as compared to last year's consolidated net income of P7.18 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.73 Billion in 2017 which increased by about P126.28 Million or 2.74% as compared to the 2016 PATMI amounting to P4.49 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 P5.49 Billion which increased by P301.75 Million or 5.81% as compared to the net income contribution of P5.19 Billion in 2016.

Real Estate Segment

The commercial real estate business segment contributed P1.29 Billion to the Group's consolidated revenue in 2017 representing a decrease of about P177.41 Million or 12.08% as compared to last year amounting to P1.47 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 P947.59 Billion which correspondingly decreased by about P103.48 Million or 9.84% as compared to the net income contribution of P1.51 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 P698.55 Million which decreased by P53.03 Million or 7.06% as compared to the net income contribution in 2016 amounting to P751.58 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 P55.57 Million which decreased by P4.28 Million or 7.16% as compared to the net income contribution in 2016 amounting to P59.86 Million, mainly due to additional expense recognized as a result of adopting the new lease accounting.

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:

	PGOLD	S&R
Net Sales	**4.4%**	**6.5%**
Net Ticket	**3.9%**	**5.3%**
Traffic	**0.5%**	**1.2%**

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 P1.87 Billion in revenues for the year ended December 31, 2017 but registered a slight decrease of about 6.35% from P2.00 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 P922.09 Million or 9.66% lower compared to last year's P1.02 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 P46.46 Million or 7.95% from P584.20 million in 2016 to P630.67 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 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 5.88% in 2017.

Net income contribution in 2017 amounted to about 55.57 Million which decreased by P4.28 Million or 7.16% as compared to the net income contribution in 2016 amounting to P59.86 Million due to additional expense recognized as a result of adoption of new lease accounting.

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 Souther 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)	%
A S S E T S						
Current Assets						
Cash and cash equivalents	15,353,098	11.92%	12,634,464	10.59%	2,718,634	21.52%
Receivables - net	7,902,970	6.14%	6,791,716	5.69%	1,111,254	16.36%
Available-for-sale financial assets	8,618	0.01%	8,199	0.01%	419	5.11%
Short-term investments		0.00%	909,928	0.76%	(909,928)	-100.00%
Investment in trading securities	46,888	0.04%	35,109	0.03%	11,779	33.55%
Inventories	21,194,691	16.46%	19,792,366	16.59%	1,402,324	7.09%
Due from related parties	74,354	0.06%	185,136	0.16%	(110,782)	-59.84%
Prepayments and other current assets	2,159,188	1.68%	1,373,873	1.15%	785,315	57.16%
	46,739,806	36.30%	41,730,792	34.97%	5,009,014	12.00%
Noncurrent Assets						
Property and equipment - net	26,622,703	20.68%	24,090,074	20.19%	2,532,629	10.51%
Investment properties - net	10,753,607	8.35%	10,010,807	8.39%	742,800	7.42%
Right-f-use assets	18,164,367	14.11%	17,411,104	14.59%	753,263	4.33%
Intangible assets	22,776,064	17.69%	22,598,516	18.94%	177,548	0.79%
Investments	933,797	0.73%	926,669	0.78%	7,128	0.77%
Deferred oil and mineral exploration costs	122,948	0.10%	121,382	0.10%	1,566	1.29%
Deferred tax assets-net	7,577	0.01%	152,147	0.13%	(144,570)	-95.02%
Other non-current assets	2,638,683	2.05%	2,289,113	1.92%	349,570	15.27%
	82,019,747	63.70%	77,599,814	65.03%	4,419,934	5.70%
TOTAL ASSETS	128,759,553	100.00%	119,330,605	100.00 %	9,428,948	7.90%
LIABILITIES AND EQUITY						
L I A B I L I T I E S						
Current Liabilities						
Accounts payable and accrued expenses	13,788,692	10.71%	11,772,673	9.87%	2,016,020	17.12%
Income tax payable	1,032,749	0.80%	1,102,118	0.92%	(69,369)	-6.29%
Short-term loans payable	5,562,500	4.32%	5,362,500	4.49%	200,000	3.73%
Lease liabilities due within one year	643,493	0.50%	858,806	0.72%	(215,313)	-25.07%
Current portion of long-term borrowing	2,443,402	1.90%	164,434	0.14%	2,278,969	-
Due to relate parties	849,772	0.66%	690,335	0.58%	159,437	100.00%
Other current liabilities	509,498	0.40%	542,543	0.45%	(33,045)	-6.09%
	24,830,106	19.28%	20,493,408	17.17%	4,336,698	21.16%
Noncurrent Liabilities						
Retirement benefit cost	592,387	0.46%	513,453	0.43%	78,934	15.37%
Deferred tax liabilities	181,128	0.14%	167,749	0.14%	13,379	7.98%
Long term loans payable - net of debt issue cost	4,782,209	3.71%	7,223,505	6.05%	(2,441,296)	-33.80%
Lease liabilities	20,906,226	16.24%	19,501,249	16.34%	1,404,978	7.20%
Deposits for future stock subscription		0.00%	150,313	0.13%	(150,313)	-100.00%
Other non-current liabilities	421,929	0.33%	362,454	0.30%	59,476	16.41%
	26,883,880	20.88%	27,918,722	23.40%	(1,034,842)	-3.71%
TOTAL LIABILITIES	51,713,986	40.16%	48,412,130	40.57%	3,301,856	6.82%
EQUITY						
Capital stock	7,405,264	5.75%	7,405,264	6.21%		0.00%
Additional paid-in capital	9,634,644	7.48%	9,634,644	8.07%		0.00%
Retirement benefits reserve	28,591	0.02%	692	0.00%	27,899	-
Other reserve	5,013	0.00%	4,593	0.00%	419	9.12%
Treasury shares	(628,203)	-0.49%	(523,865)	-0.44%	(104,338)	19.92%
Retained earnings	36,918,000	28.67%	33,102,392	27.74%	3,815,608	11.53%
Total Equity Attributable to Equity Holders of Parent Company	53,363,308	41.44%	49,623,720	41.59%	3,739,588	7.54%
Non-controlling interest	23,682,259	18.39%	21,294,755	17.85%	2,387,504	11.21%
TOTAL EQUITY	77,045,567	59.84%	70,918,475	59.43%	6,127,092	8.64%
TOTAL LIABILITIES AND EQUITY	128,759,553	100.00%	119,330,605	100.00 %	9,428,948	7.90%

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 16.36% from December 31, 2016 balance of P6.79 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 4th 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 P785.31 Million 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 P82.01 Billion or 63.70% of total assets, and P77.60 Billion or 65.03% of total assets, respectively, for an increase of P4.42 Billion or 5.70%.

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.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P753.26 Million from P17.41 Billion in December 2016 to P18.16 Billion in December 2017 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

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 P144.57 Million from P152.15 Million in December 2016 to P7.57 Million in December 2017 resulting mainly from the reversal deferred tax assets.

Other non-current assets increased by P349.57 Million from P2.29 Billion in December 2016 to P2.64 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.

Lease liabilities due within one year account decreased by P215.31 Million from P858.81 Million in December 2016 to P643.49 Million in December 2017 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

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 6.09% from P542.54 Million as at December 31, 2016 to P509.50 Million as at December 31, 2017.

Noncurrent Liabilities

As at December 31, 2017 and 2016, total non-current liabilities amounted to P26.88 Billion and P21.92 Billion, respectively, for a decrease of P1.03 Billion or 3.71%.

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.

Lease liabilities represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P1.40 Billion from P19.50 Billion in December 2016 to P20.91 Billion in December 2017 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

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.

Other non-current liabilities increased by P59.47 million or 16.41% from P362.45 Million in December 2016 to P421.93 Million in December 2017 due to recognition of advance rental and deposits.

Deposits for future stock subscription decreased by P150.31 million due to conversion to equity by the Specialty Retail segment.

Equity

As at December 31, 2017 and December 31, 2016, total equity amounted to P77.04 Billion and P70.92 Billion, respectively, for an increase of P6.13 Billion or 8.64%.

Retirement benefits reserve pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2017, the account increased by P27.90 million due to unrealized gain on re-measurement of defined benefit liability.

Treasury shares increased by P104.34 million from P523.86 Million in December 2016 to P628.20 Million as at December 31, 2017 due to additional buyback by the Parent Company during the year in relation to its existing buyback program.

Retained earnings increased by P3.82 Billion or 11.53% from P33.10 Billion in December 2016 to P36.92 Billion as at December 31, 2019 due to profit realized by the Group, net of cash dividend declaration.

Non-controlling interest increased by P2.38 Billion or 11.21% from P21.29 Billion in December 2016 to P23.68 Billion as at December 31, 2017 mainly due to share in the consolidated profit.

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	**P8,727,706**	P6,077,795
Net cash flows from (used in) investing activities	**(4,503,325)**	(5,539,307)
Net cash flows from financing activities	**(1,505,747)**	(2,445,489)
Net increase in cash and cash equivalents	**P2,718,634**	(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, repayment by the group of principal and interest relating to lease liability, 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.

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.

ANNEX "B"

COSCO CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017

With Independent Auditors' Report

cosco capital
incorporated

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, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signature ______________________
LUCIO L. CO/Chairman of the Board

Signature ______________________
LEONARDO B. DAYAO/President

Signature ______________________
TEODORO A. POLINGA/ Chief Finance Officer

SUBSCRIBED AND SWORN to before me this ______ day of __________ 2020 affiants exhibiting to me their respective Tax Identification Number, as follows:

Name	TIN
LUCIO L. CO	108-975-971
LEONARDO B. DAYAO	135-546-815
TEODORO A. POLINGA	104-883-077

Doc. No. 508;
Page No. 103;
Book No. XVII;
Series of 2020

EMMA RHEA B. SADURAL-CAPISTRANO
Notary Public for the City of Manila
Commission No. 2019-100 until December 31, 2020
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 9123815 / 01-03-2020 / Mla
MCLE No. VI-0022489 / 04-16-19
No. 900 Romualdez St., Paco, Manila

Signed this ___ day of JUN 08 2020, 2020

Head Office: 2/F Tabacalera Building, 900 Romualdez St., Paco Manila, 1007, Philippines. Phone: (632) 257-0851

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226

Telephone	+63 (2) 8885 7000
Fax	+63 (2) 8894 1985
Website	home.kpmg/ph
Email	ph-inquiry@kpmg.com

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, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *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.

Valuation of Goodwill and Other Intangibles with Indefinite Lives (P20.9 billion)
Refer to Note 13 to the consolidated financial statements.

The risk
The Group acquired through business combinations goodwill and other intangibles with indefinite lives totaling P20.9 billion. The Group tests for impairment annually by comparing the recoverable amounts to the carrying amounts.

We considered this as a key audit matter because assessment process is complex, involves significant management judgements and is based on key assumptions on expected future market and economic conditions, revenue growth, margin developments, the discount rates and (terminal) growth rates from management.

Our response
We performed the following audit procedures, among others, around impairment testing of goodwill and other intangibles with indefinite lives:

- 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 and other intangibles with indefinite lives in the consolidated financial statements.

Revenue Recognition (P169.2 billion)
Refer to Note 3 and 19 to the consolidated financial statements.

The risk
Revenue is not complex but it is an important measure to evaluate the Group's performance, which increases the risk of material misstatement that revenue may be inappropriately recognized.

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 PFRS 15, *Revenue from Contracts with Customers* and PFRS 16, *Leases*.

- 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 sample basis, sales transactions for a selected period before and after year-end to supporting documentation such as generated sales summary reports from the point-of-sale (POS) system, as reconciled with the cash receipts, 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 sample basis, sales transactions to supporting documentation such as sales invoices, delivery documents and value-added-tax returns, as applicable, to ascertain that the revenue recognition criteria are met.

- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.

Adoption of PFRS, 16, Leases
Refer to Note 3, 21 and 35 to the consolidated financial statements.

The risk
The Group recognized right-of-use assets and lease liabilities as part of its first-year adoption of PFRS 16, *Leases*, which became effective for annual reporting periods beginning on or after January 1, 2019. The Group applied the full retrospective approach. The application of this new standard as disclosed in Note 35 resulted in an increase in total consolidated assets of P19.2 billion, an increase in total consolidated liabilities of P20.9 billion and a corresponding adjustment to total consolidated equity of P1.7 billion as at the date of initial application. We considered this to be a key audit matter because of the magnitude of the amounts involved, and the significance of management's judgment required in making estimates such as the determination of discount rates (incremental borrowing rates) and lease terms.

Our response

We performed the following audit procedures, among others, on the adoption of PFRS 16:

- We tested the completeness and accuracy of contractual lease agreements included in the lease contract database and the calculation used in recognizing the impact of PFRS 16.

- We evaluated whether the accounting policies applied are in accordance with the requirements of PFRS 16.

- We agreed key inputs to supporting documentation such as lease agreements on a sample basis. Also, we tested on a sample basis the movements during the year.

- We also recalculated the right-of-use asset and lease liability for each material type lease contract. We evaluated management assumptions, specifically on the determination of discount rates and assessment of renewal options. In evaluating the discount rates used, we reviewed observable data from reliable source with respect to reference rates used and tested whether entity- and lease-specific adjustments were appropriately made. We confirmed the existence of underlying facts and circumstances that create economic incentives as basis on whether there is reasonable certainty to exercise renewal options or not to exercise termination options.

- We evaluated the adequacy of the disclosures in the consolidated financial statements based on the requirements of PFRS 16.

Other Information

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

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid to audit 2019 AFS
per SEC MC 20, s2019
Tax Identification No. 912-365-765
BIR Accreditation No. 08-001987-030-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116763
Issued January 2, 2020 at Makati City

June 25, 2020
Makati City, Metro Manila

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Board of Directors and Stockholders
Cosco Capital, Inc. and Subsidiaries
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, 2019 and 2018 and have issued our report thereon dated June 25, 2020.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measure of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies.

This schedule is presented for the purpose of complying with the Revised Securities Regulation Code (SRC) Rule 68 issued by the Securities and Exchange Commission and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at and for the years ended December 31, 2019 and 2018 and no material exceptions were noted (see Annex A).

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid to audit 2019 AFS
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June 25, 2020
Makati City, Metro Manila

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

	Note	2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
		December 31		
ASSETS				
Current Assets				
Cash and cash equivalents	*4*	**P24,402,014**	P16,784,861	P15,353,098
Receivables - net	*5*	**16,637,892**	6,630,927	7,902,970
Inventories	*6, 20*	**24,722,271**	23,931,657	21,194,691
Financial assets at fair value through profit or loss	*7*	**34,921**	36,503	46,888
Financial assets at fair value through other comprehensive income	*8*	**9,209**	7,643	8,618
Due from related parties	*25*	**192,068**	47,971	74,354
Prepaid expenses and other current assets	*9, 35*	**2,000,500**	2,608,730	2,159,194
		67,998,875	50,048,292	46,739,813
Assets of disposal group classified as held for sale	*33*	**-**	7,320,895	-
Total Current Assets		**67,998,875**	57,369,187	46,739,813
Noncurrent Assets				
Investments in associates and joint ventures	*10*	**741,175**	603,175	933,797
Right of use of assets - net	*21*	**21,700,103**	20,082,426	18,164,361
Property and equipment - net	*11*	**27,927,953**	26,343,793	26,622,702
Investment properties - net	*12*	**11,125,998**	10,836,618	10,753,607
Goodwill and other intangibles - net	*13*	**21,089,717**	21,095,502	22,776,064
Deferred oil and mineral exploration costs - net	*14*	**-**	123,365	122,947
Deferred tax assets - net	*27*	**566,284**	96,263	7,577
Other noncurrent assets	*15, 23, 35*	**3,299,789**	2,987,212	2,644,555
Total Noncurrent Assets		**86,451,019**	82,168,354	82,025,610
		P154,449,894	P139,537,541	P128,765,423
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	*16*	**P15,127,981**	P13,016,166	P13,788,692
Income tax payable		**1,164,727**	930,909	1,032,749
Lease liabilities due within one year	*21, 25*	**567,682**	725,846	643,493
Short-term loans	*17*	**871,124**	4,866,300	5,562,500
Current maturities of long-term loans due within one year	*17*	**43,685**	49,999	2,443,402
Due to related parties	*25*	**1,343,460**	1,365,863	849,772
Other current liabilities	*18*	**596,992**	434,901	509,498
		19,715,651	21,389,984	24,830,106
Liabilities of disposal group classified as held for sale	*33*	**-**	1,834,651	-
Total Current Liabilities		**19,715,651**	23,224,635	24,830,106

Forward

		December 31		
	Note	2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
Noncurrent Liabilities				
Long-term loans	*17*	**P5,094,577**	P6,572,209	P4,782,209
Lease liabilities	*21, 25*	**26,101,259**	23,496,627	20,906,227
Deferred tax liabilities - net	*27*	**128,586**	177,626	181,128
Retirement benefits liability	*26*	**955,818**	508,533	592,387
Other noncurrent liabilities	*21*	**393,219**	433,342	421,929
Total Noncurrent Liabilities		**32,673,459**	31,188,337	26,883,880
Total Liabilities		**52,389,110**	54,412,972	51,713,986
Equity				
Capital stock	*28*	**7,405,264**	7,405,264	7,405,264
Additional paid-in capital	*28*	**9,634,644**	9,634,644	9,634,644
Treasury stock	*28*	**(1,403,974)**	(1,197,727)	(628,203)
Retirement benefits reserve	*26*	**5,412**	113,822	28,365
Other reserve	*8*	**5,602**	3,420	5,012
Retained earnings		**54,167,212**	42,775,502	37,394,017
Total Equity Attributable to Equity Holders of the Parent Company		**69,814,160**	58,734,925	53,839,099
Noncontrolling Interests		**32,246,624**	26,389,644	23,212,338
Total Equity		**102,060,784**	85,124,569	77,051,437
		P154,449,894	P139,537,541	P128,765,423

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands except Per Share Data)

			Years Ended December 31	
	Note	2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
REVENUES	*19, 29*			
Net sales		**P164,568,286**	P166,830,469	P144,347,072
Rent		**1,498,426**	1,379,888	1,291,200
Other		**-**	-	528
		166,066,712	168,210,357	145,638,800
COST OF REVENUES	*20, 35*			
Cost of goods sold		**135,516,879**	139,182,012	119,689,636
Cost of rent		**660,788**	627,607	571,355
		136,177,667	139,809,619	120,260,991
GROSS INCOME		**29,889,045**	28,400,738	25,377,809
OTHER REVENUE	*22*	**3,262,853**	2,994,765	2,760,840
TOTAL GROSS INCOME AND OTHER REVENUE		**33,151,898**	31,395,503	28,138,649
OPERATING EXPENSES	*23, 35*	**19,147,089**	18,326,809	15,854,229
INCOME FROM OPERATIONS		**14,004,809**	13,068,694	12,284,420
OTHER INCOME (CHARGES)				
Interest expense	*17, 21*	**(2,076,648)**	(1,922,956)	(1,699,097)
Interest income	*4, 25*	**837,882**	200,434	133,141
Others - net	*24*	**6,148,629**	421,494	(72,325)
		4,909,863	(1,301,028)	(1,638,281)
INCOME BEFORE INCOME TAX		**18,914,672**	11,767,666	10,646,139
PROVISION FOR INCOME TAXES	*27*	**3,521,465**	3,285,862	3,175,439
NET INCOME		**P15,393,207**	P8,481,804	P7,470,700
Net income attributable to:				
Equity holders of the Parent Company		**P11,597,381**	P5,381,485	P4,731,616
Noncontrolling interests		**3,795,826**	3,100,319	2,739,084
		P15,393,207	P8,481,804	P7,470,700
Basic/diluted earnings per share attributable to equity holders of the Parent Company	*30*	**P1.65**	P0.76	P0.66

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands except Per Share Data)

			Years Ended December 31	
	Note	2019	2018 (As restated, Note 35)	2017 (As restated, Note 35)
NET INCOME		**P15,393,207**	P8,481,804	P7,470,700
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will never be reclassified subsequently to profit or loss				
Remeasurement gain (loss) on retirement benefits		**(316,310)**	231,525	78,022
Unrealized gain (loss) on financial assets	*8*	**2,182**	(1,592)	419
Income tax effect		**96,421**	(69,081)	(23,277)
		(217,707)	160,852	55,164
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P15,175,500**	P8,642,656	P7,525,864
Total comprehensive income attributable to:				
Equity holders of the Parent Company		**P11,419,798**	P5,465,351	P4,759,935
Non-controlling interests		**3,755,702**	3,177,305	2,765,929
		P15,175,500	P8,642,656	P7,525,864

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands Except per Share Data)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retirement Benefits Reserve	Other Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2017, as previously stated	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,585	P50,329,893	P21,458,344	P71,788,237
Effect of adoption of PFRS 16	-	-	-	-	-	(560,336)	(560,336)	(470,146)	(1,030,482)
Balance at January 1, 2017, as restated	7,405,264	9,634,644	(523,865)	692	4,593	33,248,229	49,769,557	20,988,198	70,757,755
Restated total comprehensive income for the year									
Net income for the year	-	-	-	-	-	4,731,616	4,731,618	2,739,084	7,470,700
Other comprehensive income	-	-	-	27,673	419	-	28,092	27,072	55,164
	-	-	-	27,673	419	4,731,616	4,759,708	2,766,156	7,525,864
Effect of business combination	-	-	-	-	-	150,313	150,313	-	150,313
Acquisition of treasury shares	-	-	(104,338)	-	-	-	(104,338)	-	(104,338)
Cash dividends at P0.10 per share	-	-	-	-	-	(738,141)	(736,141)	(542,018)	(1,278,157)
Balance at December 31, 2017, as restated	7,405,264	9,634,644	(628,203)	28,365	5,012	37,394,017	53,839,099	23,212,338	77,051,437
Restated total comprehensive income for the year									
Net income for the year	-	-	-	-	-	5,381,485	5,381,485	3,100,319	8,481,804
Other comprehensive income (loss)	-	-	-	85,457	(1,592)	-	83,865	76,987	160,852
	-	-	-	85,457	(1,592)	5,381,485	5,465,350	3,177,306	8,642,656
Acquisition of treasury shares	-	-	(569,524)	-	-	-	(569,524)	-	(569,524)
Balance at December 31, 2018, as restated	7,405,264	9,634,644	(1,197,727)	113,822	3,420	42,775,502	58,734,925	26,389,644	85,124,569
Total comprehensive income for the year									
Net income for the year	-	-	-	-	-	11,597,381	11,597,381	3,795,826	15,393,207
Other comprehensive income (loss)	-	-	-	(108,410)	2,182	-	(106,228)	(111,479)	(217,707)
	-	-	-	(108,410)	2,182	11,597,381	11,491,153	3,684,347	15,175,500
Issuance of shares by a subsidiary									
Gain on dilution of ownership interest	-	-	-	-	-	1,313,808	1,313,808	-	1,313,808
Increase in noncontrolling interests	-	-	-	-	-	-	-	3,321,772	3,321,772
	-	-	-	-	-	1,313,808	1,313,808	3,321,772	4,635,580
Acquisition of treasury shares	-	-	(206,247)	-	-	-	(206,247)	-	(206,247)
Cash dividends at P0.12 per share	-	-	-	-	-	(1,519,479)	(1,519,479)	(1,149,139)	(2,668,618)
Balance at December 31, 2019	P7,405,264	P9,634,644	(P1,403,974)	P5,412	P5,602	P54,167,212	P69,814,160	P32,246,624	P102,060,784

