cosco capital
incorporated

April 12, 2016

**Securities and Exchange Commission**
SEC Building, EDSA, Mandaluyong City

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

**Philippine Stock Exchange**
Ayala Avenue, Makati City

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

Subject: **COSCO CAPITAL, INC. (SEC 17-A) FOR THE YEAR 2015**

Gentlemen:

Submitting herewith the Company's Annual Report (SEC 17-A) as of December 2015 with attachments as follows:

A. Consolidated Audited Financial Statements

B. Supplementary Schedules

C. Updates on Annual Corporate Governance Report

Thank you.

Very truly yours,

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

**Head Office:** 2/F Tabacalera Building, 900 Romualdez St., Paco, Manila, 1007, Philippines • Phone: (632) 524-9236 / (632) 523-3055

# COVER SHEET

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SEC Registration Number

COSCO CAPITAL, INC.

(Company's Full Name)

NO. 900 ROMUALDEZ ST., PACO, MANILA

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

ATTY. CANDY DACANAY-DATUON

(Contact Person)

(02) 523-3055

(Company Telephone Number)

1 2 | 3 1

Month | Day

SEC FORM 17-A

(Form Type)

0 6 | 2 4

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.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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, 2015

2. SEC Identification Number: 147669

3. BIR Tax Identification No. : 000-432-378-000

4. Exact name of issuer as specified in its charter:

**COSCO CAPITAL, INC.**
(Formerly Alcorn Gold Resources Corporation)

5. Province, country or other jurisdiction of incorporation or organization:

Republic of the Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of principal office:

2nd FloorTabacalera Bldg 2, 900 D. Romualdez Sr. St.,
Paco, Manila Postal Code: 1007

8. Registrant's telephone number, including area code:

(632) 524-9236 or 38

9. Former name, former address and former fiscal year, if changed since last report:

ALCORN GOLD RESOURCES CORPORATION

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

| Title of Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common | 7,405,263,564 |
| Debt | 4,915,499,368 |

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [ / ] No [ ]

The 7,405,263,564 common shares of stock of the company are listed in Philippine Stock Exchange (PSE).

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[ / ] No [ ]

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

Yes [ / ] 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. (See definition of "affiliate" in "Annex A").

DOCUMENTS INCORPORATED BY REFERENCE

14. 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:

Annex "A" - Consolidated Audited Financial Statements;

Annex "B" - Supplementary Schedules

Annex "C" - Annual Corporate Governance Report

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## PART I BUSINESS AND GENERAL INFORMATION

### Item 1 Business

### (1) Company Background

Cosco Capital, Inc. (formerly Alcorn Gold Resources Corporation) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 19, 1988 with the primary purpose of engaging in exploration, development and production of oil and gas and metallic and nonmetallic reserves in partnership with other companies or in its individual capacity.

On October 8, 1999, the stockholders approved the amendment of the Company's 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 Company. The SEC approved the amendment on January 13, 2000. Cosco, as a holding company, may engage in any business that may add to its shareholders' worth.

On April 12, 2013, Lucio L. Co Group and Alcorn Gold Resources Corporation (now Cosco Capital, Inc.) executed a Deed of Assignment in Payment for the Subscription wherein the Lucio L. Co Group shall subscribe to the unissued unauthorized capital stock of the Company from the increase of its authorized capital stock at a subscription price of ₱15 per share for a total of 4,987,406,421 new shares at an aggregate subscription price of ₱74,811,096,315 worth of shares in Puregold Price Club, Inc. and Subsidiaries, Ellimac Prime Holdings, Inc. and Subsidiaries, Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., 118 Holdings, Inc. and Subsidiary, Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp. (collectively, the "Acquirees"), and the corresponding payment thereof by way of assignment of the shares owned by Lucio L. Co Group in the Acquirees, under the terms and conditions to be determined by the Corporation's BOD.

The aforementioned document had a closing condition that the issuance of the new shares of 4,987,406,421 shall be made immediately upon the occurrence of all of the following conditions, without need of any further consent or action:

(a) Approval by the Securities and Exchange Commission of the Amendments;
(b) Approval of the Philippine Stock Exchange ("PSE") of the listing of the Swap Shares; and
(c) Arrival of the Listing Date of the Swap Shares, such date to be agreed upon with the PSE.

In addition, 1,142,857,143 shares were subscribed and issued to subscribers for ₱10.50 per share for a total consideration of ₱12,000,000,001.50 after meeting all the closing conditions.

For the purpose of this Deed, Listing Date of the Swap Shares shall mean the day that the Swap Share are listed in, and can commence trading at the PSE.

As the above share swap transaction was effective as of May 30, 2013 or the date of the listing as provided in the Subscription Agreement dated April 12, 2013, the Company, as a holding company, became a conglomerate and was now required to consolidate the results of operations of the 12 acquiree companies effective only on June 1, 2013.

On July 5, 2013, the Philippine SEC approved the registration of Alcorn Petroleum and Minerals Corporation, a wholly-owned subsidiary of Cosco Capital, Inc. The Company was organized to pursue exploration and development of Cosco's interests in oil and mining business activities

**(2) Business of Issuer**

**COSCO CAPITAL, INC.**, as an investment holding company, has a current diversified portfolio of business interests in the following industries and business segments:

## Grocery Retail

**PUREGOLD PRICE CLUB, INC.** (Puregold) was established and introduced in 1998 with its first Puregold Hypermarket store operating in Shaw Boulevard, Mandaluyong City. As part of its expansion program, Puregold launched a loyalty program in 2001 that catered specifically the needs of the reseller customers which was subsequently renamed as Tindahan Ni Aling Puring (TNAP) in 2004. Between 2002 and 2006, an average of three (3) new stores were opened every year and operations were expanded in North and South Luzon.

In 2009, Puregold Supermarket Jr. was introduced as a store format in a smaller space that carries a complete range of domestic merchandise needs. Establishing its leadership by 2010, Puregold became the second largest hypermarket and supermarket retailer in the country in terms of net sales. In the same year, a much smaller format named "Puregold Extra" was launched which quickly accelerated the group's geographic expansion.

In 2012, and on the back of the acceleration of its expansion program and opportunities, Puregold took a bolder step of raising additional equity capital through an IPO of its shares at the Philippine Stock Exchange and generated an additional equity capital of 6.0 Billion which enabled the company to fund its aggressive stores expansion program.

In 2011 and 2012, Puregold embarked on a more aggressive stores expansion program and strategy through a roll out of new organic Puregold stores, as well as further acquisitions of existing and operating supermarket chains, opening a total of 69 new Puregold stores. The Company also acquired Parco supermarkets which had 19 stores at the time operating principally within Metro Manila.

On January 14, 2013, Puregold opened additional 40 new organic stores and acquired Company E, which on its own had 15 supermarket stores. The new stores and acquisitions contributed to efforts to further penetrate the target markets.

On June 12, 2014, Puregold entered into a joint venture agreement 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 a Joint Venture company that will establish and operate convenience stores in the Philippines.

The Company conducts its operations primarily through a hypermarket format known as "Puregold Price Club". These hypermarkets are mostly located in major commercial centers and near transportation hubs. Puregold Price Club offers a broad variety of food and non-food products, and generally caters to both retail customers and resellers such as members of the Company's pioneering "TNAP" loyalty/marketing program. The average net selling space of the Company's hypermarket is 3,000 square meters. Each hypermarket offers 30,000 to 50,000 stock-keeping units (SKU).

The Company has a supermarket chain known as "Puregold Junior", operated by its wholly-owned subsidiary, Puregold Junior Supermarket, Inc. In June 2010, Puregold Junior Supermarket, Inc. became a subsidiary of the Company as part of a reorganization of companies owned and controlled by the Co Family. The Company's supermarkets are mostly located in residential areas and offer a higher proportion of food to non-food products vis-a-vis the Company's hypermarkets. The supermarkets have a store layout similar to the Company's hypermarkets but on a smaller scale. Puregold Junior stores generally cater to retail consumers. The average net selling space of the Puregold Junior supermarkets is around 900 square meters. SKUs of product assortment ranges from 8,000 to 10,000.

"Puregold Extra" is the Company's smaller store format which offers a more limited number of goods, comprising the Company's top-selling SKUs ranging from 1,500 to 2,000. The average net selling space of these stores is 400 square meters.

As part of the consolidation strategy to achieve more operational efficiencies and strategic cost savings, all the acquired companies, namely Gant Group (operating the Parco stores), Company E as well as Puregold Junior Supermarket, Inc. were subsequently merged with and absorbed by the parent company. Similarly, all the Parco as well as Company E stores have also been converted and rebranded as Puregold stores.

**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. It is the only retailer in the Philippines with a membership shopping concept. S&R has adopted a warehouse club concept where most of the products offered are in club packs. Majority of the merchandise are imported brand names mostly sourced from the United States. Currently, S&R is the biggest reseller of imported quality products at very competitive prices.

## Real Estate and Property Leasing

**ELLIMAC PRIME HOLDINGS, INC.** is the flagship of the real estate companies of Cosco Capital, Inc. The company came about resulting from the merger of four (4) other property companies in December 2012 namely PILGOR Development Services Corporation, 514 Shaw Property Holdings Inc., Cosco Prime Holdings Inc. and Pajusco Realty Corporation.

It currently owns a portfolio of thirty six (36) properties strategically located in the more prominent area of Metro Manila as well as the nearby Cental and Northern Luzon provinces of Bulacan, Nueva Ecija, Quezon and Cagayan. Among these, twenty four (24) are operating as commercial retail buildings, and seven (7) are on land long-term lease arrangements. On the other hand, the remaining five (5) properties are in the stage of planning and development.

The commercial retail buildings of Ellimac are also being leased out mostly by prominent retail tenants that support the retail customers of Puregold Price Club, Inc. One of the recently completed and launched properties of Ellimac 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 experience for families and professionals.

Ellimac's bold strategic plan to develop more commercial community mall properties in the years ahead will put the real estate group in the industry map, making it one of the pillars and growth drivers of Cosco Capital, Inc.

**FERTUNA HOLDING CORPORATION** is considered to be the stronghold of Cosco Capital Inc., in Central Luzon. Fertuna together with Ayala Land Inc. co-developed a commercial retail complex called Harbor Point. This new development is situated in the heart and bustling economic hub of 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. This became a shopping destination in Central Luzon.

With the establishment of Harbor Point, Cosco Capital Inc. strengthens its position as ringleader in the real estate arena. The Fertuna group will continue to be on the rise, with the coming developments and future ventures it has in the pipeline.

**PATAGONIA HOLDINGS CORP.** as Cosco'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 Holdings Corporation took 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.

The premium property of Patagonia Holdings Corporation attests that it is a decent venture that entrepreneurs and investors can capitalize on.

**NATION REALTY, INC.** The phenomenal success of the retail arm of Cosco Capital Inc. prompted the company to explore other promising facets of the business. It entered the course of mall development and established the ***999*** shopping mall in the heart of Binondo, Manila. The ***999*** mall became a dominant key player in the retail shopping division. It was positioned as a specialty mall-a modern approach to flea market or tiangge. A number of individual stalls lie within the mall where any array of merchandise, mostly from the Mainland China could be found. The ***999*** shopping mall is the shopping hub for Filipino shoppers and resellers who want to purchase good quality items at low prices.

The ***999*** shopping mall has two (2) developments. The first development is a four storey building that measure 31, 931 square meters gross floor area. Building #1 was constructed and completed in 2011. On the other hand, the second phase is a seven storey building with a gross floor area of 84,292 square meters. The completion of Building #2 was completed by Nation Realty Inc. in 2012.

At the rate where ***999*** shopping mall is heading, Nation Realty Inc. will remain to be on the top of its game. It's bound to take ***999*** Shopping Mall to an entire new level of development and advancement.

**118 HOLDINGS, INC.** was established in November 2008. It presently owns 32,427 square meters of land in Subangdaku, Mandaue, Cebu, of which 25, 253 square meters are currently being leased by S&R Membership Shopping.

In September 2011, the company acquired a 12, 464 square meters parcel of and in Imus, Cavite. A one-storey retail structure has been built on the property and now houses over 40 tenants with Puregold Price Club Inc. as its anchor tenant.

**NE PACIFIC SHOPPING CENTERS CORPORATION**, which owns and operates the NE Pacific Mall, was acquired by Cosco Capital, Inc. in March 2014. NE Pacific Mall, 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 the Puregold Price Club, Inc. This one stop shopping haven not only provides a unique shopping experience for the family but also brings great value for their money.

The addition of NE Pacific Mall in the portfolio of Cosco Capita, Inc. will strengthen the real estate arm of the group. Cosco's venture into the mall development reflects its business dynamism. The new phase will be an avenue for the company to build and grow stronger markets, an opportunity to establish a name in the game of mall development.

**PURE PETROLEUM CORP. (PPC)** 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 90 Million liters and a 350 KL CME storage tank. 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 adapted the best practices of the oil industry, applicable policies and procedures to ensure safe and efficient operation.

PPC stands by its corporate policy which commits to manage its business according to these principles:

- Operate our facilities and handle petroleum products in a manner that protects the environment, safety and health of our employees and the public.
- Make safety, health and environmental considerations a priority in our planning and development of processes.
- Economically develop systems that will use energy efficiently.
- Counsel customers, transporters and others in the safe use, transportation and disposal of petroleum products and waste materials.

## Liquor Distribution

**MONTOSCO INC.** is a liquor importing and distributing company that boasts of having a portfolio of high quality brands that has made significant inroads both in the premium imported brandy and wine industry. One that complements its achievement is the underlying strength of the company in maintaining its high standards in the production of brandy and wines, while on the other hand its success is also built on the knowledge, skills and efforts made by each member of the dynamic team.

Montosco's products cover all levels of imported brandies and wines from the most affordable brands to the premium quality labels. With the collaboration of sales & effective merchandising, the company offers exceptional products at good value for its customers. It further aims to do more than just selling but to partner with customers in helping them to achieve their business goals through the placement of important brands and giving them quality products.

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

Montosco is the exclusive Philippine distributor of Spanish brands *Alfonso Brandy* and *Vino Fontana*. The list also includes leading international brands *Bailey Cream Liqueur*, *Patron Tequila* and *Jack Daniels Whiskey*.

Wines produced by Spanish Vinter Williams and Humbert are also exclusively distributed by the Company.

Part of its portfolio is the Spanish brand *Excelente*, Montosco's initial venture into middle-market segment.

**MERITUS PRIME DISTRBUTIONS INC.** became the exclusive Philippine distributor of Beam Global Spirits & Wine on March 2010. The company also became the exclusive domestic distributor of a famous imported brand in Spain, the *Fundador Brandy*.

It is currently a significant supplier in the Domestic and Duty Free businesses in terms of volume and value.

With its continuous expansion, the Company included products in the Premium Wine category, making its portfolio even more extensive. Several notable international wine Brand Owners are the company's partners. These brands include the Treasury Wine Estates, the world's #1 listed wine company and South Africa's DGB.

Meritus also carries key whiskey brands from Beam International, Jim Beam and Makers Mark.

**PREMIER WINE AND SPIRITS, INC.** (Premier) was established in 1996. It is engaged in the sales, distribution and marketing of imported wine, spirits, beer and specialty beverage brands. Premier has a national distribution network covering all channels of the industry that is on premise, off premise, provincial and travel retail. This network is run by a seasoned team of sales people and supported by merchandisers and promo girls. Premier has in its portfolio some of the world's leading brands managed by a group of dedicated marketing people.

As the exclusive Philippine distributor of world-renowned brands like *Chivas Regal Scotch Whiskey, Glenlivet Scotch, Martel Cognac, Absolut Vodka, Jose Cuervo Tequila and Jageermeister,* among others. It also caries brands from *Gruppo Campari, Heaven Hill* and *Distell and Osborne*.

On the wine side, it has *Mompo*, the country's favourite mass wine, *Wolf Blass*, *Ruffino Marquez de Risccal* and *Vina Santa Carolina*, which are among the leading wine companies in their respective countries of origin.

## Oil & Mining

Alcorn Petroleum and Minerals Corporation (APMC) was organized on July 5, 2013 as a wholly-owned subsidiary of Cosco Capital, Inc. to pursue exploration and development of Cosco's interests in oil and mining business activities. On June 11, 2014, a Deed of Assignment was executed by and between Cosco and APMC formalizing the transfer of Cosco's oil and mining interests to APMC subject to the approval of the Department of Energy which was subsequently granted on July 2, 2015.

The oil and mining interests include a portfolio of participating interests in petroleum exploration and extraction activities in Palawan area and Eastern Visayas region.

## Specialty Retail

**LIQUIGAZ PHILIPPINE CORPORATION** was established in 1995 and was wholly owned subsidiary of SHV Netherlands. In July 2014, Cosco Capital, Inc. acquired 100% ownership interest in Liquigaz through a subsidiary, Canaria Holdings Corp.

The company ranks as the second biggest LPG supplier in the Philippines. It currently holds more than 30% market share.

Liquigaz's main import terminal is located in Mariveles Bataan which has a 12,500 MT capacity which makes it the biggest LPG import facility in the Philippines. The terminal is reinforced by two (2) distribution hubs located in Bulacan, which covers the North Luzon/Metro Manila market, and in Canlubang, Laguna which covers the Southern Luzon/Metro Manila market.

There are five business segments in liquigaz, namely:

1. Wholesale Business - caters to independent refillers as well as major players
2. Autogas Business - caters to independent retailers and offers fleet card to company auto- lpg fleets
3. Cylinder Business - caters to LPG cylinder dealers
4. Industrial Business - serves manufacturing industries i.e Food, Ceramics, Automotive
5. Commercial Business - serves the LPG requirements of fast-food chains, hotels and mall

**OFFICE WAREHOUSE, INC.** has been a provider and partner consultant of small and medium enterprises since 1998 when it comes to quality, cost efficient and value adding office solutions.

Office Warehouse offers office and school supplies, furniture and a wide range of technology products suited for everyday office needs at the lowest price possible. True to its best-selling proposition of "Cost-cutting starts here", Office Warehouse saves the customer's time, money and energy, so they can focus on running their business in a more cost-efficient way.

As of December 31, 2015, Office Warehouse, had 59 store outlets which are located in major business districts in Metro Manila, Rizal, Cavite and Laguna a few Luzon-based provincial outlets. The company's headquarters is in Quezon City.

**(3) Products**

**Grocery Retail**

The grocery retail segment offers through its different store brands and formats a wide-range of imported and local groceries and other consumer products (canned goods, housewares, toiletries, dry goods, food and non-food products, etc.) held for sale in the ordinary course of business on wholesale and retail bases.

**Liquor Distribution**

This Company's segment maintains a diversified portfolio of premium imported alcoholic beverages, ranging from brandy, rum, whisky, tequila, liqueurs, wines and specialty non-alcoholic beverages.

**Specialty Retail**

Liquigaz imports and distributes on wholesale basis Liquefied Petroleum Gas (LPG).

Office Warehouse offers a wide-range of office and school supplies, furniture and technology products suited for everyday office needs at the lowest price possible.

**(4) Competition**

**Grocery Retail**

Competition in the grocery retail segment includes those of major modern grocery retail players SM Supermarkets, Savemore, SM Hypermarkets, Puregold, Shopwise/Rustan's, Robinsons, and Walter-Mart who are among the top and dominant market participants in the retail sector among the hypermarket, supermarket, neighborhood store, and cash & carry formats. In 2012, Rustan's Supercenter forged partnership with Dairy Farm, Wellcome Supermarket of Hongkong.

Store Specialists, also part of the Rustan's Group of Companies, in partnership with Ayala got the franchise to operate Family Mart of Japan in the Philippines. The combined stores of SM are the industry lead, whereas, Puregold is a strong and close second.

**Real Estate and Property Leasing**

Competition in this segment include SM Supermarkets, Savemore, Robinsons, and Waltermart for those buildings that house the Puregold Supermarkets and other tenants like Jollibee, Abenson, Lukfoo International Cuisine and others. For its specialty mall-999 Shopping mall, competitors would be 168 Mall, 1188 Mall, 568 Mall, City Place, and Tutuban Mall which are situated in Divisoria.

**Liquor Distribution**

Competition in this segment includes the distributors of Moet Hennesy, Remy Martin, and Bacardi Matini. The segment caters to the imported and premium segment of liquor and wines market. As such, the segment is not directly competing with the local brands.

**Oil & Mining**

The Company, under its oil and mining business segment, sells its produced Hydrocarbon through Consortium Operations in a market dominated by sellers, which is characterized by bottomless thirst for petroleum products. Hence, all petroleum products generated by Petroleum Operations are immediately absorbed by the market via petroleum sales contract, in this particular year, petroleum products are sold to Shell Philippines. We do not expect competition at the present and in the future time because of excessive needs and scarcity of local supply.

**Specialty Retail**

Competition for the Company's Office Warehouse, Inc. include those in technology, office and school supplies and office furniture: Silicon Valley, Villman, PCExpress, Octagon Computer Superstore, Complink, National Bookstore, Shopwise, Power Books, Fully Booked, The SM store, Robinsons Department store, Blims fine furniture, Divisoria and the Black market.

For Liquigaz Philippine Corporation, competition include those of Petron, Pryce, Petronas, Total, Shell, Isla and others.

**(5) Suppliers**

The Company has a broad range of suppliers including local and foreign.

**(6) Dependence upon Single or Few Suppliers or Customers**

**Grocery Retail**

The Grocery Retail segment believes that its business as a whole is not dependent on any single supplier. Further, the segment is not reliant on a single or few customers but to the broader buying public in general. The grocery retail segment's stores target customers who live within walking distance from its stores and those who use personal or public transport to shop. The segment 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 grocery retail segment also offers delivery services to resellers who are unable to pick up their merchandising needs from the stores.

**Liquor Distribution**

The Company serves a wide range of customers including distributors, supermarkets, hotels and restaurant chains.

**(7) Transactions with Related Parties**

The Grocery Retail business segment leases some of its store outlet buildings from its related parties in the real estate business segment. The Group pays its related parties a minimum fixed amount or is calculated in reference to a fixed sum per square meter of area leased. The terms of the lease are for periods ranging from ten to thirty-five (10 -35) years, renewable for the same period under the same terms and conditions with a rental rate escalation ranging from 1% to 7%. Rental payments are fixed amounts based on the contracts.

The Liquor segment supplies imported wines and spirits to the grocery retail business segment transacted at arms-length and at market rates/prices.

Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties. (For more detailed information please refer to the related party transactions as disclosed in the Audited Financial Statements for the Year 2015)

**(8) Trademarks**

The Company is a party to a trademark Licensing Agreement with Mr. Lucio Co, under which Mr. Co licenses the use of tradenames and trademarks related to the "Puregold" brand. The Company pays Mr. Co royalty fees of 1/20 of 1% of the Company's net sales for the use of the tradenames and trademarks. This Licensing Agreement is for a period of 30 years, and is exclusive.

Consequently, during the term of the Licensing Agreement, Mr. Co cannot license the tradenames and trademarks under this agreement except to Puregold Junior and the Licensed Affiliates. None of the tradenames and trademarks can also be transferred by Mr. Lucio Co. A list of the tradenames and trademarks subject of the Licensing Agreement is set out below.

| **TRADENAMES** | | **TRADEMARKS** | |
|---|---|---|---|
| Puregold | Puregold Jr. | Aling Puring | Puregold Junior |
| Puregold Price Club | Puregold Bulilit | Puregold | Puregold Price Club |
| Puregold Choice | Puregold Suki | Puregold Exclusives | Puregold Choice |
| Puregold Extra | Barangay Puregold | Puregold Express | Barangay Puregold |
| Puregold Jackpot | Puregold Exclusives | Puregold Jackpot | Puregold Bulilit |
| Puregold Junior | | Puregold Jr. | Puregold Suki |

**(9) Government Approvals**

The Company and its subsidiaries have obtained all permits, licenses and approvals from national and local government units and other government agencies to conduct its business operations.

**(10) Effect of existing governmental regulations**

The Company and its subsidiaries have no knowledge of recent or probable government regulation that may have material adverse effect on the business operation or financial position of the Company and its subsidiaries.

**(11) Cost and Effect of Compliance with Environmental Laws**

The Company estimates its annual cost for maintaining and renewing ECC and other environmental permits.

**(12) Employees**

As at December 31, 2015, the Company has approximately 5,806 employees. The total workforce of the Group follows:

Retail – 5,199
Liquor Distribution - 149
Real Estate – 166
Specialty Retail - 277
Parent and Mining - 15

**(13) Major risks**

**Sourcing**

Suppliers play an active role particularly in the retail industry. Supply disruptions or unreliable suppliers who fail to deliver the needs of the Company could potentially delay or fail the operations of the Company.

To mitigate this risk, the Company intends to continue transacting only with trustworthy and established business partners. Also, the Company has a wide-range of suppliers to ensure that customer needs will be delivered.

**Regulation and compliance**

The Company has compliance committee which monitors and oversees issuances or protocols from regulating bodies and ensures Company's compliance to these regulations.

As liquor is considered as health hazard when taken in excess, possible risk would be issuance of regulation like 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 its 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.

**Environment risk**

Environment risk for the Restate Estate business includes the effect of the climate change like flooding, erosion and other unforeseen calamity 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 sire 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. A company's compliance with such legislation, including health and safety laws, can involve significant 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 laws will not result in an increase in 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.

## Market Risk

### a) Competitor risk

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 major competitors considered by the Company are the SM malls, supermarkets and hypermarkets, Robinson's Supermarkets and Rustan's Supercenters. 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 fairly manageable. The Mall is strategically located in Divisoria and very accessible. The risk of low occupancy is remote. The Company maintains a group that specialize 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 own market niche and does not directly compete with the local brands.

### b) Supply risk

A supply shortage and/or 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 risk

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 their 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 pressure**

The country's economic condition and market competition are 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.

**Item 2 Properties**

The Group, under its grocery retail segment, owns the following properties:

**A. 10 owned parcels of land with a total of 33,575.57 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 1 |
| South Luzon | 8 |
| Metro Manila | 1 |
| Visayas | 0 |
| Mindanao | 0 |
| Total | 10 |

**B. 46 owned buildings with a total of 234,844.82 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 8 |
| South Luzon | 16 |
| Metro Manila | 21 |
| Visayas | 0 |
| Mindanao | 1 |
| Total | 46 |

**C. 48 leased parcels of land with a total of 244,451.82 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 8 |
| South Luzon | 17 |
| Metro Manila | 22 |
| Visayas | 0 |
| Mindanao | 1 |
| | 48 |

**D. 220 leased buildings with a total of 516,518.16 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 55 |
| South Luzon | 58 |
| Metro Manila | 95 |
| Visayas | 6 |
| Mindanao | 6 |
| | 220 |

The Group, under its real estate segment, has the following properties:

**A. Land and building with a total of 256,294 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 11 |
| South Luzon | 6 |
| Metro Manila | 11 |
| Visayas | 0 |
| Mindanao | 0 |
| | 28 |

**B. Building with a total of 12,131 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 1 |
| South Luzon | 0 |
| Metro Manila | 0 |
| Visayas | 0 |
| Mindanao | 0 |
| | 1 |

**C. Land with a total of 225,287 square meters located at the following areas:**

| | |
|---|---|
| North Luzon | 3 |
| South Luzon | 5 |
| Metro Manila | 5 |
| Visayas | 1 |
| Mindanao | 0 |
| | 14 |

**Participating Interests in Oil and Mining Exploration Assets in Philippines**

Cosco Capital, Inc. does not own any real property. However, the company has participating interests in the following petroleum and mineral exploration properties in Philippines:

1. ***Service Contract (SC) No. 14 (B1)-North Matinloc***

   Service contract No. 14 is located in 350 meters of water, approximately located offshore 60 kilometers NW 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 (4) 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 prior to 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 now 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) evaluation of the retained license area. The results are encouraging with promising plays and prospects that will be subject of further and more detailed study. 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 assessment is the addition of another prospect in the block, named; Barselisa.

5. ***Service Contract 6 (B)-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 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 (2) disjointed blocks, namely an onshore-offshore block over Northwest Leyte and a largely deepwater block in Cebu Strait, between the islands of Cebu and Bohol with an aggregate area of 444,000 hectares.

Block operator, Otto Energy, finally withdraw from the block, DOE may penalize Otto if the remaining consortium members do not accept the remaining the drilling commitment. The proposed work program that the Filipino partners are proposing will bridge the time gap prior to drilling a well. The consortium hopes that the structure which was ignored by Otto can be matured using the much cheaper gravity survey.

**Item 3 Legal Proceedings**

Neither the Company nor its subsidiaries have been involved or is involved in any governmental, legal or arbitration proceedings that may have or have had a material effect on the Company's business, financial position or profitability.

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

During the Annual Stockholders' Meeting in 2015, the following matters were submitted to a vote of security holders:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the 2014 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2014
5. Election of seven (7) directors inclusive of two (2) independent directors
6. Appointment of External Auditor
7. Amendment of 3rd Article of Articles of Incorporation and Section 3 Article II of the By-Laws of the Company
8. Other Matters
9. Adjournment

PART II OPERATIONAL AND FINANCIAL INFORMATION

Item 5 Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The table below shows the stock prices of the Company for years 2015 and 2014:

| 2015 | High | Low | 2014 | High | Low |
|---|---|---|---|---|---|
| January | 8.96 | 8.48 | January | 9.10 | 7.94 |
| February | 9.72 | 8.86 | February | 9.22 | 7.48 |
| March | 9.72 | 8.98 | March | 9.90 | 9.38 |
| April | 8.78 | 8.06 | April | 10.56 | 9.49 |
| May | 8.38 | 7.72 | May | 11.02 | 9.37 |
| June | 7.98 | 7.57 | June | 9.89 | 9.59 |
| July | 7.75 | 7.51 | July | 10.02 | 9.44 |
| August | 7.46 | 6.50 | August | 9.60 | 8.00 |
| September | 6.97 | 6.73 | September | 8.28 | 7.62 |
| October | 7.66 | 6.75 | October | 7.99 | 7.40 |
| November | 7.68 | 7.38 | November | 8.44 | 7.86 |
| December | 8.46 | 7.54 | December | 8.74 | 8.00 |

*Source: Daily Quotation Reports of the Philippine Stock Exchange*

The Company's shares of stock are traded in the Philippine Stock Exchange. As at March 31, 2016, the closing price of the Company's shares of stock is ₱7.40/share. For the three months ended March 31, 2016, stock prices of the Company were at a high of ₱7.76 and a low of ₱7.31.

## Holders

There are approximately 1,021 registered holders of common shares as of December 31, 2015 owning at least one board lot per 100 share (based on number of accounts registered with the Stock Transfer Agent).

The top 20 stockholders as at December 31, 2015 are as follows:

| TOP 20 STOCKHOLDERS AS OF DECEMBER 31, 2015 | | | |
|---|---|---|---|
| | **Stockholder Name** | **Total Shares** | **Percentage** |
| 1 | LUCIO L. CO | 2,321,568,892 | 31.43% |
| 2 | SUSAN P. CO | 1,780,182,231 | 24.10% |
| 3 | THE HSBC | 620,244,643 | 8.40% |
| 4 | ELLIMAC PRIME HOLDINGS, INC. | 244,191,238 | 3.31% |
| 5 | VFC LAND RESOURCES INC. | 220,066,929 | 2.98% |
| 6 | DEUTSCHE BANK MANILA-CLIENTS A/C | 211,047,100 | 2.86% |
| 7 | FERDINAND VINCENT P. CO | 209,557,122 | 2.84% |
| 8 | PAMELA JUSTINE P. CO | 209,535,971 | 2.84% |
| 9 | STANDARD CHARTERED BANK | 208,340,802 | 2.82% |
| 10 | ANSALDO, GODINEZ & CO., INC. | 181,971,825 | 2.46% |
| 11 | CITIBANK N.A. | 137,932,650 | 1.87% |
| 12 | CAMILLE CLARISSE P. CO | 83,295,231 | 1.13% |
| 13 | KING'S POWER SECURITIES, INC. | 79,252,825 | 1.07% |
| 14 | SB EQUITIES,INC. | 59,523,008 | 0.81% |
| 15 | SPC RESOURCES, INC. | 58,500,000 | 0.79% |
| 16 | COL Financial Group, Inc. | 54,224,394 | 0.73% |
| 17 | KMC REALTY CORPORATION | 50,832,231 | 0.69% |
| 18 | STRATEGIC EQUITIES CORP. | 43,237,790 | 0.59% |
| 19 | FIRST METRO SECURITIES BROKERAGE CORP. | 33,887,501 | 0.46% |
| 20 | BDO SECURITIES CORPORATION | 33,426,358 | 0.45% |

## Dividends

On December 18, 2015, the Parent Company's BOD approved the declaration of a regular dividend of P0.06 per share and special dividend of P0.02 per share on record date of January 8, 2016 and payment date of January 18, 2016. The total amount of dividends amounted to ₱590,873,301.

On December 18, 2014, Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to ₱0.08 per share payable to all qualified shareholders as of the record date of January 12, 2015 payable on February 5, 2015.

On June 27, 2014, the Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to ₱0.06 per share payable to all qualified shareholders as of the record date of July 11, 2014 payable on July 28, 2014.

## Securities sold

The following securities were issued as exempt from the registration requirements of the Securities Regulation Code (SRC) and therefore have not been registered with the Securities and Exchange Commission:

(1) On May 16, 2014, Cosco Capital, Inc. issued corporate notes comprised of 7-year FXCN notes and 10-year FXCN notes amounting to ₱1.0 Billion and ₱4.0 Billion, respectively. 7-year and 10-year notes will mature on the day which falls eighty four (84) months and one hundred twenty (120) months, respectively, after the date of issue thereof, and bear fixed interest rate of 5.2667% and 5.579% per annum, respectively. Interests are payable quarterly starting August 16, 2014. The corporate notes, which were issued to less than 20 entities, are considered as exempt pursuant to Section 10 (1) of RA 8799. The arranger is First Metro Investment Corporation and the total arranger's fees amounted to P17 Million.

(2) On April 12, 2013, Lucio L. Co Group and Alcorn Gold Resources Corporation (now Cosco Capital, Inc.) executed a Deed of Assignment in Payment for the Subscription wherein the Lucio L. Co Group shall subscribe to the unissued unauthorized capital stock of the Cosco, Capital, Inc. from the increase of its authorized capital stock at a subscription price of ₱15 per share for a total of 4,987,406,421 new shares at an aggregate subscription price of ₱74,811,096,315 worth of shares in Puregold Price Club, Inc. and Subsidiaries, Ellimac Prime Holdings, Inc. and Subsidiaries, Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., 118 Holdings, Inc. and Subsidiary, Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp. (collectively, the "Acquirees"), and the corresponding payment thereof by way of assignment of the shares owned by Lucio L. Co Group in the Acquirees, under the terms and conditions to be determined by the Corporation's BOD.

(3) In addition, 1,142,857,143 shares were subscribed and issued to subscribers for ₱10.50 per share for a total consideration of ₱12,000,000,001.50. The issuance of common shares was exempt from registration being issued to fewer than 20 persons in the Philippines during the 12-month period as mandated by Section 10.1 of the Securities and Regulation Code.

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

**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** | **2015** | **2014** | **2013** |
|---|---|---|---|
| Return on investment | **11.16%** | 10.94% | 10.32% |
| Profit margin | **6.00%** | 6.31% | 6.92% |
| EBITDA to interest expense | **27.37x** | 34.54:1 | 315.74:1 |
| Current ratio | **2.07:1** | 2.14:1 | 2.16:1 |
| Asset turnover | **1.25:1** | 1.20:1 | 1.09x |
| Asset to equity | **1.49:1** | 1.50:1 | 1.37:1 |
| Debt to equity ratio | **0.49:1** | 0.50:1 | 0.08:1 |

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 2015 and 2014**

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2015 and 2014.

| *(In Millions)* | 2015 | % | 2014 | % | *INCREASE (DECREASE)* | % |
|---|---|---|---|---|---|---|
| **REVENUES** | **116,752** | *100%* | 98,787 | *100%* | ***17,965*** | *18%* |
| **COST OF SALES/SERVICES** | **96,788** | *83%* | 81,499 | *83%* | ***15,289*** | *19%* |
| **GROSS PROFIT** | **19,964** | *17%* | 17,287 | *17%* | ***2,676*** | *15%* |
| **OTHER OPERATING INCOME** | **2,925** | *3%* | 2,563 | *3%* | ***362*** | *14%* |
| **GROSS OPERATING INCOME** | **22,888** | *20%* | 19,850 | *20%* | ***3,038*** | *15%* |
| **OPERATING EXPENSES** | **12,876** | *11%* | 11,130 | *11%* | ***1,745*** | *16%* |
| **INCOME FROM OPERATIONS** | **10,013** | *9%* | 8,720 | *9%* | ***1,293*** | *15%* |
| **OTHER INCOME (CHARGES)** - net | **-208** | *0%* | -31 | *0%* | ***-178*** | *579%* |
| **INCOME BEFORE INCOME TAX** | **9,804** | *8%* | 8,689 | *9%* | ***1,115*** | *13%* |
| **INCOME TAX EXPENSE** | **2,817** | *2%* | 2,454 | *2%* | ***364*** | *15%* |
| **NET INCOME FOR THE YEAR** | **6,987** | *6%* | 6,236 | *6%* | ***752*** | *12%* |
| | | | | | | |
| **Net Income Attributable to:** | | | | | | |
| Equity holders of the Parent Company | **4,491** | *4%* | 4,027 | *4%* | ***464*** | *12%* |
| Non-controlling interests | **2,497** | *2%* | 2,209 | *2%* | ***288*** | *13%* |
| | **6,987** | *6%* | 6,236 | *6%* | ***752*** | *12%* |

## Comparison of Results of Operations between 2015 and 2014

***Growth in Revenues***

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of ₱116.75 Billion for the year ended December 31, 2015 which reflects an increase by ₱17.96 Billion or representing a growth of 18% compared to last year's revenue of ₱98.79 Billion. The growth in consolidated revenues has been largely driven by a combination of the Group's sustained organic growth from its aggressive stores expansion program for its grocery retail, real estate and liquor distribution business segments as well as revenue contributions realized from the strategic acquisitions made during the period involving its commercial real estate portfolio as well as investments in specialty retailing business segment with the acquisition of Office Warehouse in February 2014 as well as Liquigaz Philippines in July 2014. During the year 2015, Liquigaz' sustained a reduction in its revenues by 37% from its 2014 level due to the effect of downward spiral of the global prices of petroleum and LPG.