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	Note	2019	2018 (As restated, Note 35)	2017 (As restated, Note 35)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P18,914,672**	P11,767,666	P10,646,139
Adjustments for:				
Gain on sale of subsidiary/joint venture	10, 33	**(6,073,605)**	(362,810)	-
Depreciation and amortization	11, 12, 13	**3,423,159**	3,537,746	3,108,350
Interest expense	17, 21	**2,076,648**	1,922,956	1,699,098
Interest income	4, 25	**(837,882)**	(200,434)	(133,433)
Impairment loss on deferred oil and mineral exploration costs	14, 23	**128,090**	-	-
Retirement benefits cost	26	**136,099**	171,120	159,361
Share in losses (income) of joint ventures and associates	10, 24	**(11,044)**	(17,142)	132,872
Gain from pre-terminated lease contracts	21, 24	**(42,460)**	(37,850)	(15,174)
Unrealized foreign exchange loss (gain)		**(28,805)**	(24,200)	23,468
Gain on insurance claims	24	**(3,503)**	(3,383)	(14,268)
Unrealized loss (gain) on financial assets at FVPL	7, 24	**1,582**	10,385	(11,779)
Dividend income	25	**(652)**	(680)	(1,856)
Gain on disposal of property and equipment	11, 24	**-**	(15,815)	(206)
Operating income before changes in working capital		**17,682,299**	16,747,559	15,592,572
Decrease (increase) in:				
Receivables		**1,891,943**	281,137	(1,097,265)
Inventories		**(790,614)**	(3,264,295)	(1,402,325)
Prepaid expenses and other current assets		**608,230**	(297,664)	(1,290,612)
Due from related parties		**(144,097)**	(23,398)	110,782
Increase (decrease) in:				
Accounts payable and accrued expenses		**1,362,540**	2,077,246	2,170,922
Due to related parties		**(22,403)**	578,828	159,437
Other current liabilities		**162,091**	(70,506)	(33,045)
Other noncurrent liabilities		**(40,123)**	(705,043)	(647,869)
Cash generated from operations		**20,709,866**	15,323,864	13,562,597
Income taxes paid	27	**(3,566,714)**	(3,137,784)	(2,767,602)
Retirement benefits paid	26	**(4,085)**	(1,675)	(1,876)
Net cash provided by operating activities		**17,139,067**	12,184,405	10,793,119

Forward

	Note	2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
			Years Ended December 31	
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans receivable granted during the year	25	**(P11,898,908)**	P-	P-
Additions to:				
Property and equipment	11	**(3,885,582)**	(4,073,824)	(4,614,237)
Investment properties	12	**(617,518)**	(657,388)	(680,526)
Deferred mineral and oil exploration		**(4,725)**	(417)	(1,567)
Intangibles	13	**(40,801)**	(41,705)	(30,349)
Investments	10	**(126,956)**	(32,500)	(140,000)
Proceeds from:				
Sale of interest in a subsidiary/joint venture	33	**11,370,980**	600,000	-
Maturity of short-term investments		**-**	-	909,929
Insurance claims	24	**3,503**	3,383	14,268
Disposal of property and equipment		**129,910**	72,392	9,195
Effect of business combination		**-**	-	(270,000)
Interest received		**837,882**	200,434	133,433
Increase in other noncurrent assets		**(312,577)**	(267,306)	314,001
Dividends received	25	**652**	676	1,856
Cash given up in assets held for sale	33	**-**	(1,063,131)	-
Net cash used in investing activities		**(4,544,140)**	(5,259,386)	(4,353,997)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of lease:				
Principal amount		**(567,555)**	(528,829)	(403,540)
Interest expense		**(1,673,636)**	(1,454,112)	(1,292,684)
Payments of:				
Short-term loans	17	**(4,638,031)**	(10,916,200)	(6,549,500)
Long-term loans	17	**(1,488,429)**	(610,000)	(170,001)
Payments of:				
Cash dividends		**(1,312,587)**	(1,200,393)	(1,431,408)
Interest expense		**(398,529)**	(458,398)	(495,049)
Availment of short-term loans	17	**642,855**	10,220,000	6,749,500
Proceeds from top-up placements	1	**4,635,580**	-	-
Buyback of capital stocks	28	**(206,247)**	(569,524)	(104,338)
Net cash used in by financing activities		**(5,006,579)**	(5,517,456)	(3,697,020)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		**28,805**	24,200	(23,468)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,617,153**	1,431,763	2,718,634
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**16,784,861**	15,353,098	12,634,464
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**P24,402,014**	P16,784,861	P15,353,098

See Notes to the Consolidated Financial Statements.

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, 2019 and 2018, the Parent Company's public float stood at 23.74% and 24.69%.

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 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 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. Also, 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 P74.8 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.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group") which are all incorporated in the Philippines:

	Effective Percentage of Ownership			
	2019		2018	
	Direct	**Indirect**	Direct	Indirect
Retail				
Puregold Price Club, Inc. (PPCI) [a] and Subsidiaries	49.16[e]	-	51.02[e]	-
▪ Kareila Management Corporation (KMC) and Subsidiaries	-	49.16[e]	-	51.02
◻ S&R Pizza (Harbor Point), Inc.	-	49.16[e]	-	51.02
◻ S&R Pizza, Inc.	-	49.16[e]	-	51.02
▪ PPCI Subic, Inc. (PSI)	-	49.16[e]	-	51.02
▪ Entenso Equities Incorporated (EEI) and Subsidiaries	-	49.16[e]	-	51.02
◻ Goldtempo Company Incorporated (GCI) [a]	-	-	-	-
◻ Daily Commodities, Inc. [a]	-	-	-	-
◻ First Lane Super Traders Co., Inc. [a]	-	-	-	-
▪ Purepadala, Inc. [c]	-	49.16[e]	-	51.02
Liquor Distribution				
Montosco, Inc.	100	-	100	-
Meritus Prime Distributions, Inc.	100	-	100	-
Premier Wine and Spirits, Inc.	100	-	100	-
Real Estate and Property Leasing				
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	-
Specialty Retail				
Office Warehouse, Inc. and a Subsidiary	100	-	100	-
◻ Office Warehouse (Harbor Point), Inc. [d]	-	100	-	100
Canaria Holdings Corporation (CHC) and Subsidiaries	90	-	90	-
▪ Liquigaz Philippines Corporation (LPC) [b]	-	-	-	-
▪ Calor Philippines Holdings, Inc. (CPHI) [b]	-	-	-	-
Oil and Mining				
Alcorn Petroleum and Minerals Corporation (APMC)	100	-	100	-

[a] *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.*

[b] *On October 19, 2018, the Board of Directors authorized the sale of LPC and CPHI, resulting in their classification as a disposal group held-for-sale as at December 31, 2018 and disposal on January 17, 2019 (see Note 33).*

[c] *Incorporated and registered with the Philippine SEC on October 15, 2018 as a money remittance company.*

[d] *Incorporated and registered with the Philippine SEC on December 6, 2017 and started its commercial operations in 2018.*

[e] *On January 16, 2019, PPCI made a Php4,693,500,000 top-up placement of 104.3 million common shares at a price of Php45.00 per share. The additional shares were issued on March 5, 2019 for total proceeds of P4.6 billion, which resulted in a dilution of the Parent Company's ownership interest of in PPCI from 51.02% to 49.16%. The Parent Company retains the control over PPCI (see Note 3).*

2. Basis of Preparation

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.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on June 9, 2020.

Historical cost is used as the measurement basis except for:

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

These consolidated financial statements are presented in Philippine peso (P), unless otherwise stated.

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 peso, unless otherwise stated.

Significant Judgments, Estimates and Assumptions
The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities which, by definition, will seldom equal the actual results. All assumptions, expectations and forecasts used as a basis for certain estimates within these financial statements represent good faith assessments of the Group's current and future performance for which management believes there is a reasonable basis. They involve risks, uncertainties and other factors that could cause the Group's actual future results, performance and achievements to differ materially from those forecasted

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

Determining Term and Discount Rate of Lease Arrangements (Note 21)
Where the Group is the lessee, management is required to make judgments about whether an arrangement contains a lease, the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Group as lessee, management uses the incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of buildings, stores, distribution centers and warehouses, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).

- Otherwise, the Group considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term

Operating Leases - Group as a Lessor (Note 21)
The Group has entered into various lease agreements as a lessor to lease its investment properties and sublease portion of its stores to various lessees. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent income recognized in profit or loss amounted to P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively.

<u>Estimates</u>
The key estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from such estimates.

Estimating Vendor Allowances (Notes 3)
When vendor allowances cannot specifically be identified in the purchase price of products, the Group must estimate the allowances that are earned based on the fulfillment of its related obligations. These estimates may require management to estimate the volume of purchases that will be made during a period of time.

Estimating Allowance for Impairment Losses on Receivables (Note 5)
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, 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.

As at December 31, 2019 and 2018, the carrying amount of receivables amounted to P16.6 billion and P6.6 billion while the allowance for impairment losses amounted to P48.9 million and P40.3 million, respectively.

Estimating Net Realizable Value (NRV) of Merchandise Inventories (Note 6)
The Group carries merchandise inventory at NRV whenever the selling price less costs to sell becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. 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 prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The NRV is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amount of merchandise inventories amounted to P24.7 billion and P23.9 billion as at December 31, 2019 and 2018.

Impairment of Goodwill and Other Intangibles with Indefinite Lives (Note 13)
The Group determines whether goodwill, trademarks and customer relationships are impaired at least annually. This requires the estimation of the recoverable amounts of the goodwill, trademarks and customer relationships. Estimating recoverable amounts requires management to make an estimate of the expected future cash flows from the cash-generating unit to which the goodwill, trademarks and customer relationships relate and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill and other intangibles with indefinite useful lives totaled P20.9 billion as at December 31, 2019 and 2018.

Impairment of Other Non-Financial Assets
The Group assesses impairment on other non-financial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

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 fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the results of operations.

There are no impairment indicators affecting the Group's non-financial assets as at December 31, 2019 and 2018, except for deferred oil and mineral exploration costs which management assessed to be impaired given the final plug and abandonment of nine production wells for SC 14 and lack of significant progress on the remaining projects (see Note 14). The Group recognized a full impairment loss of P128.1 million in 2019 (see Note 23).

As at December 31, 2019 and 2018, the following are the carrying amounts of nonfinancial assets:

	Note	**2019**	2018, (Restated)
Property and equipment - net	*11*	**P27,927,953**	P26,343,793
Investment properties - net	*12*	**11,125,998**	10,836,618
Investments in joint venture and associate	*10*	**741,175**	603,175
Computer software and licenses, and leasehold rights	*13*	**237,077**	242,862
Deferred oil and mineral exploration costs - net	*14*	**-**	123,365
Right-of-use assets - net	*21*	**21,700,103**	20,082,426

Estimating Realizability of Deferred Tax Assets (Note 27)
The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces 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 Group also reviews the expected timing and tax rates upon reversal of the temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As at December 31, 2019 and 2018, the Group recognized net deferred tax assets (liabilities) amounting to P437.7 million and (P81.4) million.

Estimating Retirement Benefits Liability (Note 26)
The present value of the retirement benefits liability depends on a number of assumptions that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for retirement benefits include the discount rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefits liability. Other key assumptions include future salary, mortality and attrition. Additional information is disclosed in Note 26.

Retirement benefits liability amounted to P955.8 million and P508.5 million as at December 31, 2019 and 2018.

3. Summary of Significant Accounting Policies

The Group has consistently applied the accounting policies to all years presented in these consolidated financial statements, except for the changes below.

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

The Group adopted the following relevant new standards, amendments to standards and interpretations starting January 1, 2019 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 16, *Leases*

  The Group applied PFRS 16 with a date of initial application of January 1, 2019. As a result, the Group changed its accounting policies for lease contracts as detailed below.

  The Group applied PFRS 16 using the retrospective approach. The adoption of PFRS 16 has resulted in restatements of the Group's 2018 and 2017 comparative amounts; see Note 35 for more information.

- Previously held interest in a joint operation (Amendments to IFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*)

  The amendments to PFRS 3 and PFRS 11 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2019. These amendments have no impact on the consolidated financial statements.

- 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. These amendments have no impact on the consolidated financial statements.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*)

  The amendments to PAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: (i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; (ii) recognize any reduction in a surplus immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; and (iii) separately recognize any changes in the asset ceiling through other comprehensive income. These amendments have no impact on the consolidated financial statements.

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

  The amendments to PAS 28 were made to clarify that PFRS 9, "Financial Instruments," applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Tax Treatments*

  IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, while also aiming to enhance transparency. IFRIC 23 became effective on January 1, 2019. The interpretation does not have an impact on the consolidated financial statements.

<u>New Accounting Policies Not Yet Effective for 2019</u>
A number of standards, or revisions to standards, that are not yet effective for 2019, but will become effective in coming years.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*)

  The amendments to PAS 1 and PAS 8 clarify the definition of material and how it should be applied by stating 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 to PAS 1 and PAS 8 apply prospectively for annual periods beginning on or after January 1, 2020. The Group does not anticipate that the application of these amendments will have a significant effect on the future consolidated financial statements.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*)

  The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term "outputs" is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments 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 to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2020. The Group anticipates that the amendments could result in more acquisitions being accounted for as asset acquisitions.

Consolidation
The consolidated financial statements incorporate the financial amounts of the Parent Company and its subsidiaries. Subsidiaries are entities over which the Parent Company has control. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated upon consolidation. Unrealized losses on intragroup transactions are eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

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.

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

Business Combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and the liabilities assumed. Transaction costs are expensed as incurred.

Statement of Cash Flows
The Group has chosen to prepare the consolidated statement of cash flows using the indirect method, which presents cash flows from operating activities as the income from operations adjusted for non-cash transactions, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Interest paid on loans is presented as a financing activity. The Group has chosen to present dividends paid to its stockholders as a financing activity cash flow. In the cash flow statement, the Group has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments are split between interest and principal portions in the cash flow statement. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The Group has classified cash flows from operating leases as operating activities.

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.

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 29 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.

Financial Instruments

Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets expire, or if the Group transfers the financial asset to another party and does not retain control or substantially all risks and rewards of the asset. Regular-way purchases and sales of financial assets in the normal course of business are accounted for at settlement date (i.e., the date that the asset is delivered to or by the Group). At initial recognition, the Group measures its financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as fair value through profit or loss (FVTPL), includes transaction costs. A trade receivable without significant financing component is initially measured at the transaction price.

After initial recognition, the Group classifies its financial assets as subsequently measured at either i) amortized cost, ii) fair value through other comprehensive (FVOCI) income or iii) FVTPL on the basis of both:

- The Group's business model for managing the financial assets

- The contractual cash flow characteristics of the financial asset

Subsequent to initial recognition, financial assets are measured as described below. At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a loss allowance for expected credit losses for financial assets measured at either amortized costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses. The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for receivables.

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.

Financial Assets at Amortized Cost
Financial assets are measured at amortized cost if both i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, less any impairment losses.

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.

Cash and cash equivalents, receivables, due from related parties and security deposits are included in this category.

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.

Financial Assets at FVOCI
A debt financial asset is measured at FVOCI if both i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI.

The financial asset is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income. For debt instruments, interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other gains and losses recognized in OCI. Accumulated gains or losses recognized through other comprehensive income are reclassified to profit or loss when the asset is derecognized. For equity investments, dividends are recognized in profit or loss while other gains and losses are recognized in OCI and are never reclassified to profit or loss.

The Group's equity securities are included in this category.

The Group has no financial assets at FVOCI with recycling of cumulative gains or losses (debt instruments) as at December 31, 2019 and 2018.

Financial Assets at FVTPL
When any of the above-mentioned conditions for classification of financial assets are not met, a financial asset is classified as at FVTPL and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset measured at FVTPL is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized in profit or loss for the reporting period in which it arises.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

The Group's investments in equity securities traded in the PSE is included under this category.

Financial Liabilities
Financial liabilities are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

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

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

(a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.

(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

(c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

(d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Any difference between the proceeds and redemption value is recognized in the income statement over the period of the loans and short-term borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables, short-term loans, long-term loans, lease liabilities, due to related parties and customers' deposits are generally included in this category.

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 estimated 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.

Offsetting Financial Instruments
Financial assets and 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 right to offset the recognized amounts and there is 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 gross in the consolidated statements of financial position.

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

<u>Fair Value Measurements</u>
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.

Inventories
Inventories are valued at the lower of cost and net realizable value. Inventories include merchandise inventories, 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

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

Investments in Joint Arrangements and Associates
Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint operations arise where the Group has both rights to the assets and obligations for the liabilities relating to the arrangement and, therefore, the Group accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the Group has rights to the net assets of the arrangement and, therefore, the Group equity accounts for its interest.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. Associates are accounted for using the equity method.

Under the equity method, investments in associates and joint ventures are measured initially at cost and subsequently adjusted for post-acquisition changes in the Group's share of the net assets of the investment (net of any accumulated impairment in the value of individual investments). Where necessary, adjustments are made to the financial amounts of the associates and joint ventures to ensure consistency with the accounting policies of the Group. Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of Group's stake in these investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Property and Equipment

Property and equipment, excluding land and construction in progress, are carried at cost less accumulated depreciation, amortization and impairment losses, if any. Land is carried at cost. Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. All other subsequent expenditures are recognized in profit or loss.

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

	Number of Years
Buildings	15 - 30
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.

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.

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.

Goodwill and Other Intangibles
Goodwill and Impairment of Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and assumed contingent liabilities at the date of acquisition. It is carried at cost less accumulated impairment losses. Goodwill on acquisitions of joint ventures and associates is included in the carrying amount of the investment. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of a business combination. Goodwill is allocated to a cash-generating unit (or group of cash-generating units) representing the lowest level within the Group at which the goodwill is monitored for internal management purposes and is never larger than an operating segment before aggregation. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. Goodwill on acquisitions of associates and joint ventures is assessed for impairment as part of the investment whenever there is an indication that the investment may be impaired. An impairment loss is recognized for the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash-generating unit's fair value less costs of disposal or its value in use. An impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets of the cash generating unit pro rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other Intangible Assets
Separately acquired intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets acquired in a business combination are recognized at fair value at the date of acquisition. Trademarks and customer relationships acquired in business acquisitions are stated at acquisition date fair value determined using an income approach.

Trademarks and other intangible asset with indefinite lives are assessed for impairment annually, or whenever there is an indication that the asset may be impaired.

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 Other Non-financial Assets
The Group assesses whether there is any indication that non-current assets may be impaired. If indicators of impairment exist, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. The carrying value of the store includes mainly its property, plant and equipment and right-of-use assets (if held under a lease arrangement). The recoverable amount is the higher of an asset's fair value less costs of disposal or the asset's value in use.

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.

An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 Cost

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.

The Group has a non-contributory multi-employer plan which is accounted for as a defined benefit plan. 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 Group'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 by the Group to the Retirement Fund.

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

Equity

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of capital stock are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital
The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

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.

Dividend distribution to the Group's shareholders is recognized as a liability and deducted from equity in the Group's consolidated statements of financial position in the period in which the dividends are approved and declared by the Group's BOD.

Treasury Stock
Own equity instruments which are reacquired 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.

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.

Other Comprehensive Income
Other comprehensive income are items of income and expense (including reclassification adjustments, if any) such as remeasurements of defined benefit plans that are not recognized in profit or loss as required or permitted by the related accounting standards.

Revenue Recognition
The Group identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring the control of goods or services to the customer. The transaction price is the amount of consideration the Group expects to receive under the arrangement. The Group concluded that it is acting as principal for all its revenue arrangements below, except for concession fee income and other rental income.

- *Merchandise Sales* - The Group generally recognizes sale of merchandise at the point of sale when customer takes possession of goods and tenders payment. At point of sale, the performance obligation is satisfied because control of the merchandise transfers to the customer. Revenue is recorded at the point of sale based on the transaction price on the merchandise tag, net of any applicable discounts, sales taxes and refunds. For e-commerce sales, the Group recognizes sales upon delivery of goods through its online channel.

- *Concession Fee Income* - The Group enters into certain agreements with concessionaires that offer goods to the Group's customers. In exchange, the Group receives payment in the form of commissions based on a specified percentage of the merchandise sales. The Group serves as agent in these contracts and recognizes the net amount earned as commissions in the period in which the event or condition that triggers the payment occurs.

- *Membership* - The Group charges a membership fee to its customers. The fee allows the customer to shop in the Group's stores for the duration of the membership, which is generally 12 months. The Group recognizes the fee in the period in which it occurs.

- *Gift Certificates* - The Group recognizes revenue from the sale gift certificates when the gift certificate is redeemed by customer.

- *Other Income* - The Group recognizes various incidental income in the period in which the services/goods were rendered/delivered.

PIC Q&A 2018-12-H Accounting for Common Usage Service Area (CUSA) Charges
The interpretation issued by the Philippine Interpretations Committee (PIC) serves as a guidance on some implementation issues brought about by adoption of PFRS 15, *Revenue from Contracts with Customer's* on the real estate industry.

The interpretation is approved on February 14, 2018, with an option to defer the application of the provisions for a period of three (3) years.

In 2019, the Group adopted PIC Q&A 2018-12-H *Accounting for Common Usage Service Area (CUSA) Charges*. The impact of adoption is applied retrospectively which resulted to the restatements in the consolidated statement of financial position at January 1, 2018.

The impact of the Group's adoption of the interpretation is discussed in Note 35.

Contract Balances

Receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

The sales activities of the Group do not result in a material amount of unperformed obligations of the Group and, therefore, no contract assets are recognized separately from receivables.

Contract Liabilities
A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group does enter into transactions with customers where contract liabilities result from consideration being received from the customer prior to the Group satisfying its performance obligations. These contract liabilities are presented on the statement of financial position and in the notes as unredeemed gift certificate liabilities.

Cost and Expense Recognition
The Group's cost of sales includes the direct costs of sold merchandise, which includes custom, taxes, duties and inbound shipping costs, inventory shrinkage and adjustments and reserves for excess, aged and obsolete inventory. Cost of sales also includes certain distribution center costs.

Vendor Rebates and Allowances
The Group receives various types of cash consideration from vendors, principally in the form of rebates, based on purchasing or selling certain volumes of product, time-based rebates or allowances, which may include product placement allowances or exclusivity arrangements covering a predetermined period of time, price protection rebates and allowances for retail price reductions on certain merchandise and salvage allowances for product that is damaged, defective or becomes out-of-date.

Such vendor rebates and allowances arc recognized based on a systematic and rational allocation of the cash consideration offered to the underlying transaction that results in progress by the Group's toward earning the rebates and allowances, provided the amounts to be earned are probable and reasonably estimable. Otherwise, rebates and allowances are recognized only when predetermined milestones are met. The Group recognizes product placement allowances also as a reduction of cost of sales in the period in which the product placement is completed. Time-based rebates or allowances are recognized as a reduction of cost of sales over the performance period on a straight-line basis. All other vendor rebates and allowances are recognized as a reduction of cost of sales when the merchandise is sold or otherwise disposed.

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

Leases
The Group has applied PFRS 16 using the retrospective approach.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

  - the Group has the right to operate the asset; or

  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts entered into or changed on or after January 1, 2019. The Group's approach to other contracts is explained in Note 3.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

As a Lessee
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove or restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rates as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Variable Lease Payments
Variable lease payments not based on an index or rate are not part of the lease liability. These include payments linked to a lessee's performance derived from the underlying asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease Modifications as a Lessee
The Group accounts for a lease modification as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group allocates the consideration in the modified contract based on stand-alone prices, determines the lease term and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

Short-term Leases and Leases of Low-value Assets
The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor
When the Group act as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risk and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies exemption described above, then it classifies sub-lease as operating lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

Borrowing Costs

Borrowing costs are recognized as expenses when incurred, except to the extent capitalized. 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.

Income Taxes

Current tax and deferred tax are recognized in the statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Uncertainties related to taxes that are not income taxes are recognized and measured in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* unless they are dealt with specifically in another standard.

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.

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.

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 period, 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.

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.

Provisions and Contingencies
A provision is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made on the amount of the obligation.

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the 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 interest expense.

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

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:

(In thousands)	***Note***	**2019**	2018
Cash on hand		**P1,386,391**	P1,189,303
Cash in banks	*31*	**9,876,932**	4,849,703
Money market placements	*31*	**13,138,691**	10,745,855
		P24,402,014	P16,784,861

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 4.80% in 2019, 2.65% to 6.9% in 2018, and 0.30% to 3.75% in 2017.

Interest income earned from cash in banks and money market placements amounted to P495.8 million, P200.4 million and P133.1 million in 2019, 2018 and 2017, respectively.

5. Receivables

This account consists of:

(In thousands)	*Note*	2019	2018
Loans receivable	25	**P11,898,908**	P -
Trade receivables		**3,754,127**	5,069,825
Non-trade receivables		**582,867**	1,475,718
Interest receivable	25	**342,119**	-
Others		**108,818**	125,682
		16,686,839	6,671,225
Less allowance for impairment losses on trade receivables		**48,947**	40,298
	31, 32	**P16,637,892**	P6,630,927

Trade receivables generally have a one-to-30-day credit terms.

Non-trade receivables consists mainly of e-wallet balance, accrued vendor allowance income and rent due from store tenants.

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

(In thousands)	2019	2018
Beginning balance	**P40,298**	P134,420
Provisions during the year	**8,649**	12,798
Reclassification to assets classified as held-for-sale	-	(106,920)
Ending balance	**P48,947**	P40,298

6. Inventories

This account consists of:

(In thousands)	*Note*	2019	2018
At cost:			
Merchandise inventories		**P19,977,588**	P20,200,962
Liquors, wines and spirits		**4,744,683**	3,730,695
	20	**P24,722,271**	P23,931,657

Inventory charged to cost of goods sold amounted to P135.5 billion, P139.2 billion and P119.7 billion in 2019, 2018 and 2017, respectively (see Note 20).

7. Financial Assets at Fair Value Through Profit or Loss

This account represents the Group's investments in equity securities traded in the PSE. The fair values of these securities are based on their closing market prices as at the reporting dates

The movements in these securities are as follows:

(In thousands)	*Note*	2019	2018
Cost		**P15,356**	P16,356
Valuation Adjustments			
Balance at beginning of year		**21,147**	30,532
Unrealized valuation loss for the year		**(1,582)**	(10,385)
Balance at end of year		**19,565**	20,147
	31	**P34,921**	P36,503

8. Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of:

(In thousands)	*Note*	2019	2018
Investments in common shares			
Quoted	*31, 32*	**P8,138**	P5,956
Unquoted	*31, 32*	**2,304**	2,304
		10,442	8,260
Investments in preferred shares	*31, 32*	**7,262**	7,262
		17,704	15,522
Less current portion		**9,209**	7,643
Non-current portion	*10*	**P8,495**	P7,879

Quoted shares also represent the Group's investments in equity securities traded in the PSE, which are designated as FVOCI.

Unquoted shares represent investments in a private domestic company and club membership shares.

Investments in preferred shares pertain to Manila Electric Company which were acquired in connection with the installation of electrical systems for the various stores and offices of the retail segment.

The movements in this account are as follows:

(In thousands)	2019	2018
Balance at beginning of year	**P15,522**	P17,114
Unrealized fair value gains (losses)	**2,182**	(1,592)
Balance at end of year	**P17,704**	P15,522

The movements in the cumulative unrealized fair value gain are as follows:

(In thousands)	2019	2018
Balance at beginning of year	**P3,420**	P5,012
Unrealized fair value gain (loss) during the year	**2,182**	(1,592)
Balance at end of year	**P5,602**	P3,420

9. Prepaid Expenses and Other Current Assets

This account consists of:

(In thousands)	**2019**	2018, (Restated)
Prepaid expenses	**P862,177**	P1,272,215
Advances to suppliers	**634,763**	469,961
Input VAT	**464,607**	626,808
Creditable withholding tax	**23,486**	39,881
Deferred input VAT - current	**4,153**	190,966
Others	**11,314**	8,899
	P2,000,500	P2,608,730

Advances to suppliers pertain to partial downpayments made by the liquor distribution segment to foreign suppliers.

Prepaid expenses pertain mainly to the unamortized portion of premiums for insurance coverage and registration fees and other taxes paid to the Government, and advance payments for advertisements and promotions.

(In thousands)	**2019**	2018, (Restated)
Taxes and licenses	**P574,952**	P1,024,755
Insurance	**127,230**	102,716
Advertising and promotion	**79,305**	88,984
Supplies	**36,555**	26,060
Repairs and maintenance	**9,051**	6,128
Rent	**758**	1,010
Others	**34,326**	22,562
	P862,177	P1,272,215

10. Investments in Associates and Joint ventures

This account consists of:

(In thousands)	***Note***	**2019**	2018, (Restated)
Investments in associates		**P565,779**	P433,543
Investments in joint ventures		**175,396**	169,632
		P741,175	P603,175

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:

	Percentage of Ownership		Carrying Amount	
(In thousands)	**2019**	2018	**2019**	2018
Associates:				
San Roque Supermarkets Retail Systems, Inc. ("SRS")	**49**	49	**P447,586**	P433,543
Pernord Ricard Philippines, Inc. ("Pernord")	**30**	-	**118,193**	-
Peninsula Land Bay Realty Corporation ("PLBRC")	**-**	-	**-**	-
			565,779	433,543
Joint ventures:				
AyaGold Retailers, Inc. ("AyaGold")	**50**	50	**P175,396**	P169,632
PG Lawson Company, Inc. ("PG Lawson")	**-**	-	**-**	-
Mariveles Joint Venture Corporation ("MJVC")	**-**	-	**-**	-
			175,396	169,632
			P741,175	P603,175

All associates and joint ventures are incorporated in the Philippines.

<u>Investments in Associates</u>

SRS

In 2013, the Group through Entenso acquired 49.34% equity interest in SRS, a local entity that operates the chain of "San Roque Supermarket" stores and "San Roque Pharmacy" stores in Metro Manila and nearby areas.

PERNOD

The Group entered into a Shareholder's Agreement and Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of shares of Pernord Ricard Philippines, Inc. ("PERNOD") for Euro2.1 million in February 2019. As at December 31, 2019, the Group owns 30% of PERNOD.

PLBRC

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

As of December 31, 2018, the investment in PLRBC is presented as part of "assets held-for-sale" and was subsequently sold in 2019 (see Note 33), The changes in the carrying amounts of are as follows:

	SRS		Pernod	
(In thousands)	**2019**	2018	**2019**	2018
Balance at beginning of year	**P433,543**	P433,543	**P -**	P -
Acquisition	**-**	-	**126,956**	-
Share in net income (loss)	**14,043**	6,674*	**(8,763)**	-
Balance at end of year	**P447,586**	P440,217	**P118,193**	P -

**Unrecognized share in net income*

The information presented below summarizes the financial information of SRS and Pernod and shows the reconciliation of the Group's share in net assets of such investees to the carrying amounts of its investments.

	SRS		Pernod	
(In thousands)	**2019**	2018	**2019**	2018
Percentage of ownership	**49.34%**	49.34%	**30%**	-
Current assets	**P4,816,374**	P3,955,182	**P823,323**	P -
Noncurrent assets	**239,124**	221,748	**193,218**	-
Current liabilities	**(4,687,331)**	(3,825,817)	**(627,084)**	-
Noncurrent liabilities	**(20,524)**	(18,405)	**(40,382)**	-
Net assets	**347,643**	332,708	**349,075**	-
Group's share in net assets	**171,528**	164,159	**104,723**	-
Goodwill	**276,058**	276,058	**13,470**	-
Carrying amount of interest in associates	**P447,586**	P440,217	**P118,193**	-
Net sales	**P517,583**	P7,006,180	**P1,339,369**	P -
Net income (loss)	**28,461**	13,526	**(29,210)**	-
Group's share in net income	**P14,043**	P6,674	**(P8,763)**	P -

Investment in Joint Ventures

AyaGold Retailers, Inc.

In 2013, the Group through Entenso partnered with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold). This is the joint venture vehicle for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as may be agreed by both parties. AyaGold was incorporated in the Philippines on July 8, 2013 and started its operation on July 31, 2015 with the opening of its first supermarket called "Merkado" which is located in U.P. Town Center. The second supermarket opened on December 14, 2017.

The Group and its partner each initially invested P60 million or acquired 50% interest in AyaGold by subscribing to 6,000,000 common shares at P1 par value and 54,000,000 redeemable preferred shares at P1 par value. In February 2018, each party invested additional P32.5 million for 32,500,000 common shares at P1.00 par value.

The redeemable preferred shares shall have the following features: voting rights; participating in dividends declaration for common shares and may be entitled to such dividends as may be determined and approved by the Board of Directors; entitled to receive out of the assets of the joint venture available for distribution to the parties, before any distribution of assets is made to holders of common shares, distributions in the amount of the issue value per outstanding redeemable preferred share, plus declared and unpaid dividends to the date of distribution; and redeemable at the option of the joint venture.

The changes in the carrying amount of the investment in AyaGold are as follows:

(In thousands)	**2019**	2018
Balance at beginning of year	**P169,632**	P123,005
Additions	**-**	32,500
Share in net income	**5,764**	14,127
Balance at end of year	**P175,396**	P169,632

The following table summarizes the financial information of AyaGold and shows the reconciliation of the Group's share in net assets of such investee to the carrying amount of its investment:

(In thousands)	**2019**	2018
Percentage of ownership	**50%**	50%
Current assets	**P258,601**	P267,156
Noncurrent assets	**347,630**	199,643
Total liabilities	**(396,935)**	(135,619)
Net assets	**209,296**	331,180
Group's share in net assets	**104,648**	165,590
Adjustments	**70,748**	4,042
Carrying amount of interest in joint venture	**P175,396**	P169,632
Net sales	**P639,968**	P607,392
Net income	**11,528**	28,255
Group's share in net income	**P5,764**	P14,127

PG Lawson Company, Inc.
In 2014, the Parent Company partnered with Lawson Asia Pacific Holdings Pte. Ltd. and Lawson, Inc. (Lawson), both engaged in the operation of convenience stores in Japan and other Asian countries, to establish PG Lawson Company, Inc. (PLCI), a joint venture company to operate convenience stores in the Philippines.

In April 2018, the Parent Company sold its entire investment in PLCI for P600 million. This resulted in a P363 million gain from the sale of such investment.

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" and was subsequently sold in 2019 (see Note 33).

11. Property and Equipment

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

(In thousands)	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Wells, Platforms and Other Facilities	Construction In-progress	Total
Cost										
January 1, 2018	P3,710,269	P10,712,523	P1,574,922	P2,887,686	P8,238,044	P368,717	P9,414,405	P204,955	P1,791,890	P38,903,411
Additions	30,448	244,656	71,901	185,003	974,428	17,602	676,026	-	1,873,760	4,073,824
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)
December 31, 2018	4,079,605	9,409,424	505,429	3,032,311	9,002,727	246,949	11,132,478	204,955	1,143,839	38,757,717
Additions	-	154,562	2,449	273,375	872,186	11,653	483,174	-	2,088,183	3,885,582
Reclassifications	(174,328)	295,504	1,475	64,224	366,999	15,565	1,247,221	-	(1,809,428)	7,232
Disposals	-	-	-	(932)	(178,444)	(813)	(6,947)	-	-	(187,136)
December 31, 2019	**3,905,277**	**9,859,490**	**509,353**	**3,368,978**	**10,063,468**	**273,354**	**12,855,926**	**204,955**	**1,422,594**	**42,463,395**
Accumulated Depreciation and Amortization										
January 1, 2018	-	3,014,727	567,447	1,411,872	5,049,167	281,898	1,910,680	44,918	-	12,280,709
Depreciation and amortization	-	302,929	74,328	230,380	1,003,551	34,115	567,755	-	-	2,213,058
Disposals	-	-	-	(2,248)	(26,427)	-	(4,904)	-	-	(33,579)
Reclassifications	-	40,303	204	1,832	1,701	711	114	-	-	44,865
Asset held for sale	-	(1,130,339)	(589,322)	(62,015)	(201,081)	(108,372)	-	-	-	(2,091,129)
December 31, 2018	-	2,227,620	52,657	1,579,821	5,826,911	208,352	2,473,645	44,918	-	12,413,924
Depreciation and amortization	-	272,395	13,024	241,944	1,033,456	16,962	600,963	-	-	2,178,744
Disposals	-	-	-	(876)	(53,322)	(813)	(2,215)	-	-	(57,226)
Reclassifications	-	-	-	(1,366)	1,312	-	54	-	-	-
December 31, 2019	-	**2,500,015**	**65,681**	**1,819,523**	**6,808,357**	**224,501**	**3,072,447**	**44,918**	-	**14,535,442**
Carrying Amounts										
December 31, 2018	P4,079,605	P7,181,804	P452,772	P1,452,490	P3,175,816	P38,597	P8,658,833	P160,037	P1,143,839	P26,343,793
December 31, 2019	**P3,905,277**	**P7,359,475**	**P443,672**	**P1,549,455**	**P3,255,111**	**P48,853**	**P9,783,479**	**P160,037**	**P1,422,594**	**P27,927,953**

12. Investment Properties

This account consists of:

(In thousands)	Land	Building	Construction in-Progress	Total
Cost				
January 1, 2018	P6,551,644	P4,632,539	P567,374	P11,751,557
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)
December 31, 2018	6,372,748	5,270,903	259,158	11,902,809
Additions	249,468	94,490	273,560	617,518
Reclassifications	-	210,575	(413,453)	(202,878)
December 31, 2019	**6,622,216**	**5,575,968**	**119,265**	**12,317,449**
Accumulated Depreciation				
January 1, 2018	-	997,950	-	997,950
Depreciation	-	121,290	-	121,290
Reclassification	-	(44,865)	-	(44,865)
Assets held-for-sale	-	(8,184)	-	(8,184)
December 31, 2018	-	1,066,191	-	1,066,191
Depreciation	-	125,260	-	125,260
December 31, 2019	**-**	**1,191,451**	**-**	**1,191,451**
Carrying Amounts				
December 31, 2018	P6,372,748	P4,204,712	P259,158	P10,836,618
December 31, 2019	**P6,622,216**	**P4,384,517**	**P119,265**	**P11,125,998**

Depreciation expense are charged to cost of rent (see Note 20).

As at December 31, 2019 and 2018, 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 3 under the fair value hierarchy. Management believes that the appraisal in 2012 is still relevant for disclosure purposes as at December 31, 2019 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 P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively (see Note 29).

Direct costs incurred pertaining to the lease of these properties amounted to P660.8 million, P627.6 billion and P571.4 million in 2019, 2018 and 2017, respectively (see Note 20).

13. Goodwill and Other Intangibles

This account consists of:

(In thousands)	**2019**	2018
Goodwill	**P16,253,526**	P16,253,526
Trademark	**3,709,661**	3,709,661
Customer relationships	**889,453**	889,453
Computer software and licenses - net	**185,962**	187,980
Leasehold rights	**51,115**	54,882
	P21,089,717	P21,095,502

Goodwill
Goodwill acquired in business combinations represents the excess of the purchase price over the fair value of net identifiable assets of acquired entities which represent the separate CGUs expected to benefit from that business combination. The details are as follows:

(In thousands)	**2019**	2018
Retail		
KMC	**P12,079,474**	P12,079,474
Budgetlane Supermarkets	**837,974**	837,974
Gant	**742,341**	742,341
NE Supermarkets	**685,904**	685,904
Company E	**358,152**	358,152
B&W Supermart	**187,204**	187,204
PJSI	**11,374**	11,374
Specialty Retail		
OWI	**893,790**	893,790
CHC	**9**	9
Real Estate and Property Leasing		
NPSCC	**457,304**	457,304
	P16,253,526	P16,253,526

Other Intangibles with Indefinite Lives
Trademarks and customer relationships acquired through a business combination represent the fair value at the date of acquisition of Kareila, which is the CGU for these intangibles.

CGUs to which goodwill and other intangibles with indefinite lives have been allocated are tested for impairment annually or more frequently if there are indications that a particular CGU might be impaired. Upon adoption of PFRS 16, the carrying values of the CGUs tested for impairment include their right-of-use assets and associated lease liabilities. Cash flow projections used in determining recoverable amounts include the lease payments in both the explicit forecast period and in terminal value. The recoverable amounts for the CGUs have been determined based on value in use.

VIU

Value in use is determined using discounted cash flow projections that generally cover a period of five years and are based on the financial plans approved by the Group's management. The key assumptions for the value-in-use calculations relate to the weighted average cost of capital (discount rate), sales growth, operating margin and growth rate (terminal value). The discount rates reflect the key assumptions used in the cash flow projections. The pre-tax discount rates ranged between 9.1% and 12.2% in 2019 and 13% to 14% in 2018. The sales growth rates and operating margins used to estimate future performance are based on past performance and experience of growth rates and operating margins achievable in the Group's markets. The average annual compound sales growth rates applied in the projected periods ranged between 5% and 22% for the CGUs. The average operating margins applied in the projected periods ranged between 1.3% and 7.9% for the CGUs. The terminal value to extrapolate cash flows beyond the explicit forecast period ranged between 2.9% and 5% for the CGUs.

Key assumptions relating to CGUs to which a significant amount of goodwill or intangible assets with indefinite useful lives is allocated are as follows:

	Pre-tax Discount Rate		**Growth Rate (Terminal Value)**	
	2019	2018	**2019**	2018
Kareila	**11.00%**	13.30%	**2.90%**	3.30%
Budgetlane Supermarkets	**11.00%**	13.10%	**2.90%**	3.30%
Gant	**10.90%**	13.60%	**2.90%**	3.30%
DCI and FLSTCI	**10.60%**	13.60%	**2.90%**	3.30%
OWI	**10.90%**	13.60%	**2.90%**	3.30%
NPSCC	**12.20%**	14.00%	**2.90%**	3.30%

As at December 31, 2019, management assessed that a reasonably possible change in key assumptions of B&W Supermart would result in the headroom being reduced to nil if either of the following change occurs: discount rate increased by 0.3% or growth rate decreased by 1%.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

(In thousands)	**Computer Software and Licenses**	**Leasehold Rights**
Cost		
January 1, 2018	P376,796	P75,355
Additions	41,705	-
Adjustment	(216)	-
Reclassification to assets classified as held-for-sale	(33,952)	-
December 31, 2018	384,333	75,355
Additions	41,305	-
Adjustments	(504)	
December 31, 2019	**425,134**	**75,355**
Accumulated Amortization		
January 1, 2018	188,181	16,706
Amortization	37,392	3,767
Reclassification to assets classified as held-for-sale	(29,220)	-
December 31, 2018	196,353	20,473
Amortization	42,819	3,767
December 31, 2019	**239,172**	**24,240**
Carrying Amounts		
December 31, 2018	P187,980	P54,882
December 31, 2019	**P185,962**	**P51,115**

Leasehold Rights

On January 25, 2013, the Parent Company entered into a memorandum of agreement with various parties that paved the way for the acquisition of five stores previously owned and operated by the parties. Under the agreement, the parties agreed to sell to the Parent Company all merchandise inventories, equipment, furniture and fixtures as well as granting of rights to lease the buildings owned by parties for a period of 20 years. As a result of the transaction, the Parent Company recognized the excess of the purchase price over the fair value of tangible assets acquired as leasehold rights, which is amortized on a straight-line basis over the lease term.