***Growth in Net Income***

During the same period, the Group realized a consolidated net income of ₱6.99 Billion which is higher by ₱752 Million representing a 12% increase as compared to last year's net income of ₱6.23 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to ₱4.491 Billion in 2015 which increased by about ₱464 Million or 12% as compared to the 2014 PATMI amounting to ₱4.027 Billion.

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

*Grocery Retail Segment*

During 2015, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to ₱97.17 Billion or an increase of ₱12.47 Billion or 15% growth as compared to the segment's revenue contribution of ₱84.70 Billion in 2014 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions. Consolidated net income contribution in 2015 amounted to ₱5.00 Billion which increased by ₱481 Million or 11% as compared to the net income contribution of ₱4.52 Billion in 2014.

*Real Estate Segment*

The commercial real estate business segment contributed ₱1.85 Billion to the Group's consolidated revenue in 2015 representing a growth of about ₱452 Million or 32% as compared to last year amounting to ₱1.39 Billion. This was mainly attributable to the segment's expanded commercial mall operations with the operations of its Fairview Terraces mall as well as the acquisition of NE Pacific Mall on February 11, 2014 and additional acquisitions made during the year involving six (6) community mall properties with a GLA of 35,649 sq.m. added to its assets portfolio. Net income contribution in 2015 amounted to about ₱1.028 Billion which increased by about ₱68.74 Million or 7% as compared to the net income contribution of ₱959 Million in 2014.

*Liquor Distribution Segment*

Similarly, the liquor distribution business segment contributed about ₱4.57 Billion to the Group's consolidated revenue during the same period in 2015 representing an increase by about ₱857 Billion or 23% higher as compared to the 2014 revenue contribution of ₱3.72 Billion mainly attributable to its aggressive sales and marketing campaign. Net income contribution in 2015 amounted to about ₱659 Million which increased by ₱56 Million or 9% as compared to the net income contribution in 2014 amounting to ₱603 Million.

*Specialty Retail*

Office Warehouse, Inc., which was acquired in April 2014, contributed the amount of ₱1.30 Billion to the Group's consolidated revenue and ₱54 Million to the Group's consolidated net income during the year 2015.

On the other hand, Liquigaz Philippines Corporation, which was acquired on July 21, 2014, contributed the amount of ₱11.85 Billion to the Group's consolidated revenues and ₱455 Million to the Group's consolidated net income during 2015. It's 2015 revenues, however, decreased by 37% from its 2014 level due to the effects of the downward spiral of the global oil and gas prices sustained during the year.

## Segment Operating Highlights

**Grocery Retail**

**Net Sales**

For the year ended December 31, 2015, the Grocery Retail segment posted a consolidated net sales of P97,172 million for an increase of P12,474 million or a growth of 14.7% compared to P84,697 million in the same period of 2014. New stores put up in 2014 were fully operating in 2015 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:

| | **2015** | 2014 |
|---|---|---|
| Net Sales | **2.9%** | 3.5% |
| Net Ticket | **4.6%** | 5.4% |
| Traffic | **-1.7%** | -1.8% |

**Gross Profit**

For the year ended December 31, 2015, the Grocery Retail segment realized an increase of 11.7% in consolidated gross profit from P14,760 million in 2014 to P16,489 million in 2015 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 17.0% and 17.4% while gross income stood at 19.9% and 20.5% for the years ended December 31, 2015 and 2014, respectively.

**Other Operating Income**

Other operating income increased by P323 million or 12.6% from P2,563 million in the year ended December 31, 2014 to P2,886 million in 2015 of the same period. This is attributable to increase in display allowance, rent income, membership income and service income 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 P1,380 million or 12.7% from P10,845 million in the year ended December 31, 2014 to P12,225 million in 2015 of the same period. The increase was mainly attributable to manpower cost of the Grocery Retail segment's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to acquisitions and operation of new organic stores.

**Other Expense - net**

Other expenses net of other income amounted to P45 million and P20 million for the years ended December 31, 2015 and 2014, respectively. The increase was due to interest expenses from additional loans availed during the period.

**Net Income**

For the year ended December 31, 2015, the Grocery Retail segment earned a consolidated net income of P5,002 million at 5.1% net margin and an increase of 10.6% from P4,520 million at 5.3% net margin in 2014 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 (both organic and strategic acquisitions) complemented by operating efficiencies and strategic costs controls on operating expenses at its current level.

**Real Estate**

The Group's Real Estate Segment posted ₱2.42 Billion in revenues for the year ended December 31, 2015 or a 10% increase from ₱2.21 Billion in the previous year. The acquisition of NE Pacific Shopping Centers Corporation, the operation of Fairview Terraces Mall as well as the acquisition of six (6) community malls in 2015, expanded the Group's commercial mall portfolio and mainly contributed to the increase of the segment's revenue.

Income from operations before depreciation increased by ₱134 Million from ₱1.37 Billion of the year ended December 31, 2015.

Real Estate Segment's net income for the period amounted to ₱1.028 Billion or a 5% increase from last year's ₱975 Million brought about by growth in revenue.

**Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to ₱5.68 Billion in 2015 or 17% growth from last year's ₱4.84 Billion. The growth in revenue is attributable to the increase in sales of the spirits sector particularly brandy and whisky. Wines and specialty beverages also experienced dramatic growths in the current year and contributed to the segment's overall sales growth.

Income from operations increased to ₱919 Million in 2015 or 10% higher from last year's ₱838 Million.

Net income for the 2015 increased by ₱57 Million from ₱603 million in 2014 to ₱660 Million in 2015 or a 9% growth.

**Specialty Retail**

The Group's Specialty Retail Segment was initially established with the acquisition of100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of 59 specialty retail outlets during the current year engaged in selling school and office supplies, technology items, home/office furniture and equipment and related products

For the year ended December 31, 2015, Office Warehouse contributed the amount of ₱1.30 Billion to the Group's consolidated revenue and ₱54 Million to the Group's consolidated net income.

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

For the year ended December 31, 2015, Liquigaz contributed the amount of ₱11.85 Billion to the Group's consolidated revenues and ₱455 Million to the Group's consolidated net income. Its 2015 twelve-month year on year net income grew by 18%, as compared to its 2014 operating results.

## Consolidated Statements of Financial Position

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

| *(In Millions)* | 2015 | % | 2014 | % | *INCREASE (DECREASE)* | % |
|---|---|---|---|---|---|---|
| **A S S E T S** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | 14,541 | 15% | 15,681 | 17% | -1,140 | -7% |
| Receivables - net | 5,648 | 6% | 5,322 | 6% | 326 | 6% |
| Available-for-sale financial assets | 9 | 0% | 14 | 0% | -6 | -40% |
| Short-term investments | 562 | 1% | 824 | 1% | -262 | -32% |
| Investment in trading securities | 34 | 0% | 37 | 0% | -3 | -8% |
| Inventories | 16,741 | 17% | 13,922 | 16% | 2,819 | 20% |
| Due from related parties | 156 | 0% | 10 | 0% | 146 | 1453% |
| Prepayments and other current assets | 1,808 | 2% | 1,165 | 1% | 643 | 55% |
| | 39,499 | 40% | 36,975 | 41% | 2,524 | 7% |
| **Noncurrent Assets** | | | | | | |
| Property and equipment - net | 16,137 | 17% | 15,285 | 17% | 852 | 6% |
| Investment properties - net | 14,843 | 15% | 12,774 | 14% | 2,069 | 16% |
| Intangible assets | 22,558 | 23% | 20,895 | 23% | 1,663 | 8% |
| Investments | 989 | 1% | 912 | 1% | 77 | 8% |
| Deferred oil and mineral exploration costs | 121 | 0% | 119 | 0% | 2 | 1% |
| Deferred tax assets - net | 344 | 0% | 120 | 0% | 223 | 186% |
| Loans to related parties- noncurrent portion | | 0% | 8 | 0% | -8 | -97% |
| Other non-current assets | 3,125 | 3% | 2,609 | 3% | 516 | 20% |
| | 58,117 | 60% | 52,723 | 59% | 5,394 | 10% |
| **TOTAL ASSETS** | 97,617 | 100% | 89,699 | 100% | 7,918 | 9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | | |
| **L I A B I L I T I E S** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable and accrued expenses | 12,175 | 12% | 12,715 | 14% | -540 | -4% |
| Income tax payable | 1,076 | 1% | 830 | 1% | 246 | 30% |
| Short-term loans payable | 4,316 | 4% | 2,259 | 3% | 2,057 | 91% |
| Current portion of long-term borrowing | 570 | 1% | 1,008 | 1% | -438 | -43% |
| Trust receipts payable | 5 | 0% | - | 0% | 5 | 100% |
| Due to related parties | 457 | 0% | 43 | 0% | 415 | - |
| Other current liabilities | 442 | 0% | 409 | 0% | 33 | 8% |
| | 19,041 | 20% | 17,263 | 19% | 1,778 | 10% |
| **Noncurrent Liabilities** | | | | | | |
| Retirement benefit cost | 480 | 0% | 433 | 0% | 46 | 11% |
| Deferred tax liabilities | 759 | 1% | 754 | 1% | 5 | 1% |
| Long term loans payable - net of debt issue cost | 8,693 | 9% | 8,859 | 10% | -165 | -2% |
| Deposits for future stock subscription | 150 | 0% | 150 | 0% | - | - |
| Other non-current liabilities | 2,949 | 3% | 2,560 | 3% | 389 | 15% |
| | 13,032 | 13% | 12,757 | 14% | 275 | 2% |
| **TOTAL LIABILITIES** | 32,073 | 33% | 30,020 | 33% | 2,053 | 7% |
| **EQUITY** | | | | | | |
| Capital stock | 7,405 | 8% | 7,405 | 8% | - | - |
| Additional paid-in capital | 9,635 | 10% | 9,635 | 11% | - | - |
| Remeasurement of retirement liability - net of tax | -8 | 0% | -50 | 0% | 41 | -83% |
| Reserve for fluctuations in value of AFS financial assets | 5 | 0% | 7 | 0% | -2 | -28% |
| Treasury shares | -441 | 0% | -253 | 0% | -188 | 74% |
| Retained earnings | 29,869 | 31% | 25,926 | 29% | 3,943 | 15% |
| **Total Equity Attributable to Equity Holders of Parent Company** | 46,465 | 48% | 42,670 | 48% | 3,794 | 9% |
| **Non-controlling interest** | 19,079 | 20% | 17,008 | 19% | 2,071 | 12% |
| **TOTAL EQUITY** | 65,544 | 67% | 59,679 | 67% | 5,865 | 10% |
| **TOTAL LIABILITIES AND EQUITY** | 97,617 | 100% | 89,699 | 100% | 7,918 | 9% |

***Current Assets***

**Cash and cash equivalents** amounted to ₱14.54 Billion as at December 31, 2015 with a decrease of ₱1.14 Billion from December 31, 2014 balance or an 7% decrease due basically to the net effect of the Real estate segment's acquisitions of additional six (6) community mall properties during the current period, coupled by significant decrease in cash of the Retail Segment used in settling their trade and non-trade payables, payment of cash dividends, acquisition of seventeen (17) supermarket stores in 2015 and capital expenditures for 2015 new stores development including new QSRs outlets under the S&R portfolio.

**Short-term investments** decreased by 32% from December 31, 2014 balance of ₱824 Million to this year's balance of ₱562 Million due mainly to the matured placements made by the Real Estate segment.

**Receivables** increased by 6% from December 31, 2014 balance of ₱5.32 Billion to this year's balance of ₱5.65 Billion due mainly to the increase in sales in 2015.

**Available-for-sale financial assets** decreased by 40% from December 31, 2014 balance of ₱14 Million to this period's balance of ₱9 Million due mainly to the redemption of certain investments and the effect of changes in stock prices.

**Investment in trading securities** decreased by 8% from December 31, 2014 balance of ₱37 Million to this period's balance of ₱34 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 20% from 2015 balance of ₱13.92 Billion to this year's balance of ₱16.74 Billion due to the retail segment's expansion and additional stocking requirement of the new organic and acquired stores during the year as well as the additional stocking requirements of the liquor distribution segment preparatory to the 4$^{th}$ quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the retail segment amounting to ₱12.98 Billion.

**Prepayments and other current assets** increased by ₱643 Million or 55% at the end of December 2015, due primarily to additional input vat coming from purchase of inventory and payment of various expenses and increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** increased by ₱146 Million at the end of December 2015, due primarily to additional advances.

***Non-current Assets***

As at December 31, 2015 and 2014, total non-current assets amounted to ₱58.12 Billion or 60% of total assets, and ₱52.72 Billion or 59% of total assets, respectively, for an increase of ₱5.39 Billion or 10%.

**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 ₱852 Million from ₱15.28 Billion in December 2014 to ₱16.14 Billion in December 2015 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment during the period.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by ₱2.07 Billion or 16%

from ₱12.77 Billion in December 2014 to ₱14.84 Billion in December 2015 due principally to additional six (6) commercial mall assets acquired during the year.

**Investments** increased by ₱77 Million or 8% from ₱912 Million in December 2014 to ₱989 Million in December 2015 resulting mainly from the additional investment equity investments during the year to its unconsolidated joint venture affiliate, Ayagold Retailers and offset by the effect of share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

Similarly, **intangible assets** increased by ₱1.66 Billion or 8% in 2015 representing additional goodwill amounts paid resulting from the acquisition by the Grocery Retailing Segment of nine (9) NE supermarkets in February 2015 and eight (8) supermarket stores operating under trade name Budgetlane through Goldtempo Company, Incorporated, a wholly-owned subsidiary of Entenso Equities in August 2015.

**Deferred tax assets** increased by ₱223 Million or 186% from ₱120 Million in December 2014 to ₱344 Million in December 2015 resulting mainly from the additional deferred tax assets recognized by Specialty Retail and Real Estate Segments.

**Other non-current assets** increased by ₱516 Million from ₱2.61 Billion in December 2014 to ₱3.12 Billion in December 2015. About 45% 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 for the Grocery Retail segment as well as accrued rental income (PAS17) pertaining to future periods for both the Real Estate and the Grocery Retail segments.

***Current Liabilities***

As at December 31, 2015 and 2014, total current liabilities amounted to ₱19.0 Billion and ₱17.26 Billion respectively, for an increase of ₱1.78 Billion or 10% .

About 73% 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 ₱540 Million or 4% was primarily due to the additional purchases during by the Retail and Liquor Distribution segment partially offset by the net settlement of trade and non-trade liabilities.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by ₱246 Million from ₱830 Million as at December 2014 to ₱1.07 Billion as at December 2015 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2015 in relation to the same period in 2014.

**Short-term loans payable** account increased by ₱2.06 Billion mainly due to additional loans availed during 2015 principally by the Grocery Retail, Real Estate and Liquor Distribution segments to augment working capital requirements, offset by the payments made by Liquor Distribution and Specialty Retail Segments.

**Current portion of long term borrowing** decreased by ₱438 Million due to settlement made during the period by the Grocery Retail Segment.

**Due to related parties** increased by ₱415 Million mainly due to the additional advances made by the Real Estate segment during 2015.

**Other current liabilities** Increased by 8% from ₱409 Million as at December 31, 2014 to ₱442 Million as at December 31, 2015 relatively due to redemption of PERKS points earned by members and recognition of other income from promotions for the period by the Grocery Retail Segment and additional deposits recognized by Real Estate segment.

***Noncurrent Liabilities***

As at December 31, 2015 and 2014, total non-current liabilities amounted to ₱13.04 Billion and ₱12.76 Billion, respectively, for an increase of ₱280 Million or 2%.

**Retirement benefit cost** increased by ₱46 Million or 11% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to ₱165 Million pertains to the settlement of loan made by Oil, holding and gas, Grocery Retail and Real Estate segments.

**Other non-current liabilities**, which is primarily composed of non-current accrued rent, increased by ₱394 Million or 15% from ₱2.56 Billion as at December 31, 2014 to ₱2.95 Billion as at December 31, 2015 due to recognition of rent expense for lease contracts by the Grocery Retail segment in compliance with PAS 17 – *Leases*.

**Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

| | For the years ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| Net cash flows from (used in) operating activities | **P5,493,212,316** | P3,308,640,604 |
| Net cash flows from (used in) investing activities | **(6,872,357,680)** | (9,237,204,532) |
| Net cash flows from financing activities | **239,599,896** | 6,913,498,443 |
| Net increase in cash and cash equivalents | **P(1,139,545,468)** | P984,934,515 |

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

On the other hand, net cash flows used by investing activities mainly pertains to the funds used for strategic business acquisitions by the Grocery Retail segment and other related equity investments as well as additional capital expenditures for new stores development and acquisition by the Real Estate segment of additional commercial properties during the year.

Net cash from financing activities principally resulted from the net proceeds from the additional loans obtained by the Grocery Retail segment, Real Estate and Liquor Distributions segment during the year, and reduced by loan repayments by the Grocery Retail, Liquor Distribution, Specialty Retail segment and Parent Company as well as interest paid, dividend payments and shares buy back of shares transactions by both the Parent Company and its Grocery Retail subsidiary segment during the year.

Management believes that the current levels of internally generated operating cash flows 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.

**Comparative Years 2014 and 2013**

**Table 1: Consolidated Income Statements**

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2014 and 2013.

| *(In Millions)* | **2014** | | 2013 | | ***INCREASE (DECREASE)*** | *%* |
|---|---|---|---|---|---|---|
| **REVENUES** | **98,787** | *100%* | 48,976 | *100%* | ***49,811*** | *102%* |
| **COST OF SALES / SERVICES** | **81,775** | *83%* | 39,442 | *81%* | ***42,333*** | *107%* |
| **GROSS PROFIT** | **17,012** | *17%* | 9,534 | *19%* | ***7,477*** | *78%* |
| **OTHER OPERATING INCOME** | **2,838** | *3%* | 1,400 | *3%* | ***1,439*** | *103%* |
| **GROSS OPERATING INCOME** | **19,850** | *20%* | 10,934 | *22%* | ***8,916*** | *82%* |
| **OPERATING EXPENSES** | **11,198** | *11%* | 5,830 | *12%* | ***5,368*** | *92%* |
| **INCOME FROM OPERATIONS** | **8,652** | *9%* | 5,104 | *10%* | ***3,548*** | *70%* |
| **OTHER INCOME (CHARGES)** – net | **37** | *0%* | -21 | *0%* | ***58*** | *274%* |
| **INCOME BEFORE INCOME TAX** | **8,689** | *9%* | 5,082 | *10%* | ***3,607*** | *71%* |
| **INCOME TAX EXPENSE** | **2,453** | *2%* | 1,351 | *3%* | ***1,102*** | *82%* |
| **NET INCOME** | **6,236** | *6%* | 3,731 | *8%* | ***2,504*** | *67%* |
| **Income Attributable to:** | | | | | | |
| Equity holders of the Parent Company | **4,027** | *4%* | **2,483** | *5%* | ***1,544*** | *62%* |
| Non-controlling interests | **2,209** | *2%* | **1,248** | *3%* | ***960*** | *77%* |
| | **6,236** | *6%* | **3,731** | *8%* | ***2,504*** | *67%* |

The observable out-of-range fluctuations between the 2014 and 2013 consolidated figures are mainly attributable to the relative effectivity dates of the consolidation of the acquired subsidiaries through the share swap transaction in June 2013 whereby the consolidated operating results for 2013 comparative period included only the operating results of the subsidiaries starting the month of June 2013 only whereas the Group's consolidated operating results for the current 2014 period included the operations of the subject subsidiaries from January to December 2014 together with the new acquired subsidiaries in 2014 from the effectivity dates of their respective acquisitions. **(Please see Table 2 below).**

**Table 2 – Pro-forma Consolidated Income Statements**

To enhance comparability and analysis of operating results between two periods, a set of pro-forma consolidated Income Statements are presented below together with additional applicable management discussion and analysis by way of supplemental disclosures pursuant to SRC Rule 68:

| *(In Millions)* | 2014 | % | 2013 | % | *INCREASE (DECREASE)* | % |
|---|---|---|---|---|---|---|
| **REVENUES** | 110,322 | *100%* | 96,683 | *100%* | ***13,640*** | *14%* |
| **COST OF SALES/SERVICES** | 92,335 | *84%* | 81,068 | *84%* | ***11,267*** | *14%* |
| **GROSS PROFIT** | 17,987 | *16%* | 15,614 | *16%* | ***2,373*** | *15%* |
| **OTHER OPERATING INCOME** | 2,931 | *3%* | 2,226 | *2%* | ***705*** | *32%* |
| | 20,918 | *19%* | 17,840 | *18%* | ***3,078*** | *17%* |
| **OPERATING EXPENSES** | 11,964 | *11%* | 10,246 | *11%* | ***1,718*** | *17%* |
| **INCOME FROM OPERATIONS** | 8,954 | *8%* | 7,594 | *8%* | ***1,360*** | *18%* |
| **OTHER INCOME** - net | 160 | *0%* | 230 | *0%* | ***-70*** | *-30%* |
| **INCOME BEFORE INCOME TAX** | 9,114 | *8%* | 7,824 | *8%* | ***1,290*** | *16%* |
| **INCOME TAX EXPENSE** | 2,593 | *2%* | 2,213 | *2%* | ***380*** | *17%* |
| **NET INCOME FOR THE YEAR** | 6,522 | *6%* | 5,612 | *6%* | ***910*** | *16%* |
| **Net Income Attributable to:** | | | | | | |
| Equity holders of the Parent Company | 4,307 | *4%* | 3,662 | *4%* | ***645*** | *18%* |
| Non-controlling interests | 2,215 | *2%* | 1,950 | *2%* | ***265*** | *14%* |
| | 6,522 | *6%* | 5,612 | *6%* | ***910*** | *16%* |

In the above Pro-forma Consolidated Income Statements, the operating results for the twelve months period ended December 31, 2014 of the three (3) subsidiaries acquired in 2014 are included in the pro-forma statements (together with their corresponding 2013 twelve-month comparative operating results) on the basic assumption as if the acquisition of these consolidated subsidiaries acquired by purchase became effective on January 1, 2013.

Thus, on a pro-forma basis, the Group's consolidated revenues for the 12-months period ended December 31, 2014 would amount to ₱110.32 Billion for an increase by ₱13.65 Billion or a year-on year growth of 14% as compared to the same period in 2013. Consequently, the Group's consolidated net income would amount to ₱6.52 Billion reflecting an increase by ₱910 Million or a year-on-year growth of 16% as compared to the net income of the same period last year.

## Comparison of Results of Operations between 2014 and 2013

***Growth in Revenues***

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of ₱98.79 Billion for the year ended December 31, 2014 which reflects an increase of ₱49.82 Billion or representing a growth of 102% compared to last year's revenue of ₱48.98 Billion. The growth in consolidated revenues has been largely driven by a combination of the Group's sustained organic growth from its aggressive stores expansion program for its grocery retail, real estate and liquor distribution business segments as well as revenue contributions realized from the strategic acquisitions made during the period involving its commercial real estate portfolio as well as investments in specialty retailing business segment with the acquisition of Office Warehouse in February 2014 as well as Liquigaz Philippines in July 2014.

***Growth in Net Income***

During the same period, the Group realized a consolidated net income of ₱6.23 Billion which is higher by ₱2.50 Billion representing a 67% increase as compared to last year's net income of ₱3.73 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to ₱4.027 Billion in 2014 which increased by about ₱1.54 Billion or 62% as compared to the 2013 PATMI amounting to ₱2.48 Billion.

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

*Grocery Retail Segment*

During 2014, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to ₱84.70 Billion or an increase of ₱38.67 Billion or 84% growth as compared to the segment's revenue contribution of ₱46.02 Billion last year brought about by its continued aggressive stores expansion program. Consolidated net income contribution in 2014 amounted to ₱4.52 Billion which increased by ₱1.97 Billion or 77% as compared to the net income contribution of ₱2.55 Billion in 2013.

*Real Estate Segment*

The commercial real estate business segment contributed ₱1.39 Billion to the Group's consolidated revenue in 2014 representing a growth of about ₱271 Million or 24% as compared to last year amounting to ₱1.12 Billion. This was mainly attributable to the segment's expanded commercial mall operations with the operations of its Fairview Terraces mall as well as the acquisition of NE Pacific Mall on February 11, 2014. Net income contribution in 2014 amounted to about ₱959 Million which increased by about ₱396 Million or 70% as compared to the net income contribution of ₱563 Million in 2013.

*Liquor Distribution Segment*

Similarly, the liquor distribution business segment contributed about ₱3.72 Billion to the Group's consolidated revenue during the same period in 2014 representing an increase by about ₱1.89 Billion or 104% higher as compared to the 2013 revenue contribution of ₱1.82 Billion mainly attributable to its aggressive sales and marketing campaign. Net income contribution in 2014 amounted to about ₱603 Million which increased by ₱10 Million or 2% as compared to the net income contribution in 2013 amounting to ₱594 Million.

*Specialty Retail*

Office Warehouse, Inc., which was acquired in April 2014, contributed the amount of ₱820 Million to the Group's consolidated revenue and ₱5 Million to the Group's consolidated net income during the 8-months period ending December 31, 2014.

On the other hand, Liquigaz Philippines Corporation, which was recently acquired on July 21, 2014, contributed the amount of ₱7.91 Billion to the Group's consolidated revenues and ₱126 Million to the Group's consolidated net income during the 5-months period ending December 31, 2014.

## Segment Operating Highlights

**Grocery Retail**

***Net Sales***

For the year ended December 31, 2014, the Retail segment posted a consolidated net sales of ₱84,697 million for an increase of ₱11,520 million or 15.7% compared to ₱73,177 million in 2013. New stores put up in 2013 were fully operating in 2014 increasing consolidated net sales in addition to robust like for like stores sales growth for the year ended December 2014. Consolidated like for like sales performance indicators of the Retail segment for the years ended December 31 are as follow:

| | **2014** | 2013 |
|---|---|---|
| Net Sales | **3.5%** | 2.8% |
| Net Ticket | **5.4%** | 4.7% |
| Traffic | **-1.8%** | -1.8% |

***Gross Profit***

For the year ended December 31, 2014, the Retail segment realized an increase of 14.1% in consolidated gross profit from ₱12,699 million in 2013 to ₱14,484 million in 2014, driven by strong sales growth from new and old stores and continuous suppliers' support through rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 17.1% and 17.4% for the years ended December 2014 and 2013, respectively.

***Other Operating Income***

Other operating income increased by ₱634 million or 28.8% from ₱2,204 million in December 2013 to ₱2,838 million in 2014. This is attributable to increase in concession income, display allowance, rent income, membership income and service income 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***

Consolidated operating expenses expanded by 14.8% from ₱9,449 million in 2013 to ₱10,845 million in 2014 resulting from the Retail segment's store expansion. Major expenses linking to store operations such as manpower cost, rent, utilities, depreciation and taxes increased, but total operating expenses maintain a 12.8% and 12.9% share in relation to consolidated net sales in 2014 and 2013, respectively.

***Other Income (Expense) - net***

Other income net of other expenses decreased by ₱142 million or 116.1% for the year ended December 2014 compared to previous year. This was due to the absence of the one-time interest income recognized in 2013 coming from the short-term investment of the proceeds from the ₱5 billion corporate notes issued by the Parent Company. The same notes were pre-terminated and paid in full in April of 2013 due to the changes in the applicable taxation rules.

***Net Income***

For the year ended December 31, 2014, the Retail segment posted a consolidated net income of ₱4,520 million at 5.3% net margin and an increase of 14.2% from ₱3,959 million at 5.4% net margin in 2013. This was due to the continuous expansion of the Group and combined management effort to boost revenue driven from old stores. On a recurring basis, normalized net income after tax would have increased by ₱695 million or 18.2% at 5.3% and 5.2% net margin for the years ended December 31, 2014 and 2013, respectively. In previous year, the Retail segment recognized a one-time interest income coming from the short-term investment of the proceeds from the ₱5 billion corporate notes issued by the Parent Company. The same notes were pre-terminated and paid in full in April of 2013 due to the changes in the applicable taxation rules.

**Real Estate**

The Group's Real Estate Segment posted ₱2.21 Billion revenue for the years ended December 31, 2014 or a 3% increase from ₱2.15 Billion in the previous year. The acquisition of NE Pacific Shopping Centers Corporation and the opening of Fairview Terraces Mall expanded the Group's commercial mall portfolio and mainly contributed to the increase of the segment's revenue.

Income from operations before depreciation increased by ₱535 Million from ₱854 Million of the year ended December 31, 2013.

Real Estate Segment's net income for the period amounted to ₱975 Million or a 21% increase from last year's ₱453 Million brought about by growth in revenue and decrease in operating expenses, income tax expense and interest expenses.

**Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to ₱4.84 Billion in 2014 or 36% growth from last year's ₱3.56 Billion. The growth in revenue is attributable to the increase in sales of the spirits sector particularly whisky and brandy. Wines and specialty beverages also experienced dramatic growths in the current year and contributed to the segment's overall sales growth.

Income from operations increased to ₱886 Million in 2014 or 13% higher from last year's ₱787 Million.

Net income for the 2014 period increased by ₱64 Million from ₱539 million in 2013 to ₱603 Million in 2014 or a 12% growth.

**Specialty Retail**

The Group's Specialty Retail Segment was initially established with the acquisition of100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of 47 specialty retail outlets engaged in selling school and office supplies, technology items, home/office furniture and equipment and related products

For the year ended December 31, 2014, Office Warehouse contributed the amount of ₱820 Million to the Group's consolidated revenue and ₱5 Million to the Group's consolidated net income.

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

For the year ended December 31, 2014, Liquigaz contributed the amount of ₱7.91 Billion to the Group's consolidated revenues and ₱126 Million to the Group's consolidated net income. However, the Company's 2014 twelve-month year on year revenue and net income grew by 4% and 61% respectively, as compared to its 2013 operating results.

**Table 3: Consolidated Statements of Financial Position**

Shown below is the consolidated financial position of the Group:

| *(In Million)* | 2014 | % | 2013 | % | *INCREASE (DECREASE)* | % |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | 15,377 | *17%* | 14,744 | *20%* | *633* | *4%* |
| Receivables – net | 5,342 | *6%* | 2,819 | *4%* | *2,523* | *89%* |
| Investments in trading securities | 37 | *0%* | 29 | *0%* | *9* | *30%* |
| Available-for-sale financial assets | 14 | *0%* | 11 | *0%* | *3* | *25%* |
| Short-term investments | 1,128 | *1%* | 500 | *1%* | *628* | *126%* |
| Inventories | 13,922 | *16%* | 10,355 | *14%* | *3,567* | *34%* |
| Due from related parties | 10 | *0%* | - | *0%* | *10* | *100%* |
| Prepaid expenses and other current assets | 1,165 | *1%* | 1,703 | *2%* | *-538* | *-32%* |
| | 36,995 | *41%* | 30,161 | *40%* | *6,834* | *23%* |
| **Noncurrent Assets** | | | | | | |
| Property and equipment – net | 15,285 | *17%* | 13,481 | *18%* | *1,804* | *13%* |
| Investment properties – net | 12,774 | *14%* | 11,672 | *16%* | *1,102* | *9%* |
| Intangible assets | 20,895 | *23%* | 18,001 | *24%* | *2,894* | *16%* |
| Investments | 912 | *1%* | 440 | *1%* | *472* | *107%* |
| Deferred oil and mineral exploration costs | 119 | *0%* | 119 | *0%* | | *0%* |
| Loans to related parties-net of current portion | 8 | *0%* | - | *0%* | *8* | *100%* |
| Deferred tax assets - net | 121 | *0%* | 53 | *0%* | *68* | *128%* |
| Other non-current assets | 2,609 | *3%* | 1,196 | *2%* | *1,413* | *118%* |
| | 52,723 | *59%* | 44,961 | *60%* | *7,762* | *17%* |
| **TOTAL ASSETS** | 89,718 | *100%* | 75,122 | *100%* | *14,596* | *19%* |
| | | | | | | |
| **LIABILITIES AND EQUITY** | | | | | | |
| **LIABILITIES** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable and accrued expenses | 12,206 | *40%* | 11,156 | *55%* | *1,051* | *9%* |
| Income tax payable | 830 | *3%* | 735 | *4%* | *95* | *13%* |
| Short-term loans payable | 2,259 | *7%* | 1,212 | *6%* | *1,047* | *86%* |
| Current portion of long-term borrowing | 1,008 | *3%* | - | *0%* | *1,008* | *100%* |
| Trust receipts payable | - | *0%* | 17 | *0%* | *-17* | *-100%* |
| Due to related parties | 43 | *0%* | 48 | *0%* | *-6* | *-12%* |
| Dividends payable | 529 | *2%* | 407 | *2%* | *122* | *30%* |
| Other current liabilities | 409 | *1%* | 414 | *2%* | *-5* | *-1%* |
| | 17,283 | *57%* | 13,988 | *69%* | *3,295* | *24%* |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Noncurrent Liabilities** | | | | | | |
| Retirement benefit cost | 433 | 1% | 293 | 1% | 140 | 48% |
| Deposits for future stock subscription | 150 | 0% | - | 0% | 150 | 100% |
| Deferred tax liabilities | 1,265 | 4% | 939 | 5% | 326 | 35% |
| Long-term loans payable - net of debt issue costs | 8,859 | 29% | 3,452 | 17% | 5,407 | 157% |
| Other non-current liabilities | 2,560 | 8% | 1,620 | 8% | 941 | 58% |
| | 13,268 | 43% | 6,303 | 31% | 6,964 | 110% |
| **TOTAL LIABILITIES** | 30,550 | 100% | 20,291 | 100% | 10,259 | 51% |
| | | | | | | |
| **EQUITY** | | | | | | |
| Capital stock | 7,405 | 13% | 7,405 | 14% | - | 0% |
| Additional paid-in capital | 9,635 | 16% | 9,635 | 18% | - | 0% |
| Remeasurements of retirement liability - net of tax | -49 | 0% | -3 | 0% | -47 | 1846% |
| Reserve for fluctuations in value of AFS financial assets | -504 | -1% | 5 | 0% | -508 | -11133% |
| Retained earnings | 25,925 | 44% | 23,040 | 42% | 2,885 | 13% |
| **Total Equity Attributable to Equity Holders of Parent Company** | 42,412 | 72% | 40,082 | 73% | 2,330 | 6% |
| **Treasury stock** | -253 | 0% | -245 | 0% | -8 | 3% |
| | 42,160 | | 39,837 | | 2,323 | 6% |
| **Non-controlling interest** | 17,008 | 29% | 14,994 | 27% | 2,015 | 13% |
| | 59,168 | 100% | 54,831 | 100% | 4,337 | 8% |
| **TOTAL LIABILITIES AND EQUITY** | 89,718 | | 75,122 | | 14,596 | 19% |

Similarly, the observable out-of-range fluctuations between the 2014 and 2013 consolidated figures are mainly attributable to the relative effectivity dates of the consolidation of the acquired subsidiaries by purchase in 2014 and the effect of subsidiaries acquired through share swap transaction in June 2013 whereby the consolidated assets and liabilities for 2013 comparative period included only the balances of the subsidiaries starting the month of June 2013 only whereas the Group's consolidated assets and liabilities for the current year 2014 included the balances of the subject subsidiaries from January to December 2014 together with the new acquired subsidiaries in 2014 from the effectivity dates of their respective acquisitions. (Please see Table 4 below)

**Table 4 – Pro-forma Consolidated Statements of Financial Position**

To enhance comparability and analysis of financial position between two periods, a set of pro-forma consolidated Statements of Financial Position are presented below together with additional applicable management discussion and analysis by way of supplemental disclosures pursuant to SRC Rule 68:

| *(In Millions)* | **2014** | *%* | 2013 | *%* | ***INCREASE (DECREASE)*** | *%* |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | **15,377** | ***17%*** | 9,151 | *12%* | **6,225** | ***68%*** |
| Receivables - net | **5,347** | ***6%*** | 4,740 | *6%* | **608** | ***13%*** |
| Investments in trading securities | **37** | ***0%*** | 29 | *0%* | **9** | ***30%*** |
| Available-for-sale financial assets | **18** | ***0%*** | 11 | *0%* | **7** | ***58%*** |
| Short-term investments | **1,128** | ***1%*** | 500 | *1%* | **628** | ***126%*** |
| Inventories | **13,922** | ***15%*** | 11,921 | *15%* | **2,001** | ***17%*** |
| Due from related parties | **1** | ***0%*** | - | *0%* | **1** | ***100%*** |
| Prepayments and other current assets | **1,165** | ***1%*** | 2,078 | *3%* | **-913** | ***-44%*** |
| | **36,996** | ***41%*** | 28,430 | *36%* | **8,566** | ***30%*** |
| **NON-CURRENT ASSETS** | | | | | | |
| **Non-current Assets** | | | | | | |
| Property and equipment - net | **15,285** | ***17%*** | 14,700 | *19%* | ***585*** | ***4%*** |
| Investment properties - net | **12,774** | ***14%*** | 12,673 | *16%* | ***101*** | ***1%*** |
| Intangible assets | **21,438** | ***24%*** | 21,418 | *27%* | ***21*** | ***0%*** |
| Investments | **933** | ***1%*** | 596 | *1%* | ***337*** | ***57%*** |
| Deferred oil and mineral exploration costs | **119** | ***0%*** | 119 | *0%* | | ***0%*** |
| Loans to related parties-net of current portion | **8** | ***0%*** | - | *0%* | ***8*** | ***100%*** |
| Deferred tax assets - net | **121** | ***0%*** | 137 | *0%* | ***-16*** | ***-12%*** |
| Other non-current assets | **2,609** | ***3%*** | 1,254 | *2%* | ***1,356*** | ***108%*** |
| | **53,288** | ***59%*** | 50,896 | *64%* | ***2,391*** | ***5%*** |
| **TOTAL ASSETS** | **90,283** | ***100%*** | 79,326 | *100%* | ***10,957*** | ***14%*** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | | | |
| **L I A B I L I T I E S** | | | | | | |
| **Current Liabilities** | | | | | | |
| Accounts payable and accrued expenses | **11,817** | *39%* | 11,615 | *48%* | ***202*** | ***2%*** |
| Income tax payable | **830** | *3%* | 693 | *3%* | ***136*** | ***20%*** |
| Short-term loans payable | **2,259** | *7%* | 1,902 | *8%* | ***357*** | ***19%*** |
| Current portion of long-term borrowing | **1,008** | *3%* | - | *0%* | ***1,008*** | ***100%*** |
| Trust receipts payable | - | *0%* | 17 | *0%* | ***-17*** | ***-100%*** |
| Due to related parties | **43** | *0%* | 2,515 | *10%* | ***-2,473*** | ***-98%*** |
| Dividends payable | **935** | *3%* | 407 | *2%* | ***529*** | ***130%*** |
| Other current liabilities | **409** | *1%* | 414 | *2%* | ***-5*** | ***-1%*** |
| | **17,300** | *57%* | 17,562 | *73%* | ***-262*** | ***-1%*** |
| **Non-current Liabilities** | | | | | | |
| Retirement benefit cost | **433** | *1%* | 319 | *1%* | ***114*** | ***36%*** |
| Deposits for future stock subscription | **150** | *0%* | 150 | *1%* | - | ***0%*** |
| Deferred tax liabilities | **1,265** | *4%* | 939 | *4%* | ***326*** | ***35%*** |
| Long-term loans payable - net of debt issue costs | **8,859** | *29%* | 3,520 | *15%* | ***5,339*** | ***152%*** |
| Other non-current liabilities | **2,560** | *8%* | 1,694 | *7%* | ***867*** | ***51%*** |
| | **13,268** | *43%* | 6,621 | *27%* | ***6,646*** | ***100%*** |
| **TOTAL LIABILITIES** | **30,567** | *100%* | 24,183 | *100%* | ***6,384*** | ***26%*** |
| | | | | | | |
| **EQUITY** | | | | | | |
| Capital stock | **7,405** | *12%* | 7,405 | *13%* | - | ***0%*** |
| Additional paid-in capital | **9,635** | *16%* | 9,635 | *17%* | - | ***0%*** |
| Reserve for retirement plan - net of tax | - | *0%* | -3 | *0%* | ***3*** | ***-100%*** |
| Remeasurements of retirement benefit obligation | **-49** | *0%* | -8 | *0%* | ***-41*** | ***481%*** |
| Reserve for fluctuations in value of AFS financial assets | **-504** | *-1%* | 5 | *0%* | ***-508*** | ***11133%*** |
| Retained earnings | **28,477** | *48%* | 23,360 | *42%* | ***5,117*** | ***22%*** |
| **Total Equity Attributable to Equity Holders of Parent Company** | **44,964** | *75%* | 40,394 | *73%* | ***4,571*** | ***11%*** |
| **Treasury shares** | **-253** | | -245 | *0%* | ***-8*** | ***3%*** |
| | **44,712** | | 40,149 | | ***4,563*** | ***11%*** |
| **Non-controlling interest** | **15,004** | *25%* | 14,994 | *27%* | ***10*** | ***0%*** |
| | **59,716** | *100%* | 55,143 | *100%* | ***4,573*** | ***8%*** |
| **TOTAL LIABILITIES AND EQUITY** | **90,283** | | 79,326 | | ***10,957*** | ***14%*** |

***Current Assets***

Cash and cash equivalents amounted to ₱15.38 Billion as at December 31, 2014 with an increase of ₱6.22 Billion from December 31, 2013 balance or an 68% increase due basically to the net effect of the Parent Company's new strategic business acquisitions during the current period, coupled by significant increase in cash of the Retail Segment which is attributable to cash generated from operating activities offset by payment of trade liabilities, payment of 2013 cash dividends and capital expenditure for new stores expansion in 2014. However, the Group's funding position was reinforced by the Parent Company's successful issuance of a P5-Billion long-term corporate notes facility sometime in May 2014.

Short-term investments increased by 126% from December 31, 2013 balance of ₱500 Million to this year's balance of ₱1.13 Billion due mainly to the additional placements made by the Real estate segment and Parent and Oil segment, partially offset by the amount of Retail segment's placement that matured in 2014.

Receivables increased by 13% from December 31, 2013 balance of ₱4.74 Billion to this year's balance of ₱5.35 Billion due mainly to the increase in sales in 2014.

Inventories increased by 17% from 2013 balance of ₱11.92 Billion to this year's balance of ₱13.92 Billion due to the retail segment's expansion and additional stocking requirement of the new and existing stores as well as the additional stocking requirements of the liquor distribution segment preparatory to the 4$^{th}$ quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the retail segment amounting to ₱11.17 Billion.

Prepayments and other current assets decreased by ₱913 Million or 44% at the end of December 2014, due primarily to application of input vat against output vat payable.

***Non-current Assets***

As at December 31, 2014 and 2013, total non-current assets amounted to ₱53.29 Billion or 59% of total assets, and ₱50.90 Billion or 64% of total assets, respectively, for an increase of ₱2.4 Billion or 5%.

Property and equipment pertains to the buildings and equipment mostly owned by the Retail segment. Book values of property and equipment increased by ₱585 Million from ₱14.7 Billion in December 2013 to ₱15.28 Billion in December 2014 due principally to additional capital expenditures incurred by the Retail Segment for the development and establishment of new stores.

Investment properties pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of property and equipment increased by ₱101 Million or 1% from ₱12.67 Billion in December 2013 to ₱12.77 Billion in December 2014 due principally to the additional commercial mall assets.

Investments increased by ₱337 Million or 57% from ₱596 Million in December 2013 to ₱933 Million in December 2014. This was due mainly to equity investments made by the Retail Segment in June 2014, into a joint venture company with Lawson Asia Pacific Holdings PTE. LTD. and Lawson, Inc. to pursue the establishment and operations of convenient stores in the Philippines.

Other non-current assets increased by ₱1.36 Billion from ₱1.25 Billion in December 2013 to ₱2.61 Billion in December 2014. About 48% of these assets are attributable to the 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 for the Retail Segment as well as accrued rental income (PAS17) pertaining to future periods for both the Real Estate and the Retail Segments.

***Current Liabilities***

As at December 31, 2014 and 2013, total current liabilities amounted to ₱17.3 Billion and ₱17.56 Billion respectively, for a decrease of ₱262 Million or 1%.

About 79% of accounts payable and accrued expenses pertains to the trade payable to suppliers by the Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate segment and suppliers of Liquor Distribution. The increase by ₱202 Million or 2% was primarily due to the additional purchases during by the Retail and Liquor Distribution segment partially offset by the net settlement of trade and non-trade liabilities.

Significant portion of the income tax payable pertains to that of the Retail Segment. The increase by ₱136 Million from ₱693 Million as at December 2013 to ₱830 Million as at December 2014 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2014 in relation to the same period in 2013.

Trust receipts payable decreased by ₱17 million due to settlement made on all outstanding liabilities for purchases made for goods covered under the trust receipts agreement by the Retail segment.

Short-term loans payable account increased by ₱357 Million mainly due to additional loans availed during 2014 principally by the Real Estate segment to refinance outstanding working capital loans and advances.

Current portion of long term borrowing net of debt issue cost increased by ₱1.0 Billion due to reclassification of long-term loans of Retail segment and loans of Parent and Mining segment that falls due within 1 year.

Due to related parties decreased by ₱2.47 Billion or 98% mainly due to the settlement made by the Specialty retail segment during 2014.

Dividends payable increased by ₱529 Million or 130% mainly due to the dividends declared during 2014 by the Parent Company and Retail segment.

***Noncurrent Liabilities***

As at December 31, 2014 and 2013, total non-current liabilities amounted to ₱13.27 Billion and ₱6.3 Billion, respectively, for an increase of ₱6.65 Billion or 100% significantly attributable to the issuance by the Parent Company of the ₱5.0 Billion corporate notes facility in May 2014.

About 91% of the retirement benefits liability pertains mostly to the Retail segment. The increase was due to recognition of obligation incurred based on the latest independent actuarial report in accordance with PAS 19 – *Employee Benefits.*

The movement of long-term loans payable - net of debt issue costs pertains to the availment of ₱5 Billion corporate notes by the Parent Company in May 2014 decreased by the reclassification of ₱962.3 Million current maturing long term loan of the Retail segment to current liabilities.

Deferred tax liabilities increased by ₱326 Million or 35% mainly due to the increase in accrued rent income.

Other non-current liabilities, which is primarily composed of non-current accrued rent, increased by ₱867 Million or 51% from ₱1.69 Billion as at December 31, 2013 to ₱2.3 billion as at December 31, 2014 due to recognition of rent expense for lease contracts entered into by the Group and its subsidiaries in compliance with PAS 17 – *Leases*.

**Source and Use of Cash**

A brief summary of cash flow movements is shown below:

| | For the years ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| Net cash flows from (used in) operating activities | **3,308,640,604** | 4,642,801,273 |
| Net cash flows from (used in) investing activities | **(9,237,204,532)** | (484,169,663) |
| Net cash flows from financing activities | **6,913,498,443** | 9,587,660,354 |
| Net increase in cash and cash equivalents | **984,934,515** | 13,745,444,588 |

Net cash used from operating activities during the current period amounting to ₱3.31 Billion is basically attributable to the net effect of the cash generated from the operation.

On the other hand, net cash flows used in investing activities mainly pertains to the funds used in strategic business acquisitions by the Parent Company and other related equity investments, affected by the additional capital expenditures for new stores development and expansion made by the Retail Segment during the year.

Net cash inflows from financing activities principally resulted from the net proceeds of ₱5 Billion from corporate notes obtained by the Parent Company and the Real Estate segment reduced by the payments made to loan borrowings and finance costs, the effect of consolidation of a newly-acquired subsidiaries and reduced by loan repayments by the Retail segment as well as finance costs paid during the year.

Management believes that the current levels of internally generated funds and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities.

**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 unusual transactions during the year. However, there are material changes in the financial statements caused by the consolidation of 12 companies as effect of the subscription agreement entered on April 16, 2013. Details of changes are discussed as follows:

On April 12, 2013, Lucio L. Co Group and Alcorn Gold Resources Corporation (now Cosco Capital, Inc.) executed a Deed of Assignment in Payment for the Subscription wherein the Lucio L. Co Group shall subscribe to the unissued unauthorized capital stock of the Cosco, Capital, Inc. from the increase of its authorized capital stock at a subscription price of ₱15 per share for a total of 4,987,406,421 new shares at an aggregate subscription price of

₱74,811,096,315 worth of shares in Puregold Price Club, Inc. and Subsidiaries, Ellimac Prime Holdings, Inc. and Subsidiaries, Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., 118 Holdings, Inc. and Subsidiary, Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp. (collectively, the "Acquirees"), and the corresponding payment thereof by way of assignment of the shares owned by Lucio L. Co Group in the Acquirees, under the terms and conditions to be determined by the Corporation's BOD.

In addition, 1,142,857,143 shares were subscribed and issued to subscribers for ₱10.50 per share for a total consideration of ₱12,000,000,001.50 after meeting all the closing conditions.

For the purpose of this Deed, Listing Date of the Swap Shares shall mean the day that the Swap Share are listed in, and can commence trading at the PSE.

As the above transaction is effective as of May 30, 2013 or the date of the listing as provided in the Subscription Agreement dated April 12, 2013, the company as a conglomerate with a consolidation of the results of operations from 12 companies took effect only on June 1, 2013.

On July 8, 2013, the Retail segment entered into a joint venture agreement with Varejo Corp., an entity engaged in operations of small convenience stores to incorporate new company, AyaGold Retailers, Inc. (AyaGold) for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as both parties may agree. AyaGold was incorporated in the Philippines On July 8, 2013 and is expected to start operations in 2015.

On February 11, 2014, the Board of Directors approved the acquisition of NE Pacific Shopping Centers Corporation. Ownership was transferred on February 28, 2014.

Cosco Capital, Inc. finalized the acquisition of the outstanding shares of Office Warehouse, Inc. pursuant to agreement to purchase signed on February 18, 2014. Office Warehouse, Inc. is a retailer of office and school supplies with 47 stores.

On May 16, 2014, Cosco Capital, Inc. entered into a ₱5 Billion Corporate Notes Facility Agreement with syndicate of institutional lenders composed of banks and insurance companies. The facility consists of seven (7) year and ten (10) year notes. The funds will be used for strategic acquisition and general corporate notes.

On June 11, 2014, Cosco Capital, Inc. and its subsidiary, Alcorn Petroleum and Mining Corporation entered into Deed of Assignment of rights and interest over Service Contracts including transfer of assets, privilege duties and obligations.

On July 21. 2014, Canaria Holdings Corporation, a Philippine registered corporation which is owned 90% by Cosco Capital, Inc. entered into a Deed of Assignment with PR Gaz, Inc. for the acquisition of 100% equity of Liquigaz Philippines involving a total consideration of about ₱3.456 Billion.

On June 12, 2014, Puregold entered into a joint venture agreement with Lawson Asia Pacific Holdings PTE. LTD. And Lawson, Inc. (Lawson) both engaged in the operation of convenience store in Japan and other Asian countries, to establish a Joint Venture company that will operate convenience store in the Philippines.

On June 27, 2014, the Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to ₱0.06 per share payable to all qualified shareholders as of the record date of July 11, 2014 payable on July 28, 2014.

On December 18, 2014, Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to ₱0.08 per share payable to all qualified shareholders as of the record date of January 12, 2015 payable on February 5, 2015.

**In addition, the following significant events had transpired in 2015:**

On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30 million shares within one year from the approval or until November 4, 2015. On November 2, 2015, the Parent Company renewed its authority to buy back its shares for another one year. As at December 31, 2015 and 2014, the Parent Company already bought back 19,347,300 and 472,200 shares with acquisition cost of P158,006,227 and P3,963,490, respectively and was classified in the Parent Company's book as treasury shares.

On December 18, 2015, the Company's BOD approved the declaration of a regular dividend of P0.06 per share and special dividend of P0.02 per share on record date of January 8, 2016 and payment date of January 18, 2016. The total amount of dividends amounted to P590,873,301.

On August 12, 2015, the Parent Company, through wholly-owned subsidiary, Ellimac Prime Holdings, Inc. acquired Maunlad mall situated at Malolos Bulacan.

On August 6, 2015, Puregold Price Club, through wholly-owned subsidiary Entenso Equities and Goldtempo Company, Inc., acquired eight (8) supermarket stores operating under trade name Budgetlane. Mainly located in Metro Manila and Luzon: one in Pasig City, two in Antipolo City, two in Rizal, two in Laguna and one in Batangas.

On August 5, 2015, the Parent Company, through wholly-owned subsidiary, Ellimac Prime Holdings, Inc. acquired RFC mall located along Alabang, Zapote, Las Pinas City.

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 its wholly-owned subsidiary, Alcorn Petroleum and Minerals Corporation (APMC). APMC hereby assumes the responsibility and work commitments on the service contracts.

On February 3, 2015, Puregold Price Club, Inc. acquired the chain of nine (9) supermarkets from NE Incorporated. These supermarkets are located mainly in Central and North Luzon regions specifically in Cabanatuan, Nueva Ecija, San Jose Nueva Ecija, Baliwag, Bulacan, Baler, Aurora and Santiago, Isabela.

On February 3, 2015, Cosco Capital, through its wholly-owned subsidiary, Ellimac Prime Holdings, Inc., acquired four (4) commercial properties from NE Incorporated. The properties are located at Zulueta St., Cabanatuan City; San Jose City Nueva Ecija; San Juan Accfa, Cabanatuan City; Baler, Aurora; and Santiago City, Isabela.

(iii) 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;

(iv) 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;

(v) There are no contingent liabilities or assets since the last statement of financial position period;

(vi) 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;

(vii) 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;

(viii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;

(ix) 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;

(x) There are no significant elements of income not arising from continuing operations;

(xi) 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.

**Item 7 Financial Statements**

Please see the attached consolidated financial statements and schedules.

**Item 8 Information on Independent Accountant and Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

For year 2015, the Group engaged R.G. Manabat & Co. (KPMG) as its external auditor to render audit on annual financial statements in compliance with the regular filings to BIR, SEC, PSE and other government regulatory agencies.

Pursuant to SRC Rule 68, Paragraph 3 (b) (iv) and (ix) (Rotation of External Auditors) which states that the signing partner shall be rotated after every five (5) years of engagement with a two-year cooling off period for the re-engagement of the same signing partner, the Company engaged Mr. Darwin P. Virocel of R.G. Manabat & Co. for the examination of the Company's financial statements from 2013 to 2014.

Aggregate audit fee for the year 2015 and 2014 amounted to ₱3,220,500 each and ₱2,195,000 for 2013, exclusive of out-of-pocket expenses and value added tax.

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2014 or during any subsequent interim period.

**PART III CONTROL AND COMPENSATION INFORMATION**

**Item 9 Directors and Executive Officers**

***Lucio L. Co, 61, Filipino, Chairman of the Board***

Mr. Co has been a director of the Company since October 1997. Mr. Co has been duly elected to hold office as Director for one year and until his successor is elected and qualified.

He is also currently the Chairman of Puregold Price Club, Inc., Da Vinci Capital Holdings, Inc. and Director of Philippine Bank of Communications (publicly-listed companies), Chairman and President for Bellagio Holdings, Inc., Canaria Holdings, Corp., Ellimac Prime Holdings, Inc., Forbes Corporation, Invescap Incorporated, PG Holdings, Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., PPCI – Subic, Inc., Pure Petroleum Corp., Chairman for Union Equities, Inc., San Jose City I Power Corp., Union Energy Corporation, Alcorn Petroleum and Minerals Corporation, CHMI Hotels and Residences, Inc., Entenso Equities, Inc., Liquigaz Philippines Corporation, NE Pacific Shopping Centers Corporation, Puregold Duty Free Subic, Inc., Puregold Finance, Inc., and Puregold Realty Leasing and Management, Inc. He is also Director of 118 Holdings, Inc., Catuiran Hydro Power Corporation, Illido Management Corporation, Kareila Management Corporation, LCCK & Sons Realty, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., Patagonia Holdings Corp., and Premier Wine and Spirits, Inc. He is a member of the Board of Trustees of Adamson University. Mr. Co has been an entrepreneur for the past 40 years.

***Leonardo B. Dayao, 72, Filipino, President***

Mr. Dayao has been a director and vice-chairman of the Company since October 1997 and elected as President in June 2010. Mr. Dayao has been duly elected to hold office as Director for one year and until his successor is elected and qualified.

He is also currently the President of Puregold Price Club, Inc. and Director of Philippine Bank of Communications (both publicly-listed companies). He also serves as President for Puregold Finance Inc., Alcorn Petroleum and Minerals Corporation, CHMI Hotels and Residences Inc. Puregold Duty Free Subic Inc., Union Energy Corporation, Fertuna Holdings Corp., Catuiran HydroPower Corporation, San Jose City 1 Power Corporation and Vice-President of 118 Holdings, Inc., Alerce Holdings Corp., Ellimac Prime Holdings, Inc., KMC Realty Corporation, Puregold Duty Free, Inc., Bellagio Holdings, Inc. Union Equities, Inc., Puregold Properties, Inc., and VFC Land Resources, Inc. He is the Chairman of PSMT Philippines Inc., and Vice-Chairman of Liquigaz Philippines Corporation. Mr. Dayao is also a Director of Entenso Equities, Inc., Nation Realty Inc., Puregold Realty Leasing and Management Inc., Fontana Development Corporation, Fontana Resort and Country Club, Inc. Mr. Dayao was previously connected with Ayala Investment and Development Company as Vice-President from 1980 to 1984 and Bank of the Philippine Islands as Vice President from 1984 to 1994. Mr. Dayao received a Bachelor of Science degree in Commerce from the Far Eastern University. He is a Certified Public Accountant. He has completed Basic Management Program at Asian Institute of Management and earned units in MBA from University of the Philippines-Cebu.

***Susan P. Co, 58, Filipino, Director***

Mrs. Co was elected Director of the Company on August 30, 2013. Mrs. Co has been duly elected to hold office as Director for one year and until her successor is elected and qualified.

She is also currently Director of Puregold Price Club, Inc. and Philippine Bank of Communications (both publicly-listed companies), Chairman and President of Cosco Price, Inc., Star Alliance, Inc., KB Space Holdings, Inc., and Treasurer of Puregold Finance, Inc., PPCI Subic, Inc. Union Equities, Inc., Union Energy Corporation, Bellagio Holdings, Inc., Alcorn Petroleum and Minerals Corporation, LCCK Foundations Inc., Luis Co Chi Kiat Foundation, Inc. and NE Pacific Shopping Centers Corporation. She is also a Director of Kareila Management Corporation, PPCI-Subic, Inc., Ellimac Prime Holdings, Inc., 118 Holdings, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., Patagonia Holdings Corp., San Jose City 1 Power Corporation, Blue Ocean Holdings, Inc., CHMI Hotels and Residences, Inc. Premier Wine and Spirits, Inc., Pure Petroleum Corp., Forbes Company, KMC Realty Company, Puregold Duty Free, Inc., Puregold Duty Free (Subic), Inc., Illido Management Corporation, League One Inc., and Puregold Properties, Inc. Ms. Co received a Bachelor of Science in Commerce from the University of Santo Tomas.

***Atty. Eduardo F. Hernandez, 85, Filipino, Director***

Atty. Eduardo F. Hernandez is one of the incorporators of the Company. He serves as Chairman of the Board from 1987 to present and Company President from 1987 to June 2010. Atty. Hernandez has been duly elected to hold office as Director for one year and until his successor is elected and qualified.

He was the Executive Vice President and General Manager of Alcorn Production Philippines, Inc. He currently serves as a director for PNOC-EC and is a Senior Counsel of Romulo, Mabanta, Buenaventura & Sayoc Law Office. Atty. Hernandez obtained his Law Degree in University of the Philippines in 1953. He is the author of various law books such as: (a) Landowners' Rights published in 2002, (b) Philippine Admiralty and Marine Law, published in 1977, (c) Immigration Law and Practice in the Philippines, published in 1969, (d) co-author with Justice Fernando Hernandez, Criminal Procedure, 3rd Edition, published in 1969.

***Levi Labra, 57, Filipino, Director***

Mr. Levi Labra was elected Director of the Company on August 30, 2013 and he will hold office as Director for one year and until his successor is elected and qualified.

Mr. Labra was the former Director for Customer Business Development for Asia Pacific Region of Procter and Gamble Distributions, Inc. He was with P&G for 35 years and involved himself in sales management, distributor operations, logistics, forecasting, among others. He is a graduate of University of San Carlos with a Bachelor of Science in Business Administration.

***Robert Y. Cokeng, 64, Filipino, Independent Director***

Mr. Cokeng has been an independent director of the Company since September 1987. Mr. Cokeng has been duly elected to hold office as Director for one year and until his successor is elected and qualified.

He also serves as a director and/or officer in the following companies: Chairman, President and CEO – F&J Prince Holdings Corporation (PSE-Listed Company); President and CEO–Magellan Capital Holdings, Corp.; President and CEO–Magellan Utilities Dev't. Corp.; Chairman, President and CEO–Consolidated Tobacco Ind. of the Phils.; Chairman and President–Center Industrial and Investment, Inc.; Vice-Chairman–Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee – Business Process Outsourcing International; Chairman–IPADS Developers, Inc. He was also the Senior Investment Officer and Philippine Country Officer of International Finance Corporation (World Bank Group) from 1976 to 1986. He worked on investments in East Asia from Washington D.C. Headquarters and from Regional Mission for East Asia located in Manila. He graduated Magna Cum Laude in Ateneo de Manila University with degree of Bachelor of Arts Economics Honors Program. He also earned his Master in Business Administration in Harvard University with High Distinction and elected a Baker Scholar.

***Oscar S. Reyes, 69, Filipino, Independent Director***

Mr. Reyes has been an independent director of the Company since July 2009. Mr.Cokeng has been duly elected to hold office as Director for one year and until his successor is elected and qualified.

He also serves as a director and/or officer in the following companies: Meralco as Chief Operating Officer and Director, Advisory Board member of Philippine Long Distance Telephone Co. and Chairman of Pepsi Cola Products Phils Inc., MRL Gold Philippines, Inc. and Link Edge Inc. He is also a member of the Board of Directors of Bank of the Philippine Islands, Ayala Land Inc., Manila Water Co., Smart Communications Inc., Basic Energy Corp., Sun Life Financial PhilsInc and Sun Life Prosperity Funds. Mr. Reyes spent 21 years with the Shell Group, most notably as Country Chairman of the Shell Companies in the Phils., Chairman and President of Pilipinas Shell Petroleum Corp. and Managing Director of Shell Philippines Exploration B.V.

***Atty. Jose S. Santos, Jr., 75, Filipino, Corporate Secretary***

Atty. Jose Santos has been the Corporate Secretary of the Company since July 1999. He also serves as legal counsel to the Puregold Group of Companies, Campos Rueda Corporation, and Willis International Sales Corporation. He has been a practicing lawyer since 1962.

***Atty. Candy H. Dacanay-Datuon, 37, Filipino, Assistant Corporate Secretary***

Atty. Dacanay-Datuon was appointed Assistant Corporate Secretary of the Company in December 2012.

Ms. Dacanay is a lawyer and a member of the Philippine Bar since 2004. She has been employed as counsel for Puregold Group of Companies since 2004. She received a Bachelor of Arts, Cum Laude in Political Science from the Colegio de San Juan de Letran and a Bachelor of Laws Degree from the University of Santo Tomas in 2003 and admitted to the Philippine Bar in 2004.

**Item 10. Executive Compensation**

Below are the compensation of executives:

| DIRECTORS | Year | Salary | Bonus | Other Annual Compensation |
|---|---|---|---|---|
| **LUCIO L. CO** | **2015** | **3,000,000** | | |
| | 2014 | 1,500,000 | | |
| | 2013 | 146,200 | | |
| LEONARDO B. DAYAO | **2015** | **3,000,000** | | |
| | 2014 | 2,220,000 | | |
| | 2013 | 146,200 | | |
| **EDUARDO F. HERNANDEZ** | **2015** | **250,000** | | |
| | 2014 | 300,000 | | |
| | 2013 | 137,700 | | |
| **OSCAR S. REYES** | **2015** | **250,000** | | |
| | 2014 | 250,000 | | |
| | 2013 | 82,025 | | |
| ROBERT Y. COKENG | **2015** | **200,000** | | |
| | 2014 | 330,000 | | |
| | 2013 | 137,700 | | |
| **LEVI B. LABRA** | **2015** | **250,000** | | |
| | 2014 | 350,000 | | |
| | 2013 | 85,000 | | |
| **SUSAN P. CO** | **2015** | **1,800,000** | | |
| | 2014 | 900,000 | | |
| | 2013 | 85,000 | | |
| | **2015** | **5,460,000** | | |
| **All Other Officers as a Group unnamed** | 2014 | 2,825,077 | | |
| | 2013 | - | | |

**Significant employees:**

Everyone is a member of the team working together to achieve the Group's vision and mission. Thus, they are all treated significant.

**Family Relationships:**

Mrs. Susan P. Co is the wife of Mr. Lucio L. Co., Chairman of the Board.

**Involvement in certain Legal Proceedings:**

The Directors and Executive Officers of the Company are not involved in any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and 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.

**Compensation of Directors**

The members of the Board of Directors of the Corporation are entitled to a director's fee in the amount of ₱50,000 per Board Meeting attended and ₱30,000 per Committee meeting.

**Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2015**

The Company has the following information about the person or group of persons known to be record or beneficial owners of more than 5% of the capital stock of the Company:

| Title of class | Name, address of record owner | Relationship with the Company | Beneficial owner and relationship with the record owner | Citizenship | Number of shares held | % |
|---|---|---|---|---|---|---|
| Common | Lucio L. Co, No. 22 Pili Avenue, South Porbes Park, Makati City | Major Stockholder | Direct and Indirect | Filipino | 2,321,568,892 | 31.43 |
| Common | Susan P. Co | Major Stockholder | Direct and Indirect | Filipino | 1,780,182,231 | 24.10 |
| Common | The HSBC | Stockholder | | | 620,244,643 | 8.40 |

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

Below are the holdings of the Directors and Executive Officers of the Company:

| Shareholdings of Directors/Officers | Direct | Indirect | Total |
|---|---|---|---|
| Lucio L. Co, Director and Chairman | 2,243,102,692 | 78,466,200 | 2,321,568,892 |
| Susan P. Co, Director and Vice Chairman | 1,760,182,230 | 20,000,000 | 1,780,182,230 |
| Leonardo B. Dayao, Director and President | 350,982 | 300,000 | 650,982 |
| Atty. Eduardo F. Hernandez, Director | 120,000 | - | 120,000 |
| Levi B. Labra, Director | - | 100 | 100 |
| Robert Y. Cokeng, Independent Director | - | 8,155,000 | 8,155,000 |
| Oscar S. Reyes, Independent Director | 54,264 | - | 54,264 |
| | 4,003,810,168 | 106,921,300 | 4,110,731,468 |

**Change in Control**

For the fiscal year, there has been no arrangements which resulted in a change in control of the Company.

**Item 12. Certain Relationships and Related Transactions**

The Group, in the ordinary course of its business, engages in a variety of arms-length transactions with related parties. Certain related party transactions are described below:

The Retail business leases the building from its related parties where some stores are located. The Group pays its related parties a minimum fixed amount or is calculated in reference to a fixed sum per square meter of area leased. The terms of the lease are for the periods ranging from ten to thirty-five (10 -35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

The Liquor segment distributes wines and spirits to the retail business transacted at arms-length. Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties. **(For more detailed information please refer to the related party transactions as disclosed in the Audited Financial Statements for the Year 2015)**

**Item 13. Corporate Governance**

On April 1, 2016 Board meeting of the Company, the Board approved to amend the following provisions of the Company's Articles and by Laws. The amendments were made to improve corporate governance practices of the Company.

The amendments will still undergo stockholders approval and verification by Securities and Exchange Commission. The amendments are expected to be completed before the year ends.

1. Amendment of Article 6 of the Articles of Incorporation

"SIXTH. That the number of directors of the said Corporation shall be NINE (9).

2. Amendment of Section 10 Article IV of the By-Laws

"Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board."

3. Amendment of Section 3 Article III of the By-Laws

"Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.

Updates on Annual Corporate Governance Report is hereto attached as Annex "C".

**PART IV CORPORATE GOVERNANCE**

See Annex C.

**PART V EXHIBITS AND SCHEDULES**

**Exhibits**

Annex A Consolidated Financial Statements
Annex B Supplementary schedules
Annex C Corporate Governance

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

**(a) Exhibits**

Annex "A" – Consolidated Audited Financial Statements
Annex "B" – Supplementary Schedules
Annex "C" – Annual Corporate Governance Report

**(b) Reports on SEC Form 17-C**

The following are the summary of the SEC Form 17-C filed to SEC by the Company:

| Date of Report | Date Filed with SEC | Particulars |
|---|---|---|
| 12 January 2015 | 27 January 2015 | List of stockholders of Cosco Capital, Inc. as of record date January 12, 2015 in connection with the company's declaration of cash dividend. |
| 6 February 2015 | 6 February 2015 | Purchase of land with buildings and improvements where the malls and stores of NE Incorporated are erected, located at the following addresses:<br><br>1. Zulueta St., Cabanatuan City<br>2. San Jose City, Nueva Ecija<br>3. San Juan Accfa, Cabanatuan City<br>4. Baler, Aurora<br>5. Santiago City, Isable<br><br>Cosco Capital, Inc. intends to use the said premises for the establishment and development of Community Malls. |
| 13 March 2015 | 16 March 2015 | Result of BOD Meeting dated March 13, 2015, approval of the Consolidated Audited Financial Statements of Cosco Capital, Inc. and subsidiaries as of December 31, 2014. |
| 17 March 2015 | 18 March 2015 | Press Release of Cosco Capital, Inc. entitled "Cosco net income hits record high of P4.01 billion up to 20%" |
| 12 May 2015 | 13 May 2015 | Result of BOD Meeting held on May 12, 2015, approval of 1st Quarter Report of Cosco Capital, Inc. and its subsidiaries for the year 2015 and Agenda for the Annual Stockholders Meeting to be held on June 26, 2015, 9:00 AM. At the Acacia Hotel Alabang, Muntinlupa City, record date is May 26, 2015:<br><br>a. Call to order<br>b. Proof of Notice and Quorum<br>c. Approval of the Minutes of the 2014 Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting<br>d. Message of the Chairman and the President and Presentation of the Audited Financial Statements as of December 31, 2014<br>e. Election of seven (7) directors inclusive of two (2) independent director<br>f. Appointment of External Auditor |

| | | |
|---|---|---|
| | | g. Other Matters<br>h. Adjournment |
| 13 May 2015 | 13 May 2015 | Press Release for the year 2015 1st Quarter Financial Performance "Cosco net income hits P965 M in 1Q 2015 up 18%" |
| 8 June 2015 | 9 June 2015 | Notices and Communications of Company to its Stockholders, such Notices of Meeting and Definitive Information Statements |
| 30 June 2015 | 30 June 2015 | Corporate Governance: Best Practices and ASEAN Scorecards. The members of the Board of Directors and key officers of the Company attended the said seminar last June 22, 2015 at the Acacia Hotel Alabang, Muntinlupa City, delivered by Atty. Cherry Rosario-Bernardo of the Center for Training and Development. |
| 3 July 2015 | 3 July 2015 | Result of Annual Stockholders Meeting dated June 26, 2015. the following items in the agenda were approved by the Stockholders present, in person and by proxy:<br><br>1. Call to order<br>2. Proof of notice and quorum<br>3. Approval of the Minutes of the 2014 Annual Stockholders Meeting and ratification of all acts and resolutions of the Board of Directors and Management from the date of the previous Stockholders' Meeting.<br>4. Message of the Chairman and the President and Presentation of the Audited Financial Statements as of December 31, 2014<br>5. Election of seven (7) directors inclusive of two (2) independent directors<br>6. Appointment of External Auditor<br>7. Other Matters<br>8. Adjournment<br><br>Out of 7,405,263,564 outstanding shares of Cosco Capital, Inc., 6,444,030,155 shares or 87% of the outstanding capital stock of the corporation was present and voted on the items in the agenda. |
| 8 July 2015 | 8 July 2015 | Completion Report on "Corporate Governance: Best Practices and ASEAN Scorecard" |
| 31 July 2015 | 31 July 2015 | Result of Board Meeting held on July 30, 2015, approval of the 2nd Quarter Consolidated Financial Report for CY 2015 of Cosco Capital, Inc. |
| 5 August 2015 | 6 August 2015 | Press Release re: Cosco Capital, Inc. acquires RFC Mall located along Alabang Zapote, Las Piñas City with total lot area of around 7,600 sq.m and gross floor area of 23,000 sq.m. The newly acquired mall will add to the existing 35 properties of Cosco with total GLA of around 343,000 sq.m. Cosco group expects to add to the programmed organic expansion of 3 community malls in the next 1 to 2 years. |
| 13 August 2015 | 13 August 2015 | Acquisition of Maunlad Mall located at Malolos, Bulacan with a lot area of around 10,200 sq.m. and GFA of around 8,750 sq.m. |
| 1 December 2015 | 1 December 2015 | Press Release entitled "Cosco net income hits P3.01B |

| | | |
|---|---|---|
| | | in 9M 2015 up 18%" |
| 18 December 2015 | 22 December 2015 | Result of Board of Directors Meeting dated December 18, 2015 / Cash Dividend Declaration, approval of the following:<br><br>1. External Audit Plan presented by R.G. Manabat & Company, KPMG<br>2. Cash Dividend Declaration with details as follows:<br><br>Regular Dividend of Php0.06 per share<br>Special Dividend of Php0.02 per share<br><br>Total of Php0.08 per share or 592 Million<br><br>Record date: January 8, 2016<br>Payment date: January 18, 2016 |

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this **ANNUAL REPORT (SEC 17-A)** to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manila on April 12, 2016.

**COSCO CAPITAL, INC.**
Issuer

By:

**LUCIO L. CO**
Chairman
TIN No. 108-975-971

**LEONARDO B. DAYAO**
President
TIN No. 135-546-815

**TEODORO A. POLINGA**
Comptroller
TIN No. 104-883-077

**JOSE S. SANTOS, JR.**
Corporate Secretary
TIN No. 136-370-998

SUBSCRIBED AND SWORN to before me this APR 1 4 2016 day of April 2016 in the City of Manila, affiants presented competent proof of their identities.