14. Deferred Oil and Mineral Exploration Costs

This account consists of:

(In thousands)	***Note***	**Participating Interest**	**2019**	2018
I. Oil exploration costs:				
SC 14	*a*			
Block C2 (West Linapacan)		6.12%	**P55,753**	P55,347
Block D		5.84%	**8,113**	8,071
Block B1 (North Matinloc)		13.55%	**4,192**	2
			68,058	63,420
SC 6A	*b*	1.67%		
Octon Block			**17,415**	17,355
North Block			**627**	600
SC 6B (Bonita)	*d*	8.18%	**8,027**	8,027
			26,069	25,982
SC 51	*c*		**32,817**	32,817
Other oil projects			**527**	527
			33,344	33,344
			127,471	122,746
Allowance for impairment loss			**(127,471)**	-
Balance at end of year			**-**	122,746
II. Mineral exploration costs:				
Nickel project	*e, f*	100.00%	**P19,208**	P19,208
Anoling gold project	*g*	3.00%	**13,817**	13,817
Gold projects	*h*	100.00%	**13,036**	13,036
Cement project	*i*	100.00%	**9,603**	9,603
Other mineral projects	*j, k*		**382**	382
			56,046	56,046
Accumulated impairment losses			**(56,046)**	(56,046)
Balance at end of year			**-**	-
I. Other deferred charges			**619**	619
Allowance for impairment loss			**(619)**	-
Balance at year end			**-**	619
			P -	P123,365

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.

As at December 31, 2019, management assessed that the deferred oil and mineral exploration costs are impaired given the final plug and abandonment of nine production wells for SC 14 and lack of significant progress on the remaining projects. The Group recognized a full impairment loss of P128.1 million.

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 2019, Philodrill is in the early stages of negotiation with a UK-based firm which intends to acquire interests in the SC14 C2-West Linapacan Block. The area is part of the ongoing seismic reprocessing and Quantitative Interpretation (QI) works over contiguous areas in SC 14 C2 and SC 74 that cover the West Linapacan and Linapacan discoveries. The Joint Quantitative Interpretation (QI) study on the Linapacan (SC 74) and West Linapacan (SC 14 C2) was officially commenced on the 4th week of April 2019, with IKON Science as the selected service provider. The project involves joint QI work on a 400 sq km reprocessed PSDM seismic data volume covering the West Linapacan A and B in SC 14 and the Linapacan A and B SC 74. As of end-June 2019, the Phase 1a of the study has been completed and the 2 Joint Venture consortia are now discussing on proceeding to the next phase of the Joint QI work which will involve trial inversion work on 30 sq km data volume of contiguous areas.

Meanwhile, Philodrill implemented the final plug and abandonment (P&A) of nine production wells in the Nido, Matinloc and North Matinloc fields immediately after these fields finally ceased production in early 2019. Using the workboat MV ENA Habitat, Philodrill successfully completed P&A works on seven wells (Matinloc-1,-2,-3, Nido B-1, -2, -3, and North Matinloc-2) from March 30 to May 21, 2019. The completion of the P&A of the remaining wells (Nido A-1 and A-2) was deferred for a separate campaign in April 2020.

In 2019 and 2018, additional deferred charges amounting to P4.64 million and P0.32 million, respectively, were 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, 2019, the Group 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,(PLL) 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 Group 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 2019 and 2018 additional deferred charges amounting to P0.1 million each were capitalized.

c) <u>SC 51 - East Visayan Basin</u>
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, 2019 and 2018, there were no further developments on the said project.

d) SC 6B (Bonita) - Offshore Nortwest 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.

As at December 31, 2019, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 Group paid occupation amounting to P0.5 million for the project.

As at December 31, 2019, 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, 2019 and 201, 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 concemed 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, 2019 and 2018, there were no further developments on the said project.

15. Other Noncurrent Assets

This account consists of:

(In thousands)	2019	2018, (Restated)
Security deposits	**P2,231,789**	P2,158,828
Deferred input VAT - net of current portion	**487,003**	400,121
Advances to contractors	**290,709**	313,180
Accrued rent income	**275,949**	105,058
Prepaid rent	**3,274**	5,189
Security deposits	**11,065**	4,836
	P3,299,789	P2,987,212

Security deposits consist of payments for leases that are refundable at the end of the lease term.

Advances to contractors pertain to payments made in advance for the construction of new stores

16. Accounts Payable and Accrued Expenses

This account consists of:

(In thousands)	*Note*	2019	2018, (Restated)
Trade payables		**P9,087,869**	P9,811,921
Non-trade payables		**2,342,807**	1,205,116
Dividends payable	*28*	**1,356,031**	-
Due to government agencies		**744,875**	620,671
Construction bonds		**22,684**	20,541
Advance rentals		**14,089**	11,753
Retention payable		**5,181**	73
Accrued expenses			
Manpower agency services		**977,613**	909,613
Utilities		**293,390**	200,381
Rent		**77,435**	62,244
Others		**206,007**	173,853
		P15,127,981	P13,016,166

Trade payables generally on a 30-to-60-day payment terms.

Non-trade payables consist of claims arising from billed expenditures in relation to operations other than purchases of goods such as fixed asset acquisitions and stores under construction.

17. Loans Payable

As at December 31, 2019 and 2018, the Group has the following outstanding loans:

a. Short-term Loans

Details of short-term loans follow:

(In thousands)	**2019**	2018
Balance at beginning of year	**P4,866,300**	P5,562,500
Availments	**642,855**	10,220,000
Repayments	**(4,638,031)**	(10,916,200)
Balance at end of year	**P871,124**	P4,866,300

The balances of peso-denominated short-term loans of each segment as at December 31 follow *(in thousands)*:

Segment	Purpose(s)	Interests	2019	2018
Liquor distribution	- Inventory financing	3.57% to 5.63%	**P729,000**	P710,000
Real estate	- Capital expenditure requirements	2.88% to 5.25%	**140,554**	300,000
Grocery retail	- Inventory financing - Working capital requirements	4.00% to 6.40%	**1,570**	3,856,300
			P871,124	P4,866,300

b. Long-term Loans

Details of long-term loans follow:

(In thousands)	**2019**	2018
Balance at beginning of year	**P6,622,208**	P7,225,612
Repayments	**(1,488,429)**	(610,000)
Amortization of debt issue cost	**4,483**	6,596
	5,138,262	6,622,208
Less current portion	**43,685**	49,999
	P5,094,577	P6,572,209

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

(In thousands)	***Note***	**2019**	2018
Cosco:			
Fixed-rate peso-denominated loan of 5.267%	*a*	**P3,792,563**	P3,827,355
Fixed-rate peso-denominated loan of 5.579%	*a*	**945,699**	954,853
PPCI:			
Fixed-rate peso-denominated note of 6.40%	*b*	**-**	1,440,000
KMC			
Fixed-rate peso-denominated loan of 3.50%	*c*	**400,000**	400,000
		5,138,262	6,622,208
Less current portion		**43,685**	49,999
		P5,094,577	P6,572,209

a. *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:

- 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. 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.

- 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. 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.

These 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, 2019 and 2018, Cosco is compliant with the loan covenants.

b. *PPCI*

On June 13, 2013, the PPCI obtained a P2 billion unsecured loan from a local bank, which is payable on May 21, 2018 and bears interest at 3.50% per annum. The interest is due every month.

On May 2, 2018, the PPCI partially paid the loan amounting to P660 million and the maturity for the outstanding balance of P1.4 billion was renewed for 7 years at 6.4% interest per annum.

In 2019, the PPCI fully paid the remaining balance.

c. *KMC*

On July 23, 2013, KMC obtained a P500 million unsecured loan from a local bank. The loan is payable after 5 years and bears interest at 3.50% per annum. The interest is due every month.

In 2015, KMC partially paid the loan amounting to P100 million.

On May 2, 2018, the maturity for the outstanding balance of P400 million was renewed for 7 years at 6.4% interest rate per annum.

The loan is not subject any covenants.

Total interest expense charged to profit or loss amounted to P403 million, P468.8 million and P406.4 million in 2019, 2018 and 2017, respectively.

Interest expense capitalized amounted to P12 million, P81.7 million and P91.5 million in 2019, 2018 and 2017, respectively (see Notes 13 and 14). Capitalization rate is 4%, 2% and 1% in 2019, 2018 and 2017, respectively.

18. Other Current Liabilities

This account as at December 31 consists of:

(In thousands)	***Note***	**2019**	2018, (Restated)
Customers' deposits	*21, 31, 32*	**P351,510**	P248,327
Unredeemed gift certificates		**157,477**	127,912
Output VAT		**78,225**	40,659
Promotional discount		**1,934**	1,835
Others	*31, 32*	**7,846**	16,168
		P596,992	P434,901

Customers' deposits consist of payments from the lessees that are refundable at the end of the lease term. These are intended to answer for any unpaid obligations of the lessee to the Group including damages to the leased properties.

Unredeemed gift certificates represent members' claims for issued yet unused gift certificates. These will be closed to sales account upon redemption and are due and demandable anytime.

Contract Liabilities
The Group identified its unredeemed gift certificates as contract liabilities as of December 31, 2019 and 2018. These represent the Group's obligation to provide goods or services to the customers for which the Group has received consideration from the customers.

Below is the rollforward of contract liabilities:

(In thousands)	**2019**	2018
January 1	**P127,912**	P125,631
Add receipts	**481,759**	476,041
Less sales recognized	**452,194**	473,760
December 31	**P157,477**	P127,912

19. Revenues

The revenue from contracts with customers is disaggregated by revenue stream.

(In thousands)	**2019**	2018	2017
Revenue from Contracts with Customers (PFRS 15)			
Revenues			
Grocery	**P154,490,309**	P141,139,261	P124,703,433
Wine and liquor	**7,630,100**	6,514,654	4,694,538
Office and technology supplies	**2,447,877**	2,086,043	1,820,605
LPG	**-**	17,090,511	13,128,497
Production lifting	**-**	-	528
Other revenue			
Concession fee income	**2,056,097**	1,878,359	1,647,845
Membership income	**572,714**	513,589	452,974
Commission income	**20,524**	53,674	68,592
Miscellaneous	**149,576**	141,892	202,784
	167,367,197	169,417,983	146,719,796
Lease revenue (PFRS 16)			
Revenues			
Real estate and property leasing	**1,498,426**	1,379,888	1,291,199
Other revenue			
Retail (*Other revenue*)	**463,942**	407,251	388,645
	1,962,368	1,787,139	1,679,844
	P169,159,465	P171,009,556	P148,128,264

20. Cost of Revenues

Cost of goods sold consists of:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Beginning inventory	**P23,931,657**	P21,194,691	P19,792,366
Purchases	**136,307,493**	141,390,253	120,527,031
Other direct costs	**-**	528,725	564,930
Total goods available for sale	**160,239,150**	163,113,669	140,884,327
Ending inventory	**24,722,271**	23,931,657	21,194,691
	P135,516,879	P139,182,012	P119,689,636

Cost of rent consists of:

(In thousands)	2019	2018, (Restated)	2017, (Restated)
Depreciation	**P231,171**	P224,109	P202,537
Security services	**101,594**	80,947	83,439
Taxes and licenses	**88,537**	86,559	84,326
Repairs and maintenance	**61,608**	56,505	48,977
Janitorial services	**59,172**	56,205	49,469
Management fees	**35,480**	40,968	29,568
Utilities	**31,112**	32,782	27,310
Salaries and wages	**21,062**	19,927	18,035
Insurance	**17,347**	19,052	18,104
Rentals	**5,950**	5,185	3,958
Amusement tax	**1,547**	2,052	1,970
Retirement benefit cost	**515**	374	664
Others	**5,693**	2,942	2,998
	P660,788	P627,607	P571,355

21. Leases

As Lessee

The Group leases parcels of land, stores, warehouses, distribution centers, and parking spaces. The lease terms range from 5 years to 42 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or per square meter subject to 1%-10% escalation or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

The movements in right-of-use assets are as follows:

(In thousands)	2019	2018 (Restated)
Cost		
Balance at January 1	**P26,781,994**	P23,701,690
Additions	**3,331,079**	3,457,792
Modifications	**(10,498)**	(29,197)
Terminations	**(163,202)**	(159,904)
End of lease term	**(467,133)**	(188,387)
Balance at December 31	**29,472,240**	26,781,994
Accumulated Depreciation		
Balance, January 1	**6,699,568**	5,537,329
Depreciation	**1,591,374**	1,424,981
Terminations	**(51,672)**	(74,355)
End of lease term	**(467,133)**	(188,387)
Balance, December 31	**7,772,137**	6,699,568
Carrying amount at December 31	**P21,700,103**	P20,082,426

For the restatement of balances following the adoption of PFRS 16, see Note 35. The right-of-use assets mainly pertain to leases of stores and also include leases of parcels of land, warehouses, distribution centers and parking spaces.

Lease liabilities included in the statements of financial position are as follows:

(In thousands)	**2019**	2018, (Restated)
Due within one year	**P567,682**	P725,846
Due beyond one year	**26,101,259**	23,496,627
	P26,668,941	P24,222,473

The movements in lease liabilities are as follows:

(In thousands)	***Note***	**2019**	2018, (Restated)
January 1	*27, 28*	**P24,222,473**	P21,549,720
Additions		**3,178,512**	3,354,180
Accretion of interest		**1,673,636**	1,454,112
Repayments		**(2,241,191)**	(1,982,941)
Terminations		**(153,990)**	(123,400)
Modifications		**(10,499)**	(29,198)
December 31		**P26,668,941**	P24,222,473

Shown below is the maturity analysis of the undiscounted lease payments for the years ended December 31:

(In thousands)	**2019**	2018 (Restated)	2017 (Restated)
Less than one year	**P2,031,482**	P1,798,795	P1,572,528
One to five years	**8,316,198**	7,674,796	6,925,757
More than five years	**31,769,098**	29,427,442	25,230,655
	P42,116,778	P38,901,033	P33,728,940

The following are the amounts recognized in profit or loss:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Variable lease payments not included in the measurement of lease liabilities*	**P708,336**	P776,864	P843,498
Expenses related to leases of low-value assets	**44,724**	30,245	39,514
Expenses related to short-term leases	**10,111**	60,600	59,026
Total rent expense	**763,171**	867,709	942,038
Interest accretion on lease liabilities	**1,673,636**	1,454,112	1,292,684
Depreciation charge for right-of-use assets	**1,072,569**	1,162,239	1,058,245
Gain from lease terminations	**42,460**	37,850	15,174

**This includes the concession fee expense presented as separate line item under "Operating expenses" in the statements of income.*

Low-value assets pertain mainly to credit card terminals, G4s cash solutions technology and office spaces.

The total cash outflow for leases amounted to P3.0 billion, P2.9 billion and P2.6 billion in 2019, 2018, and 2017, respectively.

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 are no outstanding charges against the tenant. Customers' deposits amounted to P262 63 million and P318.12 million as at December 31, 2019 and 2018. 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 recognized as part of "Revenues" account in profit or loss amounted to P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively.

The scheduled maturities of non-cancellable minimum future rental collections are as follows:

(In thousands)	**2019**	2018	2017
Less than one year	**P1,206,274**	P1,144,812	P1,176,059
One to two years	**958,421**	1,200,895	1,263,989
Two to three years	**911,110**	1,088,371	1,118,481
Three to four years	**778,016**	924,874	985,483
Four to five years	**738,322**	831,857	853,614
More than five years	**7,139,242**	7,388,883	8,856,007
	P11,731,385	P12,579,692	P14,253,633

The Group subleases a portion of its stores to various lessees. The lease terms range from 1 year to 10 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs

Rent income recognized as part of "Other revenue" account in profit or loss amounted to P463.9 million, P407.3 million and P388.6 million, in 2019, 2018 and 2017, respectively (see Note 22).

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

(In thousands)	**2019**	2018	2017
Less than one year	**P275,982**	P260,145	P186,083
One to two years	**139,825**	104,021	69,140
Two to three years	**132,084**	98,262	65,313
Three to four years	**109,161**	81,209	53,978
Four to five years	**99,237**	73,826	49,071
More than five years	**82,852**	95,071	100,984
	P839,141	P712,534	P524,569

22. Other Revenue

This account consists of:

(In thousands)	***Note***	**2019**	2018	2017
Concession fee income		**P2,056,097**	P1,878,359	P1,647,845
Membership income		**572,714**	513,589	452,974
Rent income	*21*	**463,942**	407,251	388,645
Commission income		**20,524**	53,674	68,592
Miscellaneous		**149,576**	141,892	202,784
		P3,262,853	P2,994,765	P2,760,840

Miscellaneous consist of delivery fee income, income from sale of used packaging materials, e-wallet rebates and other individually insignificant items.

23. Operating Expenses

This account consists of:

(In thousands)	***Note***	**2019**	2018 (Restated)	2017 (Restated)
Depreciation and amortization	*11, 12, 13*	**P3,191,988**	P3,126,787	P2,761,469
Manpower agency		**3,617,718**	3,019,535	2,878,788
Communication, light and water		**2,427,507**	2,382,827	1,952,586
Salaries and wages		**2,308,371**	2,219,108	2,152,204
Outside services		**1,226,738**	1,684,369	1,151,091
Taxes and licenses		**907,331**	841,909	703,173
Rent	*21, 25*	**763,171**	867,709	942,038
Advertising and marketing		**647,824**	822,940	466,582
Store and office supplies		**571,376**	559,444	556,194
Repairs and maintenance		**510,638**	486,202	393,479
Credit card charges		**356,309**	298,880	270,111
Distribution Costs		**338,910**	257,833	317,180
Input VAT allocable to exempt sales		**239,069**	131,257	58,424
Insurance		**221,217**	225,757	204,470
SSS/Medicare and HDMF contributions		**195,593**	157,949	139,091
Transportation		**179,733**	188,404	140,532

Forward

(In thousands)	*Note*	2019	2018 (Restated)	2017 (Restated)
Impairment loss on deferred oil and mineral exploration costs	2, 14	**128,090**	-	-
Representation and entertainment		**137,791**	129,864	85,283
Retirement benefits cost	26	**135,584**	170,746	158,377
Fuel and oil		**79,129**	81,565	57,937
Royalty expense	25	**58,897**	54,343	46,332
Professional fees		**47,749**	51,222	46,380
Impairment loss on receivables	11	**-**	12,798	128
Others		**856,356**	555,361	372,380
		P19,147,089	P18,326,809	P15,854,229

24. Other Income (Charges)

This account consists of:

(In thousands)	*Note*	2019	2018 (Restated)	2017 (Restated)
Gain on sale of interest in a subsidiary/joint venture	10,33	**P6,073,605**	P362,810	P -
Gain from lease terminations	21	**42,460**	37,850	15,174
Foreign exchange gain (loss)		**28,805**	23,103	(23,468)
Bank charges		**(14,552)**	(49,042)	(36,735)
Share in income (losses) of joint ventures and associates	10	**11,044**	17,142	(133,394)
Gain (loss) on insurance claim		**3,503**	3,383	(14,268)
Unrealized valuation gain (loss) on financial assets	7	**(1,582)**	(10,385)	11,779
Gain on disposal of property and equipment		**-**	15,815	206
Miscellaneous		**5,346**	20,818	108,381
		P6,148,629	P421,494	(P72,325)

25. Related Party Transactions

The Group's transactions and balances with its related parties follow *(in thousands)*:

Related Party	Year	Note	Amount of Transactions for the Year	Cash and Cash Equivalents/ Receivables	Due from Related Parties	Lease Liabilities	Due to Related Parties	Terms	Conditions
Under Common Control									
▪ Loans receivable									
Principal	**2019**	*a*	**P11,898,908**	**P11,898,908**	P -	P -	P -	Due on September 30,	Unsecured
Interest	**2019**		**342,119**	**342,119**	-	-	-	2020; interest bearing	
▪ Money market placements	**2019**	*b*	**4,326,000**	**4,326,000**	-	-	-	Less than 3 months	Unsecured
	2018		1,454,307	1,454,307	-	-	-		
▪ Advances for working capital	**2019**		-	-	-	-	**363,146**	Due and demandable;	Unsecured
requirements	2018		38	-	-	-	363,146	non-interest bearing	
▪ Management fees	**2019**	*e*	**34,585**	-	-	-	-	Due and demandable;	Unsecured
	2018		34,585	-	-	-	-	non-interest bearing	
▪ Rent income	**2019**	*f*	**125,909**	-	-	-	-	Due and demandable;	Unsecured
	2018		125,909	-	-	-	-	non-interest bearing	
▪ Rent payments	**2019**	*g*	**332,717**	-	-	**2,852,778**	-	Due and demandable;	Unsecured
	2018		266,182	-	-	2,941,967	-	non-interest bearing	
▪ Transaction costs LPC sale	**2019**		**340,654**	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
Associates									
▪ Throughput fees	**2019**	*c*	-	-	-	-	-	Due within a month after	Unsecured
	2018		30,000	-	-	-	-	the end of each quarter; non-interest bearing	
▪ Concession fee expense	**2019**	*d*	**466,846**	-	-	-	-	Due and demandable;	Unsecured
	2018		522,931	-	-	-	-	non-interest bearing	
Stockholder									
▪ Advances for working capital	**2019**		**174,027**	-	**192,068**	-	**933,197**	Due and demandable;	Unsecured;
requirements	2018		689,098	-	47,971		959,243	non-interest bearing	Unimpaired
▪ Royalty expense	**2019**	*h*	**47,117**	-	-	-	**47,117**	Due and demandable;	Unsecured
	2018		54,343	-	-	-	43,474	non-interest bearing	
Key Management Personnel									
▪ Short-term benefits	**2019**		**23,211**	-	-	-	-		
	2018		43,513	-	-	-	-		
Total	**2019**			**P16,567,027**	**P192,068**	**P2,852,778**	**P1,343,460**		
Total	2018			P1,454,307	P47,971	P2,941,967	P1,365,863		

a. Loans Receivable

In 2019, the Group through CHC granted loans Union Energy Corporation and League One, Inc., entities under common control, which are payable on September 30, 2020. The loans bear interest based on prevailing market rates agreed with the borrowers on a quarterly basis. Interest rates range from 2% to 4.75%.

b. Money Market Placements

The money market placements are with Philippine Bank of Communications, a local bank under common control.

c. Throughput Fees

On December 15, 2000, the Group through LPC, together with its co-joint venture in MJVC, as "Users" entered into a throughput agreement with MJVC and PLBRC. Under the agreement, MJVC will provide the services to enable each of the users to load and off-load products from vessels and receive products from MJVC's storage facilities. LPC, as a User, shall pay the services and annual fees based on a certain formula agreed upon under the agreement. The fee shall be shared among 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. LPC is no longer a related party starting 2019 (see Note 33)

Throughput fees are shown as part of "Cost of Sales" account in the profit or loss.

d. Consignment and Concession

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.