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Page No. 61
Book No. III
Series of 2016

EMMA RHEA B. SADURAL
Notary Public
Until December 31, 2016
Commission No. 2015-035
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 4915078/01-04-16/Mla.
No. 900 Romualdez St., Paco, Manila

**ANNEX A**

# COSCO CAPITAL, INC. AND SUBSIDIARIES
# CONSOLIDATED FINANCIAL STATEMENTS

## Contents

cosco capital
incorporated

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

The management of **COSCO CAPITAL, INC. AND SUBSIDIARIES** (the "Group"), is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with the Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

**R. G. Manabat & Co.**, the independent auditors appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in 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/ Group Comptroller

SUBSCRIBED AND SWORN to before me this _____ day of APR 1 2 2016 2016 affiants exhibiting to me their respective Pass Ports, as follows:

| Name | Pass Port No. | Date of Issue | Place of Issue |
|---|---|---|---|
| **LUCIO L. CO** | **EB 957 1726** | **November 13, 2013** | **DFA Manila** |
| **LEONARDO B. DAYAO** | **EC 0360 234** | **February 20, 2014** | **DFA Manila** |
| **TEODORO A. POLINGA** | **EC 3546 313** | **February 27, 2015** | **DFA Manila** |

Doc. No. 287;
Page No. 58;
Book No. III,
Series of 2016

EMMA RHEA B. SADURAL
Notary Public
Until December 31, 2016
Commission No. 2015-035
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 4915078/01-04-16/Mla.
No. 900 Romualdez St., Paco, Manila

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

**SEC Registration Number**

| A | 1 | 9 | 9 | 8 | 1 | 3 | 7 | 5 | 4 | |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

COSCO CAPITAL, INC. AND SUBSIDIARIES (Formerly Alcorn Gold Resources Corporation)

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

900 Romualdez Street, Paco Manila

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | | |

**COMPANY INFORMATION**

| Company's email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| www.coscocapital.com | (02) 548-7110 | |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| | April 1 | December 31 |

**CONTACT PERSON INFORMATION**

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

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

**CONTACT PERSON's ADDRESS**

900 Romualdez, Street, Paco, Manila

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

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

# COSCO CAPITAL, INC. AND SUBSIDIARIES
(Formerly Alcorn Gold Resources Corporation)

## CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015, 2014 and 2013

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

Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
E-Mail ph-inquiry@kpmg.com

Branches: Subic · Cebu · Bacolod · Iloilo

# REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors
Cosco Capital, Inc.
(Formerly Alcorn Gold Resources Corporation)
900 Romualdez Street
Paco, Manila

We have audited the accompanying consolidated financial statements of Cosco Capital, Inc. and Subsidiaries (formerly Alcorn Gold Resources Corporation), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cosco Capital, Inc. and Subsidiaries as at December 31, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

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

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-A, Group A, valid until February 5, 2017
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2013
Issued December 2, 2013; valid until December 1, 2016
PTR No. 5321515MD
Issued January 4, 2016 at Makati City

April 1, 2016
Makati City, Metro Manila

# COSCO CAPITAL, INC. AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | | December 31 | |
|---|---|---|---|
| | *Note* | **2015** | 2014 |
| ASSETS | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *4* | **P14,541,465,350** | P15,681,010,818 |
| Short-term investments | *5* | **561,955,978** | 824,078,115 |
| Receivables - net | *6* | **5,648,133,162** | 5,321,986,551 |
| Inventories | *7, 21* | **16,740,693,333** | 13,921,685,345 |
| Investments in trading securities | *8* | **34,432,591** | 37,448,469 |
| Available-for-sale financial assets | *9* | **8,587,187** | 14,277,024 |
| Due from related parties | *26* | **156,018,039** | 10,049,370 |
| Prepaid expenses and other current assets | *10* | **1,808,073,603** | 1,164,914,349 |
| **Total Current Assets** | | **39,499,359,243** | 36,975,450,041 |
| **Noncurrent Assets** | | | |
| Investments | *11* | **989,189,640** | 912,065,182 |
| Property and equipment - net | *12* | **16,136,867,778** | 15,285,188,229 |
| Investment properties - net | *13* | **14,843,132,984** | 12,773,920,323 |
| Intangibles and goodwill - net | *14* | **22,558,070,024** | 21,052,640,362 |
| Deferred oil and mineral exploration costs - net | *15* | **120,896,482** | 119,168,419 |
| Deferred tax assets - net | *28* | **343,672,524** | 120,214,897 |
| Due from related parties - noncurrent portion | *26* | **210,808** | 7,995,068 |
| Other noncurrent assets | *16, 22* | **3,125,426,304** | 2,609,412,772 |
| **Total Noncurrent Assets** | | **58,117,466,544** | 52,880,605,252 |
| | | **P97,616,825,787** | P89,856,055,293 |
| LIABILITIES AND EQUITY | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued expenses | *17, 32, 33* | **P12,175,189,869** | P12,872,757,835 |
| Short-term loans payable | *18, 32* | **4,266,500,000** | 2,259,100,000 |
| Current maturities of long - term loans, net of debt issue costs | *18, 32* | **619,694,073** | 1,007,789,300 |
| Income tax payable | | **1,075,502,048** | 829,501,994 |
| Trust receipts payable | *32, 33* | **5,182,021** | - |
| Due to related parties | *26, 32, 33* | **457,157,621** | 42,605,644 |
| Other current liabilities | *19, 32, 33* | **441,864,861** | 408,917,894 |
| **Total Current Liabilities** | | **19,041,090,493** | 17,420,672,667 |
| **Noncurrent Liabilities** | | | |
| Long-term loans - net of current maturities and debt issue costs | *18, 32, 33* | **8,693,424,271** | 8,858,613,920 |
| Deferred tax liabilities - net | *28* | **758,795,340** | 753,780,195 |
| Retirement benefits liability | *27* | **479,824,597** | 433,436,122 |
| Deposits for future subscriptions in a subsidiary | *20* | **150,313,060** | 150,313,060 |
| Noncurrent accrued rent | *22* | **2,492,888,910** | 2,068,506,537 |
| Other noncurrent liabilities | *32* | **456,530,719** | 491,968,455 |
| **Total Noncurrent Liabilities** | | **13,031,776,897** | 12,756,618,289 |
| **Total Liabilities** | | **32,072,867,390** | 30,177,290,956 |

*Forward*

| | Note | December 31 2015 | 2014 |
|---|---|---|---|
| **Equity** | | | |
| Capital stock | *29* | **P7,405,263,564** | P7,405,263,564 |
| Additional paid-in capital | *29* | **9,634,644,229** | 9,634,644,229 |
| Treasury stock | *29* | **(440,506,732)** | (252,620,619) |
| Remeasurements of retirement liability - net of tax | *27* | **(28,576,936)** | (49,793,434) |
| Reserve for fluctuations in value of AFS financial assets | *9* | **4,981,351** | 6,932,418 |
| Retained earnings | *29* | **29,868,620,397** | 25,925,960,160 |
| **Total Equity Attributable to Equity Holders of Parent Company** | | **46,444,425,873** | 42,670,386,318 |
| Non-controlling interest | | **19,099,532,524** | 17,008,378,019 |
| **Total Equity** | | **65,543,958,397** | 59,678,764,337 |
| | | **P97,616,825,787** | P89,856,055,293 |

*See Notes to the Consolidated Financial Statements.*

## COSCO CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| | | **Years Ended December 31** | | |
| **REVENUES** | | | | |
| Net sales | | **P114,902,150,885** | P97,388,308,049 | P47,848,891,949 |
| Services | | **1,848,044,359** | 1,395,944,012 | 1,124,547,971 |
| Production lifting | | **1,986,833** | 2,491,779 | 2,699,143 |
| | | **116,752,182,077** | 98,786,743,840 | 48,976,139,063 |
| **COST OF SALES AND SERVICES** | | | | |
| Cost of sales | 21 | **95,700,127,354** | 80,565,757,343 | 39,121,065,999 |
| Cost of services | 21 | **1,088,354,616** | 933,652,573 | 320,802,897 |
| | | **96,788,481,970** | 81,499,409,916 | 39,441,868,896 |
| **GROSS PROFIT** | | **19,963,700,107** | 17,287,333,924 | 9,534,270,167 |
| **OTHER OPERATING INCOME** | 23 | **2,924,675,635** | 2,562,761,566 | 1,399,851,181 |
| | | **22,888,375,742** | 19,850,095,490 | 10,934,121,348 |
| **OPERATING EXPENSES** | 24 | **12,875,678,316** | 11,130,394,999 | 5,894,115,883 |
| **INCOME FROM OPERATIONS** | | **10,012,697,426** | 8,719,700,491 | 5,040,005,465 |
| **OTHER INCOME (EXPENSES)** | | | | |
| Interest expense | 18 | **(426,567,595)** | (286,043,223) | (28,550,079) |
| Interest income | | **134,728,099** | 182,061,951 | 17,614,984 |
| Others - net | 25 | **83,497,953** | 73,299,972 | 53,282,253 |
| | | **(208,341,543)** | (30,681,300) | 42,347,158 |
| **INCOME BEFORE INCOME TAX** | | **9,804,355,883** | 8,689,019,191 | 5,082,352,623 |
| **INCOME TAX EXPENSE** | 28 | **2,817,113,851** | 2,453,517,552 | 1,351,147,114 |
| **NET INCOME** | | **6,987,242,032** | 6,235,501,639 | 3,731,205,509 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items that may be reclassified to profit or loss in subsequent periods** | | | | |
| Unrealized fair value gains (losses) on available for sale financial assets | 9 | **(1,951,069)** | 2,366,956 | 1,941,770 |
| **Item that will never be reclassified subsequently to profit or loss** | | | | |
| Remeasurements of retirement benefit liability | 27 | **59,227,078** | (54,415,785) | 43,637,916 |
| Income tax effect | | **(17,768,123)** | 16,324,736 | (13,091,375) |
| **OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | | **39,507,886** | (35,724,093) | 32,488,311 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P7,026,749,918** | P6,199,777,546 | P3,763,693,820 |
| **Net income attributable to:** | | | | |
| Equity holders of the Parent Company | | **P4,490,644,237** | P4,026,866,478 | P2,482,546,969 |
| Non-controlling interests | | **2,496,597,795** | 2,208,635,161 | 1,248,658,540 |
| | | **P6,987,242,032** | P6,235,501,639 | P3,731,205,509 |
| **Total comprehensive income attributable to:** | | | | |
| Equity holders of the Parent Company | | **P4,509,909,666** | P4,010,400,185 | P2,500,067,475 |
| Non-controlling interests | | **2,516,840,252** | 2,189,377,361 | 1,263,626,345 |
| | | **P7,026,749,918** | P6,199,777,546 | P3,763,693,820 |
| Basic/Diluted earnings per share attributable to equity holders of the Parent Company | 31 | **P0.628180** | P0.543784 | P0.527243 |

*See Notes to the Consolidated Financial Statements.*

# COSCO CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to Equity Holders of the Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Notes 1 and 29) | Additional Paid-in Capital (Note 29) | Treasury Stock (Note 29) | Remeasurements of Retirement Liability Net of Tax (Note 27) | Reserve for Fluctuations in Value of AFS Financial Assets | Retained Earnings | Non-controlling Interest | Total Equity |
| **As at January 1, 2013** | **P1,275,000,000** | **P -** | **P -** | **P -** | **P2,623,692** | **P98,202,992** | **P -** | **P1,375,826,684** |
| Issuance during the year | 6,130,263,564 | 9,634,644,229 | - | - | - | - | - | 15,764,907,793 |
| Acquisition of treasury stocks | - | - | (244,757,527) | - | - | - | - | (244,757,527) |
| Effect of business combination | - | - | - | (20,040,996) | - | 20,459,203,980 | - | 20,439,162,984 |
| Non-controlling interest from business combination | - | - | - | - | - | - | 13,731,987,231 | 13,731,987,231 |
| | 6,130,263,564 | 9,634,644,229 | (244,757,527) | (20,040,996) | - | 20,459,203,980 | 13,731,987,231 | 49,691,300,481 |
| **Total comprehensive income (loss)** | | | | | | | | |
| Net income for the year | - | - | - | - | - | 2,482,546,969 | 1,248,658,540 | 3,731,205,509 |
| Other comprehensive loss for the year: | | | | | | | | |
| Reserve for fluctuations in value of available-for-sale financial assets | - | - | - | - | 1,941,770 | - | - | 1,941,770 |
| Remeasurement gains on defined benefit liability - net of tax | - | - | - | 17,520,506 | - | - | 13,026,035 | 30,546,541 |
| Total comprehensive income | - | - | - | 17,520,506 | 1,941,770 | 2,482,546,969 | 1,261,684,575 | 3,765,635,590 |
| **As at December 31, 2013** | **7,405,263,564** | **9,634,644,229** | **(244,757,527)** | **(2,520,490)** | **4,565,462** | **23,039,953,941** | **14,993,671,806** | **54,830,820,985** |
| Effect of business combination | - | - | - | (28,439,694) | - | (123,658,659) | - | (152,098,353) |
| Acquisition of treasury stocks | - | - | (7,863,092) | - | - | - | - | (7,863,092) |
| Non-controlling interest from business combination | - | - | - | - | - | - | 231,990,594 | 231,990,594 |
| Cash dividends | - | - | - | - | - | (1,017,201,600) | (406,661,742) | (1,423,863,342) |
| | - | - | (7,863,092) | (28,439,694) | - | (1,140,860,259) | (174,671,148) | (1,351,834,193) |
| **Total comprehensive income (loss)** | | | | | | | | |
| Net income for the year | - | - | - | - | - | 4,026,866,478 | 2,208,635,161 | 6,235,501,639 |
| Other comprehensive loss for the year: | | | | | | | | |
| Reserve for fluctuations in value of available-for-sale financial assets | - | - | - | - | 2,366,956 | - | - | 2,366,956 |
| Remeasurement losses on defined benefit liability - net of tax | - | - | - | (18,833,250) | - | - | (19,257,800) | (38,091,050) |
| Total comprehensive income | - | - | - | (18,833,250) | 2,366,956 | 4,026,866,478 | 2,189,377,361 | 6,199,777,545 |
| **As at December 31, 2014** | **P7,405,263,564** | **P9,634,644,229** | **(P252,620,619)** | **(P49,793,434)** | **P6,932,418** | **P25,925,960,160** | **P17,008,378,019** | **P59,678,764,337** |
| Effect of business combination | - | - | - | - | - | 42,889,301 | - | 42,889,301 |
| Acquisition of treasury stocks | - | - | (187,886,113) | - | - | - | - | (187,886,113) |
| Cash dividends | - | - | - | - | - | (590,873,301) | (425,685,747) | (1,016,559,048) |
| | - | - | (187,886,113) | - | - | (547,984,000) | (425,685,747) | (1,161,555,860) |
| **Total comprehensive income (loss)** | | | | | | | | |
| Net income for the year | - | - | - | - | - | 4,490,644,237 | 2,496,597,795 | 6,987,242,032 |
| Other comprehensive loss for the year: | | | | | | | | |
| Reserve for fluctuations in value of available-for-sale financial assets | - | - | - | - | (1,951,067) | - | - | (1,951,067) |
| Remeasurement gains on defined benefit liability - net of tax | - | - | - | 21,216,498 | - | - | 20,242,457 | 41,458,955 |
| Total comprehensive income | - | - | - | 21,216,498 | (1,951,067) | 4,490,644,237 | 2,516,840,252 | 7,026,749,920 |
| **As at December 31, 2015** | **P7,405,263,564** | **P9,634,644,229** | **(P440,506,732)** | **(P28,576,936)** | **P4,981,351** | **P29,868,620,397** | **P19,099,532,524** | **P65,543,958,397** |

*See Notes to the Consolidated Financial Statements.*

## COSCO CAPITAL, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | *Note* | Years Ended December 31 2015 | 2014 | 2013 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | | **P9,804,355,883** | P8,689,019,191 | P5,082,352,623 |
| Adjustments for: | | | | |
| Depreciation and amortization | *12, 13, 14* | **1,662,555,043** | 1,459,550,996 | 693,065,110 |
| Interest expense | *18* | **426,567,595** | 286,043,223 | 28,550,079 |
| Interest income | | **(134,728,099)** | (182,061,951) | (17,614,984) |
| Retirement benefits cost | *27* | **112,280,624** | 80,223,585 | 52,152,980 |
| Gain on insurance claim | *25* | **(38,721,771)** | (26,143,753) | - |
| Unrealized foreign exchange loss | | **18,854,978** | 48,073,684 | 847,376 |
| Dividend income | | **(10,107,548)** | (26,752,127) | - |
| (Gain) Loss on disposal of property and equipment | | **(3,886,703)** | 370,329 | - |
| Unrealized loss (gain) in trading securities | *8, 25* | **3,852,970** | (8,581,093) | 6,079,145 |
| Gain on sale of available-for-sale financial assets | | **(2,708,960)** | (451,588) | - |
| Provision for unrecoverable deferred mineral exploration costs | *24* | **-** | - | 32,648,397 |
| Operating income before changes in working capital | | **11,838,314,013** | 10,319,290,496 | 5,878,080,726 |
| Decrease (increase) in: | | | | |
| Receivables-net | | **(326,146,612)** | (2,503,178,285) | (679,453,906) |
| Investments in trading securities | | **3,015,878** | - | (11,310,914) |
| Inventories | | **(2,948,600,163)** | (3,566,967,177) | (1,632,301,197) |
| Prepaid expenses and other current assets | | **(643,159,254)** | 538,067,960 | 118,077,637 |
| Due from related parties | | **(138,184,409)** | (18,044,438) | - |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | | **(606,993,490)** | 237,279,251 | 2,249,360,421 |
| Trust receipts payable | | **5,182,021** | (16,543,219) | 10,249,789 |
| Due to related parties | | **414,551,977** | (5,847,677) | (476,442,653) |
| Other current liabilities | | **32,946,967** | - | - |
| Other noncurrent liabilities | | **388,944,638** | 935,621,966 | 217,175,717 |
| Cash generated from operations | | **8,019,871,567** | 5,919,678,877 | 5,673,435,620 |
| Income taxes paid | | **(2,193,269,621)** | (2,358,955,450) | (1,002,084,268) |
| Interest paid | | **(307,869,582)** | (252,082,823) | (28,550,079) |
| Retirement benefits paid | *27* | **(6,665,070)** | - | - |
| Net cash provided by operating activities | | **5,512,067,294** | 3,308,640,604 | 4,642,801,273 |

*Forward*

| | Note | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| | | | **Years Ended December 31** | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from maturity of short-term investments | | **P262,122,137** | P500,000,000 | P2,780,681,316 |
| Interest received | | **134,728,099** | 155,505,597 | 17,614,984 |
| Proceeds from disposal of property and equipment | | **82,788,521** | 16,812,032 | - |
| Proceeds from insurance claim | | **38,721,771** | 26,143,753 | - |
| Dividends received | | **10,107,548** | 26,752,127 | - |
| Proceeds from sale of available-for-sale financial assets | | **4,000,000** | - | 33,223,435 |
| Decrease (increase) in oil and mineral exploration | | **(1,728,063)** | (339,236) | 31,328,609 |
| Additions to investments | *11* | **(87,500,000)** | (472,289,945) | (439,775,237) |
| Increase in Other noncurrent assets | | **(516,013,534)** | (1,413,258,392) | (33,680,465) |
| Effect of business combination | | **(612,945,746)** | (2,287,583,949) | |
| Additions to intangibles | *14* | **(1,531,719,734)** | (33,220,300) | (199,463,156) |
| Additions to investment properties | *13* | **(2,239,468,274)** | (230,891,230) | (228,600,328) |
| Additions to property and equipment | *12* | **(2,415,450,405)** | (1,994,235,405) | (1,908,346,688) |
| Acquisition of subsidiaries | | **-** | (2,856,834,529) | - |
| Additions to short-term investments | *5* | **-** | (824,078,115) | (537,152,133) |
| Proceeds from deposit for future subscriptions in a subsidiary | | **-** | 150,313,060 | - |
| Net cash used in investing activities | | **(6,872,357,680)** | (9,237,204,532) | (484,169,663) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Availment of long-term loans | | **-** | 6,450,000,000 | - |
| Availment of short-term loans | *18* | **3,611,500,000** | 1,750,600,000 | 3,448,881,500 |
| Buyback of capital stocks | | **(187,886,113)** | (7,863,092) | - |
| Payment of short-term loans | | **(818,500,000)** | (703,500,000) | - |
| Cash dividends paid | | **(1,358,713,991)** | (508,022,707) | - |
| Payment of long-term loans payable | *18* | **(1,006,800,000)** | - | (5,000,000,000) |
| Proceeds from issuance and subscriptions of capital stock | | **-** | - | 12,000,000,000 |
| Contribution paid on plan assets | | **-** | (25,000,000) | - |
| Payment for debt issue costs | | **-** | (42,715,758) | - |
| Payments for share issue costs | | **-** | - | (861,221,146) |
| Net cash provided by financing activities | | **239,599,896** | 6,913,498,443 | 9,587,660,354 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | | **(18,854,978)** | (48,073,684) | (847,376) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(1,139,545,468)** | 936,860,831 | 13,745,444,588 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | *4* | **15,681,010,818** | 14,744,149,987 | 998,705,399 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *4* | **P14,541,465,350** | P15,681,010,818 | P14,744,149,987 |

*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 with the primary purpose of engaging in exploration, development and production of oil and gas and metallic and nonmetallic reserves in partnership with other companies or in its individual capacity. The Parent Company's shares of stock are traded in the Philippine Stock Exchange (PSE) since September 26, 1988, the same date the Parent Company attained its status of being a public company.

On October 8, 1999, the stockholders approved the amendment of the primary purpose of the Parent Company 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. The SEC approved the amendment on January 13, 2000. 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") 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 P74,813,405,685 worth of shares in Puregold Price Club, Inc., Ellimac Prime Holdings, Inc., Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., 118 Holdings, Inc., Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp. (collectively, the "Subsidiaries"), and the corresponding payment thereof by way of assignment of the shares owned by the Lucio L. Co Group in these Subsidiaries, under the terms and conditions to be determined by the Corporation's BOD.

On December 11, 2012, in a special meeting, the stockholders approved the amendment of the Parent Company's articles of incorporation to increase its authorized capital stock and par value from P3 billion divided into 300 billion common shares at a par value of P0.01 per share to P10 billion divided into 10 billion common shares at a par value of P1 per share. On the same meeting, the stockholders resolved to change the name of the Parent Company from Alcorn Gold Resources Corporation into 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 change in the name of the Parent Company and the increase in its authorized capital stock with the corresponding change in par value. Further, the SEC confirmed the final number of subscribed shares of 4,987,406,421 at an aggregate revised subscription price of P74,811,096,315 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 Puregold Price Club, Inc. 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 entities mentioned above became the subsidiaries of the Parent Company. The transaction has been accounted for as a business combination under common control, using the pooling of interest method. As allowed under PIC Q&A 2012-01, the pooling of interest method has been applied prospectively from the acquisition date. The assets and liabilities acquired are recognized at the respective book values or carrying amounts in the entities from June 1, 2013. The difference between the book values of the net assets acquired and the consideration paid or equity instruments issued is recognized in equity, under retained earnings account. The profit or loss of the subsidiaries from June 1, 2013 to December 31, 2013 are consolidated into the Parent Company. Comparative periods have not been restated.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group"):

| | Percentage of Ownership | |
|---|---|---|
| | **2015** | 2014 |
| Puregold Price Club, Inc. and Subsidiaries (PPCI) | **51** | 51 |
| Montosco, Inc. (Montosco) | **100** | 100 |
| Meritus Prime Distributions, Inc. (Meritus) | **100** | 100 |
| Premier Wine and Spirits, Inc. (Premier) | **100** | 100 |
| Nation Realty, Inc. (NRI) *(1)* | **100** | 100 |
| 118 Holdings, Inc. (118) | **100** | 100 |
| Patagonia Holdings Corp. (PHC) | **100** | 100 |
| Ellimac Prime Holdings, Inc. (EPHI) | **100** | 100 |
| Fertuna Holdings Corp. (FHC) | **100** | 100 |
| Pure Petroleum Corp. (PPC) | **100** | 100 |
| Alcorn Petroleum and Minerals Corporation (APMC) | **100** | 100 |
| NE Pacific Shopping Centers Corporation (NPSCC) *(2)* | **100** | 100 |
| Office Warehouse, Inc. (OWI) *(3)* | **100** | 100 |
| Canaria Holdings Corporation (Canaria) *(4)* | **90** | 90 |
| Liquigaz Philippines Corporation (LPC) *(5)* | **90** | 90 |
| Calor Philippines Holdings, Inc. (Calor) *(4)* | **90** | 90 |

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

*(2) Acquired on February 28, 2014.*

*(3) Acquired on May 1, 2014.*

*(4) Acquired on July 17, 2014.*

*(5) Acquired on July 21, 2014.*

*Puregold Price Club, Inc.*
Incorporated and registered with the SEC on September 8, 1998 to engage in the business of trading goods such as consumer products (canned goods, housewares, toiletries, dry goods, food products, etc.) on a wholesale and retail basis. Its shares are listed in the Philippine Stock Exchange (PSE) since October 5, 2011 with stock symbol of PGOLD.

The consolidated financial statements also include the following indirect subsidiaries owned through Puregold Price Club, Inc.

| Subsidiaries | Percentage of Ownership 2015 | 2014 |
|---|---|---|
| Kareila Management Corporation (KMC) | **100** | 100 |
| S&R Pizza (Harbor Point), Inc. [(d)] | **100** | - |
| PPCI Subic, Inc. (PSI) | **100** | 100 |
| Company E Corporation (Company E) [(a)] | - | 100 |
| Entenso Equities Incorporated (Entenso) | **100** | 100 |
| Goldtempo Company Incorporated (Goldtempo) [(b)] | **100** | - |
| Daily Commodities, Inc. (DCI) [(c)] | **100** | - |
| First Lane Super Traders Co., Inc. (FLSTCI) [(c)] | **100** | - |

(a) *Acquired on January 14, 2013 through a stock acquisition. On April 1, 2015, Company E was merged with PPCI.*

(b) *Acquired on August 24, 2015 through Entenso. Goldtempo subsequently acquired the significant assets of Bargain City, Inc,. Multi-Merchantrade Inc. and Superplus Corporation ("Budgetlane Supermarkets").*

(c) *Acquired on February 3, 2015.*

(d) *A wholly-owned subsidiary of KMC incorporated on May 15, 2015.*

The following table summarizes the information relating to PPCI that has material NCI, before any intra-group elimination.

| | December 31 2015 | 2014 |
|---|---|---|
| **Non-controlling interest percentage** | **49%** | 49% |
| Current assets | **P24,615,152,599** | P20,481,245,243 |
| Noncurrent assets | **35,829,275,395** | 33,185,150,452 |
| Current liabilities | **(16,207,423,386)** | (13,835,055,296) |
| Noncurrent liabilities | **(5,823,787,846)** | (5,597,845,730) |
| Net assets | **38,413,216,762** | 34,233,494,669 |
| Carrying amount of non-controlling interests | **P18,822,476,213** | P16,774,412,388 |
| Revenue | **P95,968,942,223** | P87,535,743,778 |
| Net income for the year | **5,001,871,585** | 4,520,457,686 |
| Other comprehensive income | **41,311,137** | (39,441,493) |
| Total comprehensive income | **P5,043,182,722** | P4,481,016,193 |
| Net income allocated to noncontrolling interest | **P2,450,917,077** | P2,195,697,935 |
| Other comprehensive income allocated to non-controlling interests | **20,242,457** | (19,326,332) |
| Cashflow from operating activities | **3,327,402,425** | 3,584,139,896 |
| Cashflow from investing activities | **(4,255,867,188)** | (1,745,621,819) |
| Cashflow from financing activities | **416,531,870** | (378,821,525) |
| Net increase (decrease) in cash and cash equivalents | **(P511,932,893)** | P1,459,696,552 |

*Montosco, Inc.*
Incorporated and registered with the SEC on August 13, 2008 to engage in the business of trading consumer goods on wholesale or retail basis.

*Meritus Prime Distributions, Inc.*
Incorporated and registered with the SEC on February 17, 2010 to engage primarily in buying, selling, importing, exporting, manufacturing, repackaging, preparing, bottling, and distributing on wholesale of all kinds of wines, spirits, liquors, beers and other alcoholic and non-alcoholic beverages and drinks.

*Premier Wine and Spirits, Inc.*
Incorporated and registered with the SEC on July 19, 1996 to engage in the business of buying, selling, distributing and marketing on a wholesale basis, any, and all kinds of beverages, spirits and liquors and to deal in any materials, articles or things required in connection with or incidental to the importation, exportation, manufacturing, marketing or distribution of such products.

*Nation Realty, Inc.*
Incorporated and registered with the SEC on March 27, 1969 to acquire by purchase or lease, or otherwise; land and interest therein and to own, hold, improve, develop, and manage any real estate acquired and to erect or cause to be erected on any land's owned, hold or occupied by the corporation, building or other structures with their appurtenances, and to acquire, own, lease or otherwise possess, rebuild, enlarge or improve any buildings or structures now or hereafter erected on any lands, and to mortgage, sell, lease or otherwise dispose of any lands and buildings or other structures at any time owned or held by the corporation.

On November 28, 2013, NRI's Stockholders and BOD approved the merger of NRI being the surviving entity, with SVF Corporation, 999 Shopping Mall, Inc. and Go Fay & Co., Incorporada (collectively referred to as the "Absorbed Companies"). The merger was approved by the SEC on January 29, 2014.

*118 Holdings, Inc.*
Incorporated and registered with the SEC on November 11, 2008 to invest, purchase, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose real and personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and other securities, contracts, or obligations of corporations, associations, domestic or foreign , for whatever lawful purpose may have been organized, and to pay therefore in whole or in part, in cash or by exchanging therefore stocks, bonds, or other corporation, and while the owner or holder of any such real or personal property, stocks, debentures, notes, evidences of indebtedness or other securities, contracts, obligations, to receive, collect and dispose interest, dividends and income arising from such property and to possess and exercise in respect thereof, all the rights, stocks so owned.

*Patagonia Holdings Corp.*
Incorporated and registered with the SEC on March 12, 2008 to invest in, purchase, subscribe for or otherwise acquire and own, hold, use, develop, sell, assign, pledge, transfer, mortgage, exchange or otherwise dispose real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities, contracts or obligations of any corporation, or any other entities among others.

*Ellimac Prime Holdings, Inc.*
Incorporated and registered with the SEC on December 10, 2001. It is principally involved in real estate leasing.

*Fertuna Holdings Corp.*
Incorporated and registered with the SEC on August 24, 2009 to invest in, purchase, subscribe for or otherwise acquire and own, hold, use, develop, sell, assign, pledge, transfer, mortgage, exchange, or otherwise dispose real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities, contracts and obligation of any corporation, or any other entities among others.

*Pure Petroleum Corp.*
Incorporated and registered with the SEC on July 9, 2009 with primary purpose to engage in the business of buying and selling of goods such as, but not limited to, diesel, used oil and other related product as may be permitted by law, in wholesale and retail basis.

*Alcorn Petroleum and Minerals Corporation*
Incorporated and registered with the SEC on July 5, 2013 primarily to carry on in the Philippines or elsewhere the business of exploration, discovery, development and exploitation of mineral oils, petroleum and in its natural state, rock or carbon oils, natural gas and all kinds of ores, metals, minerals and natural resources and the products and by-products thereof and etc.

*NE Pacific Shopping Centers Corporation*
Incorporated and registered with the SEC on August 14, 1996 to primarily engage in the establishment and management of shopping malls.

On February 28, 2014, Cosco acquired all the shares of NPSCC from NE, Inc. and Metro Pacific Investments Corp. Consequently, NPSCC became a wholly-owned subsidiary of Cosco.

*Office Warehouse, Inc.*
Incorporated and registered with the SEC on August 20, 1997 primarily to engage in the trading of office supplies both on wholesale and retail basis. OWI started commercial operations in April 1998.

On May 1, 2014, Cosco acquired all the shares of OWI from its previous owners. Consequently, OWI became a wholly-owned subsidiary of Cosco.

*Canaria Holdings Corporation*
Incorporated and registered with the SEC on June 5, 2013 primarily to invest in, purchase, subscribed for, or otherwise acquire and own, hold, use, develop, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose real and personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness, and securities, contracts or obligations of any corporation or corporations, association or associations, domestic or foreign for whatever lawful purpose or purposes may have been organized, and to pay therefore in whole or in part in cash or by exchanging therefore stocks, bonds or other evidences, of indebtedness or other securities, of this or any other corporation, and while the owner or holder of any such real or personal property, stocks, bonds, debentures, notes, evidence of indebtedness or other securities, contracts, or obligations, to receive, collect and dispose of the interest, dividends and income arising from such property and to possess and exercise in respect thereof, all the rights, stocks so owned. In no case, however, shall the corporation engage a stockbroker or dealer in securities or and an investment house, mutual fund of trust company.

On July 17, 2014, the previous owner of Canaria entered into an agreement with Cosco to sell all their shares, rights, title and interest in Canaria to Cosco. On the same date, Cosco subscribed additional shares amounting to thirty-two thousand five hundred (32,500) common shares from the unissued shares of Canaria. Further, the remaining five thousand (5,000) common shares were subscribed by an individual through PR Gaz Holdings, Inc or "PGHI". Consequently, Canaria became 90% owned by Cosco and 10% owned by PGHI.

The following table summarizes the information relating to Canaria's NCI, before any intra-group elimination.

| | December 31 | |
|---|---|---|
| | **2015** | 2014 |
| **Non-controlling interest percentage** | **10%** | 10% |
| Current assets | **P2,960,330** | P2,927,805 |
| Noncurrent assets | **3,528,491,753** | 3,528,491,753 |
| Current liabilities | **(128,801)** | (3,526,532,060) |
| Noncurrent liabilities | **(3,429,215,443)** | - |
| Net assets | **102,107,839** | 4,887,498 |
| Carrying amount of non-controlling interests | **P10,210,784** | P488,750 |
| Revenue | P41,994 | P2,501 |
| Net income for the year | (31,875) | (102,002) |
| Total comprehensive loss | (P31,875) | (P102,002) |
| Net income (loss) allocated to noncontrolling interest | **(P3,187)** | (P10,200) |
| Cashflow from operating activities | **(94,453,093)** | (3,529,679,346) |
| Cashflow from financing activities | **94,494,588** | 3,531,155,160 |
| Net increase in cash | **P41,495** | P1,475,814 |

*Liquigaz Philippines Corporation*
Incorporated and registered with the SEC on July 26, 1995 primarily to engage in the business of import, export, storage and transshipment of liquefied petroleum gas (LPG), filling and distribution of LPG cylinders to dealers, distribution of LPG in bulk to industrial, wholesale and other customers, installation of equipment at the site of LPG users, and any other activity related to LPG distribution. On August 24, 2009, the SEC approved the amendment of LPC's Articles of Incorporation to specifically include management and operation of service stations providing alternative fuel, such as Automotive Liquefied Petroleum Gas (Autogas) but not limited to LPG.

Prior to the acquisition and transfer, LPC is a wholly-owned subsidiary of SHV Calor Asia B.V. or "SHV Calor", a company incorporated and domiciled in Utrecht, Netherlands, whose ultimate parent is SHV Holdings N.V., also a Dutch company.

On November 21, 2013, SHV Calor entered into a Share Sale and Purchase agreement with PR Gaz, Inc. or "PR Gaz" to sell SHV Calor's shareholdings in LPC subject to compliance with certain terms and conditions as embodied in the agreement.

On July 21, 2014, PR Gaz entered into an agreement with Canaria to sell, cede, transfer and convey all of its rights, interest and title in LPC. Canaria acquired 826,530 shares or 100% of the issued and outstanding share capital of LPC. Consequently, Canaria became the parent company of LPC which made it 90% - indirectly owned by Cosco.

The following table summarizes the information relating to LPC's NCI, before any intra-group elimination.

| | **December 31, 2015** | |
|---|---|---|
| | **2015** | 2014 |
| **Non-controlling interest percentage** | **10%** | 10% |
| Current assets | **P2,373,511,526** | P2,359,438,697 |
| Noncurrent assets | **1,352,608,941** | 1,325,927,055 |
| Current liabilities | **(1,255,853,179)** | (1,324,076,732) |
| Noncurrent liabilities | **(27,285,737)** | (28,307,621) |
| Net assets | **2,442,981,551** | 2,332,981,399 |
| Carrying amount of non-controlling interests | **P244,298,155** | P233,298,140 |
| Revenue | **P11,854,480,944** | P18,955,724,149 |
| Net income for the year | **454,717,747** | 383,493,609 |
| Other comprehensive income | **-** | 685,318 |
| Total comprehensive income | **P454,717,747** | P384,178,927 |
| Net income allocated to noncontrolling interest | **P45,471,775** | P38,349,361 |
| Other comprehensive income allocated to non-controlling interests | **-** | 68,532 |
| Cashflow from operating activities | **1,301,146,368** | 704,363,970 |
| Cashflow from investing activities | **(110,087,396)** | (116,378,618) |
| Cashflow from financing activities | **659,200,014** | (271,297,396) |
| Net increase in cash and cash equivalents | **P1,850,258,986** | P316,687,956 |

*Calor Philippines Holdings, Inc.*
Incorporated and registered with the SEC on January 12, 1999 primarily to acquire for investment and to sell properties, among others, provided that Calor shall not engage in the business of an open-ended investment company as defined in the Investment Company Act (Republic Act 2629).