On April 22, 2019, the Consignee assigned to the consignor its lease of land located at Westgate, Filinvest Alabang, Muntinlupa City with a lease term from January 1, 2019 until November 15, 2022. The term has been extended until November 15, 2037.

e. Management Agreement

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.

f. Lease Agreement - As a Lessor

The Group and PriceSmart entered into a lease agreement for the rental of land. The term of the lease is 23 years and renewable under such terms and conditions that shall be agreed upon by the parties.

g. Lease Agreement - As a Lessee

The Group entered into lease agreements mainly for stores and warehouses with various entities under common control. Lease terms range from 3 to 25 years and renewable under such terms and conditions that shall be agreed upon by the parties.

h. License Agreement

On August 15, 2011, the Parent Company entered into a license agreement for the use of trademark and logo. In exchange, the Parent Company pays the owner royalty based on a percentage of sales

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 2019 and 2018 are as follows:

a. Advances from the Parent Company to its subsidiaries

(In thousands)	**Outstanding Balance**
2019	**P9,444,298**
2018	9,877,372

These advances are unsecured and with various terms. These are payable in cash. Interest income from these advances amounted to P88.8 million in 2019 and P94.8 million in 2018.

b. Receivables from subsidiaries to their fellow subsidiaries

(In thousands)	**Outstanding Balance**
2019	**P5,047,435**
2018	3,946,608

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

(In thousands)	**Amount of Transactions**	**Outstanding Balance**
2019	**P3,087,297**	**P517,722**
2018	2,235,888	515,533

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

(In thousands)	Amount of Transactions	Outstanding Balance
2019	**P524,610**	**P132,033**
2018	650,902	10,927

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

(In thousands)	Amount of Transactions	Outstanding Balance
2019	**P1,228,737**	**P1,829,061**
2018	600,000	1,674,762

Cash dividends are due on payment date.

f. Dividend income received by a subsidiary from dividends declared by a fellow subsidiary

(In thousands)	Amount of Transactions	Outstanding Balance
2018	P80	P238

Cash dividends are due on payment date.

g. Dividend income received by a subsidiary from dividends declared by the Parent Company

(In thousands)	Amount of Transactions	Outstanding Balance
2019	**P54,494**	**P29,755**
2018	-	40,426

Cash dividends are due on payment date.

h. Management and arrangement fees charged by the Parent Company to its subsidiaries

(In thousands)	Amount of Transactions	Outstanding Balance
2019	**P301,403**	**P443,403**
2018	385,000	142,000

Receivables from management and arrangement fees are non-interest bearing and are due and demandable and payable in cash.

26. 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:

(In thousands)	**2019**	2018
Present value of defined benefits obligation	**P984,469**	P534,446
Fair value of plan assets	**(28,651)**	(25,913)
	P955,818	P508,533

The following table shows reconciliation from the opening balances to the closing balances of the present value of defined benefits obligations:

(In thousands)	**2019**	2018
Balance at beginning of year	**P534,446**	P618,300
Included in profit or loss:		
Current service cost	**96,429**	137,006
Interest cost	**39,670**	34,114
	136,099	171,120
Included in other comprehensive income		
Remeasurements gain:		
Financial assumptions	**348,338**	(352,339)
Experience adjustments	**(24,886)**	121,726
	323,452	(230,613)
Benefits paid	**(4,085)**	(1,675)
Reclass to liabilities directly related to assets held-for-sale	**(5,443)**	(22,686)
Balance at end of year	**P984,469**	P534,446

The following table shows reconciliation from the opening balances to the closing balances for fair value of plan assets:

(In thousands)	**2019**	2018
Balance at beginning of year	**P25,913**	P27,390
Interest income	**1,936**	-
Return on plan asset excluding interest	**802**	(1,477)
Balance at end of year	**P28,651**	P25,913

The Group's plan assets as at December 31 consist of the following:

(In thousands)	**2019**	2018
Cash in banks	**P2,460**	P2,033
Debt instruments - government bonds	**25,927**	23,648
Trust fees payable	**(14)**	(13)
Other	**278**	245
	P28,651	P25,913

The following were the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate	**5.21% to 7.5%**	7.50% to 7.53%
Future salary increases	**5% to 8%**	5.00% to 7.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation as at December 31, 2019 and 2018 reporting period is 25.8 years and 19.4 years, respectively.

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:

2019

(In thousands)	**Increase**	**Decrease**
Discount rate (1% movement)	**(P171,669)**	**P218,568**
Future salary increase rate (1% movement)	**210,603**	**(169,496)**

2018

(In thousands)	Increase	Decrease
Discount rate (1% movement)	(P11,248)	P91,475
Future salary increase rate (1% movement)	110,943	(88,056)

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:

	2019 *(In thousands)*				
	Carrying Amount	**Contractual Cash Flows**	**Within 1 Year**	**Within 1-5 Years**	**Within 5-10 Years**
Defined benefit obligation	**P955,818**	**P225,661**	**P36,906**	**P39,274**	**P149,481**

	2018 *(In thousands)*				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P508,533	P228,328	P31,463	P35,173	P161,692

Multi-employer Retirement Plan
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 Group'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 2020.

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 2020.

27. Income Taxes

The provision for income tax consists of:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Current	**P3,803,735**	P3,553,864	P3,040,629
Deferred	**(282,270)**	(268,002)	134,810
	P3,521,465	P3,285,862	P3,175,439

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense shown in profit or loss is as follows:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Income before income tax	**P18,914,672**	P11,767,666	P10,646,139
Income tax expense at the statutory income tax rate:			
30%	**P5,884,228**	P3,755,047	P3,193,842
5%	**19,441**	20,412	12,991
Income tax effects of:			
Gain on sale of investment subject to capital gains tax	**(1,822,082)**	(108,843)	-
Dividend income	**(384,739)**	(180,011)	(150,407)
Deduction from gross income due to availment of optional standard deduction	**(349,350)**	(265,138)	(198,467)
Non-deductible expenses	**267,478**	230,752	185,563
Interest income subject to final tax	**(201,719)**	(68,571)	(21,630)
NOLCO utilized	**97,570**	39,047	78,383
Changes in unrecognized DTA	**(88,277)**	(170,486)	10,998
Non-deductible interest expense	**68,406**	10,044	4,422
Non-deductible other expenses	**28,200**	55,009	66,819
Excess of MCIT over RCIT	**10,060**	8,733	3,593
Share in income of associates and joint ventures	**(3,313)**	(6,240)	(3,628)
Non-taxable income	**(2,738)**	(3,004)	(6,483)
Other income subject to final tax	**(1,700)**	(33,000)	(557)
Penalties	**-**	2,111	-
	P3,521,465	P3,285,862	P3,175,439

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:

(In thousands)	**2019**	2018
	DTA (DTL)	DTA (DTL)
Excess of lease liabilities over ROU assets	**P1,490,651**	P1,242,014
Retirement benefits liability	**307,921**	152,560
NOLCO	**49,750**	-
Allowance for impairment of deferred oil and mineral exploration costs	**38,427**	-
Allowance for impairment losses on receivables	**5,119**	5,119
Advance rentals	**3,120**	3,073
Accrued rent expense	**2,106**	1,724
Unrealized foreign exchange loss	**984**	438
Recognition of DTA on merger transaction	**117**	117
DTA	**1,898,195**	1,405,045
Fair value of intangible assets from business combination	**(1,379,734)**	(1,379,734)
Accrued rent income	**(64,343)**	(47,864)
Borrowing cost	**(13,359)**	(9,577)
Actuarial loss (gain)	**(2,319)**	(48,781)
Unrealized foreign exchange gain	**(742)**	(452)
DTL	**(1,460,497)**	(1,486,408)
Net	**P437,698**	(P81,363)

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 benefits 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:

(In thousands)	**2019**	2018
NOLCO	**P50,918**	P117,430
MCIT	**73**	21,838
	P50,991	P139,268

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below (in thousands):

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
2018	325,232	(325,232)	-	2021
2019	165,833	-	165,833	2022
	P1,353,723	(P1,187,890)	P165,833	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below (in thousands):

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
2019	10,060	-	10,060	2022
	P35,969	(P13,583)	22,386	

28. Equity

Capital Stock

The details of the Parent Company's common shares follow:

	2019		2018	
	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	**(410,738,990)**	**(1,403,974)**	(381,629,190)	(1,197,727)
Outstanding	**6,994,524,574**	**P6,001,290**	7,023,634,374	P6,207,537
Treasury shares:				
Balance at beginning of year	**381,629,190**	**P1,197,727**	288,081,290	P628,203
Buy back of shares	**29,109,800**	**206,247**	93,547,900	569,524
Balance at end of year	**410,738,990**	**P1,403,974**	381,629,190	P1,197,727

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 2019 and 2018, the Parent Company renewed its program to buy back its shares for another year.

Retained Earnings

Declaration of Cash Dividends

In 2019, 2018 and 2017, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Cash	December 15, 2017	January 2, 2018	January 26, 2018	P0.06
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.04
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.06
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.08

As of December 31, 2019, unpaid unpaid cash dividends on common shares amounting to P1.3 billion are included as part of as "Accounts payable and accrued expenses" account in the consolidated statements of financial position (see Note 16).

Non-controlling Interests
For the years ended December 31, 2019, and 2018, 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:

This information is based on amounts before inter-company eliminations.

	2019		2018 (As Restated)			
(In thousands)	PPCI	CHC	PPCI	CHC	LPC	CPHI
NCI percentages	**51%**	**10%**	49%	10%	10%	10%
Carrying amounts of NCI	P31,469,630	P776,994	P25,975,793	(P22,311)	P380,498	P541
Current assets	P40,040,355	P12,242,909	P36,065,930	P2,793	P2,642,136	P24
Noncurrent assets	68,594,443	-	64,783,925	3,528,451	2,958,653	44,222
Current liabilities	15,490,809	4,472,966	18,247,249	3,754,356	1,773,127	38,837
Noncurrent liabilities	31,244,639	-	29,590,783	-	22,686	-
Net assets	P61,899,350	P7,769,943	P53,011,823	(P223,112)	P3,804,976	P5,409
Net income attributable to NCI	P3,454,122	P301,582*	P3,037,755	(P32,506)	P62,623	(P53)
Other comprehensive attributable to NCI	(P111,829)	P -	P76,650	P -	P336	P -
Revenue	P154,490,309	P -	P141,139,261	P -	P17,090,512	P -
Net income (loss)	P6,772,788	P7,993,116	P6,199,500	(P325,058)	P626,230	(P530)
Other comprehensive income (loss)	(219,273)	-	156,428	-	3,362	-
Total comprehensive income (loss)	P6,553,515	P7,993,116	P6,355,928	(P325,058)	P629,592	(P530)
Net cash flows provided by (used in):						
Operating	P15,072,887	P -	P9,614,724	(P57)	P1,108,560	P848
Investing	(3,772,907)	11,980,106	(3,395,382)	-	(29,354)	-
Financing	(4,903,880)	-	(3,597,629)	-	(375,690)	(848)
Net increase (decrease) in cash and cash equivalents	P6,396,100	P11,980,106	P2,621,713	(P57)	P703,516	P -

**Adjusted for the share in income in LPC and CHPI recognized from date of acquisition to date of sale and other eliminating adjustment.*

29. 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:

	Segment Revenues			Segment Profit		
(In thousands)	**2019**	2018	2017	**2019**	2018	2017
Grocery retail	**P154,490,309**	P141,139,261	P124,703,433	**P6,772,788**	P6,199,500	P5,494,122
Liquor distribution	**10,717,397**	8,747,207	6,662,915	**1,212,453**	738,366	630,669
Specialty retail	**2,451,217**	19,179,888	14,953,360	**97,033**	691,815	524,776
Real estate and property leasing	**2,146,777**	2,030,790	1,873,770	**1,225,477**	1,085,959	922,092
Holding, oil and mining	**-**	-	528	**9,397,287**	403,650	953,787
Total	**169,805,700**	171,097,146	148,194,006	**18,705,038**	9,119,290	8,525,446
Eliminations of intersegment revenue/profit	**3,738,988**	2,886,789	2,555,206	**3,334,194**	637,486	1,054,746
	P166,066,712	P168,210,357	P145,638,800	**P15,370,844**	P8,481,804	P7,470,700

Revenue reported above represents revenue generated from external customers and inter-segment sales and is broken down as follows:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Grocery retail:			
From external customers	**P154,490,309**	P141,139,261	P124,703,433
Specialty retail:			
From external customers	**2,447,877**	19,176,554	14,949,102
From intersegment sales	**3,340**	3,334	4,258
	2,451,217	19,179,888	14,953,360
Liquor distribution:			
From external customers	**7,630,100**	6,514,654	4,694,538
From intersegment sales	**3,087,297**	2,232,553	1,968,377
	10,717,397	8,747,207	6,662,915
Real estate and property leasing:			
From external customers	**1,498,426**	1,379,888	1,291,199
From intersegment sales	**648,351**	650,902	582,571
	2,146,777	2,030,790	1,873,770
Oil and mining:			
From external customers	**-**	-	528
Total revenue from external customers	**P166,066,712**	P168,210,357	P145,638,800
Total intersegment revenue	**P3,738,988**	P2,886,789	P2,555,206

No single customer contributed 10% or more to the Group's revenue in 2019 and 2018.

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:

(In thousands)	**2019**	2018, (Restated)	2017, (Restated)
Segment assets:			
Grocery retail	**P108,634,798**	P100,849,855	P91,829,440
Specialty retail	**1,225,214**	6,619,617	5,636,684
Liquor distribution	**8,776,038**	7,240,181	6,094,491
Real estate and property leasing	**25,651,342**	24,723,835	24,284,037
Oil and mining	**105,902,079**	96,874,958	97,498,623
Total segment assets	**250,189,471**	236,308,446	225,343,275
Intercompany assets	**95,739,577**	96,770,905	96,577,852
Total assets	**P154,449,894**	P139,537,541	P128,765,423
Segment liabilities:			
Grocery retail	**P46,735,448**	P47,838,033	P45,173,546
Specialty retail	**2,475,886**	2,363,770	2,078,973
Liquor distribution	**3,299,462**	3,033,318	2,462,394
Real estate and property leasing	**9,403,470**	9,636,227	9,558,209
Oil and mining	**10,531,184**	8,974,933	9,431,152
Total segment liabilities	**72,445,450**	71,846,281	68,704,274
Intercompany liabilities	**20,056,340**	17,433,309	16,990,288
Total liabilities	**P52,389,110**	P54,412,972	P51,713,986

30. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

(In thousands except per share data)	**2019**	2018	2017
Net income attributable to equity holders of the Parent Company (a)	**P11,597,381**	P5,381,485	P4,731,616
Weighted average number of common shares (b)	**7,010,161**	7,083,275	7,129,817
Basic/diluted EPS (a/b)	**P1.65**	P0.76	P0.66

There were no potential dilutive common shares in 2019, 2018 and 2017.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

31. Financial Risk and Capital Management Objectives and Policies

<u>Objectives and Policies</u>
The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate 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 Group's principal financial instruments include cash and cash equivalents and investments in trading securities. These financial instruments are used to fund the Group's operations and capital expenditures.

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.

<u>Credit Risk</u>
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.

(In thousands)	Note	2019	2018
Cash and cash equivalents [1]	*4*	**P23,015,623**	P15,595,558
Receivables - net	*5*	**16,637,892**	6,630,927
Due from related parties	*25*	**192,068**	47,971
Security deposits [2]	*15*	**2,231,789**	2,158,828
Financial assets at FVPL	*7*	**34,921**	36,503
Financial assets at FVOCI	*8*	**17,704**	15,522
		P42,129,997	P24,485,309

[1] Excluding cash on hand.
[2] 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.

	December 31, 2019			
(In thousands)	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents[1]	P23,015,623	P -	P -	P23,015,623
Receivables	16,686,839	-	48,947	16,637,892
Due from related parties	192,068	-	-	192,068
Security deposits[2]	2,231,789	-	-	2,231,789
Financial Assets at FVPL				
Investments in trading securities	34,921	-	-	34,921
Financial Assets at FVOCI				
Investments in preferred shares	7,262	-	-	7,262
Investment in common shares				
Quoted	8,138	-	-	8,138
Unquoted	2,304	-	-	2,304
	P42,178,944	P -	P48,947	P42,129,997

[1] Excluding cash on hand.
[2] Included as part of "Other noncurrent assets".

	December 31, 2018			
(In thousands)	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents[1]	P15,595,558	P -	P -	P15,595,558
Receivables	4,360,646	2,229,983	40,298	6,630,927
Due from related parties	47,971	-	-	47,971
Security deposits[2]	2,158,828	-	-	2,158,828
Financial Assets at FVPL				
Investments in trading securities	36,503	-	-	36,503
Financial Assets at FVOCI				
Investments in equity securities	7,262	-	-	7,262
Quoted	5,956	-	-	5,956
Unquoted	2,304	-	-	2,304
	P22,215,028	P2,229,983	P40,298	P24,485,309

[1] Excluding cash on hand.
[2] 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 profitability 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 profitability 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 identified 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, 2019				
(In thousands)	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
Other Financial Liabilities					
Accounts payable and accrued expenses[(1)]	P14,383,106	P14,383,106	P14,383,106	P -	P -
Short-term loans	871,124	871,124	871,124	-	-
Lease liabilities	26,668,941	26,668,941	567,652	2,838,260	23,263,029
Due to related parties	1,343,460	1,343,460	1,343,460	-	-
Long-term loans[(2)]	5,138,262	5,138,262	43,685	5,094,577	-
Customers' deposits[(3)]	351,510	351,510	351,510	-	-
	P48,756,403	P48,756,403	P17,560,537	P7,932,837	P23,263,029

[(1)] *Excluding due to government agencies.*
[(2)] *Including current and non-current portion.*
[(3)] *Included as part of "Other current liabilities".*

(In thousands)	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
	December 31, 2018, As restated				
Other Financial Liabilities					
Accounts payable and accrued expenses[(1)]	P12,395,494	P12,395,494	P12,395,494	P -	P -
Short-term loans	4,866,300	4,866,300	4,866,300	-	-
Lease liabilities	24,222,473	24,222,473	727,239	3,636,195	19,859,039
Due to related parties	1,365,863	1,365,863	1,365,863	-	-
Long-term loans [(2)]	6,622,208	15,045,802	7,522,901	321,292	7,201,609
Customers' deposits[(3)]	248,327	248,327	248,327	-	-
	P49,720,665	P58,144,259	P27,126,124	P3,957,487	P27,060,648

[(1)]Excluding due to government agencies.
[(2)] Including current and non-current portion.
[(3)] Included as part of "Other current liabilities".

Market Risk

Market risk is the risk that changes in market prices such as interest rates that will adversely affect the Group'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 Group is mainly subject to interest rate risks.

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 Group is exposed to interest rate risk on interest earned on cash deposits in banks. Cash deposits with variable rates expose the Group to cash flow interest rate risk. The Group is not exposed to interest rate risk since its short and long-term loans with fixed rates are carried at amortized cost. The Group's policy is to obtain the most favorable interest available without increasing its foreign currency exchange exposure.

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, additional paid-in capital, remeasurements and retained earnings as shown in the consolidated statements of financial position.

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.

32. Fair Value of Financial Instruments

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2019 and 2018.

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 approximate their fair values due to the relatively short-term maturities of these instruments.

Security Deposits
The carrying amount approximates it fair value as the effect of discounting is not considered material.

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
The fair value of the unquoted equity securities at FVOCI is not determinable because of 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 and Due to Related Parties
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 Loans, Lease Liabilities and Customers' Deposits
The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

Fair Value Hierarchy
The Group analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2019 and 2018, the Group has no financial instruments valued based on Level 2 and 3. During the year, there were no transfers into and out of Level 3 fair value measurements.

33. 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 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 breakdown of the gain on sale recognized in profit or loss in 2019 is as follows:

(In thousands)	
Selling price	**P13,100,000**
Transaction costs	**(1,729,020)**
Proceeds	**11,370,980**
Cost of investment	**(3,428,451)**
Gain on sale before the effect of share in income recognized	**7,942,529**
Share in income recognized (date of acquisition to date of sale)	**(1,868,924)**
Gain on sale	**P6,073,605**

The major classes of assets and liabilities of both LPC and CPHI as at December 31, 2018 are as follows:

(In thousands)	LPC	CPHI	Total
Cash and cash equivalents	P1,063,107	P24	P1,063,131
Receivables - net	990,137	-	990,137
Due from related parties	49,781	-	49,781
Inventories	527,329	-	527,329
Prepaid expenses and other current assets	11,782	-	11,782
Property and equipment - net	2,424,343	-	2,424,343
Investments	90,906	44,222	135,128
Investment properties - net	108,356	-	108,356
Goodwill and intangibles	1,632,160	51,432	1,683,592
Deferred tax assets - net	87,898	-	87,898
Other non-current assets	239,418	-	239,418
Assets classified as held for sale	7,225,217	95,678	7,320,895
Accounts payable, accrued expenses and other liabilities	1,640,316	402	1,640,718
Income tax payable	91,559	-	91,559
Current maturities of long-term debt, net of debt issue costs	-	16,951	16,951
Due to related parties	41,252	21,485	62,737
Retirement benefits liability	22,686	-	22,686
Liabilities related to assets held for sale	1,795,813	38,838	1,834,651
Net assets classified as held for sale	P5,429,404	P56,840	P5,486,244

No impairment loss was recognized on reclassification of the land as held for sale nor at the end of the reporting period.

The results of operations of LPC and CPHI in 2018 are as follows:

(In thousands)	LPC	CPHI	Total
Revenue	P17,090,512	P -	P17,090,512
Cost of sales	15,811,326	-	15,811,326
Gross profit	1,279,186	-	1,279,186
Operating expenses	391,671	88	391,759
Income from operations	887,515	(88)	887,427
Other income charges:			
Interest expense	(5,690)	(847)	(6,537)
Interest income	3,750	-	3,750
Others- net	10,279	406	10,685
Income before income tax	895,854	(529)	895,325
Income tax expense	269,624	-	269,624
Net income (loss)	P626,230	(P529)	P625,701

34. Events After Reporting Period

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the Corona Virus Disease 2019 (COVID-19). To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until May 15, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services. On May 11, 2020, the President approved the IATF Resolution No. 35 changing the ECQ to either Modified ECQ (MECQ) effective May 16, 2020 to May 31, 2020. On May 29, 2020, the President approved the IATF Resolution No. 41 changing the MECQ status of Metro Manila to General Community Quarantine (GCQ) effective June 1, 2020 to June 15, 2020.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as at and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

The Group remained vigilant as it identified potential risks to health and business operations posed by this pandemic to the general public and the necessity to join the collaborative effort in mitigating the spread of the virus. Its stores remained open to serve the public as those are considered contributors of essential services nationwide. In the face of this global crisis, the Group remains composed as it operates and maintains mitigation efforts to help safeguard the health and welfare of its employees and customers. The Group does not consider the event as a going concem issue.

35. Restatements

Change in Accounting Policy

PFRS 16, Leases
The Group adopted PFRS 16 on January 1, 2019, and applied the full retrospective transition approach, and, therefore, the comparative figures for the 2018 and 2017 financial years have been restated, as presented below.

PFRS 16 introduced a single, on-balance-sheet lease accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets, representing its rights to use the underlying assets, and lease liabilities, representing its obligation to make lease payments. In addition, the Group's prepaid expenses and other current assets, other noncurrent assets and other noncurrent liabilities related to previous operating leases arising from straight lining under PAS 17 were derecognized.

On the income statement, there are changes to the nature of expenses related to leases in which the Group leases an asset (lessee), because PFRS 16 replaces the operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

At the time of the transition to PFRS 16, the Group determined whether an arrangement contains a lease. When performing this assessment, the Group could choose whether to apply the PFRS 16 definition of a lease to all its contracts or apply the practical expedient allowed under PFRS 16 and not reassess whether a contract is, or contains, a lease. The Group chose to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it applied PFRS 16 to all contracts entered into before December 31, 2018 and identified as leases in accordance with PAS 17 and Philippine Interpretation IFRIC 4.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from PFRS 16. However, subleases under PFRS 16 are classified with reference to the right-of-use asset, not with reference to the underlying asset, as per PAS 17. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under PAS 17. The Group concluded that the sub-lease is still an operating lease under PFRS 16.

See Note 3 for the accounting policy selected for lease accounting.

In 2019, the Group also changed its accounting policy to classify interest payments under financing activities from its previous classification under operating activities in the consolidated statements of cash flows.

PIC Q&A 2018-12-H Accounting for Common Usage Service Area (CUSA) Charges
The Group adopted PIC Q&A 2018-12-H *Accounting for Common Usage Service Area (CUSA) Charges*, retrospectively which resulted to the restatements in the consolidated statements of income presented in this note.

Previously, recoverable charges for electricity usage, water usage, air-conditioning charges and common use service area on existing commercial buildings being leased out to tenants, were all presented as part of revenue. The corresponding expenses paid for such services formed part of the direct cost.

With reference to PFRS 15.B34, when another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal), or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others. To determine the nature of promise, the entity shall:

- identify the specified good or service to be provided to the customer in the contract (i.e., whether it is to provide the specified goods or services, or to arrange for those goods and services to be provided by another party); and,

- assess whether it controls each specified good or service before that good or service is transferred to the customer.

As a result, electricity and water usage charges are now reclassified from revenue category since the Group has assessed that it is an agent for the specified services promised to the tenant. Common use service area (CUSA) expenses and air conditioning charges will form part of the revenue since the specified goods or service that the Group promised to the tenant is for the Group to arrange for the maintenance of the common service area and provision of air conditioning services to be provided by another party. The right to the subcontractor services providing the maintenance services mentioned never transfers to the tenant. Instead, the Group retains the right to direct the service provider as it chooses.

The amount of CUSA expenses netted against revenues as a result of the Group's adoption of the PIC Q&A 2018-12-H amounted to P438.4 million, P398.5 million, P332.2 million in 2019, 2018 and 2017, respectively.

Reclassifications

The Group has changed the presentation of credit card fees in prior years from a reduction in sales to a separate expense to conform to the current year presentation. The Group is acting as a principal on sales to the customer by credit card and the bank serves as its agent to collect the cash from the customer. Therefore, the sales are recognized gross and the fee to the bank is an expense. Credit card fees amounted to P356.3 million, P298.9 million and P270.1 million, in 2019, 2018 and 2017, respectively.

The Group reclassified the concession expense to rent expense to conform with the proper current year presentation, in line with its adoption of PFRS 16.

The Group also reclassified certain individually immaterial accounts in 2018 and 2017 to conform to the 2019 presentation and classification in its consolidated statements of position and profit or loss.

The following tables summarize the impacts of the change in accounting policy and reclassifications on the Groups' consolidated financial statements in the current year prior periods presented.

Consolidated Statements of Financial Position

	Impact of Changes in Accounting Policies		
December 31, 2019 ***(In thousands)***	**Under PAS 17**	**Adjustments for PFRS 16**	**As Presented**
Prepaid expenses and other current assets	P2,121,605	(P121,105)	P2,000,500
Right-of-use assets - net	-	21,700,103	21,700,103
Deferred tax assets - net	309,987	256,297	566,284
Other noncurrent assets	4,157,735	(857,946)	3,299,789
Total assets	P133,472,545	P20,977,349	P154,449,894
Lease liabilities:			
Due within one year	P -	(P567,682)	(P567,682)
Due beyond one year	-	(26,101,259)	(26,101,259)
Accounts payable and accrued expenses	(15,126,964)	(1,017)	(15,127,981)
Deferred tax liabilities - net	(422,686)	294,100	(128,586)
Other noncurrent liabilities	(2,955,164)	2,561,945	(393,219)
Total liabilities	(P28,575,197)	(P23,813,913)	(P52,389,110)
Retained earnings	(P56,614,096)	P2,446,884	(P54,167,212)
Non-controlling interest	(32,636,304)	389,680	(32,246,624)
Total equity	(P104,897,348)	P2,836,564	(P102,060,784)

December 31, 2018 *(In thousands)*	As Previously Reported	Adjustments for PFRS 16	Reclassifications	Other Adjustments	As Restated
Prepaid expenses and other current assets	P2,984,517	(P183,664)	(P195,235)	P3,112	P2,608,730
Investments	611,054	-	(7,879)	-	603,175
Right-of-use assets - net	-	20,062,426	-	-	20,082,426
Deferred tax assets - net	27,239	69,024	-	-	96,263
Other noncurrent assets	3,585,285	(801,187)	203,114	-	2,987,212
Total assets	P120,367,830	P19,166,599	P -	P3,112	P139,537,541
Lease liabilities:					
Due within one year	P -	(P725,846)	P -	P -	(P725,846)
Due beyond one year	-	(23,496,627)	-	-	(23,496,627)
Accounts payable and accrued expenses	(13,015,167)	-	-	(999)	(13,016,166)
Income tax payable	(928,796)	-	-	(2,113)	(930,909)
Other current liabilities	(436,297)	1,396	-	-	(434,901)
Deferred tax liabilities - net	(693,099)	515,473	-	-	(177,626)
Other noncurrent liabilities	(3,256,701)	2,817,486	-	5,873	(433,342)
Total liabilities	(P33,527,615)	(P20,888,118)	P -	P2,761	(P54,412,972)
Retained earnings	(P43,694,953)	P925,324	P -	(P5,873)	(P42,775,502)
Non-controlling interest	(27,185,839)	796,195	-	-	(26,389,644)
Total equity	(P86,840,215)	P1,721,519	P -	(P5,873)	(P85,124,569)

January 1, 2018 *(In thousands)*	As Previously Reported	Adjustments for PFRS 16	Reclassifications	Other Adjustments	As Restated
Receivables - net	P7,901,686	P -	P -	P1,284	P7,902,970
Prepaid expenses and other current assets	2,799,075	(575,226)	(64,665)	10	2,159,194
Right-of-use assets - net	-	18,164,361	-	-	18,164,361
Deferred tax assets - net	64,438	(56,861)	-	-	7,577
Other noncurrent assets	2,962,320	(382,434)	64,665	-	2,644,555
Total assets	P111,614,289	P17,149,840	-	P1,294	P128,765,423
Lease liabilities:					
Due within one year	P -	(643,493)	P -	P -	(643,493)
Due beyond one year	-	(20,906,227)	-	-	(20,906,227)
Accounts payable and accrued expenses	(13,793,132)	-	-	4,440	(13,788,692)
Other current liabilities	(505,407)	-	-	(4,091)	(509,498)
Deferred tax liabilities - net	(774,280)	593,152	-	-	(181,128)
Other noncurrent liabilities	(2,834,360)	2,412,431	-	-	(421,929)
Total liabilities	(P33,170,198)	(P18,544,137)	P -	P349	(P51,713,986)
Retained earnings	(P38,147,384)	P755,010	P -	(P1,643)	(P37,394,017)
Non-controlling interest	(23,851,625)	639,287	-	-	(23,212,338)
Total Equity	(P78,444,091)	P1,394,297	P -	(P1,643)	(P77,051,437)

January 1, 2017 *(In thousands)*	As Previously Reported	Adjustments for PFRS 16	As Restated
Prepaid expenses and other current assets	P1,626,699	(P421,158)	P1,205,541
Right-of-use assets - net	-	17,608,323	17,608,323
Deferred tax assets - net	116,588	513,936	630,524
Other noncurrent assets	2,736,901	(114,730)	2,622,171
Total assets	102,586,543	17,586,371	120,172,914
Lease liabilities:			
Due within one year	P -	(P613,366)	(P613,366)
Due beyond one year	-	(19,832,159)	(19,832,159)
Other current liabilities	(542,543)	2,858	(539,685)
Deferred tax liabilities - net	(751,935)	441,058	(310,877)
Other noncurrent liabilities	(2,533,360)	1,384,756	(1,148,604)
Total liabilities	(P30,810,306)	(P18,616,853)	(P49,427,159)
Retained earnings	(P33,808,565)	P560,336	(P33,248,229)
Non-controlling interest	(21,458,344)	470,146	(20,988,198)
Total Equity	(P71,788,237)	P1,030,482	(P70,757,755)

Consolidated Statements of Comprehensive Income

December 31, 2019 *(In thousands)*	Under PAS 17	Impact of Changes in Accounting Policies: Adjustments for PFRS 16	Adoption of PIC Q&A 2018-12-H	As Presented
Revenues	**(P165,628,311)**	**P -**	**(P438,401)**	**(P166,066,712)**
Operating expenses	**19,955,441**	**(1,246,753)**	**438,401**	**19,147,089**
Other charges	**(6,541,039)**	**1,631,176**	**-**	**(4,909,863)**
Provision for income taxes	**4,429,488**	**(908,023)**	**-**	**3,521,465**
Net income	**(P14,869,607)**	**(P523,600)**	**P -**	**(P15,393,207)**
Total comprehensive income	**(P14,651,900)**	**(P523,600)**	**P -**	**(P15,175,500)**

December 31, 2018 *(In thousands)*	As Previously Reported	Adjustments for PFRS 16	Reclassifications/ Adoption of PIC Q&A 2018-12-H	Other Adjustments	As Restated
Revenues	(P168,387,650)	P -	P177,293	P -	(P168,210,357)
Cost of revenues	140,128,078	(52,922)	(265,537)	-	139,809,619
Operating expenses	19,166,531	(923,737)	88,244	(4,229)	18,326,809
Other income (charges) - net	(116,331)	1,417,359	-	-	1,301,028
Income taxes	3,399,340	(113,478)	-	-	3,285,862
Net Income	(P8,804,797)	P327,222	P -	(P4,229)	(P8,481,804)
Total comprehensive income	(P8,965,648)	P327,222	P -	(P4,230)	(P8,642,656)

December 31, 2018 *(In thousands except per share data)*	As Previously Reported	Adjustments	As Restated
Net income attributable to equity holders of the Parent Company	P5,547,569	(P166,084)	P5,381,485
Weighted average number of ordinary shares	7,083,275	-	7,083,275
Basic/diluted EPS	P0.78	P -	P0.76

December 31, 2017 *(In thousands)*	As Previously Reported	Adjustments for PFRS 16	Reclassifications/ Adoption of PIC Q&A 2018-12-H	Other Adjustments	As Restated
Revenues	(P145,749,829)	P -	P111,029	P -	(P145,638,800)
Cost of revenues	120,607,099	(145,635)	(199,273)	(1,200)	120,260,991
Other revenue	(2,759,815)	-	(1,025)	-	(2,760,840)
Operating expenses	16,426,309	(661,349)	89,269	-	15,854,229
Other charges	351,850	1,286,431	-	-	1,638,281
Provision for income taxes	3,291,071	(115,632)	-	-	3,175,439
Net income	(P7,833,315)	P363,815	P -	(P1,200)	(P7,470,700)
Total comprehensive income	(P7,888,035)	P363,815	P -	(P1,644)	(P7,525,864)

December 31, 2017 *(in thousands except per share data)*	As Previously Reported	Adjustments	As Restated
Net income attributable to equity holders of the Parent Company	P4,924,647	(P193,031)	P4,731,616
Weighted average number of ordinary shares	7,129,817	-	7,129,817
Basic/diluted EPS	P0.69	P -	P0.66

The adjustments in "Operating expenses" account and "Other charges" account in the statements of comprehensive income arising from the adoption of PFRS 16 comprise the following:

(In thousands)	**2019**	2018	2017
Operating expenses:			
Rent expense	**(P2,319,322)**	(P2,085,976)	(P1,719,594)
Depreciation and amortization	**1,072,569**	1,162,239	1,058,245
	(P1,246,753)	(P923,737)	(P661,349)
Other charges:			
Interest expense	**P1,673,636**	P1,454,112	P1,292,684
Gain from lease terminations	**(42,460)**	(37,850)	(15,174)
Others	**-**	1,097	8,921
	P1,631,176	P1,417,359	P1,286,431

Consolidated Statements of Cash Flows

2018 *(In thousands)*	As Previously Reported	Effect of Reclassifications, Adjustments for PFRS 16 and PIC Q&A 2018-12-H	As Restated
Operating activities			
Net income before tax	P12,204,137	(P436,471)	P11,767,666
Depreciation and amortization	2,375,513	1,162,233	3,537,746
Interest expense	468,844	1,454,112	1,922,956
Rent expense in excess of billings	422,342	(422,342)	-
Gain from pre-terminated contracts	-	(37,850)	(37,850)
Increase in prepaid expense and other current assets	(673,448)	375,784	(297,664)
Increase (decrease) in:			
Accounts payable and accrued expenses	2,640,595	(563,349)	2,077,246
Other current liabilities	(69,110)	(1,396)	(70,506)
Other noncurrent liabilities	-	(705,043)	(705,043)
Interest paid	(458,398)	458,398	-
Retirement benefits paid	-	(1,675)	(1,675)
Net cashflow provided by operating activities	P10,902,004	P1,282,401	P12,184,405
Investing activities			
Decrease in other noncurrent assets	(P865,381)	P598,075	(P267,306)
Additions to:			
Investment properties	(312,657)	(344,731)	(657,388)
Property and equipment	(4,415,071)	341,247	(4,073,824)
Net cashflow used in investing activities	(P5,853,977)	P594,591	(P5,259,386)
Financing activities			
Dividends paid	(P1,764,740)	P564,347	(1,200,393)
Repayment of lease			
Principal amount	-	(528,829)	(528,829)
Interest expense	-	(1,454,112)	(1,454,112)
Interest expense on loans	-	(458,398)	(458,398)
Net cashflow used in financing activities	(P3,640,464)	(P1,876,992)	(P5,517,456)

2017 *(In thousands)*	As Previously Reported	Effect of Reclassifications, Adjustments for PFRS 16 and PIC Q&A 2018-12-H	As Restated
Operating activities			
Net income before tax	P11,124,386	(P478,247)	P10,646,139
Depreciation and amortization	2,050,105	1,058,245	3,108,350
Interest expense	406,414	1,292,684	1,699,098
Rent expense in excess of billings	259,803	(259,803)	-
Gain from pre-terminated contracts	-	(15,174)	(15,174)
Increase in:			
Receivables	(1,095,981)	(1,284)	(1,097,265)
Prepaid expense and other current assets	(1,930,501)	639,889	(1,290,612)
Increase (decrease) in:			
Accounts payable and accrued expenses	2,175,362	(4,440)	2,170,922
Other current liabilities	(37,136)	4,091	(33,045)
Other noncurrent liabilities	41,196	(689,065)	(647,869)
Interest paid	(495,049)	495,049	-
Net cashflow provided by operating activities	P8,751,174	P2,041,945	P10,793,119
Investing activities			
Additions to:			
Property and equipment	(P4,439,923)	(P174,314)	(P4,614,237)
Investment property	(680,527)	1	(680,526)
Increase in other noncurrent assets	(P9,640)	P323,641	P314,001
Net cashflow used in investing activities	(P4,503,325)	P 149,328	(P4,353,997)
Financing activities			
Repayment of lease			
Principal amount	P -	(P403,540)	(P403,540)
Interest expense	-	(1,292,684)	(1,292,684)
Interest paid	-	(495,049)	(495,049)
Net cashflow used in financing activities	(P1,505,747)	(P2,191,273)	(P3,697,020)

ANNEX "C"

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of **Cosco Capital, Inc. and Subsidiaries** (the "Group") as at and for the year ended December 31, 2019, on which we have rendered our report dated June 25, 2020.

- Supplementary Schedules of Annex 68-E
- Map of Conglomerate
- Reconciliation of Retained Earnings Available for Dividend declaration of the Company

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Group taken as a whole. The supplementary information is the responsibility of the Group's management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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 to audit 2019 AFS
per SEC MC 20, s2019
Tax Identification No. 912-365-765
BIR Accreditation No. 08-001987-030-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8116763
Issued January 2, 2020 at Makati City

June 25, 2020
Makati City, Metro Manila

Cosco Capital Inc. and Subsidiaries
As of December 31, 2019

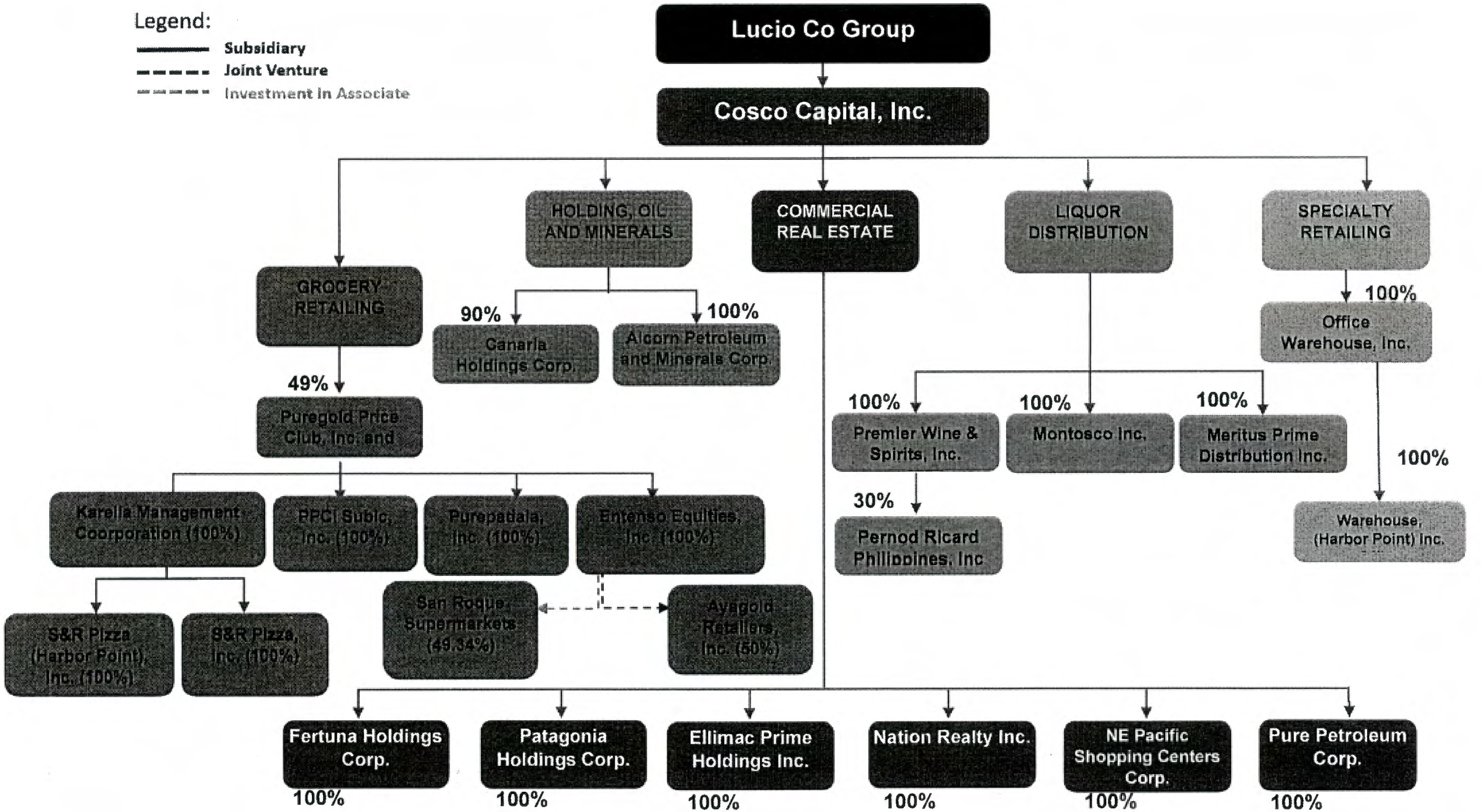
Ratio	Formula		Years ended December 31	
			2019	2018
Current ratio	Total Current Assets divided by Total Current Liabilities		3.45	2.47
	Total current assets	P67,998,875		
	Divide by: Total current liabilities	19,715,651		
		3.45		
Acid-test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities		2.09	1.33
	Total current assets	P67,998,875		
	Less: Inventories	24,722,271		
	Other current assets	2,000,500		
	Quick assets	41,276,104		
	Divide by: Total current liabilities	19,715,651		
	Acid-test ratio	2.09		
Solvency ratio	Solvency ratio (Profit plus depreciation and amortization over total liabilities)		0.36	0.22
	Net income	P15,393,207		
	Add: Depreciation and amortization	3,423,159		
	Total	18,816,366		
	Divide by: Total liabilities	52,389,110		
	Solvency ratio	0.36		
Debt-to-equity ratio	Debt-to equity ratio (Total liabilities over total equity)		0.51	0.64
	Total liabilities	P52,389,110		
	Divide by: Total equity	102,060,784		
		0.51		
Asset-to-equity ratio	Asset-to-equity ratio (Total assets over total equity)		1.51	1.64
	Total assets	P154,449,894		
	Divide by: Total equity	102,060,784		
		1.51		

Annex A

Ratio	Formula	Years ended December 31	
		2019	2018
Interest rate coverage ratio	Interest rate coverage ratio (Profit before interest and taxes over interest expense) Profit before interest and taxes P20,991,320 Divide by interest expense 2,076,648 10.11	10.11	7.12
Return on equity	Return on Equity (Net Income by Total Equity) Net income P15,393,207 Divide by: Total equity 102,060,784 15%	15%	10%
Return on assets	Return on Assets (Net Income by Total Assets) Net income P15,393,207 Divide by: Total assets 154,449,894 10%	10%	6%
Net profit margin	Net profit margin (Profit over net sales) Net income P15,393,207 Divide by: Net sales 166,066,712 9.27%	9.27%	5.04%
Other ratios	Operating profit margin (Operating profit over net sales) Operating profit P14,004,809 Divide by: Net sales 166,066,712 8.43%	8.43%	7.77%