Prior to acquisition and transfer, Calor is 60% owned by Supralex Asia ventures Trading, Inc. or "Supralex" and 40% owned by SHV Calor Asia B.V. or "SHV Calor".

On April 23, 1999, SHV Calor entered into an agreement with LPC to sell, transfer and convey all its right, title and interest in Calor.

On July 15, 2014, Supralex entered into an agreement with Canaria to sell all its rights, title, and interest in Calor. Supralex owned 36,075 share or sixty percent (60%) equity interest in Calor. Consequently, Canaria became the parent company of CPHI that made it 90% - indirectly owned by Cosco.

The following table summarizes the information relating to Calor's NCI, before any intra-group elimination.

| | December | |
|---|---|---|
| | **2015** | 2014 |
| **Non-controlling interest percentage** | **10%** | 10% |
| Current assets | **P23,692** | P23,692 |
| Noncurrent assets | **40,304,272** | 37,700,432 |
| Current liabilities | **(32,605,310)** | (31,275,248) |
| Noncurrent liabilities | **(3,813,925)** | (4,661,464) |
| Net assets | **3,908,729** | 1,787,412 |
| Carrying amount of non-controlling interests | **P390,873** | P178,741 |
| Revenue | **P2,603,840** | P2,403,399 |
| Net income for the year | **2,121,317** | 1,709,540 |
| Total net income/comprehensive income | **P2,121,317** | P1,709,540 |
| Net income allocated to noncontrolling interest | **P212,132** | P170,954 |
| Cashflow from operating activities | **P -** | P - |
| Cashflow from investing activities | **-** | - |
| Cashflow from financing activities | **-** | - |
| Movement in cash in bank | **P -** | P - |

The Parent Company's current major stockholders consist of individual and corporate Filipino investors.

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

## 2. Basis of Preparation

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on April 1, 2016.

Basis of Consolidation

*Business Combinations Under Common Control*

Business combinations arising from transfer of interest in entities under control are accounted for using the pooling of interest method, prospectively from the acquisition date as allowed under PIC Q&A 2012-01. Under the prospective pooling of interest method, the assets and liabilities acquired are recognized at the book values or carrying amounts recognized in the acquiree's stand alone financial statements from the acquisition date. The difference between the book value of net assets acquired and the consideration paid or equity instruments issued is recognized in equity, under retained earnings. The profit or loss of the acquirees are consolidated from the acquisition date. Comparative periods are not restated.

*Business Combinations other than Under Common Control*

Business combinations and acquisition of entities other than those under common control are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquire; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

*Subsidiaries*

Subsidiaries are entities controlled by the Group. In accordance with PFRS 10 *Consolidated Financial Statements*, the Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

*Non-controlling Interests*

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the Group's equity attributable to equity holders of the Parent Company. Losses applicable to the non-controlling interests in a subsidiary (including components of other comprehensive income) are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

NCI is measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

*Transactions Eliminated on Consolidation*
All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in preparing the consolidated financial statements, in accordance with the accounting policy on consolidation. Unrealized losses are eliminated unless costs cannot be recovered.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies for like transactions and other events in similar circumstances.

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

| Items | Measurement bases |
|---|---|
| Investments in trading securities | Fair value |
| Available-for-sale financial assets | Fair value |
| Net defined liability | Present value of the defined benefit obligation less fair value of plan assets |

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest peso, unless otherwise stated.

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

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:

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

*Classifying Financial Instruments*
The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities.

*Determining Fair Value*
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.

*'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.

The fair values of the Group's financial instruments are presented in Note 33 to the consolidated financial statements, while the fair values of the Group's investment properties are disclosed in Note 13.

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

The Group has determined that its investments in joint arrangements are classified as investments in joint ventures.

As at December 31, 2015 and 2014, the cost of its investments in joint ventures amounted to P485.46 million and P450.46 million, respectively (see Note 11).

*Distinction between Investment Property and Property and Equipment*
The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Property and equipment or owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

The Group has determined that its properties held by the retail business are classified as owner-occupied properties while the land and building improvements held for lease are investment properties.

*Assessment of Computer Software and Licenses and Leasehold Rights*
The Group acquired computer software and licenses and leasehold rights to be used for its primary line of business. Based on the following attributes, the Group assessed that the computer software and licenses and leasehold rights are intangible assets since: (1) these are separable; in the case of computer software and licenses, these are not integral part of the related hardware, thus, the Group can sell the software and licenses individually or together with a related contract, asset or liability, and (2) they arose from contractual or other legal rights.

*Assessing Lease Agreements*
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and arrangement conveys a right to use the asset.

*Operating Leases - Group as a Lessee*
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent expense recognized in profit or loss amounted to P1,905.02 million, P1,669.92 million and P803.1 million in 2015, 2013, and 2012, respectively (see Notes 21, 22 and 24).

*Operating Leases - Group as a Lessor*
The Group has entered into various lease agreements as a lessor to sublease portion of its stores to various lessees. The Group has determined that the lessor 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 P371.26 million, P356.99 million and P157.46 million in 2015, 2014 and 2013, respectively (see Notes 22 and 23).

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

The allowance for impairment losses on receivables amounted to P149.68 million and P164.46 million as at December 31, 2015 and 2014, respectively. The carrying amount of receivables amounted to P5,648.82 million and P5,321.99 million as at December 31, 2015 and 2014, respectively (see Note 6).

*Estimating Allowance for Impairment Losses on AFS Financial Assets*
The Group in accordance with PFRSs determines when an AFS financial asset is impaired. This determination requires significant judgment. In making this judgment the Group evaluates, among other factors the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss by transferring the accumulated fair value adjustments recognized in equity on the impaired AFS financial assets to profit or loss. As at December 31, 2015 and 2014, management believes that changes in fair values as quoted in the market of traded securities remain temporary. Accordingly, no permanent impairment is required to be recognized.

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

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

The carrying amount of inventories amounted to P16,740.69 million and P13,921.69 million as at December 31, 2015 and 2014, respectively (see Note 7).

*Estimating Useful Lives of Property and Equipment*
The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, the estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease noncurrent assets.

Depreciation and amortization recognized in profit or loss amounted to P1,485.38 million, P1,322.07 million and P634.92 million in 2015, 2014 and 2013, respectively (see Notes 21 and 24). Property and equipment, net of accumulated depreciation, amounted to P16,136.87 million and P15,285.19 million as at December 31, 2015 and 2014, respectively (see Note 12).

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

Amortization recognized in profit or loss amounted to P26.29 million, P13.76 million and P10.38 million in 2015, 2014 and 2013, respectively. Net carrying value of computer software and licenses and leasehold rights amounted to P247.91 million and P235.22 million as at December 31, 2015 and 2014, respectively (see Note 14).

*Impairment of Goodwill, Trademarks and Customer Relationships with Indefinite Lives*
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, trademark and customer relationships with indefinite useful lives amounted to P22,310.16 million and P20,817.42 million as at December 31, 2015 and 2014, respectively (see Note 14).

*Estimation of Reserves*
Oil and mineral reserves are key elements in the Group's investment decision making process. They are also an important element in the Group's impairment testing. Changes in proven oil and mineral reserve will affect the standardized measure of discounted cash flows and the unit-of-production depletion charges to profit or loss.

Proven oil reserves are the estimated quantities of crude oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimates are made. Proven developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

Proven mineral reserves are the economically mineable part of a measured mineral resource. It includes diluting materials and allowance for losses which may occur when the material is mined. Appropriate assessment, which includes a pre-feasibility study, at the minimum, have been carried out, and include consideration of, and modification of, realistically assumed mining, metallurgical, economic, marketing, legal environment, social and government factors. These assessments demonstrate that extraction could reasonably be adjusted at the reporting date.

Estimates of oil and mineral reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as the standardized measure of discounted cash flows, depletion, and decommissioning provisions) that are based on proven developed reserves are also subject to change.

Proven developed oil reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proven developed reserve estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimated proven developed reserves only include volumes for which access to market is assured with reasonable certainty. All proven developed reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the estimated amount of proven reserves will be subject to future revisions once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions in estimates (see Note 15).

*Estimating Realizability of Deferred Tax Assets*
The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount 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 reviews its projected performance in assessing the sufficiency of future taxable income.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

The Group has recognized deferred tax assets amounting to P1,274.95 million and P1,000.60 million as at December 31, 2015 and 2014, respectively (see Note 28).

*Impairment of Non-financial Assets*
PFRSs require that an impairment review be performed on non-financial assets other than merchandise inventory and deferred tax assets when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amount of assets requires estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of recoverable amounts are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the financial performance.

There were no impairment losses on property and equipment and other non-financial assets recognized in 2015, 2014 and 2013.

*Estimating Retirement Benefits/Obligation*
The determination of the Group's obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rate and salary increase rates. Remeasurements of the retirement benefit obligation are recognized in other comprehensive income and comprise of actuarial gains and losses on the retirement benefit obligation, return on plan assets, excluding amounts included in the net interest of the pension benefit obligation and any change in the effect of the asset ceiling, excluding amounts included in the net interest on the pension benefit obligation.

Retirement benefits liability amounted to P479.82 million and P433.44 million as at December 31, 2015 and 2014, respectively (see Note 27).

*Estimating Provisions and Contingencies*
The Group, in the ordinary course of business, sets up appropriate provision for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

As at December 31, 2015 and 2014, the Group does not have any contingent legal or constructive obligation that requires provision.

## 3. Summary of Significant Accounting Policies

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

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The Group has adopted the following amendments to standards starting January 1, 2015 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to the standards did not have any significant impact on the Group's consolidated financial statements:

- *Annual Improvements to PFRSs: 2010 - 2012 and 2011 - 2013 Cycles* - Amendments were made to a total of nine standards, with changes made to the standards on business combinations and fair value measurement in both cycles. Earlier application is permitted, in which case the related consequential amendments to other PFRSs would also apply. Special transitional requirements have been set for amendments to the following standards: PFRS 2, PAS 16, PAS 38 and PAS 40. The following are the said improvements or amendments to PFRSs, none of which has a significant effect on the consolidated financial statements of the Group:

  - *Classification and measurement of contingent consideration* (*Amendments to PFRS 3*). The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to *PAS 32 Financial Instruments: Presentation*, rather than to any other PFRSs. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss.

Consequential amendments are also made to *PAS 39 Financial Instruments: Recognition and Measurement* and *PFRS 9 Financial Instruments* to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, *PAS 37 Provisions, Contingent Liabilities and Contingent Assets* is amended to exclude provisions related to contingent consideration.

- *Scope exclusion for the formation of joint arrangements (Amendment to PFRS 3)*. PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in *PFRS 11 Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves.

- *Disclosures on the aggregation of operating segments (Amendment to PFRS 8)*. PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: a brief description of the operating segments that have been aggregated; and the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- *Scope of portfolio exception (Amendment to PFRS 13)*. The scope of the PFRS 13 portfolio exception – whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met – has been aligned with the scope of PAS 39 and PFRS 9.

  PFRS 13 has been amended to clarify that the portfolio exception potentially applies to contracts in the scope of PAS 39 and PFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under PAS 32 – e.g. certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- *Definition of 'related party' (Amendment to PAS 24).* The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g. loans.

- *Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.

Standards Issued But Not Yet Adopted
A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2015. However, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

*Effective January 1, 2016*

- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to PAS 16 and PAS 38).* The amendments to *PAS 38 Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

  The amendments to *PAS 16 Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g. changes in sales volumes and prices.

- *Annual Improvements to PFRSs 2012 - 2014 Cycle.* This cycle of improvements contains amendments to four standards, none of which are expected to have significant impact on the Group's consolidated financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

  - *Offsetting disclosures in condensed interim financial statements (Amendment to PFRS 7).* PFRS 7 is also amended to clarify that the additional disclosures required by *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7)* are not specifically required for inclusion in condensed interim financial statements for all interim periods; however, they are required if the general requirements of *PAS 34 Interim Financial Reporting* require their inclusion.

  The amendment to PFRS 7 is applied retrospectively, in accordance with *PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.*

- *Disclosure Initiative (Amendments to PAS 1)* addresses some concerns expressed about existing presentation and disclosure requirements and to ensure that entities are able to use judgment when applying PAS 1. The amendments clarify that:

  - Information should not be obscured by aggregating or by providing immaterial information.

  - Materiality considerations apply to all parts of the financial statements, even when a standard requires a specific disclosure.

  - The list of line items to be presented in the statement of financial position and statement of profit or loss and other comprehensive income can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

- An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

*Effective January 1, 2018*

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

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

  The Group is assessing the potential impact on its consolidated financial statements resulting from the application of PFRS 9.

*Effective January 1, 2019*

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

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted PFRS 15. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.

*Pending approval of local adoption of PFRS 15 Revenue from Contracts with Customers*

- *PFRS 15 Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

  However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

*Deferral of the local implementation of Philippine Interpretation IFRIC 15 Agreements for the Construction of Real Estate*

- Philippine Interpretation IFRIC 15 *Agreements for the Construction of Real Estate* applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan'; i.e., before construction is completed. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11 *Construction Contracts*, or PAS 18 *Revenue*, and the timing of revenue recognition.

  The SEC issued a Notice dated August 5, 2011 to further defer the implementation of Philippine Interpretation IFRIC 15 Agreements for the Construction of Real Estate until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and after an evaluation on the requirements and guidance in the said standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed.

Financial Instruments

*Date of Recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes directly attributable transaction costs.

Subsequent to initial recognition, the Group classifies its financial assets into the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, FVPL financial assets, and loans and receivables. The Group classifies its financial liabilities as either FVPL financial liabilities or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of the Group's financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group had no HTM investments and FVPL financial liabilities as at December 31, 2015 and 2014.

*Financial Assets at FVPL*
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL and those classified under this category through the fair value option.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition at FVPL or reclassified under this category through fair value option, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using fair values. Fair value changes and realized gains and losses are recognized as part of profit or loss.

The Group's investments in trading securities are classified under this category.

The carrying amounts of financial assets under this category amounted to P34.43 million and P37.45 million as at December 31, 2015 and 2014, respectively (see Note 8).

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Group's cash and cash equivalents, short-term investments, receivables, due from related parties and security deposits are included in this category (see Notes 4, 5, 6, 32 and 33).

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 changes in value.

*AFS Financial Assets.* AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income. Dividends earned on holding AFS equity securities are recognized as income when the right to receive payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include investments in unquoted equity instruments which are carried at cost less impairment, if any, since the fair value cannot be determined reliably in the absence of an observable market data on the related assets.

*Other Financial Liabilities*
This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

The Group's accounts payable and accrued expenses, short-term loans and long-term loans payable, due to related parties, trust receipts payable, other current liabilities and noncurrent accrued rent are included in this category (see Notes 17, 18, 19, 32 and 33).

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

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

- the rights to receive cash flows from the asset have expired;

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

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

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

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

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

Inventories
Inventories is stated at the lower of cost and NRV. Cost is determined using the moving average method. Costs comprise of purchase price, including duties, transport and handling costs, and other incidental expenses incurred in bringing the merchandise inventory to its present location and condition.

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

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

An associate is an enterprise in which the investor has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

The Group's investments in joint ventures and associates are accounted for under the equity method of accounting. Under the equity method, investments in joint ventures and associates are initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the investments in joint ventures and associates after the date of acquisition. The Group's share in profit or loss of the joint ventures and associates are recognized in the Group's profit or loss. Dividends received from the investments in joint ventures and associates reduce the carrying amount of the investments.

Investment in a Joint Operation
A joint arrangement is classified as joint operations when the Group has rights to the assets and obligations for the liabilities relating to the arrangement. The Group recognizes its share in the results of the joint arrangement aside from the compensation from the use of its land and building. The Group has no capital commitments or contingent liabilities in relation to its interests in joint arrangements.

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.

Wells, platforms and other facilities comprising oil and gas property represents the Company's share in the Service Contract (SC) 14's total capitalized exploration and development expenditures. They are amortized 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.

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

| | Number of Years |
|---|---|
| Building | 15 - 30 |
| Wells, platforms and other facilities | 25 |
| Furniture and fixtures | 2 - 20 |
| Office and store equipment | 2 - 15 |
| Transportation equipment | 3 - 5 |
| Leasehold improvements | 15 - 20 or term of the lease, whichever is shorter |

The useful lives and depreciation and amortization methods are reviewed at each reporting date to ensure that they are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

Investment Properties

Investment properties consist of properties such as building held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes, is initially measured at cost. The cost of investment property includes purchase price and directly attributable expenditure on preparing the asset for its intended use. Subsequent to initial recognition, investment property is carried at cost less depreciation and impairment loss.

Construction-in-progress is carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation of building is computed using the straight-line method over 50 years.

The useful lives, residual values and method of depreciation of the assets are reviewed and adjusted if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner's 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 the owner's occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount 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.

Intangible Assets and Goodwill

*Goodwill*

Goodwill that arises on the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition, see policy on basis of consolidation. Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

*Intangible Assets*

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

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

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

Computer software and licenses and leasehold rights are separately acquired by the Group that has finite useful life is measured at cost less accumulated amortization and impairment losses, if any.

Subsequent costs are capitalized only when they increase the future economic benefits embodied in the capitalized software to which they relate. All other expenditures are recognized in profit or loss when incurred.

The amortization is computed using the straight-line method over the estimated useful life of the capitalized software from the date it is available for use and amortized over five (5) years. Leasehold rights are amortized on a straight-line basis over the lease period of twenty (20) years. The estimated useful life and the amortization method of an intangible asset with finite useful life are reviewed at each reporting date.

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 Company 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 Assets

*Financial Assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the assets does not exceed its amortized cost at the reversal date.

*AFS Financial Assets*
If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

All impairment losses are recognized in profit or loss.

*Non-financial Assets*
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Deposits for Future Stocks Subscription

Deposit for future stocks subscription represents deposits from stockholders which will be applied against subscriptions to shares of stock of the Company. This is recognized as a liability if it does not meet all the elements of an equity instrument.

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 current and prior years' results, net of transactions with shareholders and dividends declared, if any.

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.

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 and Expense Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

- *Sale of Goods* is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

- *Sale of Services*

  *Rent Income* is recognized on a straight-line basis over the lease term.

  *Concession Income* pertains to the fixed percentage income from sales of concessionaire supplier's goods sold inside the store. The income is recognized when earned.

  *Membership Income* refers to fees from members wherein such fees permit only membership, and all other services or products are paid for separately. The fee is recognized as revenue when no uncertainty as to its collectability exists.

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

  *Interest Income* is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition. Interest income is presented net of final tax.

  *Dividends* are recognized when the Group's right as a shareholder to receive the payment is established.

*Other Income* from display, demonstration or sampling, endcap or palette income, merchandise support and miscellaneous income are recognized when earned.

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

*Cost of Services*
Cost of services pertains to direct expenses incurred for the lease of investment properties. This primarily includes repairs and maintenance, real property taxes, depreciation, utilities and other related expenses.

This also includes services incurred in relation to the management of such investment properties.

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

<u>Borrowing Costs</u>
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.

<u>Income Taxes</u>
*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.

<u>Leases</u>
*Group as Lessee*
Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

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

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

Foreign Currency Transactions and Translation
Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising from foreign currency transactions are recognized in profit or loss.

Segment Reporting
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 30 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

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

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

Provisions 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.

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.

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:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Cash on hand | | **P781,359,016** | P1,326,831,502 |
| Cash in banks | *32, 33* | **3,538,525,193** | 2,877,998,722 |
| Money market placements | *32, 33* | **10,221,581,141** | 11,476,180,594 |
| | | **P14,541,465,350** | P15,681,010,818 |

Cash in banks earns annual interest at the respective bank deposit rates. Money market placements are highly liquid investments that are readily convertible into cash and are subjected to insignificant risk of changes in value. These investments have maturity dates of an average of 30 days with an annual interest rates ranging from 1.00% to 2.30% in 2015 and from 1.00% to 2.80% in 2014.

## 5. Short-term Investments

These short-term investments are placements with a commercial banking institution, with maturity of more than 90 days. The Group, primarily the Retail and Real Estate segments, engage in investing activities in order to maximize earnings on available cash funds. These investments earn annual interest at the prevailing market rate of 1.5% to 1.875% in 2015 and 1.625% to 1.85% in 2014.

Subsidiaries that are engaged in investing activities are as follows:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Nation Realty, Inc. | | **P479,199,327** | P472,361,589 |
| Pure Petroleum | | **50,143,836** | - |
| Ellimac Prime Holdings, Inc. | | **32,612,815** | 75,498,968 |
| Patagonia Holdings, Corp. | | **-** | 204,379,143 |
| 118 Holdings, Inc. | | **-** | 71,838,415 |
| | *32, 33* | **P561,955,978** | P824,078,115 |

## 6. Receivables

This account consists of:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Trade receivables | *a* | **P4,386,520,928** | P4,611,226,154 |
| Non-trade receivables | *b* | **1,229,679,232** | 676,649,276 |
| Others | | **181,617,188** | 198,568,313 |
| | | **5,797,817,348** | 5,486,443,743 |
| Less allowance for impairment losses on trade receivables from third parties | *a* | **149,684,186** | 164,457,192 |
| | *32, 33* | **P5,648,133,162** | P5,321,986,551 |

a. Majority of trade receivables pertain to credit card transactions which are due within 30 days or its normal credit period. The Group partners only with reputable credit card companies affiliated with major banks.

   Management believes that except for the accounts provided with allowance for impairment losses amounting to P149.68 million and P164.46 million as at December 31, 2015 and 2014, all other receivables are collectible and therefore, no additional allowance is necessary.

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

| | 2015 | 2014 |
|---|---|---|
| Beginning balance | **P164,457,192** | P20,581,380 |
| Effect of business combination | **-** | 193,433,835 |
| Provision for doubtful accounts recognized during the year | **11,294,211** | 6,371,835 |
| Write-off during the year | **(26,067,217)** | (55,929,858) |
| Ending balance | **P149,684,186** | P164,457,192 |

b. Non-trade receivables represent the amounts due from tenants in relation to rentals of store spaces. This account also includes due from suppliers with respect to "demo" or "sampling" conducted by suppliers' representatives and strategic locations granted to suppliers with regard to the display of their products in the selling area of the stores. It also includes advances to employees which are collected by the Group through salary deduction.

## 7. Inventories

This account consist of:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Merchandise inventory | | **P13,223,019,684** | P11,347,948,354 |
| Wines and spirits | | **3,262,108,809** | 2,244,869,573 |
| LPG, autogas and LPG accessories | | **255,564,840** | 328,867,418 |
| | *21* | **P16,740,693,333** | P13,921,685,345 |

Merchandise inventory consists of groceries and other consumer products (canned goods, housewares, toiletries, dry goods, food products, office supples etc.) held for sale in the ordinary course of business on wholesale and retail basis.

Inventory cost as at December 31, 2015 and 2014 is lower than NRV.

Inventory charged to the cost of sales amounted to P95,700.13 million, P80,841.35 million and P39,121.07 million in 2015, 2014 and 2013, respectively (see Note 21).

## 8. Investments in Trading Securities

The investments in trading securities represent the Group's investments in marketable securities that are traded in the PSE. The fair values of these listed shares are based on their closing market prices as at reporting dates.

The movements and balances of these investments in trading securities are as follows:

| **Cost** | Note | 2015 | 2014 |
|---|---|---|---|
| Balance at beginning of year | | **P14,518,906** | P14,518,906 |
| Addition | | **837,092** | - |
| Balance at end of year | | **15,355,998** | 14,518,906 |
| **Valuation Adjustments** | | | |
| Balance at beginning of year | | **22,929,563** | 14,348,470 |
| Unrealized valuation gain (loss) on financial assets at FVPL for the year | *25* | **(3,852,970)** | 8,581,093 |
| Balance at end of year | | **19,076,593** | 22,929,563 |
| | *32, 33* | **P34,432,591** | P37,448,469 |

## 9. Available-for-sale Financial Assets

Details of AFS financial assets as at December 31 are as follows:

| | Note | 2015 | 2014 |
|---|---|---|---|
| Investment in debt securities | | **P 1,918,335** | P5,657,105 |
| Investment in shares of stock | | **6,668,852** | 8,619,919 |
| | *32,33* | **P8,587,187** | P14,277,024 |

Investments in debt securities represent investments in bonds and preference shares of a listed company and are readily marketable at the option of the Group.

Investments in shares of stocks represent investments in marketable securities that are traded in the PSE. The fair values of these listed shares are based on their closing market prices as at reporting dates.

Reserve for changes in value of AFS financial assets amounted to P4.98 million and P6.93 million as at December 31, 2015 and 2014, respectively.

## 10. Prepaid Expenses and Other Current Assets

This account consists of:

| | 2015 | 2014 |
|---|---|---|
| Input value added tax (VAT) | **P954,788,287** | P457,008,801 |
| Prepaid expenses | **533,143,210** | 342,350,732 |
| Advances to suppliers | **308,934,145** | 211,920,443 |
| Creditable withholding tax | **95,496,061** | 90,062,840 |
| Deferred input VAT | **-** | 30,643,394 |
| Others | **11,207,961** | 32,928,139 |
| | **P1,808,073,603** | P1,164,914,349 |

Input VAT represents accumulated input taxes from purchases of goods and services for business operation and purchases of materials and services for the building and leasehold construction which can be applied against future output VAT.

Prepaid expenses comprise of prepaid rent, prepaid taxes and licenses which pertain to payments made to government for registration fees and other taxes and prepaid insurance which refers to payments made in advance in return for insurance services covering Group's merchandise inventories, property and equipment and others.

Advances to suppliers pertain to advanced payments made to suppliers prior to the delivery or shipment of goods. These include advances to foreign suppliers which were denominated in foreign currency.

Deferred input VAT represents accumulated input taxes for purchases of capital assets more than P1.0 million and unbilled services for the building and leasehold construction which can be applied against future output VAT.

## 11. Investments

This account consists of:

| | *Note* | 2015 | 2014 |
|---|---|---|---|
| Investments in joint ventures | *b* | **P485,463,900** | P450,455,093 |
| AFS financial assets | *a, 32, 33* | **7,879,160** | 7,879,160 |
| Investment in associates | *c* | **495,846,580** | 453,730,929 |
| | | **P989,189,640** | P912,065,182 |

a. *AFS Financial Assets*

Retail

- AFS financial assets pertain to Tower Club shares amounting to P617,500 and Meralco preferred shares amounting to P7,261,660 which is acquired in connection with the installation of telephone lines and electrical systems for the different stores and offices of the Retail segment.

  The AFS Financial assets pertaining Tower Club is carried at cost since the fair value cannot be determined reliably in the absence of an observable market data on these related assets.

b. *Investments in Joint Ventures*

Retail

- On June 12, 2014, the Group thru PPCI entered into a joint venture agreement 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 that will operate convenience stores in the Philippines.

  The Group subscribed a total of 350,000,000 common shares at P100.00 par value for a total investment of P350 million representing a 70% interest while Lawson subscribed to a total of 1,500,000 common shares at P100.00 par value for a total investment of P150 million or 30% interest in the joint venture.

  PLCI was incorporated in the Philippines on June 2, 2014. 1t has no operations in 2014.

- On July 8, 2013, the Group through PPCI entered into a joint venture agreement with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold), for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as both parties may agree. AyaGold was incorporated in the Philippines on July 8, 2013 and is expected to start operations in 2015.

  Both parties subscribed to 6,000,000 common shares and 54,000,000 redeemable preferred shares each with a par value of P1.00 for a total investment of P60 million representing 50% interest each to the joint venture.

  The redeemable preferred shares shall have the following features:

  *(a)* Voting rights;

  *(b)* 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;

(c) 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

(d) Redeemable at the option of the joint venture.

Under the equity method, the Group's investment in AyaGold is reduced by P17.3 million due to the share in the net losses of AyaGold which was recognized under "Others" account in the consolidated statements of comprehensive income (see Note 25).

The summarized financial information of PLCI follows:

| | 2015 | 2014 |
|---|---|---|
| Current assets | **P400,307,281** | P43,266,000 |
| Noncurrent assets | **145,084,817** | 44,991,763 |
| Current liabilities | **86,708,140** | 2,805,466 |
| Noncurrent liabilities | **4,002,655** | - |
| Total equity | **495,149,615** | 85,452,297 |
| Income | **55,408,813** | 543,465 |
| Pre-operating expenses | **117,014,485** | 32,329,362 |
| Net loss | **40,468,311** | 31,884,756 |

** Incorporated on June 12, 2014.*

The carrying amount of its investment and its share in the losses of PLCI follow:

| | 2015 | 2014 |
|---|---|---|
| Carrying amount | **P350,000,000** | P350,000,000 |
| Share in net loss | **(31,723,087)** | - |
| | **P318,276,913** | P350,000,000 |

The summarized financial information of Ayagold follows:

| | 2015 | 2014 |
|---|---|---|
| Total assets | **P97,981,826** | P88,257,764 |
| Total liabilities | **198,862,884** | 2,805,466 |
| Total equity | **227,520,898** | 85,452,298 |
| Income | **127,102,117** | 506,607 |
| Pre-operating expenses | **-** | 35,054,309 |
| Net loss | **(32,209,410)** | (34,547,702) |

The carrying amount of its investment and its share in the losses of AyaGold follow:

| | 2015 | 2014 |
|---|---|---|
| Carrying amount | **P42,726,149** | P60,000,000 |
| Additional investment | **87,500,000** | - |
| Share in net loss | **(16,104,705)** | (17,273,851) |
| | **P114,121,444** | P42,726,149 |

Specialty Retail

- On December 15, 2000, LPC entered into a joint venture agreement with Total Petroleum Philippines Corporation or "TPPC" *[presently known as Total (Philippines) Corporation]* to establish a joint venture corporation to be known as Mariveles Joint Venture Corporation or "MJVC". The primary purpose of MJVC is 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 liquefied petroleum gas 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, liquefied petroleum gas 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.

  LPC and TPPC subscribed 160,049 common shares each from the issued and outstanding capital stock of MJVC. Consequently, LPC and TPPC each own 50% of the outstanding capital stock of the MJVC.

  LPC assessed the nature of its joint arrangement in MJVC and determined it to be joint venture and used equity method of accounting.

The carrying amount of LPC's investment and its share in results of MJVC as at and for the year ended December 31, 2015 and 2014 are presented below:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **P57,728,944** | P56,684,154 |
| Share in net loss | **(2,563,177)** | (1,055,434) |
| Adjustments | - | 2,100,224 |
| Balance at end of year | **P55,165,767** | P57,728,944 |

The financial information of MJVC as at December 31, 2015 and 2014 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Assets | **P109,111,495** | P115,744,439 |
| Liabilities | **3,032,276** | 4,538,865 |
| Net Assets | **106,079,219** | 111,205,574 |
| Revenues | **22,000,000** | 22,000,000 |
| Net loss | **(5,126,355)** | (2,110,868) |

c. *Investment in Associate*

Retail

*San Roque Supermarkets or SRS*

On December 4, 2013, the Group through PPCI acquired equity interest in San Roque Supermarkets (SRS) for a total cost of P371,896,077. SRS is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.

On October 31, 2014, the Group through PPCI subscribed and paid additional one hundred ninety thousand eight (190,008) common shares from the unissued capital stock of the SRS for total cost of P19,000,800.

The carrying amount of SRS's investment and its share in results of SRS in 2015 and 2014 are presented below:

| | 2015 | 2014 |
|---|---|---|
| **Carrying Amount** | | |
| Balance at beginning of the year | **P390,896,877** | P371,896,077 |
| Additions | **-** | 19,000,800 |
| Share in net income | **36,916,212** | - |
| | **P427,813,089** | P390,896,877 |

Specialty Retail

*Peninsula Land Bay Realty Corporation or PLBRC*

On June 24, 1998, LPC subscribed 15,475 shares in the common stock issued and outstanding of PLBRC. The subscribed shares represent twenty percent (20%) equity interest in PLBRC. PLBRC is primarily engage in the business of acquiring, developing and leasing real estate properties to its related parties. Thirty percent (30%) of its outstanding capital stock is owned by La Defense Filipinas Holdings Corporation, another thirty percent (30%) is owned by CPHI, while the remaining twenty percent (20%) is owned by Total (Philippines) Corporation.

LPC accounted its investment in PLBRC under equity method.

The carrying amount of LPC's investment and its share in results of PLBRC in 2015 and 2014 are presented below:

| | 2015 | 2014 |
|---|---|---|
| Balance at beginning of year | **P25,133,620** | P23,531,355 |
| Share in net income | **1,735,894** | 1,602,265 |
| Balance at end of year | **P26,869,514** | P25,133,620 |

Holding

Investment in an associated company represents the CPHI's 30% equity in PLBRC which consists of:

| | 2015 | 2014 |
|---|---|---|
| **Acquisition Cost** | **P22,958,280** | P22,958,280 |
| Accumulated share in results | | |
| January 1 | **14,742,152** | 12,338,753 |
| Share in net income | **2,603,840** | 2,403,399 |
| **December 31** | **17,345,992** | 14,742,152 |
| | **P40,304,272** | P37,700,432 |

The financial information of PLBRC as at December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Assets | **P140,847,990** | P146,025,205 |
| Liabilities | **6,500,422** | 20,357,102 |
| Net Assets | **134,347,568** | 125,668,103 |
| Revenues | **60,000,000** | 60,000,000 |
| Net income | **8,679,465** | 8,011,329 |

## 12. Property and Equipment

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

| | Building | Furniture and Fixtures | Office and Store Equipment | Leasehold Improvements | Land | Construction-in-Progress | Machineries and Transportation Equipment | Wells, Platforms and Other Facilities | Storage Tanks | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| Balance as at January 1, 2014 | P3,901,639,272 | P1,267,608,626 | P2,922,831,145 | P4,329,265,817 | P386,605,819 | P370,079,837 | P277,746,249 | P204,955,281 | P520,352,787 | P14,181,084,833 |
| Additions/effect of business combination | 1,201,870,657 | 219,145,893 | 175,774,351 | 95,646,249 | - | 2,235,446 | 101,508,962 | | 902,580,875 | 2,698,762,433 |
| Reclassifications | 220,492,401 | (2,162,566) | 101,273,599 | 518,987,887 | - | (831,983,518) | - | - | (6,607,803) | - |
| Additions | 84,632,107 | 234,398,147 | 546,139,083 | 429,762,727 | - | 646,608,983 | 14,564,315 | - | 38,130,043 | 1,994,235,405 |
| Disposals/retirements | (2,321,429) | (5,401,285) | (21,770,172) | (47,278,384) | - | - | (7,367,632) | - | (7,066,822) | (91,205,724) |
| Balance as at December 31, 2014 | 5,406,313,008 | 1,713,588,815 | 3,724,248,006 | 5,326,384,296 | 386,605,819 | 186,940,748 | 386,451,894 | 204,955,281 | 1,447,389,080 | 18,782,876,947 |
| Transfer in | - | 101,245,684 | 264,808,649 | 107,455,093 | - | - | - | - | | 473,509,426 |
| Additions | 330,039,947 | 152,426,417 | 456,437,262 | 709,885,803 | 17,134,337 | 635,324,272 | 73,184,823 | - | 41,017,544 | 2,415,450,405 |
| Reclassifications | 97,748,986 | 23,683,528 | 144,025,168 | 142,622,232 | - | (408,079,914) | - | - | - | - |
| Disposals | (196,429) | (3,714,059) | (68,260,863) | (2,935,742) | - | - | (1,259,450) | - | (8,690,266) | (85,056,808) |
| Adjustments | - | - | 240,000 | (166,142,991) | - | (142,136,607) | - | - | - | (308,039,598) |
| **Balance as at December 31, 2015** | **5,833,905,512** | **1,987,230,385** | **4,521,498,222** | **6,117,268,691** | **403,740,156** | **272,048,499** | **458,377,267** | **204,955,281** | **1,479,716,358** | **21,278,740,371** |
| **Accumulated Depreciation** | | | | | | | | | | |
| Balance as at January 1, 2014 | 78,082,426 | 84,944,269 | 332,876,839 | 124,043,341 | - | - | 23,094,953 | 44,917,503 | 12,410,458 | 700,369,789 |
| Additions/effect of business combination | 806,659,930 | 177,961,432 | 127,153,080 | 36,237,103 | - | - | 70,952,904 | - | 330,306,942 | 1,549,271,391 |
| Adjustments | 207,103 | (628,085) | (131,360) | 552,342 | - | - | - | - | - | - |
| Depreciation and amortization | 178,478,923 | 155,922,670 | 674,961,548 | 259,470,832 | - | - | 10,893,832 | - | 42,343,096 | 1,322,070,901 |
| Disposals/retirements | (45,138) | (3,027,315) | (18,167,738) | (47,278,326) | - | - | (4,676,214) | - | (828,632) | (74,023,363) |
| Balance as at December 31, 2014 | 1,063,383,244 | 415,172,971 | 1,116,692,369 | 373,025,292 | - | - | 100,265,475 | 44,917,503 | 384,231,864 | 3,497,688,718 |
| Transfer-in | 815,531 | 37,401,315 | 121,453,275 | 36,371,352 | - | - | - | - | - | 196,041,473 |
| Depreciation and amortization | 224,063,182 | 171,537,411 | 684,532,965 | 288,550,100 | - | - | 61,012,940 | - | 55,678,513 | 1,485,375,111 |
| Adjustments | | | | (31,077,718) | - | - | - | - | - | (31,077,718) |
| Reclassification | 73,491 | (24,615) | (1,231) | (47,645) | - | - | - | - | - | - |
| Disposals/retirements | (147,321) | (1,396,138) | (2,627,625) | (251,911) | - | - | (385,633) | - | (1,346,362) | (6,154,990) |
| **Balance as at December 31, 2015** | **1,288,188,127** | **622,690,944** | **1,920,049,753** | **666,569,470** | - | - | **160,892,782** | **44,917,503** | **438,564,015** | 5,141,872,594 |
| **Carrying Amount** | | | | | | | | | | |
| December 31, 2014 | P4,342,929,764 | P1,298,415,844 | P2,607,555,637 | P4,953,359,004 | P386,605,819 | P186,940,748 | P286,186,419 | P160,037,778 | P1,063,157,216 | **P15,285,188,229** |
| **December 31, 2015** | **P4,545,717,385** | **P1,364,539,441** | **P2,601,448,470** | **P5,450,699,221** | **P403,740,156** | **P272,048,499** | **P297,484,485** | **P160,037,778** | **P1,041,152,343** | **P16,136,867,778** |

Transfer-in pertains to property and equipment of acquired and merged entities upon its acquisition as mentioned in Note 1. The adjustments resulted from the evaluation made by the Parent Company to its subsidiaries' property and equipment. The Group's assets were aligned with Parent Company's asset recognition policy. Assets were either recorded into its proper classification or expensed if it did not meet the criteria of capitalization.

Depreciation and amortization charged to profit and loss:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Cost of sales and services | *21* | **P331,914,150** | P232,954,811 |
| Operating expenses | *24* | **1,330,640,893** | 1,226,596,185 |
| | | **P1,662,555,043** | P1,459,550,996 |

No impairment loss was recognized in both years.

## 13. Investment Properties

This account consists of:

| | **Building** | **Land** | **Construction-in-Progress** | **Total** |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance as at January 1, 2014 | P4,744,959,496 | P6,724,383,523 | P260,808,030 | **P11,730,151,049** |
| Effect of business combination | 626,631,609 | 218,089,124 | 1,178,570 | **845,899,303** |
| Reclassifications | 616,071 | - | (616,071) | - |
| Additions | 112,077,392 | 25,655,093 | 93,158,745 | **230,891,230** |
| Fair value adjustment | - | 523,436,536 | - | **523,436,536** |
| Balance as at December 31, 2014 | 5,484,284,568 | 7,491,564,276 | 354,529,274 | **13,330,378,118** |
| Additions | 595,673,072 | 1,617,101,845 | 26,693,357 | **2,239,468,274** |
| Adjustment | (19,187,181) | 132,141 | (310,712) | **(19,365,752)** |
| **Balance as at December 31, 2015** | **6,060,770,459** | **9,108,798,263** | **380,911,919** | **15,550,480,640** |
| **Accumulated Depreciation** | | | | |
| Balance as at January 1, 2014 | 58,166,358 | (23,432) | - | **58,142,926** |
| Effect of business combination | 374,590,274 | - | - | **374,590,274** |
| Depreciation and amortization | 123,724,595 | - | - | **123,724,595** |
| Balance as at December 31, 2014 | 556,481,227 | (23,432) | - | **556,457,795** |
| Depreciation and amortization | 150,889,861 | - | - | **150,889,861** |
| **Balance as at December 31, 2015** | **707,371,088** | **(23,432)** | - | **707,347,656** |
| **Carrying Amount** | | | | |
| Balance as at December 31, 2014 | P4,927,803,341 | P7,491,587,708 | P354,529,274 | **P12,773,920,323** |
| **Balance as at December 31, 2015** | **P5,353,399,371** | **P9,108,821,696** | **P380,911,917** | **P14,843,132,984** |

As at December 31, 2015 and 2014, 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. Management believes that the appraisal in 2012 is still applicable for disclosure purposes as at December 31, 2015 as there are no significant changes in the condition of its land and building. The fair values of the land and buildings are determined based on the comparative sales of similar or substitute properties and related market data and is based on current cost and comparison with similar new properties, respectively, which is categorized as Level 2 under the fair value hierarchy.

Fair value adjustment pertains to the difference of book value and fair market value of the investment properties of NPSCC. In both years, the aggregate fair values of NPSCC's properties amounted to P995.60 million. The fair values are based on the appraisal report by an independent appraiser using the Cost and Market Data Approaches (see Note 14).

The rental income earned by the Group from these properties amounted to P1,848.04 million, P1,395.94 million and P1,124.55 million in 2015, 20114 and 2013, respectively (see Note 23).

Direct costs incurred pertaining to the lease of these properties amounted to P1,088.35 million, P933.65 million and P320.80 million in 2015, 2014 and 2013, respectively (see Note 21).

## 14. Intangibles and Goodwill

This account consists of:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Goodwill | *a* | **P17,711,048,425** | P16,218,304,369 |
| Trademark | *b* | **3,709,660,547** | 3,709,660,547 |
| Customer relationship | *b* | **889,452,981** | 889,452,981 |
| Computer software and licenses - net | *c* | **181,723,275** | 165,269,918 |
| Leasehold rights | *c* | **66,184,796** | 69,952,547 |
| | | **P22,558,070,024** | P21,052,640,362 |

*a.* Goodwill

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

| 2012 | | |
|---|---|---|
| Puregold Junior Supermarket, Inc. (PJSI) | *a.1* | P11,370,121 |
| Kareila | *a.2* | 12,079,473,835 |
| Gant Group of Companies Incorporated (Gant) | *a.3* | 742,340,804 |
| | | **P12,833,184,760** |

| 2013 | | |
|---|---|---|
| Merger of PJSI and Gant to PPCI | *a.4* | P4,142 |
| Company E | *a.5* | 358,152,015 |
| | | **P13,191,340,917** |

| 2014 | | |
|---|---|---|
| NPSCC | *a.6* | P457,304,121 |
| OWI | *a.7* | 900,688,844 |
| LPC | *a.8* | 1,624,427,821 |
| CHC | *a.9* | 9,450 |
| CPHI | *a.10* | 51,432,111 |
| | | **P3,033,862,347** |

| 2015 | | |
|---|---|---|
| DCI and FLSTCI | *a.11* | P690,904,317 |
| Budgetlane Supermarkets | *a.12* | 801,839,739 |
| | | **1,492,744,056** |
| | | **P17,711,048,425** |

Details are as follows:

a.1. Acquisition of PJSI

| | |
|---|---|
| Acquisition cost* | P50,003,542 |
| Fair value of net assets (June 30, 2010) | 38,629,279 |
| **Goodwill** | **P11,374,263** |

**The amount disclosed was after the additional shares issued to reflect the effects of merger of PJSI and PPCI.*

a.2. Acquisition of Kareila

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

| | |
|---|---|
| **Consideration transferred** | **P16,477,734,375** |
| **Assets** | |
| Current assets | 1,651,017,012 |
| Property and equipment - net | 928,294,217 |
| Other noncurrent assets | 50,500,198 |
| **Liabilities** | |
| Current liabilities | (1,431,714,792) |
| Noncurrent liabilities | (4,389,307) |
| Deferred tax liability | (1,379,734,058) |
| **Total fair value of net liabilities** | **(186,026,730)** |
| S&R trade name | 3,709,660,547 |
| Customer relationship | 889,452,981 |
| **Fair value of identifiable intangible assets** | **4,599,113,528** |
| **Total fair value of net assets*** | **4,413,086,798** |
| **Adjustment for PAS 19 adoption** | **(14,826,258)** |
| **Total adjusted fair value net asset** | **4,398,260,540** |
| **Goodwill** | **P12,079,473,835** |

*The amount disclosed is before the restatement of Kareila's balance due to prior period adjustment as a result of the adoption of PAS 19, *Employee Benefits*.

The purchase price of P4.6 billion represents the fair value of S&R trade name and customer relationship determined after considering various factors and performing valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist.

The Group incurred acquisition-related cost of P3.8 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2012.

a.3. Acquisition of Gant

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on the Gant group at the acquisition date:

| | |
|---|---|
| Consideration transferred | P743,840,962 |
| Fair value of net assets | 1,500,158 |
| **Goodwill** | **P742,340,804** |

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the fair value of the acquired assets and liabilities assumed is attributable to goodwill.

The Group incurred acquisition-related cost of P0.2 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2012.

a.4. Merger of PJSI and Gant

On February 26, 2013, the SEC approved the application for merger of PPCI, PJSI and Gant. As a consideration for the said merger, PPCI paid the owner of PJSI amounting to P4,142.

a.5. Acquisition of Company E

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on Company E at the acquisition date:

| | |
|---|---|
| Considerations transferred | P404,065,000 |
| Fair value of net assets | 45,912,985 |
| **Goodwill** | **P358,152,015** |

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill.

The Group incurred acquisition-related cost of P0.2 million. This cost has been included as part of operating expenses in the consolidated statements of comprehensive income in 2013.

a.6. Acquisition of NPSCC

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on NPSCC at the acquisition date:

| | Note | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | | **P136,768,065** |
| Receivables | | **27,864,675** |
| Prepayments and other current assets | | **7,828,808** |
| Investment properties | *13* | **995,613,379** |
| Property and equipment - net | | **35,357,476** |
| Deferred tax assets | | **969,776** |
| Other noncurrent asset | | **478,226** |
| **Liabilities** | | |
| Account payable and accrued expenses | | **(39,424,434)** |
| Current portion of long-term debt | | **(24,844,898)** |
| Income tax payable | | **(11,008,339)** |
| Long-term debt | | **(62,367,034)** |
| Deposits from tenants | | **(68,364,137)** |
| Deferred lease income | | **(4,994,434)** |
| **Total identifiable net assets at fair value** | | **P993,877,129** |

Goodwill was recognized based on the fair value of net assets acquired as follows:

| | |
|---|---|
| Cash consideration transferred | P1,451,181,250 |
| Fair value of net assets | (993,877,129) |
| **Goodwill** | **P457,304,121** |

There was no identifiable intangible asset as at acquisition and valuation dates, the excess of the purchase price over the net assets of acquired and the liabilities assumed is attributable to goodwill. There were no changes on the provisionary amounts used by the Group in 2014.

a.7. Acquisition of OWI

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on OWI at the acquisition date:

| | Provisionary Amounts | Final Amounts (As Restated) |
|---|---|---|
| Current assets | P219,224,557 | P219,224,557 |
| Noncurrent assets | 108,198,876 | 108,198,876 |
| Current liabilities | (126,314,487) | (133,213,382) |
| **Total identifiable net assets at fair value** | **P201,108,946** | **P194,210,051** |

Goodwill was recognized based on the fair value of net assets acquired as follows:

| | |
|---|---|
| Cash consideration transferred | P1,094,898,895 |
| Fair value of net assets | (201,108,946) |
| **Goodwill** | **P893,789,949** |

Movement of goodwill are as follows:

| | |
|---|---|
| Goodwill at acquisition date | P893,789,949 |
| Fair value adjustments | 6,898,895 |
| **Goodwill at end of the period** | **P900,688,844** |

There was no identifiable intangible asset as at acquisition and valuation dates, the excess of the purchase price over the net assets of acquired and the liabilities assumed is attributable to goodwill.

Part of OWI's acquisition cost is a retention payable amounting to P100 million. According to the Share Purchase Agreement entered into by the Parent Company and OWI's previous owners, the P100 million will be paid in three (3) installments, less any indemnity claim and/or third party claim, if there will be any, as follows:

| | | 2014 |
|---|---|---|
| 1st installment | 6th month after the Closing date* | P50,000,000 |
| 2nd installment | 1st year after the Closing date* | 25,000,000 |
| 3rd installment | 2nd year after the Closing date* | 25,000,000 |
| | | P100,000,000 |

**Closing date is the completion date of the Share Purchase Agreement (July, 21, 2014).*

In 2015, goodwill arising from the acquisition of OWI increased by P6.90 million upon finalization of OWI's purchase price allocation. As a result, the carrying value of the identifiable net assets at the date of acquisition changes, and the change resulted to increase in liabilities and consequently decrease net assets.

Acquisition of LPC

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on LPC at the acquisition date:

| | Provisionary Amounts | Final Amounts (As Restated) |
|---|---|---|
| Current assets | P2,412,058,244 | P2,412,058,244 |
| Noncurrent assets | 1,288,719,210 | 1,288,719,210 |
| Current liabilities | (1,446,223,573) | (1,596,800,431) |
| Noncurrent liabilities | (27,220,776) | (27,220,776) |
| **Total identifiable net assets at fair value** | **P2,227,333,105** | **P2,076,756,247** |

Goodwill was recognized based on the fair value of net assets acquired as follows:

| | |
|---|---|
| Cash consideration transferred | P3,478,450,758 |
| Fair value of net assets (90%) | (2,004,599,795) |
| **Goodwill** | **P1,473,850,963** |

Movement of goodwill are as follows:

| | |
|---|---|
| Goodwill at acquisition date | P1,473,850,963 |
| Fair value adjustments | 150,576,858 |
| **Goodwill at end of the period** | **P1,624,427,821** |

In 2015, goodwill arising from the acquisition of LPC increased by P150 million upon finalization of LPC's purchase price allocation. As a result, the carrying value of the identifiable net assets at the date of acquisition changes, and the change resulted to increase in liabilities and consequently decrease net assets.

There was no identifiable intangible asset as at acquisition and valuation dates, the excess of the purchase price over the net assets of acquired and the liabilities assumed is attributable to goodwill.

a.8. Acquisition of Canaria

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on Canaria at the acquisition date:

| | |
|---|---|
| Current Assets | P50,000 |
| Noncurrent Assets | 3,505,643,800 |
| Noncurrent Liabilities | (3,500,704,300) |
| **Total identifiable net assets at fair value** | **P4,989,500** |

Goodwill was recognized based on the fair value of net assets acquired as follows:

| | |
|---|---|
| Acquisition cost | P4,500,000 |
| Fair value of net assets (90%) | (4,490,550) |
| **Goodwill** | **P9,450** |

There was no identifiable intangible asset as at acquisition and valuation dates, the excess of the purchase price over the net assets of acquired and the liabilities assumed is attributable to goodwill. There were no changes in the provisionary amounts used by the Group in 2014.

a.9. Acquisition of Calor

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on Calor at the acquisition date:

| | |
|---|---|
| Current Assets | P34,021,543 |
| Current Liabilities | (30,103,778) |
| Noncurrent Liabilities | (5,508,999) |
| **Total identifiable net liabilities at fair value** | **(P1,591,234)** |

Goodwill was recognized based on the fair value of net assets acquired as follows:

| | |
|---|---|
| Cash consideration transferred | P50,000,000 |
| Fair value of net assets (90%) | 1,432,111 |
| **Goodwill** | **P51,432,111** |

There was no identifiable intangible asset as at acquisition and valuation dates, the excess of the purchase price over the net assets of acquired and the liabilities assumed is attributable to goodwill. There were no changes in the provisionary amounts used by the Group in 2014.

a.10. Acquisition of Daily Commodities Inc. (DCI) and First Lane Super Traders Co., Inc. (FLSTCI)

On February 3, 2015, the Group through Entenso acquired 100% interest in DCI and FLSTCI for a total cost of P768.49 million. DCI and FLST is a local entity currently engaged in the business of trading goods on a wholesale and retail basis.

The following summarizes the consideration transferred, and the recognized amounts of assets acquired and liabilities assumed on DCI and FLSTCI at the acquisition date:

| | |
|---|---|
| Acquisition cost | P768,485,000 |
| Fair value of net assets | 77,580,683 |
| **Goodwill** | **P690,904,317** |

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill amounting to P690.90 million.

The Group used provisionary fair values of the identifiable net assets in calculating the goodwill of DCI and FLST as at the acquisition date. Upon finalization of the purchase price allocation exercise in 2015, the Group will restate the amounts of the net assets acquired and goodwill, in accordance with PFRS 3.

a.11. Acquisition of Bargain City Inc. (BCI), Multi-Merchantrade Inc. (MMI) and Superplus Corporation (SC) (collectively as "Budgetlane Supermarkets")

On August 6, 2015, the Group through Goldtempo Company, Inc., a wholly owned subsidiary of Entenso, acquired substantially all of the assets of BCI, MMI and SC. Goldtempo took over the operations of 8 supermarkets located mainly in Metro Manila and Luzon. The acquisition is considered as a business acquisition in accordance with PFRS 3.

The following summarizes the consideration transferred, and the recognized amounts of assets acquired assumed on BCI, MMI and SC at the acquisition date:

| | |
|---|---|
| Acquisition cost | P1,496,500,821 |
| Fair value of net assets | 694,661,082 |
| **Goodwill** | **P801,839,739** |

There was no identifiable intangible asset as at acquisition and valuation dates. The excess of the purchase price over the assets acquired and the liabilities assumed is attributable to goodwill amounting to P801.84 million.

The Group used provisionary fair values of the identifiable net assets in calculating the goodwill of BCI, MMI and SC as at the acquisition date. Upon finalization of the purchase price allocation exercise, the Group will restate the amounts of the net assets acquired and goodwill, in accordance with PFRS 3.

In 2014, NPSCC, OWI, CHC, LPC and CPHI contributed revenue of P9 billion and profit of P261 million to the Group's result. If the acquisition had occurred on January 1, 2014, management estimates that consolidated revenue would have been P114.7 billion and consolidated profit for the year would have been P7.2 billion. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally at the date of acquisition would have been the same if the acquisition had occurred on January 1, 2014.

b. *Trademark and Customer Relationships*

The fair value of the trademark and customer relationship was determined after giving due consideration to various factors and valuation methodologies including the independent valuation study and analysis prepared by an independent valuation specialist. The Group, after considering the said valuation methodologies, viewed the royalty relief (based on commercial rates) and multi-period excess earnings methodologies to be generally more relevant, compared to other methodologies that may be used to value the Group's trademarks and customer relationships, on the basis that such methodologies require fewer assumptions and less reliance on subjective reasoning since key assumptions come from primary sources based on the Group's filings and projections, actual industry precedents and industry common practice.

Impairment of goodwill, trademark and customer relationship

The recoverable amount of goodwill, trademark and customer relationship has been determined based on value in use (VIU), using cash flow projections covering a five-year period. It is based on a long range plans approved by management. The VIU is based on a 2% terminal growth rate and discount rate of 10%. The terminal growth rate used is consistent with the long-term average growth rate for the Group's industry. The discount rate is based on the weighted average cost of capital (WACC) by taking into consideration the debt equity capital structure and cost of debt of comparable companies and cost of equity based on appropriate market risk premium. The financial projection used in the VIU is highly dependent on the gross sales and gross profit margin.

Management assessed that there is no impairment in the value of goodwill, trademark and customer relationship as at December 31, 2015 and 2014.

c. *Leasehold Rights and Computer Software and Licenses*

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

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

| | Computer Software and Licenses | Leasehold Rights | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, January 1, 2014 | P204,283,187 | P75,355,005 | **P279,638,192** |
| Additions | 34,334,229 | - | **34,334,229** |
| Effect of business combination | 29,635,522 | - | **29,635,522** |
| Balance, December 31, 2014 | 268,252,938 | 75,355,005 | **343,607,943** |
| Transfer in | 9,387,434 | - | **9,387,434** |
| Additions | 81,455,903 | - | **81,455,903** |
| Adjustments | (51,867,660) | - | **(51,867,660)** |
| **Balance, December 31, 2015** | **307,228,615** | **75,355,005** | **382,583,620** |
| Accumulated Amortization | | | |
| Balance, January 1, 2014 | 67,570,110 | 1,634,708 | **69,204,818** |
| Amortization | 9,987,750 | 3,767,750 | **13,755,500** |
| Effect of business combination | 25,425,160 | - | **25,425,160** |
| Balance, December 31, 2014 | 102,983,020 | 5,402,458 | **108,385,478** |
| Amortization | 22,522,320 | 3,767,751 | **26,290,071** |
| **Balance, December 31, 2015** | **P125,505,340** | **P9,170,209** | **P134,675,549** |
| **Carrying Amount** | | | |
| December 31, 2014 | P165,269,918 | P69,952,547 | **P235,222,465** |
| **December 31, 2015** | **P181,723,275** | **P66,184,796** | **P247,908,071** |

## 15. Deferred Oil and Mineral Exploration Costs

This account consists of:

| | *Note* | Participating Interest | 2015 | 2014 |
|---|---|---|---|---|
| **I. Oil exploration costs:** | | | | |
| SC 14 | *A* | | | |
| Block C2 (West Linapacan) | | 1.53% | **P53,745,757** | P53,647,271 |
| Block D | | 5.84% | **8,031,189** | 8,011,133 |
| Block B1 (North Matinloc) | | 13.55% | **1,969** | 746 |
| | | | **61,778,915** | 61,659,150 |
| SC 6A | *b* | | | |
| Octon Block | | 0.50% | **16,598,157** | 16,560,191 |
| North Block | | 1.57% | **600,419** | 600,419 |
| | | | **17,198,576** | 17,160,610 |
| SC 51 | *c* | 9.32% | **32,817,032** | 32,817,032 |
| SC 6B (Bonita) | *d* | 2.11% | **7,955,200** | 6,489,191 |
| Other oil projects | | | **527,341** | 527,340 |
| **Balance at end of year** | | | **75,696,725** | 39,833,563 |
| | | | **154,674,216** | 118,653,323 |

*Forward*

| | Note | Participating Interest | 2015 | 2014 |
|---|---|---|---|---|
| **II. Mineral exploration costs:** | | | | |
| Nickel project | *e, f* | 100.00% | **19,208,048** | 19,208,048 |
| Anoling gold project | *g* | 3.00% | **13,817,415** | 13,817,415 |
| Gold projects | *h* | 100.00% | **13,036,487** | 12,932,166 |
| Cement project | *i* | 100.00% | **9,603,218** | 9,603,218 |
| Other mineral projects | *j, k* | | **382,338** | 382,338 |
| | | | **56,047,506** | 55,943,185 |
| **Accumulated impairment losses for unrecoverable deferred mineral exploration costs:** | | | **(56,092,352)** | (56,092,352) |
| | | | **(44,846)** | (149,167) |
| **III. Other deferred charges** | | | **664,263** | 664,263 |
| | | | **P120,896,482** | P119,168,419 |

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 its wholly-owned subsidiary, Alcorn Petroleum and Minerals Corporation (APMC). APMC hereby assumes the responsibility and work commitments on the service contracts.

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

a.) Gabon - Etame, Offshore Gabon, West Africa
On February 23, 2001, the Parent Company 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. As at December 31, 2015 and 2014, there were no further developments on the said project.

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. As at December 31, 2011, Cosco has participating interest of 1.57% in North Block and 0.50% in Octon Block. This oil field was not put into production due to low oil price in 1990 and also due to limited data.

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

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

The work commitments approved by the DOE for 2012 include the seismic acquisition, processing and interpretation of 500 square kilometers of 3D data area in Octon. Cosco 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.

As at December 31, 2015 and 2014, there were no further developments on the said project.

c.) SC 51 - East Visayan Basin

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

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

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

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

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

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

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

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

On July 2012, 102 line kilometers of seismic lines were completed by the seismic survey party in the North Block. The Seismic survey was completed under budget despite a month-long cessation of operation due to the military stand-off between China and the Philippines at the Scarborough Shoals. Initially-processed seismic lines disclosed very promising seismic features and more enhanced drilling target. The confidence of optimally locating the proposed Duhat-2 is now much higher.
Otto informed that its Board has already approved the drilling budget of $6,600,000 for next year's drilling program which is likely to occur during third quarter of 2013. A much larger rig is being sought for the drilling Duhat 2 to avoid the problem in Duhat 1/1A. So far, two serious drilling outfits heeded the call for rig by Otto.

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

As at December 31, 2015 and 2014, 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, Cosco 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, 2015 and 2014, 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 3013, 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, 2015 and 2014, 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, 2015 and 2014, 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 Cosco, 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, 2015 and 2014, 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, 2015 and 2014, 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 two-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 two-year extension of the MPSA exploration period.

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

As at December 31, 2015 and 2014, 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 three-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 three-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. Cosco has already made several postponements of inspection trips by MGB-5 to the project site.

Cosco 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 Cosco 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, 2015 and 2014, 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 Cosco Board.

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

MGB-6 now requires Cosco to secure Affidavit of Consents from the private landowners. Cosco 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 Cosco 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 Cosco 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. Cosco's residual 1.35% share on the net smelter return will only kick in when production has been realized. Cosco will be carried free in all exploration activities even in the event of confirmatory drilling operations in the later stages.

## 16. Other Noncurrent Assets

This account consists of:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Security deposits | *22, 32, 33* | **P1,615,471,291** | P1,240,131,409 |
| Accrued rent income | *22* | **1,030,272,916** | 651,721,623 |
| Input VAT | | **213,521,889** | 438,980,985 |
| Prepaid rent | *22* | **157,038,886** | 268,363,507 |
| Others | | **109,121,322** | 10,215,248 |
| | | **P3,125,426,304** | P2,609,412,772 |

Accrued rent income pertains to the excess of rent income over billing to tenants in accordance with PAS 17, *Leases*.

## 17. Accounts Payable and Accrued Expenses

This account consists of:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Trade payables | *32, 33* | **P7,332,358,905** | P10,229,399,448 |
| Non-trade payables | *32, 33* | **1,775,816,318** | 296,346,605 |
| Dividends | | **932,741,912** | 509,178,893 |
| Withholding taxes payable and other statutory payables | | **543,334,664** | 357,660,492 |
| Construction bonds | *32, 33* | **14,966,307** | 5,928,037 |
| Deferred rent income | *32, 33* | **1,631,358** | 19,374,091 |
| Accrued expense | *32, 33* | | |
| Manpower agency services | | **454,008,770** | 649,401,819 |
| Inventory | | **396,500,821** | - |
| Utilities | | **115,318,825** | 353,771,768 |
| Professional fees | | **50,594,664** | 53,500,738 |
| Rent | | **33,978,908** | 117,586,347 |
| Interest | | **5,165,690** | - |
| Fixed asset acquisition | | **4,886,038** | - |
| Tax assessments | | **-** | 157,475,753 |
| Brand promotions | | **-** | 57,609,724 |
| Others | *32, 33* | **513,886,689** | 65,524,120 |
| | | **P12,175,189,869** | P12,872,757,835 |

The average credit period on purchases of certain goods from suppliers is 60 days. No interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame (see Note 32).

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

## 18. Loans Payable

As at December 31, 2015 and 2014, the Group has the following outstanding loans payable:

**a.** Short-term Loans Payable

The Group entered into the following loan facilities to be used as additional working capital:

| Segment | | *Note* | 2015 | 2014 |
|---|---|---|---|---|
| Liquor | Short-term note based on 2.375% | *i* | **P729,000,000** | P555,600,000 |
| Real estate | Short-term note based on 2.375% | | **400,000,000** | - |
| Retail | Short-term note based on 2.5% | *i* | **890,000,000** | 75,000,000 |
| Retail | Short-term note based on 2.75% | *i* | **2,247,500,000** | 780,000,000 |
| Specialty retail | Short-term note based on 2.375% | *i* | **-** | 340,000,000 |
| Retail | Short-term note based on 3.75% | *ii* | **-** | 508,500,000 |
| | | | **P4,266,500,000** | P2,259,100,000 |

*i.* The Group issued and executed the following notes:

| Execution Date | Maturity Date | Interest Rate | Principal |
|---|---|---|---|
| November 2, 2015 | February 1, 2016 | 2.375 | P587,500,000 |
| November 5, 2015 | February 3, 2016 | 2.375 | 500,000,000 |
| August 7, 2015 | February 4, 2016 | 2.500 | 490,000,000 |
| December 27, 2015 | February 26, 2016 | 2.500 | 400,000,000 |
| December 14, 2015 | March 14, 2016 | 2.375 | 250,000,000 |
| November 16, 2015 | February 15, 2016 | 2.375 | 240,000,000 |
| December 9, 2015 | January 7, 2016 | 2.375 | 200,000,000 |
| November 10, 2015 | February 9, 2016 | 2.375 | 150,000,000 |
| December 17, 2015 | January 18, 2016 | 2.375 | 150,000,000 |
| December 15, 2015 | January 14, 2016 | 2.375 | 100,000,000 |
| October 5, 2015 | January 4, 2016 | 2.375 | 70,000,000 |
| December 28, 2015 | March 28, 2016 | 2.375 | 67,000,000 |
| December 21, 2015 | March 21, 2016 | 2.375 | 90, 000,000 |
| December 18, 2015 | March 17, 2016 | 2.375 | 140,000,000 |
| December 14, 2015 | March 14, 2016 | 2.375 | 50,000,000 |
| December 3, 2015 | March 2, 2016 | 2.375 | 140,000,000 |
| October 12, 2015 | January 10, 2016 | 2.375 | 75,000,000 |
| October 8, 2015 | January 6, 2016 | 2.375 | 35,000,000 |
| October 30, 2015 | January 28, 2016 | 2.375 | 32,000,000 |
| August 13, 2015 | August 8, 2016 | 2.375 | 300,000,000 |
| March 27, 2015 | March 21, 2016 | 2.375 | 100,000,000 |
| December 17, 2016 | March 17, 2016 | 2.375 | 100,000,000 |
| | | | **P4,266,500,000** |

Principal amounts will be due on lump sum on their maturity dates. Extension and/or renewal of the notes are granted by the financial institution to the Group.

*ii.* On July 25, 2013, the Group entered into an unsecured short-term loan amounting to P508.5 million with a local bank. On July 18, 2014, these loans matured and renewed for another year. The principal amount is payable annually and its related interest is at 2.375% and 2.75% per annum in 2015 and 2014, respectively.

**b.** Long-term Loans Payable

b.1 As at December 31, the outstanding loan by the parent is as follows:

| | **2015** | 2014 |
|---|---|---|
| *Loan Facilities (net of debt issuance costs)* | | |
| Fixed-Rate Peso Corporate Notes | **P4,915,499,368** | P4,960,368,630 |
| Less current portion | **44,657,383** | 44,869,262 |
| | **P4,870,856,243** | P4,915,499,368 |

Movements in debt issuance costs are as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of year | **P39,631,370** | P - |
| Debt issuance costs during the year | - | 42,715,758 |
| Amortization during the year | **5,130,738** | 3,084,388 |
| Balance at end of year | **P34,500,632** | P39,631,370 |

Repayment Schedule

As at December 31, 2015, the annual maturities of loans payable are as follows:

| Year | Gross Amount | Debt Issuance Cost | Net |
|---|---|---|---|
| **2016** | **P50,000,000** | **P5,342,617** | **P44,657,383** |
| **2017** | **50,000,000** | **5,566,298** | **44,433,702** |
| **2018** | **50,000,000** | **5,802,439** | **44,197,561** |
| **2019** | **50,000,000** | **6,051,734** | **43,948,266** |
| **More than 5 years** | **4,750,000,000** | **11,737,544** | **4,738,262,456** |
| | **P4,950,000,000** | **P34,500,632** | **P4,915,556,046** |

*Financing of Capital Expenditures and Debt Obligations*

In 2014, the Parent Company entered into a Corporate Financing Facility in the aggregate principal amount of P5.0 billion to finance the Group's strategic acquisition plans and/or for other general corporate requirements.

Below are the terms of the loan facility:

**Fixed-Rate Peso Corporate Notes**

1.) Seven-year, unsecured Corporate Loan Facility with a consortium of six (6) local banks for P4.0 billion which bears annual interest based on PDST-F plus spread and the principal payable as follows:

   a) On the first anniversary after Issue Date and every anniversary until the sixth anniversary, an amount equal to one (1) percent of the principal; and
   b) On the Maturity date, an amount equal to ninety-four (94) percent of the principal plus accrued interest.

   The fixed rate is based on the 7-year PDST-F Rate on interest Rate Setting Date + spread of [100-150] bps.

2.) Ten-year, unsecured Corporate Loan Facility with a consortium of six (6) local banks for P1.0 billion which bears annual interest based on PDST-F plus spread and the principal payable as follows:

   a) On the first anniversary after Issue Date and every anniversary until the sixth anniversary, an amount equal to one (1) percent of the principal; and
   b) On the Maturity date, an amount equal to ninety-one (91) percent of the principal plus accrued interest.

   The fixed rate is based on the 10-year PDST-F Rate on interest Rate Setting Date + spread of [100-150] bps.

Interest expense from these loans recognized in profit or loss amounted to P272.81 million and P170.49 million in 2015 and 2014, respectively.

As at December 31, 2014, the Parent Company is in compliance with the terms and conditions of the loans.

b.2 As at December 31, the outstanding loans by the subsidiaries are as follows:

| **Segment** | **Unsecured Peso Denominated** | *Note* | **2015** | 2014 |
|---|---|---|---|---|
| Retail | Fixed rate note based on 3.5% | *i* | **P1,995,062,298** | P1,993,114,552 |
| Retail | Fixed rate note based on 3.25% | *ii* | **570,000,000** | 962,920,038 |
| Retail | Fixed rate note based on 3.5% | *iii* | **400,000,000** | 500,000,000 |
| Real Estate | Fixed rate note based on 4.5% | *iv* | **1,432,500,000** | 1,450,000,000 |
| | | *28, 29* | **4,397,562,298** | 4,906,034,590 |
| | Less current portion | | **570,000,000** | 962,920,038 |
| | | | **P3,827,562,298** | P3,943,114,552 |

*i.* On June 13, 2013, PPCI issued a P2.0 billion promissory note. Interest is computed as 3.50% per annum of the principal amount. The debt has a term of 1,803 days and will be paid on a lump sum on May 21, 2018.

*ii.* On April 14, 2013, the PPCI signed and executed a two (2) year promissory note amounting to P963.7 million. The debt bears a 3.25% interest rate per annum and shall be repaid in a single payment on April 15, 2015.

The movements in debt issue costs are as follows:

| | **2015** | 2014 |
|---|---|---|
| Balance at beginning of the year | **P7,665,410** | P11,985,067 |
| Amortizations | **(2,727,708)** | (4,319,657) |
| **Balance at end of year** | **P4,937,702** | P7,665,410 |

*iii.* On July 23, 2013, Kareila signed and executed a P500.00 million unsecured loan agreement with a local bank. The loan shall be repaid in lump sum after five (5) years. Its related interest is at 3.50% per annum. As at December 31, 2015, P100.00 million of the loan amount was already paid.

Interest expense from these loans amounting to P92.22 million and P99.51 million were capitalized in 2015 and 2014 and recognized in building and leasehold improvements under property and equipment accounts (see Note 11). Remaining interest expense that was charged to profit and loss amounted to P70.30 million and P47.26 million in 2015 and 2014, respectively. In 2013, interest expense amounted to P26.46 million.

Repayment Schedule

The annual maturities of long-term loans are as follows:

| Year | **2015** | 2014 |
|---|---|---|
| 2015 | **P570,000,000** | P1,463,700,000 |
| 2018 | **2,000,000,000** | 2,500,000,000 |
| | **P2,570,000,000** | P3,963,700,000 |

*iv.* On February 28, 2014, Ellimac obtained loan from Metrobank (MBTC) amounting to P1.45 billion which bears annual interest rate of 4.5%. The maturity date of the loan is January 21, 2021.

Interest expense incurred amounted to P71.22 million, P53.6 million, and P17.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

## 19. Other Current Liabilities

This account as at December 31 consists of:

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Deposits | *22, 32, 33* | **P227,049,204** | P258,577,267 |
| Promotion fund | | **35,578,785** | 76,806,772 |
| Unredeemed gift certificates | | **89,430,184** | 66,275,200 |
| Output VAT | | **46,178,424** | 4,031,365 |
| Exclusive fund | | **15,100,407** | - |
| Others | *32, 33* | **28,527,857** | 3,227,290 |
| | | **P441,864,861** | P408,917,894 |

Deposits represent amounts paid by the store tenants for the lease of store spaces which are refundable upon termination of the lease.

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

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

Exclusive fund is provided for the point's redemption of "Tindahan ni Aling Puring" members. Points are earned upon purchase of participating items and may be used as payments of their purchases which makes it due and demandable.

Others include cashier's bond withheld from each cashier to compensate for any possible cash shortages in the store.

## 20. Deposit for Future Subscriptions in a Subsidiary

The Group thru OWI received funds from prospective investors intended as deposit for future stock subscriptions of OWI once the increase for Company's authorized capital is approved by the SEC. Outstanding amount due to stockholders were converted to deposit for subscription in 2013 amounting to P150.3 million. As at December 31, 2015 and 2014, the increase in authorized capital is yet to be filed to SEC by OWI.

## 21. Cost of Sales and Services

This account for the years ended December 31 consists of:

**Cost of Sales**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Beginning inventory | **P13,921,685,345** | P10,354,718,168 | P - |
| Purchases/effect of business combination | **96,061,701,003** | 83,597,776,467 | 49,475,784,167 |
| Transfer-in | **2,441,804,284** | 505,081,443 | |
| Overhead costs allocated to inventories | **15,630,055** | 29,866,610 | - |
| Total goods available for sale | **112,440,820,687** | 94,487,442,688 | 49,475,784,167 |
| Ending inventory | **16,740,693,333** | 13,921,685,345 | 10,354,718,168 |
| | **P95,700,127,354** | P80,565,757,343 | P39,121,065,999 |

Transfer-in pertains to the beginning inventory for newly-acquired subsidiaries.

Depreciation and amortization relating to cost of sales amounted to P134 million, P145 million and nil in 2015, 2014 and 2013, respectively.