COSCO CAPITAL, INC. AND SUBSIDIARIES

Map of Group of Companies Within which the Company Belongs
As at December 31, 2019



COSCO CAPITAL, INC. AND SUBSIDIARIES
SCHEDULE A. FINANCIAL ASSETS
(Amounts in Thousands)

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 in banks and cash equivalents	N/A	P23,015,623	P23,015,623	P495,763*
Receivables - net	N/A	16,637,892	16,637,892	342,119
Financial asset at FVTPL	1,002	34,921	34,921	(1,582)**
Financial assets at FVOCI	726	17,704	17,704	652***
Due from related parties	N/A	192,068	192,068	-
Security deposits	N/A	2,231,789	2,231,789	-
		P42,129,997	P42,129,997	P836,952

Notes:

*This represents interest income earned, net of final tax
** This represents unrealized valuation (loss) on trading securities
***This represents dividend income

COSCO CAPITAL, INC. AND SUBSIDIARIES

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

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
Officers	P47,971	P164,834	P20,737	P -	P192,068	P -	P192,068

COSCO CAPITAL, INC. AND SUBSIDIARIES

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

(Amount in Thousands)

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
Advances							
Premier Wines and Spirits, Inc.	P105,000	P86,000	P105,000	P -	P86,000	P -	P86,000
Ellimac Prime Holdings, Inc.	3,727,194	207,781	-	-	3,934,975	-	3,934,975
Fertuna Holdings Corporation	104,441	-	-	-	104,441	-	104,441
Patagonia Holdings Corporation	917,808	-	-	-	917,808	-	917,808
Nation Realty, Inc.	300,966	-	-	-	300,966	-	300,966
Office Warehouse, Inc.	1,519	-	1,519	-	-	-	-
Alcorn Petroleum and Minerals Corporation	388,821	1,196	-	-	390,017	-	390,017
Kareila Management Corporation	900,000	1,400,000	1,800,000	-	500,000	-	500,000
NE Pacific Shopping Centers Corp.	-	-	-	-	-	-	-
Canaria Holdings Corporation	-	74,641	-	-	74,641	-	74,641
Dividends							
Puregold Price Club, Inc.	-	564,347	-	-	564,347	-	564,347
NE Pacific Shopping Centers Corp.	125,000	50,000	35,000	-	140,000	-	140,000
Nation Realty, Inc.	279,762	-	100,048	-	179,714	-	179,714
Patagonia Holdings Corporation	260,000	-	-	-	260,000	-	260,000
Ellimac Prime Holdings, Inc.	315,000	446	-	-	315,446	-	315,446
Fertuna Holdings Corporation	150,000	-	50,000	-	100,000	-	100,000
Pure Petroleum Corporation	170,000	-	50,000	-	120,000	-	120,000
Montosco, Inc.	200,000	-	150,000	-	50,000	-	50,000
Meritus Prime Distributions Inc	75,000	-	75,000	-	-	-	-
Premier Wines and Spirits, Inc.	100,000	-	-	-	100,000	-	100,000
Trade and other receivables							
Meritus Prime Distributions Inc	579,355	989,268	1,253,023	-	315,600	-	315,600
Montosco, Inc.	860,570	872,681	1,013,947	-	719,304	-	719,304
Nation Realty, Inc	99,233	-	99,233	-	-	-	-
Premier Wines and Spirits, Inc..	171,106	66,062	109,858	-	127,309	-	127,309
Canaria Holdings Corporation	375,733	1,291,541	50,733	-	1,616,541	-	1,616,541
Fertuna Holdings Corporation	-	561	-	-	561	-	561
Ellimac Prime Holdings, Inc.	188,257	129,201	188,258	-	129,201	-	129,201
Office Warehouse, Inc.	-	6,241	-	-	6,241	-	6,241
NE Pacific Shooping Center Corp.	-	16,851	7,445	-	9,406	-	9,406
Notes receivable							
Canaria Holdings Corporation	3,429,215	-	-	-	3,429,215	-	3,429,215
	P13,823,980	**P5,756,817**	**P5,089,064**	**P -**	**P14,491,733**	**P -**	**P14,491,733**

COSCO CAPITAL INC. AND SUBSIDIARIES
SCHEDULE D. LONG TERM DEBT
(Amount in Thousands)

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	Metropolitan Bank and Trust Company	P400,000	P -	P400,000	3.5%	N/A	March 2025
Long-term debt	Land Bank of the Philippines	948,742.50	9,095.50	939,647	5.267%	7	May 2021
Long-term debt	Rizal Commercial Banking Corporation	948,742.50	9,095.50	939,647	5.267%	7	May 2021
Long-term debt	Maybank Philippines	473,742.50	4,095.50	469,647	5.267%	7	May 2021
Long-term debt	Robinsons Bank Corporation	473,742.50	4,095.50	469,647	5.267%	7	May 2021
Long-term debt	Security Bank Corporation	473,742.50	4,095.50	469,647	5.267%	7	May 2021
Long-term debt	United Coconut Planter's Bank	473,742.50	4,095.50	469,647	5.267%	7	May 2021
Long-term debt	The Insular Life Insurance Company, Ltd.	472,903.50	4,556	468,347.50	5.579%	10	May 2024
Long-term debt	Security Bank Corporation	472,903.50	4,556	468,347.50	5.579%	10	May 2024
Totals		P5,138,262	P43,685	P5,094,577			

COSCO CAPITAL, INC. AND SUBSIDIARIES
SCHEDULE E. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)

NOT APPLICABLE

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

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)

NOT APPLICABLE

COSCO CAPITAL, INC. AND SUBSIDIARIES
SCHEDULE G. CAPITAL STOCK

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding at shown under related Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and other Rights	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common Shares	10,000,000,000	7,405,263,564	-	722,738,524	4,169,784,268	2,512,740,772

COSCO CAPITAL, INC.
RECONCILATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
For the Year Ended December 31, 2019
(Amounts in Thousands)

		Figures are based from Parent Company's Financial Statements
Unappropriated Retained Earnings, as adjusted, beginning		**P1,485,070**
Adjustments in previous year's reconciliation		**(1,162,345)**
Unappropriated Retained Earnings, as adjusted, beginning		**322,725**
Net Income based on the face of audited financial statements	P1,460,272	
Add: Non-actual losses	-	
Deferred tax expense	444	
Net income actually earned during the period		**1,460,716**
Add (Less):		
Dividends declared and paid during the year		**(1,595,121)**
Appropriations of Retained Earnings during the year		**-**
Treasury shares		**(206,247)**
Unappropriated Retained Earnings, as adjusted, ending		**(P17,927)**

Annex "D" COSCO CAPITAL SUSTAINABILITY REPORT

Contextual Information

Company Details	
Name of Organization	Cosco Capital, Inc. and Puregold Price Club, Inc.
Location of Headquarters	No. 900 Romualdez St., Paco, Manila 1007
Location of Operations	Nationwide – Philippines
Report Boundary: Legal entities (e.g. subsidiaries) including in this report*	Cosco Capital, Inc. including all its subsidiaries namely, Puregold Price Club, Inc. (and its subsidiaries namely, Kareila Management Corporation (S&R Warehouses and S&R Pizza, Inc., Entenso Equities, Inc.), Office Warehouse, Inc., Montosco, Inc., Meritus Prime Distributions, Inc., Premier Wine and Distributions, Inc., Ellimac Prime Holdings, Inc., Nation Realty, Inc., Patagonia Holdings, Inc., NE Pacific Shopping Center, Pure Petroleum Corp., Fertuna Holdings Corporation and Alcorn Petroleum and Minerals Corporation.
Business Model, including Primary Activities, Brands, Products, and Services	Cosco Capital, Inc. is an investment holding company. It has a diversified portfolio of business interests in retail, real estate, liquor distribution, and oil and mining exploration.
Reporting Period	2019
Highest Ranking Person responsible for this report	Atty. Candy H. Dacanay – Datuon Compliance Officer

**if you are a holding company, you could have an option whether to report on the holding company only or include the subsidiaries. However, please consider the principle of materiality when defining your receipt boundary.*

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.
The company identifies its principal business activities that contribute a significant impact on the environment, economic, and social phases of our society. Its principal business activities include logistics in the delivery of products in and out of stores, employing hundreds of employees, supermarket operations from the display of products to check them out in the cash registers, among others. This report is a consolidation of all available data on specific relevant and material sustainability topics. It provides detailed performances of the entire organization that has an impact on the environment, economy, and society. The adaptation of sustainability reporting is relatively new to the organization. We considered all the best practices and standards to disclose our non-financial information. In this report, the guiding principle of SASB (Sustainability Accounting Standards Board) for sustainability reporting was used. The SASB guidelines and standards are found to be more practical and straightforward for us as a new company to implement sustainability reporting. The Securities and Exchange Commission (SEC) Memorandum Circular 2019-04 was also utilized as guidelines. The management's goals and targets are also presented to help achieve the UN Sustainability Development Goals. An ad-hoc team was created to gather data, monitor and identify materiality topics, and approved by the top executives of the company.

ECONOMIC

Economic Performance
Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	169,252,448,743	Php
Direct economic value distributed:		Php
Operating costs	19,016,648,871	Php
Employee wages and benefits	2,661,124,826	Php
Payments to supplier, other operating costs	152,071,052,886	Php
Dividends given to stockholders and interest payments to loan provider	3,062,675,592	Php
Taxes given to government	4,799,602,383	Php
Investments to community (e.g. donations, CSR)	6,751,159	Php

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The company's continuing and sustained expansion and establishments of new supermarkets and warehouse clubs in various geographic locations nationwide serve as a catalyst for and directly generates new and incremental economic activities to the local communities by way of generating employment and livelihood, a financial boost to the local government unit's revenue, enhanced shopping experience to customers, incremental business and opportunities for local producers and suppliers and enhanced livelihood through partnerships with small enterprise in the community	Customers Suppliers Employees Community Government Shareholders	The company plans to expand in areas of the country where it is not yet present and, at the same time, improve its operation in the existing market to be able to generate more of economic activities that positively impact our stakeholders.

through its reseller TNAP and "ka-industriya" program.		
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
(a) Market risk which includes competition, supply, credit, and pricing. (b) Regulatory and compliance risk (c) Environmental risk Please see the detailed discussion of risks in the company's Annual Report.	Customers Suppliers Employees Community Government Shareholders	The company will continue to manage to mitigate the risks and challenges associated with its business to maintain its dominance in the grocery retail industry and its sustained growth and profitability. 1 - The company will continue to innovate itself to address the changing behaviors of our customers. We will be more effective in giving our customers satisfying and valuable shopping experience, in our stores and online. 2 - We will remain to be reliable business partners to our national and local suppliers through more robust and pro-active collaborations in promoting their products. We will continue to pursue a more efficient supply chain across all our stores and enable a strategic control on logistics costs in moving around products to counter relative price pressures due to logistical costs. 3 - The company will be more conscientious in compliance with regulatory measures as we see more government interventions in the future. 4 – The company plans to be more active in community activities like strengthening

		our TNAP and Ka-Industriya reseller programs and the Perks program for direct customers. 5 - The company will continue giving cash dividends to our shareholders, and at the same time, it will be more meticulous in ensuring our investments to be always value-accretive.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
The company sees an excellent opportunity to invest in technology platforms such as online grocery shopping and store-to-door delivery.	Customers Suppliers Employees Community Government Shareholders	The company will heavily invest both in technology and human capital. The company sees the combination of reliable technology and trained employees to be a competitive advantage in any industry, but most especially now in the retail industry, as customer behaviors are changing rapidly and the competition is getting more aggressive than before.

Climate-related risks and opportunities:

The company identifies the following as the climate-related risks that are most material in its retail operation:

1. The use of plastic bags as a package container of our customers when they buy items from our stores. Out of more than 400 stores, few stores are using recyclable cartons for packaging in compliance with the regulations of local government units having jurisdiction of the area.

2. Food wastes and other solid waste from our stores. Most of our stores have food or fresh section where we process meat, fish, and other poultry products. The scraps coming from preparing this food goes to containers of third-party accredited solid waste haulers to the landfill.

3. The energy consumption of our stores and the fleet of vehicles we use to transfer our merchandise, including the vehicles used by our third-party logistics and suppliers, are vital in our operation. Still, they cause or contribute to various levels in releasing climate-damaging emissions. The company uses gas and diesel to run its vehicles, and only three out of more than 400 stores are getting sources from renewable solar energy.

The company is not unmindful of the effects of its operation on our environment. The company produces wastes that, if not disposed of properly, will further contribute to the worsening pollution in the land, the water and in the air.

Also, the company is not oblivious to the fact that it is benefitting from the use of fossil fuels in running its vehicles and electricity sources to energize its stores without accounting for the environmental impact or costs.

We recognize that changing our practice to be sustainable may cause additional costs in our operation and may affect the reputation of the company if we don't.

We see climate change as a global problem but has a local effect. Like any other business, the company will thrive only in a society that is healthy and growing and will perish if the community where it operates crumples. The effects of climate change will be experienced first in the city and municipality level, where the majority of our business activity takes place. It thus makes a good case that we level up our response from regulatory compliance into taking initiatives in reducing factors that could worsen the current climate problems.

The company is looking at mitigation and adaptation as the primary strategy in addressing these climate risks. In the next 24 to 36 months, the company will come up with its comprehensive "Climate Change Response Program" that will lay down the company's initiatives, strategies, assessment, and targets in response to this global call for all corporate citizens to act in keeping global warming well below 2°C.

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	Not monitored	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The company is working with over 2,000 merchandise suppliers and third-party service providers to keep more than 400 stores operating daily. The company helps small and	Suppliers Customers Community	The company aims to be more efficient and sustainable in its supply chain by providing adequate training to its employees and through effective technology.

medium suppliers bringing their produce to the supermarket. The company and the entire supply chain produce more than 60,000 livelihoods and employment across the country.		The company will keep on assisting small and medium entrepreneurs and suppliers to make their products available to all our store networks by providing them more access to our various distribution channels. The company aims to maintain healthy and strong collaboration with its suppliers. The more efficient we become in our supply chain, the better we can reduce our costs and improve our product mix. All of that will give our customers a better shopping experience.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
(1) Inaccurate forecasting and monitoring of products (2) Delay in the delivery of products and services (3) Lack of capacity to check the quality of products and services.	Suppliers Customers	The company will continue to improve supplier selection to ensure that it is dealing with suppliers that produce quality products and its stock monitoring to optimize inventory.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
To improve the packaging of products offered by small-medium suppliers to make them more sustainable and enticing to customers. To build stronger relationships with our service providers by assisting them with training and technology support to make them more effective in their job.	Suppliers Customers	The management will continue to collaborate with our small and medium suppliers and assist them in growing their business with us.

Anti-corruption
Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	No data	%
Percentage of employees that have received anti-corruption training	43	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The impact may happen within the organization, especially between suppliers and the employees working closely with our suppliers.	Suppliers Employees	The company shall make controls effective by simplifying them and making all processes more transparent to both suppliers and employees. The company shall continue with the orientation and strict implementation of anti-corruption policies and procedures.
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
Employees may commit fraud or corruption due to a lack of control and transparency in recording of transactions with suppliers.	Employee Supplier	The company shall revise the anti-corruption policy and procedure and re-orient the employees and suppliers.
What are the Opportunity/ies Identified	**Which stakeholders are affected?**	**Management Approach**
None	None	None

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	1	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Employees of higher rank and employees working with third-party suppliers are exposed to opportunities for corruption or fraud.	Employees	The company shall revisit its anti-corruption policies and procedures and train employees to abide by it.
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
Employees are at risk of corruption as long as the opportunity to do so exists in the organization.	Employees	The company commits to being more effective in its internal controls to purge opportunities to commit corruption or fraud.
What are the Opportunity/ies Identified	**Which stakeholders are affected?**	**Management Approach**
None	None	None

ENVIRONMENTAL

Resource Management
Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	6,167.36	GJ
Energy consumption (gasoline)	Not monitored	GJ
Energy consumption (LPG)	10,999.11	GJ
Energy consumption (diesel)	69,050.35	GJ
Energy consumption (electricity)	257,634,166.63	kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy reduction (renewable sources)	Not monitored	GJ
Energy reduction (gasoline)	Not monitored	GJ
Energy reduction (LPG)	Not monitored	GJ
Energy reduction (diesel)	Not monitored	GJ
Energy reduction (electricity)	1,713,156.72	kWh

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The company's store operations depend heavily on the use of electricity from the local electrical grid available in the area where we operate. The logistics of our merchandise throughout the supply chain use either gasoline or diesel to run the vehicles.	Employees Customers Community Government	The company will establish an Energy Management Program that will tackle how the company will address this material topic.
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
With our rapid expansion, we may not be able to catch up, including the suppliers in the supply chain, in making our energy use efficient and sustainable.	Employees Customers Community Government	The company will establish an Energy Management Program that will tackle how the company will address this material topic.
What are the Opportunity/ies Identified	**Which stakeholders are affected?**	**Management Approach**

To build greener store structures to conserve the use of electricity.	Employees Customers Community Government	The company will establish an Energy Management Program that will tackle how the company will address this material topic.

Water consumption within the organization

Disclosure	**Quantity**	**Units**
Water withdrawal	Not monitored	cubic meters
Water Consumption	2,310,796.62	cubic meters
Water recycled and re-used	Not monitored	cubic meters

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Depletion of water resources as many users are competing, especially in the highly urbanized areas where the majority of our stores are located.	Community Employees Customers	The company has existing programs in water conservation, water re-use program of treated wastewater, and the use of rainwater for cleaning our facilities. The company plans to expand and enhance those programs.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Water scarcity	Community Employees Customers	The company shall launch extensive water conservation programs involving as much as possible all stores and offices.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
(1) Reduction of water consumption through water conservation programs. (2) Adopting technologies to enhance existing waste	Community Employees Customers	The company shall launch extensive water conservation programs involving as much as possible all stores and offices.

treatment facilities to maximize water re-use.		

Materials used by the organization

Disclosure	**Quantity**	**Units**
Materials used by weight or volume	N/A	
• Renewable		kg/liters
• non-renewable		kg/liters
Percentage of recycled input materials used to manufacture the organization's primary products and services		%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Not Applicable	Not Applicable	Not Applicable
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Not Applicable	Not Applicable	Not Applicable
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
Not Applicable	Not Applicable	Not Applicable

Ecosystem and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	**Quantity**	**Units**
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A	
Habitats protected or restored	N/A	
IUCN Red List species and national conservation list species with habitats in affected by operations	N/A	

*International Union for Conservation of Nature

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Not Applicable	Not Applicable	Not Applicable

What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Not Applicable	Not Applicable	Not Applicable
What are the Opportunity/ies Identified	**Which stakeholders are affected?**	**Management Approach**
Not Applicable	Not Applicable	Not Applicable

Environmental Impact Management
Air Emissions
GHG

Disclosure	**Quantity**	**Units**
Direct (Scope 1) GHG Emissions	206,510.8	Tonnes CO_2e
Energy Indirect (Scope 2) GHG Emissions	Not monitored	Tonnes CO_2e
Emissions of ozone-depleting substances (ODS)	Not monitored	Tonnes

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Transport fleets and energy consumption of the company directly contribute to GHGs.	Community	The company will identify sources of emissions and implement programs to reduce GHG's contributions.
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
(1) The possible penalty for non-compliance with government environmental laws and regulations. (2) Phasing out of obsolete equipment that directly contributes to GHG emissions. (3) Changing customer behavior or shift in consumer preferences due to increasing awareness of the importance of sustainability. (4) Extreme weather events	Community Government	The company will continue to comply with Republic Act No. 8749 or the Clean Air Act, Republic Act No. 9275 or the Clean Water Act and Republic Act No. 6969 or the Toxic Substances and Hazardous Wastes and Nuclear Wastes Control Act. The company will be more active in participating in renewable energy programs and adopting energy-efficiency measures promoted by the Department of Energy.

(5) Water shortage		The company has already started replacing old equipment with lower GHG emissions and using renewable and clean energy sources like solar power and will continue to do so. The company will be more efficient in constructing store and office structures by preferring sustainable solutions. The company will create water programs advocating its conscientious usage.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
None	None	None

Air pollutants

Disclosure	Quantity	Units
NOx	13.96 (from gensets only)	kg
Sox	Not monitored	kg
Persistent organic pollutants (POPs)	Not monitored	kg
Volatile organic compounds (VOCs)	Not monitored	kg
Hazardous air pollutant (HAPs)	Not monitored	kg
Particular matter (PM)	Not monitored	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The company's transport fleets and generation set ('gensets') contribute to air quality degradation.	Community	The company will adequately operate and maintain all emission sources.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
The company's possible violation of Republic Act	Community Government	The company will abide by the provisions of Republic

No. 8749 or the Clean Air Act.		Act No. 8749 or the Clean Air Act.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
The use of more efficient genset machines and transport systems.	Community Employees Supplier	The company will assess the means of how it can implement the opportunities herein identified.

Solid and Hazardous Wastes
Solid Waste

Disclosure	Quantity	Units
Total solid waste generated	6,196,878.81	Kg
Reusable	Not monitored	kg
Recyclable	Not monitored	kg
Composted	Not monitored	kg
Incinerated	Not monitored	kg
Residual/Landfilled	Not monitored	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
The company and the rest of its supply chain produce solid waste that directly goes to landfills and may have an impact on water bodies.	Community	The company shall implement recycling programs and be stricter in proper solid waste disposal.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
The improper solid waste disposal affects the environment and may affect the company's reputation.	Community	The company shall implement recycling programs and be stricter in proper solid waste disposal.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
Adopt a proper solid waste management program, which includes recycling that can be an additional source of income.	Community	The company shall assess and find the means to implement the opportunities herein identified.

Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated	45,573.338	kg
Total weight of hazardous waste transported	45,573.338	kg

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Improper disposal of hazardous waste can affect the environment, the health, and the safety of the employees and the community.	Employees Community	The company shall have a stricter policy on proper handling and disposal of hazardous wastes.
What are the Risk/s Identified?	**Which stakeholders are affected?**	**Management Approach**
Possible violation of Republic Act No. 6969 or the Hazardous Waste Act.	Employees Community	The company shall abide by the provisions of Republic Act No. 6969 or the Hazardous Waste Act.
What are the Opportunity/ies Identified	**Which stakeholders are affected?**	**Management Approach**
Conversion from hazardous to non-hazardous materials or equipment such as regular bulbs to led lights.	Employee	The company shall assess and find the means to implement the opportunities herein identified.