**Cost of Services**

| | *Note* | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Utilities | | **P399,620,044** | P404,841,045 | P100,323,277 |
| Depreciation | *12, 13* | **331,914,150** | 232,954,811 | 97,576,194 |
| Taxes and licenses | | **78,078,696** | 76,995,643 | 41,357,453 |
| Security services | | **80,434,442** | 61,204,229 | 27,979,985 |
| Rentals | *22* | **41,627,446** | 49,234,603 | 18,965,731 |
| Janitorial services | | **40,537,995** | 42,149,832 | 18,098,479 |
| Management fees | | **27,815,951** | 20,478,748 | 3,844,649 |
| Repairs and maintenance | | **50,598,159** | 20,022,293 | 10,473,110 |
| Salaries and wages | | **15,712,851** | 7,316,378 | 1,755,703 |
| Insurance | | **7,578,179** | 6,334,031 | - |
| Amusement tax | | **3,906,854** | 2,893,981 | - |
| Operator services | | **2,540,607** | 1,543,076 | 428,316 |
| Retirement benefit cost | | **-** | 200,239 | - |
| Others | | **7,989,242** | 7,483,664 | - |
| | | **P1,088,354,616** | P933,652,573 | P320,802,897 |

## 22. Lease Agreements

As Lessee

The Group leases warehouses, parking spaces and certain lands and buildings where some of its stores are situated or constructed. The terms of the lease are for the periods ranging from ten to forty (10-40) years, renewable for the same period under the same terms and conditions. The rent shall escalate by an average of 1% to 7%. Rental payments are fixed amounts which are calculated either fixed monthly rent or is calculated in reference to a fixed sum per square meter of area leased based on the contracts.

The Group is required to pay advance rental payments and security deposits on the above leases which are either fixed monthly rent or are calculated in reference to a fixed sum per square meter of area leased. These are shown under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position (see Note 16).

Rent expense recognized in profit or loss amounted to P1,905.02 million, P1,669.92 million and P803.1 million in 2015, 2014, and 2013, respectively.

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

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Due within one year | **P1,894,167,506** | P1,726,091,499 | P1,492,565,001 |
| Due more than one year but not more than five years | **8,074,910,899** | 6,904,365,995 | 6,443,961,725 |
| Due more than five years | **32,850,125,381** | 27,617,463,980 | 30,017,933,854 |
| | **P42,819,203,786** | P36,247,921,474 | P37,954,460,580 |

As Lessor

The Group subleases portion of its store space to various lessees for an average lease term of one to ten (1-10) years. The lease contracts may be renewed upon mutual agreement by the parties. Rental payments are computed either based on monthly sales or a certain fixed amount, whichever is higher. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is shown under "Other current liabilities" account in the consolidated statements of financial position (see Note 19).

Rent income recognized as part of "Other Operating Income" account in profit or loss amounted to P371.26 million, P356.99 million and P157.46 million in 2015, 2014 and 2013, respectively (see Note 23).

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

| | **2015** | 2014 |
|---|---|---|
| Due within one year | **P1,079,563,185** | P1,413,870,145 |
| Due more than one year but not more than five years | **3,266,699,857** | 5,655,480,580 |
| Due more than five years | **11,384,594,518** | 22,621,922,321 |
| | **P15,730,857,560** | P29,691,273,046 |

## 23. Other Operating Income

This account for the years ended December 31 consists of:

| | *Note* | **2015** | 2014 | 2013 |
|---|---|---|---|---|
| Concession income | | **P1,386,647,815** | P1,331,097,191 | P779,004,895 |
| Display allowance | | **531,927,724** | 368,698,644 | 270,979,649 |
| Rent income | *22* | **371,262,459** | 356,990,187 | 157,462,410 |
| Membership income | | **361,239,476** | 298,232,302 | 123,714,404 |
| Service income | | **90,098,825** | 33,636,572 | - |
| Listing fee | | **30,958,036** | 35,910,199 | - |
| Demo/sampling income | | **8,554,355** | 8,553,169 | 9,178,862 |
| Miscellaneous | | **143,986,945** | 129,643,302 | 59,510,961 |
| | | **P2,924,675,635** | P2,562,761,566 | P1,399,851,181 |

Concession income pertains to the fixed percentage income from sales of concessionaire suppliers' goods sold inside the store.

Display allowance refers to the income received from the suppliers for the additional space for display of the items in the selling area such as end cap modules and mass display.

Rent income relates to the income earned for the store spaces occupied by the tenants.

Service income pertains to income generated from promotional activities.

Membership income pertains to fees from members of Kareila, Company E and Subic wherein such fees permit only membership, and all other services or products are paid for separately.

Listing fee pertains to the amount collected from the supplier for enrolling their products in the classified business line.

Demo/sampling income pertains to the fee paid by the suppliers for the privilege granted by Kareila in allowing a representative of the supplier to conduct a demo or give away samples of their products inside the selling area of the stores.

Miscellaneous account consists of amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others.

## 24. Operating Expenses

This account for the years ended December 31 consists of:

| | *Note* | **2015** | 2014 | 2013 |
|---|---|---|---|---|
| Rent | *22* | **P1,863,394,071** | P1,620,693,313 | P803,067,020 |
| Manpower- agency | | **1,820,179,108** | 1,596,554,761 | 910,921,866 |
| Salaries and wages | | **1,674,066,021** | 1,307,315,271 | 626,781,925 |
| Communication, light and water | | **1,644,044,377** | 1,583,193,799 | 853,950,071 |
| Depreciation and amortization | *12,13, 14* | **1,330,640,893** | 1,226,596,185 | 634,922,184 |
| Outside services | | **1,188,291,950** | 988,197,398 | 594,552,298 |
| Taxes and licenses | | **492,778,356** | 470,292,000 | 220,051,095 |
| Concession expense | | **475,968,505** | 441,413,825 | 283,094,774 |
| Store and office supplies | | **445,762,322** | 380,242,596 | 195,409,523 |
| Repairs and maintenance | | **352,350,878** | 268,152,776 | 134,309,263 |
| Advertising and marketing | | **274,977,146** | 269,785,785 | 129,756,307 |
| Distribution costs | | **201,270,572** | 50,594,798 | - |
| Insurance | | **163,068,478** | 140,846,298 | 72,951,724 |
| Representation and entertainment | | **126,298,314** | 90,229,663 | 33,603,823 |
| Transportation | | **125,555,079** | 76,679,239 | 32,254,694 |
| Retirement benefits cost | *27* | **111,792,434** | 80,023,347 | 52,152,980 |
| SSS/Medicare and HDMF contributions | | **102,633,946** | 84,189,783 | 42,790,514 |
| Input VAT allocable to exempt sales | | **81,815,741** | 73,214,131 | 45,229,570 |
| Fuel and oil | | **42,815,321** | 56,336,084 | 25,941,994 |
| Royalty expense | *26* | **37,211,342** | 33,317,078 | 18,413,860 |
| Professional fee | | **31,205,873** | 54,962,652 | - |
| Provision for doubtful accounts | *6* | **11,294,211** | 6,371,835 | - |
| Deficiency tax | | **-** | 34,966,423 | - |
| Provision for unrecoverable deferred mineral exploration costs | *15* | **-** | - | 32,648,397 |
| Membership fees | | **-** | - | 12,595,700 |
| Others | | **278,263,378** | 196,225,959 | 138,716,301 |
| | | **P12,875,678,316** | P11,130,394,999 | P5,894,115,883 |

## 25. Others

This account for the years ended December 31 consists of:

| | *Note* | **2015** | 2014 | 2013 |
|---|---|---|---|---|
| Commission income | | **P43,257,254** | P50,370,662 | P50,126,645 |
| Gain on insurance claim | | **38,721,771** | 26,143,753 | - |
| Parking fee | | **15,684,078** | 18,968,199 | 1,650,612 |
| Unrealized valuation gain (loss) on trading securities | *8* | **(3,852,970)** | 8,581,093 | 6,079,145 |
| Gain (loss) on disposal of property and equipment | | **(3,886,703)** | 370,329 | 509,540 |
| Bank charges | | **(30,148,560)** | (7,829,860) | (3,772,253) |
| Share in results of associates and joint ventures | *11* | **(9,135,023)** | (10,925,730) | - |
| Foreign exchange loss | | **(18,854,978)** | (48,073,684) | (847,376) |
| Reimbursement of expenses | | **-** | 24,998,078 | - |
| Miscellaneous | | **51,713,084** | 10,697,132 | (464,060) |
| | | **P83,497,953** | P73,299,972 | P53,282,253 |

Commission income is derived from intermediating between other local distributors of wines and liquors and foreign suppliers.

Gain on insurance claim represents the excess of the insurance proceeds received over the cost of the inventories and machineries damaged by flood and fire.

Reimbursements of expenses pertain to recovery of expense charged by the Company for promoting the products of its major suppliers.

## 26. Related Party Transactions

In the normal course of business, the Group has transactions with its related parties. These transactions and account balances as at December 31 follow:

| Related Party | Year | *Note* | Amount of Transactions for the Year | Due from Related Parties | Due to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| **Officers** | | | | | | | |
| ▪ Advances | **2015** | *a* | **P474,586,912** | **P31,228,847** | **P404,689,901** | Due and demandable; | Unsecured |
| | 2014 | *a* | P5,780,297 | P1,895,737 | P7,676,034 | non-interest bearing | |
| **Under Common Control** | | | | | | | |
| ▪ Advances | **2015** | *b* | **125,020,737** | **125,000,000** | **13,564,911** | Due and demandable; | Unsecured |
| | 2014 | *b* | 13,851,299 | 16,148,701 | 25,607 | non-interest bearing | |
| ▪ Rent expense | **2015** | *g* | **183,851,132** | - | **883,397** | Due and demandable; | Unsecured |
| | 2014 | *g* | 6,616,944 | - | - | non-interest bearing | |
| **Associates** | | | | | | | |
| ▪ Throughput fees | 2015 | *c* | 30,000,000 | - | 8,250,000 | Outstanding balance is settled in cash within a month after the end of each quarter; non-interest bearing | Unsecured |
| | 2014 | *c* | 30,000,000 | | 8,250,000 | | |
| ▪ Loans | 2015 | *d* | - | - | - | Due and demandable; | Unsecured |
| | 2014 | *d* | 14,983,614 | - | - | | |
| ▪ Concession expense | **2015** | *e* | **475,968,505** | - | - | Due and demandable; | Unsecured |
| | 2014 | *e* | 478,759,373 | - | - | non-interest bearing | |
| **Key Management Personnel** | | | | | | | |
| ▪ Royalty expense | **2015** | | **37,211,342** | - | **29,769,412** | Due and demandable; | Unsecured |
| | 2014 | | 33,317,078 | - | 26,654,003 | non-interest bearing | |
| ▪ Short-term benefits | **2015** | | **124,593,457** | - | - | | |
| | 2014 | | 73,344,955 | - | - | | |
| ▪ Post-employment benefits | **2015** | | - | - | - | | |
| | 2014 | | - | - | - | | |
| **Total** | 2015 | | | **P156,228,847** | P457,157,621 | | |
| Total | 2014 | | | P18,044,438 | P42,605,644 | | |

The Group, in the normal course of business, has transactions with its related parties as follows:

**a. Officers**

Cash advances extended from and to an officer for working capital requirements.

**b. Under Common Control**

Cash advances extended from and to entities under common control for working capital requirements.

**c. Throughput Agreement**

On December 15, 2000, LPC, together with its co-joint venture in MJVC, as "Users", entered into a throughput agreement (TA) with MJVC and PLBRC. Under the TA, MJVC will provide the services to enable basis, each of the users to load and off-load products from vessels and receive products from MJVC's storage facilities. The Company, as the User, shall pay the services and annual fees based on a certain formula agreed upon under the TA. The fee shall be shared between the users based on the actual tonnage off-loaded or loaded from and to ships. The term of the agreement is for 25 years and shall expire on December 15, 2025.

Throughput fees are shown as part of cost of sales (see Note 21).

**d. Loans**

Loans to related parties pertains to loans to associates which are unsecured and are payable in twenty (20) equal annual installments subject to annual interest based on the 91-day treasury bill rate plus a margin of 200 basis points subject to quarterly repricing. In the event of default, the Company through written notice may terminate the facility and any principal and interest outstanding shall be immediately due and payable on demand. The maximum credit risk exposure on these loans is equal to their carrying amount as at reporting date.

**e. 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 PPCI thru Kareila, 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.

**f.** Royalty Agreement

On August 15, 2011, the Group ("licensee") entered into a license agreement with a stockholder ("licensor") for its use of trademark and logo. The licensee will pay the licensor royalties in an amount equivalent to 1/20 of 1% of net sales for the period of thirty (30) years, renewable upon mutual written consent of the parties. These royalty fees and payables are unsecured, non-interest bearing and due and demandable.

g. Lease of Building

The Group leases the building from its related parties where some stores are located. The Group pays its related parties a minimum fixed amount or is calculated in reference to a fixed sum per square meter of area leased. The terms of the lease are for the periods ranging from ten to thirty-five (10 -35) years, renewable for the same period under the same terms and conditions. The rent shall escalate by the range from 1% to 7%. Rental payments are fixed amounts based on the contracts.

h. As at December 31, 2015 and 2014, receivables and payables amounting to P522 million and P1 billion, respectively, were eliminated upon consolidation.

## 27. Retirement Benefit Costs

The Group has an unfunded, noncontributory, defined benefit plan covering all of its permanent employees. 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. The Group's latest actuarial valuation date is December 27, 2013. Valuations are obtained on a periodic basis.

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

| | **2015** | 2014 |
|---|---|---|
| Balance at January 1 | **P458,436,122** | P293,041,032 |
| **Included in profit or loss** | | |
| Current service cost | **86,588,109** | 63,434,907 |
| Interest cost | **20,149,944** | 16,955,785 |
| Interest income on plan assets | **(1,122,500)** | (167,107) |
| | **105,615,553** | 80,223,585 |
| **Included in other comprehensive income** | | |
| Remeasurements loss (gain): | | |
| Changes in financial assumptions | - | (780,626) |
| Changes in demographic assumptions | - | (64,812) |
| Actuarial loss (gain) arising from: | | |
| Financial assumptions | **(45,061,039)** | 67,091,416 |
| Experience adjustment | **(14,833,001)** | (12,064,685) |
| Return on plan assets excluding interest income | **666,962** | 234,492 |
| | **(59,227,078)** | 54,415,785 |
| **Retirement benefits paid** | **(6,665,070)** | - |
| **Effect of business combination** | - | 30,755,720 |
| **Balance at December 31** | **P504,824,597** | P458,436,122 |

The retirement benefits liability recognized in the statements of financial position as at December 31 are as follows:

| | 2015 | 2014 |
|---|---|---|
| Present value of defined benefits obligation | **P504,824,597** | P458,436,122 |
| Fair value of plan assets | **(25,000,000)** | (25,000,000) |
| Retirement benefits liability | **P479,824,597** | P433,436,122 |

The amount of retirement benefits cost recognized in profit or loss in December 31 consist of:

| | 2015 | 2014 |
|---|---|---|
| Current service cost | **P93,253,180** | P63,434,907 |
| Interest expense on the defined benefit liability | **20,149,944** | 16,955,785 |
| Interest income on plan assets | **(1,122,500)** | (167,107) |
| | **P112,280,624** | P80,223,585 |

The actuarial losses, before deferred income taxes recognized in other comprehensive income are as follows:

| | 2015 | 2014 |
|---|---|---|
| Cumulative actuarial loss at beginning of year | **P71,133,477** | P3,600,700 |
| Actuarial loss (gain) due to increase in defined benefit obligation | **(59,227,079)** | 54,415,785 |
| Effect of business combination | **-** | 13,116,992 |
| Cumulative actuarial loss at end of year | **P11,906,398** | P71,133,477 |

The cumulative actuarial loss, net of deferred income taxes, amounted to P8.33 million and P49.79 million as at December 31, 2015 and 2014, respectively, as presented in the consolidated statements of changes in equity.

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

| | 2015 | 2014 |
|---|---|---|
| Discount rate | **4.89%** | 5.32% |
| Future salary increases | **8.00%** | 8.00% |

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 25.8 years.

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.

*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:

| | Increase | Decrease |
|---|---|---|
| Discount rate (1% movement) | 53,373,855 | (25,219,866) |
| Future salary increase rate (1% movement) | 112,197,550 | (89,643,511) |

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:

| | | | **2015** | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Contractual Cash Flows** | **Within 1 Year** | **Within 1-5 Years** | **Within 5-10 Years** |
| Defined benefit obligation | **P504,824,597** | **P106,371,652** | **P13,496,958** | **P26,786,698** | **P66,087,996** |

| | | | 2014 | | |
|---|---|---|---|---|---|
| | Carrying Amount | Contractual Cash Flows | Within 1 Year | Within 1-5 Years | Within 5-10 Years |
| Defined benefit obligation | P458,436,122 | P94,009,260 | P13,616,702 | P19,019,824 | P61,372,734 |

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 2015.

## 28. Income Taxes

The income tax expense for the years ended December 31 consists of:

| | **2015** | 2014 |
|---|---|---|
| Current tax | **P3,017,788,210** | P2,606,099,516 |
| Deferred tax | **(200,674,359)** | (152,581,964) |
| | **P2,817,113,851** | P2,453,517,552 |

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense as shown in profit or loss for the years ended December 31 is as follows:

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Income before income tax | **P9,804,355,883** | P8,689,019,191 | P5,082,352,623 |
| Income tax expense at the statutory income tax rate: | | | |
| 30% | **P3,243,210,337** | P2,750,847,690 | P1,516,142,958 |
| 5% | **7,613,012** | 6,192,440 | 4,120,060 |
| Income tax effects of: | | | |
| Changes in unrecognized DTA | **73,268,072** | (5,357,424) | 23,348,260 |
| Nondeductible expense | **35,927,512** | 24,081,712 | 125,767,036 |
| Non-deductible interest expense | **10,158,679** | 2,249,699 | 7,266,181 |
| Nondeductible other expenses | **1,301,016** | 31,329,842 | 854,553 |
| Non-taxable rental income | **(94,823)** | (817,522) | - |
| Dividend income subjected to final tax | **(300,698)** | (195,297,502) | (274,254,372) |
| Share in net income of an associate | **(790,878)** | | |
| Expired NOLCO | **(10,859,687)** | 1,737,899 | - |
| Non-taxable income-net subjected to final tax | **(16,250,114)** | (2,522,461) | - |
| Deduction from gross income due to availment of optional standard deduction | **(23,198,957)** | (15,340,024) | - |
| Interest income subjected to final tax | **(31,006,795)** | (46,115,638) | (53,449,474) |
| Dividend income exempt from final tax | **(358,095,151)** | - | - |
| Recognition of unrecognized DTA | **(113,767,674)** | (97,647,259) | 735,141 |
| Expired MCIT | - | 356,158 | 616,771 |
| Capital gain/loss subjected to capital gains tax | - | (180,058) | - |
| | **P2,817,113,851** | P2,453,517,552 | P1,351,147,114 |

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:

| | 2015<br>DTA (DTL) | 2014<br>DTA (DTL) |
|---|---|---|
| Accrued rent expense | **P832,033,804** | P655,581,040 |
| Retirement benefits liability | **147,977,195** | 123,068,164 |
| NOLCO | **201,333,651** | 120,086,493 |
| Allowance for impairment losses on receivables | **50,752,456** | 49,337,160 |
| Deferred rent income | **27,541,101** | 1,558,133 |
| Discounting of customers deposit | **10,167,198** | 27,728,867 |
| MCIT | **2,259,650** | 4,199,446 |
| Security deposit adjustment (asset) | **1,690,878** | 1,487,782 |
| Advanced rentals | **487,307** | 2,051,081 |
| Unrealized foreign exchange loss | **583,065** | 402,286 |
| Recognition of DTA | **126,818** | 122,892 |
| Provision for gas cylinders | - | 510,000 |
| Actuarial losses | - | 14,462,674 |
| DTA | **1,274,953,123** | 1,000,596,018 |
| Unrealized foreign exchange loss | **(986,305)** | (299,754) |
| Return on plan assets | **(136,661)** | - |
| Prepaid rent | **(8,366,357)** | (6,774,144) |
| Discounting of customers deposit | **(24,246,082)** | (1,793,329) |
| Accrued rent income | **(276,606,476)** | (218,395,710) |
| Fair value of intangible assets from business combination | **(1,379,734,058)** | (1,379,734,058) |
| Accrued interest income | - | (729,547) |
| Security deposit adjustment (liability) | - | (26,434,774) |
| DTL | **(1,690,075,939)** | (P1,634,161,316) |
| Net | **(P415,122,816)** | (P633,565,298) |

The realization of these deferred tax assets is dependent upon future taxable income that temporary differences and carry forward benefits are expected to be recovered or applied. Deferred tax expense recognized in other comprehensive income pertains to the remeasurements of the retirement benefit liability.

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below:

| Year Incurred | Amount Incurred | Expired (Applied) During the Year | Remaining Balance | Expiration Date |
|---|---|---|---|---|
| 2011 | P16,659,745 | (P16,659,745) | P - | 2014 |
| 2012 | 22,654,191 | (22,654,191) | - | 2015 |
| 2013 | 376,230,238 | (50,126,928) | 326,103,310 | 2016 |
| 2014 | 104,036,834 | - | 104,036,834 | 2017 |
| 2015 | 471,224,898 | - | 471,224,898 | 2018 |
| | P990,805,906 | (P89,440,864) | P901,365,042 | |

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below:

| Year Incurred | Amount Incurred | Expired (Applied) During the Year | Remaining Balance | Expiration Date |
|---|---|---|---|---|
| **2011** | **P1,458,011** | **(P1,458,011)** | **P -** | **2014** |
| **2012** | **2,612,079** | **(2,612,079)** | **-** | **2015** |
| **2013** | **1,316,275** | **-** | **1,316,275** | **2016** |
| **2014** | **2,568,707** | **-** | **2,568,707** | **2017** |
| **2015** | **4,071,221** | **-** | **4,071,221** | **2018** |
| | **P12,026,293** | **(P4,070,090)** | **P7,956,203** | |

## 29. Equity

The details of Parent Company's authorized, issued and outstanding capital stocks are as follows:

Amount

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Authorized | *1* | **P10,000,000,000** | P10,000,000,000 |
| Issued and outstanding: | | | |
| Balance at beginning of year | | **P7,405,263,564** | P7,405,263,564 |
| Stock issuances during the period | *1* | **-** | - |
| Balance at end of year | | **P7,405,263,564** | P7,405,263,564 |

Number of shares

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Authorized - (2014 - P1 par value, 2013 - P1 par value) | *1* | **10,000,000,000** | 10,000,000,000 |
| Issued and outstanding | | | |
| Balance at beginning of year | | **7,405,263,564** | 7,405,263,564 |
| Stock issuances during the period | *1* | **-** | - |
| Treasury stocks | | **(19,347,300)** | (472,200) |
| Balance at end of year | | **7,385,916,264** | 7,404,791,364 |

Capital Stock and Additional Paid-in Capital

On June 28, 2007, the BOD approved the increase in the Parent Company's authorized capital stock from P700,000,000 to P3,000,000,000 divided into 300 billion common shares with the same rights and privileges and with a par value of P0.01 per share. On the same date, the BOD approved the issuance of up to 5% of the authorized capital stock of the Company to qualified employees and persons through an Employees Stock Ownership Plan.

On June 8, 2010, the SEC approved the Parent Company's application to increase its authorized capital stock as discussed above. In 2011, upon implementation of the capital increase, 25% of the additional P2.3 billion was subscribed through private placement and P100 million of which was subscribed through stock rights offering.

On April 22, 2013, the SEC approved the increase in the Parent Company's capital stock from P3,000,000,000 divided into 300,000,000,000 shares with par value of P0.01 each, to P10,000,000,000 shares with par value of P1.00 each.

The Parent Company has not yet implemented the stock option plan to qualified employees as at December 31, 2015 and 2014.

Treasury Stocks

On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30 million shares within one year from the approval or until November 4, 2015. On November 2, 2015, the Parent Company renewed its authority to buy back its shares for another one year. As at December 31, 2015 and 2014, the Parent Company already bought back 19,347,300 and 472,200 shares with acquisition cost of P154,039,906 and P3,963,490, respectively and was classified in the Parent Company's book as treasury shares. Additionally, as at December 31, 2015, the Group through PPCI bought back 2,970,465 shares with acquisition cost of P33,846,207.

Retained Earnings

On December 18, 2015, the Company's BOD approved the declaration of a regular dividend of P0.06 per share and special dividend of P0.02 per share on record date of January 8, 2016 and payment date of January 18, 2016. The total amount of dividends amounted to P590.87 million.

On December 18, 2014, the Parent Company's BOD approved the declaration of a regular dividend of P0.02 per share and special dividend of P0.06 per share on record date of January 12, 2015 and payment date of February 5, 2015. The total amount of dividends amounted to P592.42 million.

In a meeting held on June 27, 2014, the Company's BOD approved the declaration of a regular cash dividend amounting to P444.32 million equivalent to P0.06 per share to stockholders of record as at July 11, 2014. The related cash dividends were paid on July 28, 2014.

The summary of dividends declared as at December 31, 2015 and 2014 is as follows:

| Type of Dividend | Date of Dividend Declaration | Date of Record | Date of Payment | Amount |
|---|---|---|---|---|
| Cash | June 27, 2014 | July 11, 2014 | July 28, 2014 | P444,315,814 |
| Cash | December 18, 2014 | January 8, 2016 | February 5, 2015 | 592,421,085 |
| Cash | December 18, 2015 | January 8, 2016 | January 18, 2016 | 590,873,301 |

## 30. Segment Information

Segment information reported externally was analyzed on the basis of types of goods supplied and services provided by the Group's operating divisions. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of goods or services delivered or provided. The Group's reportable segments are as follows:

| | |
|---|---|
| **Retail** | Includes selling of purchased goods to a retail market |
| **Specialty retail** | Includes selling of office supplies both on wholesale and retail business and import, export, storage and transshipment of liquefied petroleum gas, filling and distributions of LPG cylinders as well as distributions to industrials, wholes and other customers. |
| **Real estate** | Includes real estate activities such as selling and leasing of real properties |
| **Liquor distribution** | Includes selling of purchased goods based on a distributorship channel to a wholesale market |
| **Holding, 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 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Grocery retail | **P97,171,519,864** | P84,697,390,792 | **P5,001,871,585** | P4,520,457,686 |
| Specialty retail | **13,156,565,360** | 19,999,219,952 | **508,244,954** | 399,556,122 |
| Liquor distribution | **5,676,830,694** | 4,840,817,814 | **659,633,078** | 603,431,864 |
| Real estate | **2,422,603,792** | 2,191,485,129 | **1,027,890,831** | 970,581,457 |
| Holding, oil and mining | **1,986,833** | 102,607,934 | **973,987,044** | 662,115,862 |
| Total | **118,429,506,543** | 111,831,521,621 | **8,171,627,492** | 7,156,142,991 |
| Eliminations | **1,677,324,466** | 13,044,777,781 | **1,184,385,459** | 920,641,352 |
| | **P116,752,182,078** | P98,786,743,840 | **P6,987,242,033** | P6,235,501,639 |

Revenue reported above represents revenue generated from external customers and inter-segment sales broken down as follows:

| | **2015** | 2014 |
|---|---|---|
| Retail | | |
| From external customers | **P97,171,519,864** | P84,697,390,792 |
| From intersegment sales | - | - |
| | **97,171,519,864** | 84,697,390,792 |
| Specialty retail | | |
| From external customers | **13,156,470,401** | 8,950,174,551 |
| From intersegment sales | **94,959** | 309,371 |
| Pre-acquisition earnings | - | 11,048,736,030 |
| | **13,156,565,360** | 19,999,219,952 |
| Real estate | | |
| From external customers | **1,848,044,359** | 1,379,054,373 |
| From intersegment sales | **574,559,433** | 563,580,829 |
| Pre-acquisition earnings | - | 248,849,927 |
| | **2,422,603,792** | 2,191,485,129 |
| Liquor distribution | | |
| From external customers | **4,574,160,620** | 3,717,052,727 |
| From inter-segment sales | **1,102,670,074** | 1,123,765,087 |
| | **5,676,830,694** | 4,840,817,814 |
| Holding, oil and mining | | |
| From external customers | **1,986,833** | 49,059,547 |
| From inter-segment sales | - | 53,548,387 |
| | **1,986,833** | 102,607,934 |
| Total revenue from external customers | **P116,812,182,078** | P98,792,731,990 |
| Total intersegment revenue | **P1,677,324,466** | P1,741,203,674 |
| Pre-acquisition earnings | **P -** | P11,297,585,957 |

No single customer contributed 10% or more to the Group's revenue for the periods ended December 31, 2015 and 2014.

Segment Assets and Liabilities
Below is the analysis of the Group's segment assets and liabilities:

| | 2015 | 2014 |
|---|---|---|
| Segment Assets | | |
| Grocery retail | **P58,861,264,793** | P53,666,395,695 |
| Real estate | **21,739,306,188** | 17,845,539,557 |
| Specialty retail | **4,171,650,104** | 4,017,731,147 |
| Liquor | **5,698,727,753** | 4,709,056,173 |
| Holding, oil and mining | **97,286,639,754** | 97,954,715,405 |
| Total segment assets | **187,757,588,592** | 178,193,437,977 |
| Intercompany assets | **90,227,012,929** | 88,494,858,437 |
| Total assets | **P97,530,575,663** | P89,698,579,540 |
| Segment Liabilities | | |
| Retail | **P20,448,048,031** | P19,432,901,026 |
| Specialty retail | **1,609,765,520** | 1,628,238,975 |
| Real estate | **8,122,868,508** | 6,007,828,276 |
| Liquor | **3,119,466,159** | 2,589,759,625 |
| Holding, oil and mining | **9,401,243,422** | 9,625,148,334 |
| Total segment liabilities | **42,701,391,640** | 39,283,876,236 |
| Intercompany liabilities | **10,579,988,167** | 9,264,061,033 |
| Total liabilities | **P32,121,403,473** | P30,019,815,203 |

## 31. Basic/Diluted EPS Computation

Basic EPS is computed as follows:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income attributable to equity holders of the Parent Company (a) | **P4,490,644,237** | P4,026,866,478 | P2,482,546,969 |
| Weighted average number of ordinary shares (b) | **7,148,662,605** | 7,405,263,564 | 4,708,542,190 |
| Basic/Diluted EPS (a/b) | **P0.628180** | P0.543784 | P0.527243 |

As at December 31, 2015, 2014 and 2013, the Group has no dilutive debt or equity instruments.

## 32. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk
- Foreign Currency Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and detriment forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

Exposure to credit risk is monitored on an ongoing basis. Credit is not extended beyond authorized limits. Credit granted is subject to regular review, to ensure it remains consistent with the customer's credit worthiness and appropriate to the anticipated volume of business.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The credit risk for due from related parties and security deposits was considered negligible since these accounts have high probability of collection and there is no current history of default.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

| | *Note* | **2015** | 2014 |
|---|---|---|---|
| Cash in banks and cash equivalents | *4* | **P13,760,106,334** | P14,354,179,316 |
| Short-term investments | *5* | **561,955,978** | 824,078,115 |
| Receivables - net | *6* | **5,648,133,162** | 5,321,986,551 |
| Due from related parties | *26* | **156,228,847** | 18,044,438 |
| Investment in debt securities | *9* | **1,918,335** | 5,657,105 |
| Security deposits | *16* | **1,615,471,291** | 1,240,131,409 |
| | | **P21,743,813,947** | P21,764,076,934 |

The following is the aging analysis per class of financial assets as at December 31:

| | **December 31, 2015** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | **Past Due but not Impaired** | | | | |
| | | **1 to 30 Days** | **31 to 60 Days** | **More than 60 Days** | **Impaired** | **Total** |
| Cash in bank and cash equivalents | **P13,760,106,334** | **P -** | **P -** | **P -** | **P -** | **P13,760,106,334** |
| Short-term investments | **561,955,978** | **-** | **-** | **-** | **-** | **561,955,978** |
| Receivables - net | **5,648,133,162** | **3,895,836,288** | **487,769,932** | **1,264,526,942** | **149,684,186** | **5,797,817,348** |
| Due from related parties | **156,228,847** | **-** | **-** | **-** | **-** | **156,228,847** |
| Investment in debt securities | **1,918,335** | **-** | **-** | **-** | **-** | **1,918,335** |
| Security deposits | **1,615,471,291** | **-** | **-** | **-** | **-** | **1,615,471,291** |
| | **P21,743,813,947** | **P3,895,836,288** | **P487,769,932** | **P1,264,526,942** | **P149,684,186** | **P21,893,498,133** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | |
| | | 1 to 30 Days | 31 to 60 Days | More than 60 Days | Impaired | Total |
| Cash in bank and cash equivalents | P14,354,179,316 | P - | P - | P - | P - | P14,354,179,316 |
| Short-term investments | 824,078,115 | - | - | - | - | 824,078,115 |
| Receivables - net | 3,193,191,931 | 1,064,397,310 | 798,297,983 | 266,099,328 | 164,457,192 | 5,486,443,743 |
| Due from related parties | 18,044,438 | - | - | - | - | 18,044,438 |
| Investment in debt securities | 5,657,105 | 5,657,105 | - | - | - | 5,657,105 |
| Security deposits | 1,240,131,409 | - | - | - | - | 1,240,131,409 |
| | P19,635,282,314 | P1,070,054,415 | P798,297,983 | P266,099,328 | P164,457,192 | P21,928,534,126 |

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 bank 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.

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:

| | As at December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | **Carrying Amount** | **Contractual Cash Flow** | **1 Year or Less** | **More than 1 Year - 5 Years** | **More than 5 Years** |
| **Financial Liabilities** | | | | | |
| Accounts payable and accrued expenses[1] | **P11,631,855,205** | **P11,631,855,205** | **P11,631,855,205** | **P -** | **P -** |
| Short-term loans payable | **4,316,194,073** | **4,316,194,073** | **4,316,194,073** | - | - |
| Trust receipts payable | **5,182,021** | **5,182,021** | **5,182,021** | - | - |
| Due to related parties | **457,157,621** | **457,157,621** | **457,157,621** | - | - |
| Long-term Debt including Current Portion | **9,263,424,271** | **10,967,360,821** | **1,002,876,746** | **2,099,555,556** | **7,864,928,520** |
| Other current liabilities[2] | **255,577,061** | **255,577,061** | **255,577,061** | - | - |
| Noncurrent accrued rent | **2,492,888,910** | **2,492,888,910** | **18,684,176** | **272,574,829** | **2,201,629,905** |
| | **P28,422,279,162** | **P30,126,215,712** | **P17,687,526,903** | **P2,372,130,385** | **P10,066,558,425** |

[1] *Excluding statutory payables to the government.*

[2] *Excluding gift cheques, exclusive fund, VAT payable and promotion fund and other current liabilities.*

| | As at December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Contractual Cash Flow | 1 Year or Less | More than 1 Year - 5 Years | More than 5 Years |
| Financial Liabilities | | | | | |
| Accounts payable and accrued expenses[1] | P12,515,097,343 | P12,515,097,343 | P12,515,097,343 | P - | P - |
| Short-term loans payable | 2,259,100,000 | 2,272,364,960 | 2,272,364,960 | - | - |
| Trust receipts payable | - | - | - | - | - |
| Due to related parties | 42,605,644 | 42,605,644 | 42,605,644 | - | - |
| Long-term Debt including Current Portion | 9,866,403,220 | 12,075,406,820 | 3,344,077,700 | 1,994,864,800 | 6,736,464,320 |
| Other current liabilities[2] | 261,804,557 | 261,804,557 | 261,804,557 | - | - |
| Noncurrent accrued rent | 2,068,506,537 | 2,068,506,537 | 76,598,218 | 216,580,847 | 1,775,327,472 |
| | P27,013,517,301 | P29,235,785,861 | P18,512,548,422 | P2,211,445,647 | P8,511,791,792 |

[1] *Excluding statutory payables to the government.*

[2] *Excluding gift cheques, exclusive fund, VAT payable and promotion fund and other current liabilities.*

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. Short and long-term loan with fixed rates are not subject to interest rate risk.

The interest rate profile of the Group's interest-bearing financial instruments is as follows:

| | **2015** | 2014 |
|---|---|---|
| Financial assets | | |
| Cash in banks | **P3,538,525,193** | **P2,877,998,722** |
| Money market placement | **10,221,581,141** | **11,476,180,594** |
| Short-term investments | **561,955,978** | **824,078,115** |
| | **14,322,062,312** | **15,178,257,431** |
| Financial Liability | | |
| Notes payable | **13,579,618,344** | **9,866,403,220** |
| | **P742,443,968** | **P5,311,854,211** |

The Group does not account for any fixed rate financial assets and liabilities at FVPL, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Foreign Currency Risk
The Group's foreign currency risk at December 31, 2014 pertains to its cash in bank which is denominated in US dollar.