Effluents

Disclosure	Quantity	Units
Total volume of water discharges	2,079,716.958	cubic meters
Percent of wastewater recycled	Not monitored	%

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach

If no treatment facility, the company water discharges will contribute to water quality degradation in the community where it operates.	Community	The company shall have more wastewater treatment facility.
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Possible violation of Republic Act No. 9275 or the Clean Water Act.	Community Employees	The company shall abide by the provisions of Republic Act No. 9275 or the Clean Water Act.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
Water reduction by maximizing the STP's capability through water re-use.	Employees Community	The company shall adopt wastewater re-use.

Environmental compliance
Non-compliance with Environmental Laws and Regulations

Disclosure	**Quantity**	**Units**
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	210,000	Php
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	10	#
No. of cases resolved through dispute resolution mechanism	5	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Which stakeholders are affected?	Management Approach
Violation of environmental laws is just a consequence of damage already committed against the environment.	Community Government	The company shall keep on identifying the cause of the violation and resolve it with immediate and permanent compliance.]
What are the Risk/s Identified?	Which stakeholders are affected?	Management Approach
Damage to the environment and damage to the company's reputation.	Community Government	The company shall comply with environmental laws and enhance its

		environmental policies and practices.
What are the Opportunity/ies Identified	Which stakeholders are affected?	Management Approach
No opportunity identified	None	None

SOCIAL

Employee Management
Employee Hiring and Benefits
Employee Data

Disclosure	Quantity	Units
Total number of employees	10,875	
A. Number of female employees	6,058	#
B. Number of male employees	4,817	#
Attrition rate	23%	
Ratio of lowest paid employee against minimum wage	0	

Employee benefits

List of Benefits	Y/N	% of female employee who availed for the year	% of male employee who availed for the year
SSS	Y	Maternity 8%	N/A
		Sickness 6%	Sickness 4%
		Loan 24%	Loan 24%
PhilHealth	Y	Personally-filed by employees	
Parent leaves	Y	Solo Parent Leave 2%	Solo Parent Leave .30%
			Paternity Leave 3%
Vacation leaves	Y	74%	78%
Sick leaves	Y	46%	48%
Medical benefits (aside from PhilHealth)	Y	65%	35%
Housing assistance (aside from Pag-Ibig)	N	0%	0%
Retirement fund (aside from SSS)	Y	0.10%	0%
Further education support	Y	0.20%	0.21%
Company stock options	N	0%	0%
Telecommuting	N	0%	0%
Flexible-working hours	N	0%	0%
(Others)	Y - Compressed workweek for HO female and male employees		

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
The employees' over-all welfare is crucial as they are primarily involved in the daily operation of the business. We cannot operate our business without our employees. The employees rely on the company as a source of their livelihood. All employees are working full-time for the company.	The company ensures that employees can avail of the benefits guaranteed to them under the law. The company ensures the safety and health of employees by complying with the labor and welfare standards and policies implemented by the Department of Labor and Employment such as the Occupational Safety and Health Standards, Minimum Wage Law, Anti-sexual harassment Policy Company Policy & Rule on STD/HIV/AIDS Drug-Free Workplace Policy, among others.
What are the Risk/s Identified?	**Management Approach**
The risk of not being able to retain and attract the right talents.	The company shall improve its employee training and development programs and performance-based merit increase in ensuring that compensation of employees remains to be competitive.
What are the Opportunity/ies Identified	**Management Approach**
To engage the working force that is in their optimal health state.	To adopt policies that can develop a more profound sense of belongingness and commitment for this generation's younger employees.

Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees		
A. Female employees	74,850	hours
B. Male employees	41,354	hours
Average training hours provided to employees		
A. Female employees	16	hours/employee
B. Male employees	16	hours/employee

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
There is no formal education or course that teaches retail operations; thus, the training of our employees is vital in keeping them knowledgeable and efficient in store operations.	The company shall enhance the quality and quantity of its existing employees' training and development program and expand the same to all levels of employees.
What are the Risk/s Identified	**Management Approach**
Rapid expansion may limit the employees' required training in store operations.	The company plans to expand the coverage of the training of its employees. The training of employees shall be ahead of store openings.
What are the Opportunity/ies Identified	**Management Approach**
Expansion of mandatory training courses and development of assessment for these courses.	The company will support more employee training programs and the use of technology in the training of employees. The company will conduct a regular assessment to monitor the effectiveness of these training courses.

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreement	N/A	%
Number of consultations conducted with employees concerning employee-related policies	1	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Harmony between the management and employees is vital in achieving company goals and targets.	The company shall create a policy that will foster a stronger bond between labor and management. The company shall maintain its strong and effective leadership to manage a large organization like ours.

	The harmonious relationship between management and employees has always been a vital element in achieving our company goals and targets.
What are the Risk/s Identified	Management Approach
The failure of the management to act on employees' grievances may lead to their non-productivity and lack of initiative.	The company has an existing Employee Relation/Industrial Relation section, where employees and management can discuss their issues or differences.
What are the Opportunity/ies Identified	Management Approach
Increase in management engagement with employees' activities. Monitor consultations conducted with employees concerning employee-related policies.	The company shall develop a positive and productive organizational culture that creates a climate for harmonious interaction between the management and employees.

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	64	%
% of male workers in the workforce	36	%
Number of employees from indigenous communities and/or vulnerable sector[1]	2 – PWD 120 – Solo Parent	#

What is the impact and where does it occur? What is the organization's involvement in the impact	Management Approach
More than half of the workforce of the company are female.	The company will maintain its culture of diversity and inclusion in selecting its employees. The company shall have programs that understand females' various needs and supportive of their role as mothers.
What are the Risk/s Identified	Management Approach
No identified risks.	Not applicable.

[1] Vulnerable sector includes elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displace persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E)

What are the Opportunity/ies Identified	Management Approach
To be more productive and creative as the workforce become more diverse and gender-inclusive.	The company shall set avenues for employees to collaborate and discuss their ideas freely.

Workplace Conditions, Labor Standards, and Human Rights
Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours	18.1M	Man-hours
No. or work-related injuries	7	#
No. of work-related fatalities	0	#
No. of work-related ill-health	0	#
No. of safety drills	350	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Our workforce is vital in our operation. Maintaining a safe working place and keeping them fit is a necessary condition in having a smooth business operation.	The company complies with labor standards set by the Department of Labor and Employment that ensure occupational health and safety of employees. A safe and healthy workforce is an asset to any company. A safe working place also eliminates the company's potential expense in paying for injuries and damages and the incalculable loss in time and money brought by the interruption in the store operation.
What are the Risk/s Identified	**Management Approach**
The company has a risk of having a second-rate store structure caused by subcontracting store constructions and leasing store premises from third – parties and the risk of fire that may cause damage to our property and severe injury to our employees.	The company is engaging the services of construction companies with reliable experience and classified as triple-A or having good standing with the Philippine Construction Accreditation Board. Structures of leased premises are being examined before using them. The company is compliant with the fire regulations issued by local government units where stores are located.
What are the Opportunity/ies Identified	**Management Approach**

None.	None.

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference int the company policy
Forced Labor	N	
Child Labor	N	
Human Rights	Y	Anti-sexual Harassment Policy Company Policy & Rule on STD/HIV/AIDS Drug-Free Workplace Policy

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
All employees of the company are of legal age. No employee is below 18 years old. And all employees are literate.	The company shall keep on complying with the provisions of the Labor Code of the Philippines and maintain its good standing with the Department of Labor and Employment. The company shall reinforce the implementation of its whistleblowing policy to protect its employees against any human rights violation.
What are the Risk/s Identified	**Management Approach**
The company's operations are present across the islands of the Philippines. The occurrence of human rights violations might be happening in far branches without the management immediately knowing it.	The company shall strictly implement its whistleblowing policy in all stores of the company. The company shall integrate human rights courses in the training module of employees.
What are the Opportunity/ies Identified	**Management Approach**
None	None

Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy. Yes, please see attached.

Do you consider the following sustainability topics when accrediting suppliers?

Topic	Y/N	If Yes, cite a reference in the supplier policy
Environmental performance	N	
Forced labor	N	
Child Labor	N	
Human rights	N	
Bribery and corruption	N	

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
We have more than 2,000 suppliers of merchandise and several third-party providers whom we all consider our partners in our business. Like our employees, their roles are vital in our operation.	The company works with suppliers with efficiency. It has several methods of delivery or logistics that vary depending on the size and capacity of the suppliers to ensure their timely delivery to us and their profitability as well. A significant portion of the management team is working closely with our suppliers. The company gives close attention to our suppliers to ensure stock availability and services in our stores. The company will keep on ensuring that company values are aligned with the values or practices of our suppliers.
What are the Risk/s Identified?	**Management Approach**
There are many suppliers in the supply chain and that the company cannot possibly monitor each one of them if they are sustainable in their processes. The supply chain is exposed to several factors like government regulations, scarcity of raw materials, traffic congestion, climate change. All of these may affect the delivery of products and services to our stores.	The company is relying on reliable technology to monitor the suppliers, and it established its distribution centers to stock up its merchandise if needed.

What are the Opportunity/ies Identified	Management Approach
To build our house brands for some merchandise.	The company is meticulously balancing its act of offering its house brands to customers taking into consideration the reputation risk embedded into it and the possible protest from existing suppliers.

Relationship with Community
Significant Impacts on Local Communities

Operations with significant (positive or negative) impacts on local communities (exclude CSR projects; this has to be business operations	Location	Vulnerable groups (if applicable)*	Does the particular operation have an impact on indigenous people (Y/N)?	Collective or individual have been identified that or particular concern for the community	Mitigating measures (if negative) or enhancement measures (if positive)
Use of plastic	All stores	N	N	N	We comply with LGUs regulations that prohibit the use of plastic as packaging for items brought from the supermarkets. We are also promoting the use of recyclable bags in our stores. We are studying more ways we can address this problem.
Food Safety	All stores	N	N	N	The company has a systematic

					way of tracking expired or near expiry merchandise. However, we are drafting a Food Safety Policy to address this material topic.
Food Waste	All stores				The company is complying with the Solid Waste Act. But it is in the process of establishing its Food Waste Management Program to address this material topic.
Data Security	All stores and offices	N	N	N	The company has a Data Privacy Policy, but it needs to be re-assessed to check its effectiveness.
Management of Environmental and Social Impacts in the supply chain	All stores	N	N	N	The company will adopt an effective Supply Chain Management Policy to address this material topic.
Fleet Fuel Management	All stores and offices	N	N	N	The company is preparing an Energy Management Policy to

					address this topic.
Air Emissions for Refrigeration	All stores and offices	N	N	N	The company is preparing an Environmental Compliance Policy to address this topic.
Energy Management	All stores and offices	N	N	N	The company is preparing an Environmental Compliance Policy to address this topic.
Labor Practices	All stores and offices	N	N	N	The company is compliant with labor laws. But the company is still preparing for a comprehensive Labor Practices Manual to address this material topic.

*Vulnerable sector included children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents and the poor, or the base of the pyramid (BOP; Class D and E).

For operations that are affecting Ips, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available: None

Certificates	Quantity	Units
FPIC process is still undergoing	N/A	#
CP secured	N/A	#

What are the Risk/s Identified?	Management Approach
N/A	N/A

What are the Opportunity/ies Identified	Management Approach
N/A	N/A

Customer Management
Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study (Y/N)?
Customer satisfaction	No available data	N

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Our stores serve millions of customers daily. We are their source of basic needs and other essential supplies.	We must build a good relation and impression on our customers. Happy customers are most likely to return and shop for more with us.
What are the Risk/s Identified?	**Management Approach**
(1) Failure to meet customers' expectations, serve their demands, or attend to their complaints may reduce sales for the company. (2) Mistakes or errors of suppliers in their products may be regarded as caused by the company. (3) Exposure to social media can easily affect our reputation. (4) Increased competition vying for the same market.	Customer service has always been part of the training of our store employees. The company needs to provide a quick feedback mechanism for our customers. The company is preparing a Customer Service Program that will demonstrate how we can monitor the satisfaction level of our customers and how we should respond to their expectations, demands, and complaints.
What are the Opportunity/ies Identified	**Management Approach**
To lead our customers to become sustainable shoppers and choose healthy and more nutritious food.	The company is preparing a Food Safety Program and other Sustainable programs that will cover taking care of the health of our customers and teaching them to contribute in the fight against climate change by recycling and properly disposing or segregating their wastes at home.

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety*	11	#
No. of complaints addressed	On-going	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Thousands of customers visit our stores daily. It is expected that we not only provide our customers with what they want and need it is much more expected that our stores are safe and our employees are healthy.	Our store structures are compliant with the Building Code and other regulations issued by local government units regulating concrete structures. Likewise, all our employees are fit to work and always ready to serve the customers. To further ensure safety in our stores, the company is preparing a Store Safety Program that will provide for more stringent safety measures across our stores.
What are the Risk/s Identified?	**Management Approach**
Any injury to customers while in store premises may cause expense to the company, and that social media may augment its effect and create damage to company's reputation.	We are keeping all stores insured against damages and injuries. We have safety policies that provide more stringent measures than the safety standards prescribed by the government agencies.
What are the Opportunity/ies Identified	**Management Approach**
No identified opportunity	Not applicable

Marketing and labeling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labeling*	0	#
No. of complaints addressed	0	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Our customers rely on the marketing and labeling of the products we display in our stores for its safety, nutrition, taste, or effectiveness. The company is at the forefront of persuading customers to purchase certain products.	The company is preparing a Food Safety Program that will define the role of the suppliers and the company in ensuring that our customers are given correct information about the products they see on our display.
What are the Risk/s Identified?	**Management Approach**
Customers might suffer an injury caused by incorrect labeling or expired products still for sale in our stores. Social media may augment its effect and create damage to the company's reputation.	To have a systematic way of monitoring the expiration dates of our merchandise and train our employees to identify incorrect labeling of products quickly. The company is preparing a Food Safety Program that will address this topic.
What are the Opportunity/ies Identified	**Management Approach**
No identified	Not applicable

Customer privacy and Data Security

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy*	0	#
No. of complaints addressed	0	#
No. of customers, users and account holders whose information is used for secondary purposes	0	#

*Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts, and losses of data	1	#

What is the impact and where does it occur? What is the organization's involvement in the impact?	Management Approach
Customers' data are shared with the company when they purchased goods	The company complies with the Data Privacy Act of 2012, which

using credit or debit cards or apply for membership in S&R or any perks programs with Puregold.	enumerates the rights of the data subjects. The company has to strengthen the practice and the mindset of its employees in considering personal data as property owned by the data subjects. Like any other property, it cannot be used without the owner's consent.
What are the Risk/s Identified?	Management Approach
(1) Data breach may expose the company to government sanctions. (2) Loss of important data or information brought by technical glitches.	The company will keep on investing in the training of employees and reliable technology to protect its data and to avoid a data breach.
What are the Opportunity/ies Identified	Management Approach
No identified opportunity.	Not applicable.

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs
Key products and services and its contribution to sustainable development.

Key Product and Services	Societal Value/ Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Retail Operation	8 DECENT WORK AND ECONOMIC GROWTH	Thousands of employees depend on the company for their jobs and livelihood. If the company does not provide them with decent work, the lives of these employees and their families will not improve, and they will be most likely to suffer from poverty, inequality, and even abuse.	The company will continue providing decent jobs for all its employees by developing their skills, paying them a living wage, and making them more productive. The company will ensure all employees are covered with benefits mandated by law, and their safety and security are protected. The company will continue to expand and create more decent jobs to help the economy to grow further.
	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	The company potentially contributes to the world's problems of food waste, greenhouse gas emissions, and even the increasing cases of obesity.	Our company is the market for manufacturers and consumers. We are in a position to demand or influence responsible and sustainable consumption and production from each side. The company shall take advantage of such a role to promote responsible consumption and

			production. It is in a position to require its suppliers to be sustainable and encourage its consumers to change their shopping and eating behavior and make them more inclined to support sustainable products and to eat more healthy food.
		(1) The use of plastic bags as a package container of our customers when they buy items from our stores; (2) Food waste and other solid waste from processing food in our stores; (3) Fuel consumption of our stores and the fleet of vehicles we use to transfer our merchandise, including the vehicles used by our third-party logistics and suppliers. All contribute to various levels of air, water, and land pollution.	As our business is located in a third-world country and even along the path of several storms every year, it is very vulnerable to experience the effects of climate change. Thus, we must manage our business activities to a level that has the minimum damaging impact on our environment by investing in low-carbon development and practicing recycling and even promote recycling to its customers, suppliers, and in the communities where it operates.

*None/Not Applicable is not an acceptable answer. For holding companies, the services and products of its subsidiaries may be disclosed.

PUREGOLD PRICE CLUB, INC	SUBJECT TITLE: **SUPPLIER ACCREDITATION POLICIES & PROCEDURES**

1.0 OBJECTIVES

1.1 To provide policies and processes for supplier selection and requirement for accreditation to be strictly complied with by the authorized company personnel.

1.2 To ensure to establish lasting relationship with the accredited suppliers who are capable to maintain the standard quality of products and services.

2.0 SCOPE

2.1 This document covers the policies and processes for SUPPLIERS OF TRADE MERCHANDISE particularly on the:
- 2.1.1 Selection and Accreditation
- 2.1.2 Information Updates and Maintenance
- 2.1.3 Performance Evaluation

2.2 This is applicable only to all Puregold Price Club, Inc. stores.

3.0 POLICIES

3.1 The Company upholds honesty, integrity, and fairness in all aspects of its business and expects the same in its relationships with its Suppliers. The highest ethical standards shall be employed in all procurement transactions, and Suppliers shall be chosen based on procurement policies and defined selection criteria.

3.2 The responsibility in inspection, appraisal and accreditation of potential Supplier shall be carried out by Merchandising Department. The Personnel In-Charge shall have the qualifications and capabilities to evaluate the eligibility of the suppliers to be accredited.

3.3 Merchandising Manager is expected to select the best possible sustainable supplier and to effectively achieve the set objectives. Selection of potential suppliers are determined and identified based on a set of parameters. These parameters includes but are not limited to the following factors:
- 3.3.1 Quality of Product
- 3.3.2 Logistics Service (supply chain, delivery methods and timeframe)
- 3.3.3 Competitive pricing
- 3.3.4 Communication
- 3.3.5 Safety requirements
- 3.3.6 Marketing / promotional activities

3.4 Results of the assessment based on the defined criteria and agreed terms and conditions for selected supplier shall be documented in Product Evaluation Form (PEF). The PEF indicating the selected supplier shall be approved by the authorized Approver from the President's office.

3.5 For suppliers under Consignment or Concessionaire terms, Offer and Acceptance Sheet must be accomplished and approved by the authorized approver from the President's Office. The sheet must be duly signed by the Consignment/Concessionaire supplier representative.
- 3.5.1 All signed acceptance sheet must also have an attached signed Rules and Regulations on Consignors or Concessionaires. A copy of Acceptance sheet and rules and regulation should be given to Concessionaire/Consignor for guidance.

3.6 All accredited suppliers should have a Vendor Information Sheet (VIS), completely accomplished by the Supplier's Authorized Representative and duly approved by the corresponding Senior Merchandising Manager. Approval from the Senior Merchandising Manager assures that the supplier information and details written in VIS are valid and required documents are completely obtained.

The following are the required documents from the selected supplier of which photocopies are required to be submitted and attached on the VIS:

3.6.1 BIR Certificate of Registration (COR)
3.6.2 Business Permit
3.6.3 Company Profile
3.6.4 Sales Invoice with Authority To Print (ATP)
3.6.5 Collection Receipt or Official Receipt with ATP
3.6.6 Other documents required by Finance Department

3.7 A vendor code is created in the system by the Personnel In-Charge assigned in Finance Department which shall serve as a unique reference number that the supplier has gone through the accreditation process. Details and profile of supplier are based on the submitted approved VIS by Merchandising Department.

3.7.1 All accredited suppliers shall be included and maintained in the Vendor Master file for management of supplier information. The Vendor Master file contains the company information and product listings of all accredited suppliers where the items will be purchased.

3.8 Only accredited suppliers shall provide required goods and services for the company. Only those items that has approved accreditation shall only be ordered from the accredited supplier.

3.9 For any changes or updates on Supplier's details, supplier must give information and submit necessary documents to Merchandising Department at least fifteen (15) working days before the effectivity of change.

VIS shall be accomplished based on the required updates and must be submitted to Finance Department:

UPDATES	SUPPORTING DOCUMENTS REQUIRED	SYSTEM UPDATE
Change of name of existing vendor *(same vendor but registered under a new name)*	• Taxpayer Record Update • COR	Edit the name of existing vendor to name of new vendor.
Revisions in the previous set-up or defaults *(changes in the vendor information except those information that can be overridden during Purchase Order preparation)*	Change in address – COR Change in TIN – Taxpayer Record Update	Edit the information based on approved request of existing vendor.
Replacement of Old Vendor to New Vendor *(Transactions will be made to the newly set-up vendor instead of previously maintained supplier.)*	Same requirement for New Vendor	➢ For the Old Vendor – encode 'NTBU' (*Not to be used*) prefix on the vendor name and tagged as 'I' (*Inactive*) ➢ Create new vendor code for the replaced supplier.
Deactivation of Supplier *(No replacement vendor)*		Encode 'NTBU' (Not to be used) prefix on the vendor name and tagged as 'I' (Inactive).

3.9.1 Merchandising Department shall provide written document to Supply Chain Dept., Finance Division and Store Operation of supplier's inactivity.

3.9.2 Supplier's account related to inventory and financials must be cleared first prior to deactivation by Merchandising Department and Finance Division.

3.9.3 Personnel In-charge in Finance Department shall update the supplier's information in the system on the effectivity date written on VIS and with complete required supporting documents.

3.10 Review of accredited suppliers shall be performed three (3) months after PO creation for new supplier and on a periodic basis for existing suppliers. Merchandising Department and Supply Chain Department shall assess the supplier's performance based on set metrics and compliance on company's standard.

3.11 Merchandising Department and Supply Chain Department shall communicate to supplier through online vendor management system provided on the criteria that has poor performance or does not able to meet the agreed standards on a monthly basis. Marketing strategies or programs or corrective actions from the supplier must be required to improve the key processes related to company's operations.