The Group's foreign currency denominated assets as at December 31, 2015 and 2014 follow:

| | **As at December 31, 2015** | | | | |
|---|---|---|---|---|---|
| **Currency** | **Current Assets** | **Current Liabilities** | **Net Foreign Currency Liabilities** | **Exchange Rate** | **PHP Equivalent** |
| USD | **6,832,249** | **17,372,854** | **(10,540,605)** | **47.06** | **(P496,040,871)** |
| EUR | **143,322** | **499,322** | **(356,000)** | **51.74** | **(18,419,440)** |
| AUD | | **183** | **(183)** | **34.27** | **(6,271)** |
| SGD | | **89,641** | **(89,641)** | **33.52** | **(3,004,766)** |
| | **6,975,571** | **17,962,000** | **(10,986,429)** | | **(P517,471,349)** |

| | As at December 31, 2014 | | | | |
|---|---|---|---|---|---|
| Currency | Current Assets | Current Liabilities | Net Foreign Currency Liabilities | Exchange Rate | PHP Equivalent |
| USD | 7,201,987 | (9,145,180) | (1,943,193) | 44.720 | (P86,899,591) |
| EUR | 464 | (268,781) | (268,317) | 54.339 | (14,580,077) |
| AUD | - | (100,773) | (100,773) | 36.206 | (3,648,587) |
| SGD | - | (46,575) | (46,575) | 33.700 | (1,569,578) |
| | 7,202,451 | 9,561,309 | (2,358,858) | | (P106,697,833) |

*Sensitivity Analysis*
A 2% decrease in the foreign exchange rates, with all other variables held constant would have decreased the Group's income after tax and equity by P7.24 million and by P1.49 million as at December 31, 2015 and 2014, respectively. A 2% increase in the foreign exchange rates would have the equal but opposite effect, on the basis that all other variables remains constant.

The analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date.

Capital Management
The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group's President has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group defines capital as paid-up capital, remeasurements and retained earnings.

There were no changes in the Group's approach to capital management during the year.

## 33. Financial Instruments

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2015 and 2014.

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 and Security Deposits*
The carrying amounts of cash and cash equivalents, short-term investments, receivables and due from related parties approximate their fair values due to the relatively short-term maturities of these financial instruments. In the case of security deposits, the difference between the carrying amounts and fair values is considered immaterial by management.

*Investments in Trading Securities and Available-for-Sale Financial Assets*
The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates. Unquoted equity securities are carried at cost less impairment.

*Accounts Payable and Accrued Expenses, Trust Receipts Payable, Due to Related Parties, Other Current Liabilities and Noncurrent Accrued Rent*
The carrying amounts of accounts payable and accrued expenses, trust receipts payable, due to related parties and other current liabilities approximate the fair value due to the relatively short-term maturities of these financial instruments. The difference between the carrying amounts and fair values of noncurrent accrued rent and other current liabilities is considered immaterial by management.

*Short and Long-term Loans including Current Maturities*
The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Carrying amounts approximate fair value.

Fair Value Hierarchy
The table below 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, 2015 and 2014, the Group's investment in trading securities and AFS were measured based on Level 1.

As at December 31, 2015 and 2014, the Group has no financial instruments valued based on Level 2 and 3 and has not introduced any movement among Levels 1, 2 and 3 classifications.

## 34. Reclassifications

In 2015, comparative amounts were reclassified to conform to the current year presentation. These classifications did not have any effect on the Group's consolidated net income. These accounts follows:

| | As Previously Reported | Effect of Reclassification | As Reclassified |
|---|---|---|---|
| **Statement of Comprehensive Income** | | | |
| Cost of sales | P80,841,348,763 | (275,591,420) | P80,565,757,343 |
| Other operating income | 2,838,352,986 | 275,591,420 | 2,562,761,566 |

## 35. Event After Reporting Period

On December 29, 2015, the management of EPHI filed with the SEC the merger of 118 and EPHI with the latter as being surviving corporation. The merger was subsequently approved by the SEC on January 12, 2016 with effectivity on the same date.

# ANNEX B

# COSCO CAPITAL, INC. AND SUBSIDIARIES
# SUPPLEMENTARY SCHEDULES

## Contents

SEC Supplementary Schedules and Other Documents

**Segment Information**

*As at and For the Years Ended December 31, 2015 and 2014*

**R.G. Manabat & Co.**
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Makati City 1226, Metro Manila, Philippines

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Branches: Subic · Cebu · Bacolod · Iloilo

# REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Cosco Capital, Inc. and Subsidiaries (the "Group") as at and for the years ended December 31, 2015 and 2014, included in this Form 17-A, and have issued our report thereon dated April 1, 2016.

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

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

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

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

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 1386-A, Group A, valid until February 5, 2017
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2013
Issued December 2, 2013; valid until December 1, 2016
PTR No. 5321515MD
Issued January 4, 2016 at Makati City

April 1, 2016
Makati City, Metro Manila



PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-4, Group A, valid until November 10, 2017
IC Accreditation No. F-2014/014-R, valid until August 26, 2017
BSP Accredited, Category A, valid until December 17, 2017

# ANNEX C

## COSCO CAPITAL, INC. AND SUBSIDIARIES
## SEC Supplementary Schedules and Other Documents
December 31, 2015

### Table of Contents

# SCHEDULE A. FINANCIAL ASSETS

*(In Philippine Peso)*

| 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 end of reporting period (iii) | Income received and accrued |
|---|---|---|---|---|
| Cash and cash equivalents | | P14,541,465,350 | P14,541,465,350 | P125,836,972 |
| Short-term investments | | 561,955,978 | 561,955,978 | 8,891,127 |
| Receivables-net | | 5,648,133,162 | 5,648,133,162 | - |
| Investments in trading securities | 954,935 | 34,432,591 | 34,432,591 | 921,431 |
| Available-for-sale financial assets-current | 862,165 | 8,587,187 | 8,587,187 | 9,186,117 |
| Available-for-sale financial assets-non-current | | 7,879,160 | 7,879,160 | - |
| Due from related parties | | 156,018,039 | 156,018,039 | - |
| Loans to related parties-non-current portion | | 210,808 | 210,808 | - |
| Security deposits and other non-current assets | | 1,724,592,613 | 1,724,592,613 | - |
| | 1,817,100 | P22,683,274,888 | P22,683,274,888 | P144,835,647 |

**ATTACHMENT TO SCHEDULE A's INVESTMENT IN TRADING SECURITIES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS**
*(In Philippine Peso)*

| Name of issuing entity | Number of shares | Value Based on Market Quotation at End of Reporting Period |
|---|---|---|
| **Investment in trading securities** | | |
| Aboitiz Power | 280,000 | P11,676,000 |
| Banco De Oro | 96,133 | 10,093,965 |
| RCBC | 124,500 | 4,108,500 |
| Metrobank | 83,191 | 6,696,876 |
| PNB | 20,000 | 1,040,000 |
| Philex Mining Corp. | 100,000 | 440,000 |
| GMA PDR | 50,000 | 361,000 |
| Natl Reinsurance Co of the Phil | 200,000 | 0 |
| PHILEX PETROLEUM Corporation | 12,500 | 16,250 |
| | 966,324 | **34,432,591** |
| **Available-for-sale financial assets** | | |
| Ayala Land | 199 | 6,856 |
| JG Summit Holdings | 88,000 | 6,441,600 |
| Aboitiz | 7,800 | 451,230 |
| Manila Electric Company | 726,166 | 7,261,660 |
| Tower Club Shares | | 617,500 |
| | 862,165 | 14,778,846 |
| | **1,817,100** | **P49,211,437** |

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

(In Philippine Peso)

| Name and designation of debtor (i) | Balance at the beginning of period | Additions | Amounts collected (i) | Amounts written off (ii) | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| **Advances** | | | | | | | |
| Meritus Prime Distributions, Inc. | 460,400,000 | 281,000,000 | 260,400,000 | | 481,000,000 | | 481,000,000 |
| Montosco, Inc. | 720,297,220 | 290,000,000 | | | 1,010,297,220 | | 1,010,297,220 |
| Premier Wine and Spiritis, Inc. | 105,000,000 | 86,000,000 | | | 191,000,000 | | 191,000,000 |
| Ellimac Prime Holdings, Inc. | 1,389,512,742 | 749,733,560 | 62,674,387 | | 2,076,571,915 | | 2,076,571,915 |
| Fertuna Holding Corporation | 104,440,647 | | | | 104,440,647 | | 104,440,647 |
| Patagonia Holdings Corp. | 917,808,125 | | | | 917,808,125 | | 917,808,125 |
| Nation Realty, Inc. | 300,965,922 | | | | 300,965,922 | | 300,965,922 |
| 118 Holdings, Inc. | 35,121,853 | 72,000,000 | | | 107,121,853 | | 107,121,853 |
| NE Pacific Shopping Centers Corporation | 1,044,830 | | 1,044,830 | | - | | - |
| Liquigaz Philippine Corporation | 51,955,847 | | 51,941936 | | 13,911 | | 13,911 |
| Calor Philippine Holdings, Inc. | 16,950,780 | | | | 13,136,855 | 3,813,925 | 16,950,780 |
| Offiec Warehouse, Inc. | 1,518,569 | | | | 1,518,569 | | 1,518,569 |
| Canaria Holdings Corporation | 3,526,467,660 | | 160,008,594 | | 3,366,459,066 | | 3,366,459,066 |
| Alcorn Petroleum and Minerals Corporation | 4,751,838 | 389,506,115 | | | 394,257,953 | | 394,257,953 |
| Fertuna Holdings Corp. | 15,000,000 | | | | 15,000,000 | | 15,000,000 |
| **Dividends** | | | | | | | |
| Puregold Price Club, Inc. | 423,260,180 | 423,103,355 | 423,260,180 | | 423,103,355 | | 423,103,355 |
| NE Pacific Shopping Centers Corporation | 50,000,000 | 50,000,000 | 50,000,000 | | 50,000,000 | | 50,000,000 |
| Nation Realty, Inc. | 50,000,000 | 50,000,000 | 50,000,000 | | 50,000,000 | | 50,000,000 |
| Patagonia Holdings Corp. | 50,000,000 | 100,000,000 | 50,000,000 | | 100,000,000 | | 100,000,000 |
| Ellimac Prime Holdings, Inc. | 50,000,000 | 50,000,000 | 50,000,000 | | 50,000,000 | | 50,000,000 |
| Fertuna Holdings Corp. | | 50,000,000 | | | 50,000,000 | | 50,000,000 |
| Pure Petroleum Corporation | | 50,000,000 | | | 50,000,000 | | 50,000,000 |
| Montosco, Inc. | | 50,000,000 | | | 50,000,000 | | 50,000,000 |
| Meritus Pirme Distributions, Inc. | | 50,000,000 | | | 50,000,000 | | 50,000,000 |
| Premier Wine and Spirits, Inc. | | 100,000,000 | | | 100,000,000 | | 100,000,000 |

| Name and designation of debtor (i) | Balance at the beginning of period | Additions | Amounts collected (i) | Amounts written off (ii) | Current | Not current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| **Trade and Other Receivables** | | | | | | | |
| Puregold Price Club, Inc. | 440,584,017 | 521,875,723 | 440,584,017 | | 521,875,723 | | 521,875,723 |
| Cosco Capital, Inc. | | 62,756,378 | | | 62,756,378 | | 62,756,378 |
| | **4,201,979,669** | **5,490,565,764** | | | **8,242,545,433** | | **8,242,545,433** |

## SCHEDULE D. INTANGIBLE ASSETS-OTHER ASSETS

*(In Philippine Peso)*

| Description (i) | Beginning balance | Additions at cost (ii) | Charged to cost and expenses | Charged to other accounts | Other changes additions(deductions) (iii) | Ending balance |
|---|---|---|---|---|---|---|
| Goodwill | P16,060,828,616 | P1,650,219,809 | P - | P - | P - | P17,711,048,425 |
| Trademark | 3,709,660,547 | - | - | - | - | 3,709,660,547 |
| Customer relationships | 889,452,981 | - | - | - | - | 889,452,981 |
| Computer software and licenses-net | 165,271,877 | 81,455,903 | 22,522,320 | - | (42,480,226) | 181,723,275 |
| Leasehold rights | 69,950,588 | - | 3,767,751 | - | - | 66,184,796 |
| | **P18,000,887,819** | **P2,898,046,499** | **(P3,769,709)** | **P -** | **(P42,480,226)** | **P22,558,070,024** |

## SCHEDULE E. LONG TERM DEBT

| Title of issue and type of obligation (i) | Amount authorized by indenture | 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) |
|---|---|---|---|
| Short-term loans payable | | P4,266,500,000 | P - |
| Current portion of long-term borrowing | | 619,694,073 | - |
| Long-term loans payable - net of debt issue costs | | - | 8,693,424,271 |
| | | **P4,886,194,073** | **P8,693,424,271** |

### ATTACHMENT TO SCHEDULE E LONG TERM DEBT

| Type | Outstanding Balance |
|---|---|
| **Short-term** | |
| Short-term based on 2.375% | P1,129,000,000 |
| Short-term based on 2.50% | 890,000,000 |
| Short-term based on 2.75% | 2,247,500,000 |
| | **P4,266,500,000** |
| **Current portion of long-term borrowing** | |
| Fixed rate note based on 3.25% | P570,000,000 |
| Corporate Notes based on 5.2667% and 5.579% | 49,694,073 |
| | **P619,694,073** |
| **Long-term loans payable - net of debt issue costs** | |
| Corporate Notes based on 5.2667% and 5.579% | P4,865,861,973 |
| Fixed rate note based on 3.5% | 2,395,062,298 |
| Fixed rate note based on 4.5% | 1,432,500,000 |
| | **P8,693,424,271** |

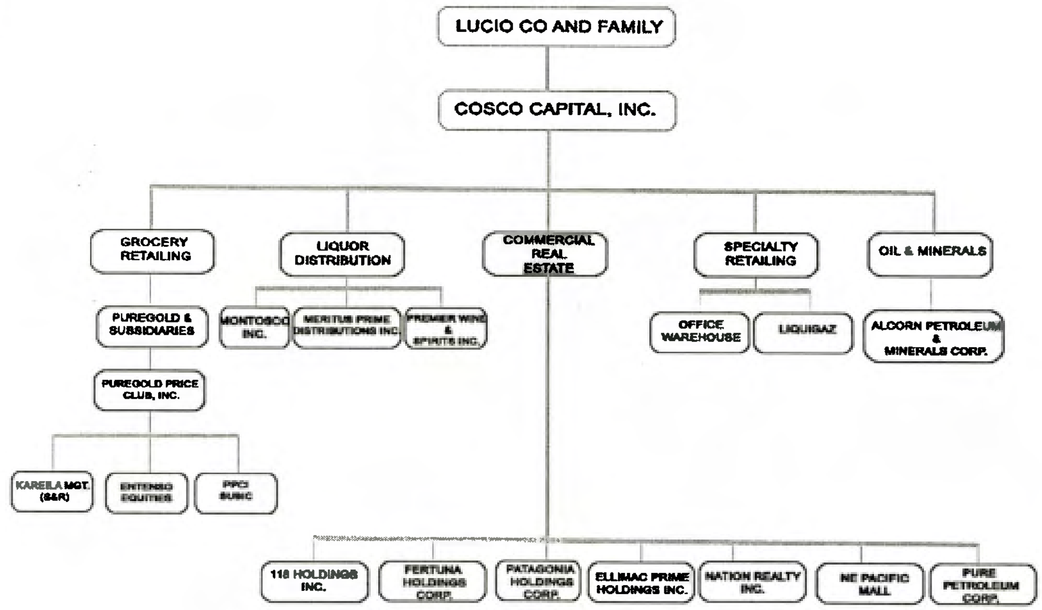
## SCHEDULE H. CAPITAL STOCK

*(In Philippine Peso)*

| Title of Issue (i) | Number of Shares authorized | Number of shares issued and outstanding at shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties (ii) | Directors, officers and employees | Others (iii) |
|---|---|---|---|---|---|---|
| COMMON STOCK | 10,000,000,000 | 7,405,263,564 | | 1,282,579,727 | 4,107,044,266 | 2,015,639,571 |

- On June 28, 2007, the BOD approved the increase in authorized capital stock from P700,000,000 to P3,000,000,000 divided into 300 billion common shares with the same rights and privileges and with a par value of P0.01 per share. On the same date, the BOD approved the issuance of up to 5% of the authorized capital stock of the Company to qualified employees and persons through an Employees Stock Ownership Plan.
- On June 8, 2010, the SEC approved the Company's application to increase its authorized capital stock as discussed above. During 2011, upon implementation of the capital increase, 25% of the additional P2.3 billion was subscribed through private placement and P100 million of which was subscribed through stock rights offering.
- On April 22, 2013, the SEC approved the increase in capital stock from P3,000,000,000 divided into 300,000,000,000 shares with par value of P0.01 each, to P10,000,000,000 shares with par value of P1.00 each. On the same date, the SEC approved the increase in capital stock of seven billion shares.
- As at December 31, 2014 and 2013, number of shares issued and outstanding totaled 7,405,263,564. Additional paid-in capital amounted to P79,827,987,885 in 2014 and 2013.
- The Company has not yet implemented the stock option plan to qualified employees as at December 31, 2014 and 2013.
- On December 18, 2014, the BOD approved to buy back the Parent Company's shares up to P1.00 billion or approximately 30 million shares within one year from the approval or until November 4, 2015. On November 2, 2015, the Parent Company renewed its authority to buy back its shares for another one year. As at December 31, 2015 and 2014, the Parent Company already bought back 19,347,300 and 472,200 shares with acquisition cost of P158,006,227 and P3,963,490, respectively and was classified in the Parent Company's book as treasury shares.

## SCHEDULE I: CONGLOMERATE MAP




On March 25, 2014, the BOD approved the merger of the Parent Company with Company E Corporation (Company E, entity under common control). It was then ratified by at least two-thirds (2/3) votes of the stockholders on May 13, 2014 during the annual stockholders' meeting with salient features. The Parent Company's application was filed on September 19, 2014 and is still awaiting approval from SEC and Department of Justice.
The merger of Nation Realty, Inc., Go Fay & Co, Inc., SVF Corporation and 999 Shopping Mall, Inc. (Nation Realty, Inc. as the absorbing entity), was approved by SEC on January 29, 2014.

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

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

## SCHEDULE J
## COSCO CAPITAL, INC. AND SUBSIDIARIES

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards -Repeated Application of PFRS 1 | | | ✓ |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Borrowing Cost Exemption | ✓ | | |
| | Annual Improvements to PFRSs 2011 -2013 Cycle: PFRS version that a first-time adopter can apply | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Meaning of 'vesting condition' | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Classification and measurement of contingent consideration | ✓ | | |
| | Annual Improvements to PFRSs 2011 -2013 Cycle: Scope exclusion for the formation of joint arrangements | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| | Annual Improvements to PFRSs 2012 -2014 Cycle: Changes in method for disposal | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | ✓ | | |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures -Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| | Annual Improvements to PFRSs 2012 -2014 Cycle: 'Continuing involvement' for servicing contracts | | | ✓ |
| | Annual Improvements to PFRSs 2012 -2014 Cycle: Offsetting disclosures in condensed interim financial statements | | | ✓ |
| **PFRS 8** | Operating Segments | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Disclosures on the aggregation of operating segments | ✓ | | |
| **PFRS 9** | Financial Instruments | | ✓ | |
| | Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 | | ✓ | |
| **PFRS 9 (2014)** | Financial Instruments | ✓ | | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | ✓ | | |
| | Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities | ✓ | | |
| | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance | ✓ | | |
| | Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Measurement of short-term receivables and payables | ✓ | | |
| | Annual Improvements to PFRSs 2011 -2013 Cycle: Scope of portfolio exception | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts | | | ✓ |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Presentation of Financial Statements -Comparative Information beyond Minimum Requirements | ✓ | | |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Property, Plant and Equipment -Classification of Servicing Equipment | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38) | ✓ | | |
| | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | ✓ | |
| | Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | ✓ | |
| | Annual Improvements to PFRSs 2012 -2014 Cycle: Discount rate in a regional market sharing the same currency -e.g. the Eurozone | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Definition of 'related party' | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✓ |
| | Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | ✓ | |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Financial Instruments Presentation -Income Tax Consequences of Distributions | | ✓ | |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| | Annual Improvements to PFRSs 2009 -2011 Cycle: Interim Financial Reporting -Segment Assets and Liabilities | | | ✓ |
| | Annual Improvements to PFRSs 2012 -2014 Cycle: Disclosure of information "elsewhere in the interim financial report' | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Annual Improvements to PFRSs 2010 -2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38) | ✓ | | |
| | Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets -Effective Date and Transition | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 40** | Investment Property | ✓ | | |
| | Annual Improvements to PFRSs 2011 -2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40) | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | ✓ | | |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |
| **Philippine Interpretations Committee Questions and Answers** | | | | |
| **PIC Q&A 2006-01** | PAS 18, Appendix, paragraph 9 -Revenue recognition for sales of property units under pre-completion contracts | | | ✓ |
| **PIC Q&A 2006-02** | PAS 27.10(d) -Clarification of criteria for exemption from presenting consolidated financial statements | | | ✓ |
| **PIC Q&A 2007-01-Revised** | PAS 1.103(a) -Basis of preparation of financial statements if an entity has not applied PFRSs in full | | | ✓ |
| **PIC Q&A 2007-02** | PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02] | | | ✓ |
| **PIC Q&A 2007-03** | PAS 40.27 -Valuation of bank real and other properties acquired (ROPA) | | | ✓ |
| **PIC Q&A 2007-04** | PAS 101.7 -Application of criteria for a qualifying NPAE | | | ✓ |
| **PIC Q&A 2008-01-Revised** | PAS 19.78 -Rate used in discounting post-employment benefit obligations | | | ✓ |
| **PIC Q&A 2008-02** | PAS 20.43 -Accounting for government loans with low interest rates under the amendments to PAS 20 | | | ✓ |
| **PIC Q&A 2009-01** | Framework.23 and PAS 1.23 -Financial statements prepared on a basis other than going concern | | | ✓ |
| **PIC Q&A 2009-02** | PAS 39.AG71-72 -Rate used in determining the fair value of government securities in the Philippines | | | ✓ |
| **PIC Q&A 2010-01** | PAS 39.AG71-72 -Rate used in determining the fair value of government securities in the Philippines | | | ✓ |
| **PIC Q&A 2010-02** | PAS 1R.16 -Basis of preparation of financial statements | | | ✓ |
| **PIC Q&A 2010-03** | PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan | | | ✓ |
| **PIC Q&A 2011-01** | PAS 1.10(f) -Requirements for a Third Statement of Financial Position | | | ✓ |
| **PIC Q&A 2011-02** | PFRS 3.2 -Common Control Business Combinations | | | ✓ |
| **PIC Q&A 2011-03** | Accounting for Inter-company Loans | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2015 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PIC Q&A 2011-04** | PAS 32.37-38 -Costs of Public Offering of Shares | | | ✓ |
| **PIC Q&A 2011-05** | PFRS 1.D1-D8 -Fair Value or Revaluation as Deemed Cost | ✓ | | |
| **PIC Q&A 2011-06** | PFRS 3, Business Combinations (2008), and PAS 40, Investment Property -Acquisition of Investment properties -asset acquisition or business combination? | ✓ | | |
| **PIC Q&A 2012-01** | PFRS 3.2 -Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements | ✓ | | |
| **PIC Q&A 2012-02** | Cost of a New Building Constructed on the Site of a Previous Building | | | ✓ |
| **PIC Q&A 2013-01** | Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs | | | ✓ |
| **PIC Q&A 2013-02** | Conforming Changes to PIC Q&As - Cycle 2013 | | | ✓ |
| **PIC Q&A 2013-03 (Revised)** | PAS 19 -Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law | | | ✓ |

# COSCO CAPITAL, INC. AND SUBSIDIARIES
## Schedule K
FINANCIAL SOUNDNESS INDICATOR

| Indicator | As of December 31, 2015 | As of December 31, 2014 | Formula |
|---|---|---|---|
| Current Ratio | 2.07x | 2.12x | Current Assets / Current Liabilities |
| Cash Ratio | 0.76x | 0.90x | Cash and Cash Equivalents / Current Liabilities |
| Debt-to-Equity Ratio | 0.49x | 0.51x | Total Liabilities / Total Equity |
| Debt-to-Asset Ratio | 0.33x | 0.34x | Total Liabilities / Total Assets |
| Asset-to-Equity Ratio | 1.49x | 1.51x | Total Asset / Total Equity |
| Interest Rate Coverage Ratio | 23.98x | 31.38x | Earnings before interest and taxes / Interest Expense |
| Net Income Margin | 5.98% | 6.31% | Net Income / Net Revenues |
| Investment Ratio | 0.01x | 0.01x | Total Investment and Advances / Total Asset |
| Return on Assets | 7.45% | 7.56% | Net Income / Average Total Assets |
| Earnings per Share | P0.98 | P0.84 | Net Income / Weighted Average Number of Ordinary Shares |

SCHEDULE L

**COSCO CAPITAL, INC.**
900 Romualdez Street, Paco, Manila

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

| | | *(Figures based on functional currency audited financial statements)* |
|---|---|---|
| **Unappropriated Retained Earnings, beginning** | | **P111,833,255** |
| Adjustment in previous year's reconciliation | | - |
| **Unappropriated Retained Earnings, as adjusted, beginning** | | **111,833,255** |
| **Net Income based on the face of AFS** | P872,651,396 | |
| **Less: Non-actual/unrealized income net of tax** | | |
| Equity in net income of associate/joint venture | - | |
| Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | - | |
| Unrealized actuarial gain | - | |
| Fair value adjustments (M2M gains) | - | |
| Fair value adjustments of investment property resulting to gain | - | |
| Adjustment due to deviation from PFRS/GAAP - gain | - | |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS | - | |
| Add: Non-actual losses | | |
| Depreciation on revaluation increment (after tax) | - | |
| Adjustment due to deviation from PFRS/GAAP - loss | - | |
| Loss on fair value adjustment of investment property (after tax) | - | |
| **Net Income actually earned during the year** | | **872,651,396** |
| Add (less): | | |
| Dividend declarations during the year | (590,873,301) | - |
| Appropriations of Retained Earnings during the year | - | |
| Reversals of appropriations | - | |
| Effects of prior period adjustments | - | |
| Treasury shares | (158,006,227) | |
| | | **(748,879,528)** |
| **Unappropriated Retained Earnings, as adjusted, ending** | | **P235,605,123** |

**COSCO CAPITAL, INC. AND SUBSIDIARIES**
***(Formerly Alcorn Gold Resources Corporation)***
**SEGMENT INFORMATION**

| *(In Thousands)* | Grocery Retail | Real Estate | Liquor Distribution | Holding, Oil and Gas | Specialty Retail | Consolidated |
|---|---|---|---|---|---|---|
| **For the Year Ended December 31, 2015** | | | | | | |
| Revenue | 97,171,520 | 2,422,604 | 5,676,831 | 1,987 | 13,156,565 | **116,752,182** |
| Income (Loss) from operations | 7,149,519 | 1,283,847 | 913,780 | -46,753 | 558,270 | **9,858,663** |
| Depreciation and amortization | 1,279,462 | 219,966 | 5,048 | 2,040 | 26,446 | **1,532,963** |
| Interest expense | 70,303 | 74,526 | 31,383 | 367,712 | 112 | **426,568** |
| Interest income | 18,503 | 21,584 | 628 | 210,127 | 1,356 | **134,728** |
| Net income for the year | 5,001,872 | 1,027,891 | 659,633 | 954,452 | 357,668 | **6,987,242** |
| **As at December 31, 2015** | | | | | | |
| Total current assets | 23,014,266 | 4,953,014 | 5,678,874 | 15,743,009 | 2,704,016 | **39,499,359** |
| Total non-current assets | 35,829,275 | 16,783,164 | 19,854 | 81,524,096 | 1,467,634 | **58,117,467** |
| Total current liabilities | 14,606,494 | 5,970,327 | 3,107,285 | 4,531,300 | 1,432,167 | **19,041,090** |
| Total non-current liabilities | 5,823,786 | 2,152,094 | 12,181 | 4,869,943 | 177,599 | **13,031,789** |
| **For the Year Ended December 31, 2014** | | | | | | |
| Revenue | 84,697,391 | 2,209,728 | 4,840,818 | 56,040 | 19,999,220 | **110,322,117** |
| Income (Loss) from operations | 6,477,902 | 1,172,447 | 880,685 | -153,178 | 576,147 | **8,954,002** |
| Depreciation and amortization expense | 1,185,445 | 205,492 | 5,591 | 510 | 136,394 | **1,526,401** |
| Interest expense | 47,262 | 63,398 | 19,559 | 170,971 | 28,074 | **329,264** |
| Interest income | 17,682 | 46,072 | 279 | 116,444 | 822 | **181,299** |
| Net income for the year | 4,520,458 | 974,948 | 603,432 | 646,570 | 399,556 | **6,521,703** |
| **As at December 31, 2014** | | | | | | |
| Total current assets | 20,481,245 | 4,505,113 | 4,693,145 | 15,388,738 | 2,586,147 | **36,995,698** |
| Total non-current assets | 33,185,150 | 14,354,875 | 15,911 | 81,551,900 | 1,431,584 | **53,287,531** |
| Total current liabilities | 13,835,055 | 3,825,995 | 2,579,343 | 4,321,967 | 1,449,618 | **17,299,866** |
| Total non-current liabilities | 5,597,846 | 2,565,159 | 10,417 | 4,920,160 | 178,621 | **13,267,541** |

ANNEX "C"

**SECURITIES AND EXCHANGE COMMISSION**

SEC FORM – ACGR

**ANNUAL CORPORATE GOVERNANCE REPORT**

| | |
|---|---|
| Report is Filed for the Year | April 13, 2016 |
| Exact name of Registrant as specified in its Charter | Cosco Capital, Inc. |
| Address of Principal Office and Postal Code | No. 900 Romualdez St., Paco, Manila 1007 |
| SEC Identification Number | 147669 |
| BIR Identification Number | 000-432-378 |
| Industry Classification Code (for SEC Use only) | |
| Issuer's Telephone Number, including area code | (632) 523 3055 |
| Former name or former address, if changed from the last report | Alcorn Gold Resources Corporation |
| Securities registered pursuant to Section 8 and 12 of the SRC or Sections 4 and 8 of the RSA | Outstanding Shares – 7,384,068,864 |
| Other Matters | AGRC |

## TABLE OF CONTENTS

## A. BOARD MATTERS

### 1) Board of Directors

Number of directors per Articles of Incorporation: 7
Actual number of directors: 7

On April 1, 2016, the Board of Directors of the Company approved the increase of number of directors from seven to nine, amending Article 6 of the Articles of Incorporation. The said amendment will still undergo stockholders' approval and certification/verification by the Securities and Exchange Commission (SEC). The Company expects its approval to be completed within the year.

#### (a) Composition of the Board

| Director | Type | If nominee, identify principal | Nominator | Date first elected | Date last elected | Elected when | Term |
|---|---|---|---|---|---|---|---|
| Lucio L. Co | ED | No | Leonardo Dayao | October 1997 | June 26, 2015 | Annual Stockholders' Meeting (ASM) | 19 years |
| Susan P. Co | ED | No | Leonardo Dayao | August 2013 | June 26, 2015 | ASM | 2 years |
| Leonardo B. Dayao | ED | No | Lucio L. Co | October 1997 | June 26, 2015 | ASM | 19 years |
| Eduardo Hernandez | NED | No | Lucio L. Co | September 1998 | June 26, 2015 | ASM | 18 years |
| Levi Labra | NED | No | Lucio L. Co | August 2013 | June 26, 2015 | ASM | 2 years |
| Oscar Reyes | ID | No | Lucio L. Co No relation | July 2009 | June 26, 2015 | ASM | 7 years |
| Robert Y. Cokeng | ID | No | Lucio L. Co No relation | September 1998 | June 26, 2015 | ASM | 18 years |

**(b) Provide a brief summary of the corporate governance policy that the board of directors has adopted with emphasis on the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.**

1. On February 28, 2011, the Board of Directors adopted the Revised Manual on Corporate Governance issued by the SEC which contains stockholders' rights and protection of minority stockholders interests, including the following basic rights of stockholders under the Philippine Corporation Code:

1. Right to vote on all matters that require their consent or approval;
2. Right to inspect corporate books and records;
3. Right to information;
4. Right to dividends; and
5. Appraisal right.

2. In 2014, the Board also approved the Revised Manual on Corporate Governance adopting therein the changes and amendments recommended by the SEC in accordance with Memorandum Circular No. 9, particularly strengthening the Company's principles on Disclosure and Transparency and extending the term "stockholders" to all "stakeholders".

3. On April 1, 2016, the Board adopted the following amendments to the Articles of Incorporation and By-Laws with the intention of improving the corporate governance practices of the Company:

Amendment of Article 6 of the Articles of Incorporation - "SIXTH. That the number of directors of the said Corporation shall be NINE (9).

Amendment of Section 10 Article IV of the By-Laws - "Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board."

Amendment of Section 3 Article III of the By-Laws - "Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required."

**(c) How often does the Board review and approve the vision and mission?**

As often as needed.

**(d) Directorship in Other Companies**

**(i) Directorship in the Company's Group**

The following are the members of the company's Board of Directors who hold the office of director in other companies within its Group:

| Director's Name | Name of Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman) |
|---|---|---|
| Lucio L. Co | Puregold Price Club, Inc. | Executive, Chairman |
| Susan P. Co | Puregold Price Club, Inc. | Executive, Vice-Chairman |
| Leonardo B. Dayao | Puregold Price Club, Inc. | Executive, Director |

(ii) **Directorship in Other Listed Companies**

The following are the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

| Director | Name of Listed Company | Type of Directorship |
|---|---|---|
| Lucio L. Co | Philippine Bank of Communications<br>Da Vinci Capital Holdings, Inc. | Executive Director<br>Executive Director |
| Susan P. Co | Philippine Bank of Communications | Executive Director |
| Leonardo B. Dayao | Philippine Bank of Communications | Executive Director |
| Robert Y. Cokeng | F&J Prince Holdings Corporation | Executive Director |
| Oscar Reyes | Bank of the Philippine Islands<br>Manila Water Co.<br>Ayala Land, Inc.<br>Philippine Long Distance Telephone Company<br>Manila Electric Company<br>Pepsi Cola Products, Inc.<br>Basic Energy Corp. | Non-Executive Director<br>Independent Director<br>Independent Director<br>Non-Executive Director<br>Executive Director<br>Executive Director<br>Independent Director |

(iii) **Relationship within the Company and its Group**

Relationship among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

| Director's Name | Name of the Significant Shareholder | Description of the relationship |
|---|---|---|
| Lucio L. Co | Susan P. Co | Wife |
| Susan P. Co | Lucio L. Co | Husband |

**(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:**

None yet but the Company intends to adopt a guidelines setting limit on number of board seats in other companies.

**(e) Shareholding in the Company**

The following are the members of the company's Board of Directors who directly and indirectly own shares in the company:

| Name of Director | Number of Direct Shares | Number of Indirect Shares/Through (name of record owner) | % of Capital Stock |
|---|---|---|---|
| Lucio L. Co | 2,282,116,129 | 35,386,963 under Broker's name | 31% |
| Susan P. Co | 1,777,124,852 | 3,057,378 under Broker's name | 24% |
| Leonardo B. Dayao | 163,778 | 393,602 under Broker's name | 0.01% |
| Eduardo F. Hernandez | 120,000 | None | 0.00% |
| Levi B. Labra | None | 100 under Broker's name | 0.00% |
| Oscar S. Reyes | 54,264 | None | 0.00% |
| Robert Y. Cokeng | None | 8,155,000 under Broker's name | 0.11% |

**2) Chairman and CEO**

**(a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.**

Yes / x / No / /

Name of the Chair and the CEO:

| | |
|---|---|
| Chairman of the Board | Lucio L. Co |
| President | Leonardo B. Dayao |

**(b) Roles, Accountabilities and Deliverables**

Define and clarify the notes, accountabilities and deliverables of the Chairman and CEO.

| | Chairman | President |
|---|---|---|
| Role | >Plans growth of the Company<br>>Ensure that the meetings of the Board are held in accordance with the By-Laws or as the Chair may deem necessary;<br>>Supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the Management and the directors;<br>>Maintain the qualitative and timely lines of communication and information between the Board and Management. | >The person in-charge of the daily operation of the business.<br>>Heads the management team<br>>Seeks approval of the board on corporate matters that affect the operation of the company<br>>Budgets and goals of the company are met |
| Accountabilities | Over-all operation of the Company, execution of the short and long term plan and maintain financial soundness of the Company | >Budget or target of the company is attained<br>>Financial soundness of the Company |
| Deliverables | >Execution of yearly audited financial statements and quarterly financial reports and the annual report.<br>> Execution of documents necessary for board meetings, minutes of the board meetings, and other documents necessary for the normal operation of the Company. | >Business plan at the beginning of the year<br>>Audited Financial Statements<br>>Financial reviews |

(c) **Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?**

The Board is mandating the management to continuously hire professionals and encourage them to constantly undergo training and seminars.

3) **Other Executive, Non-Executive and Independent Directors**

**Does the company have a policy of ensuring diversity of experience and background of directors in the board?**

Yes, the Company ensures diversity of experience and background of directors in the board.

**Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.**

The Manual on Corporate Governance requires that a Director must have practical understanding the business of the Company. However, it is always the consideration of the Company to ensure that at least one non-executive director has an experience in the sector or industry the company belongs to.

In fact, Mr. Levi Labra, non-executive director, has been in the retail industry for the longest time, being with the Procter & Gamble for the past 35 years.

**Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:**

The Company will establish clear policy on the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors.

**Provide the company's definition of "independence" and describe the company's compliance to the definition.**

The Company adopts the definition of "independence" consistent with the SEC regulations as "*one person, who apart from his fees and shareholdings, is independent of management and free from any business or other relationship which would, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director*".

The Company complies with the said definition as can be proven by the fact that its current independent directors, Mr. Oscar S. Reyes and Mr. Robert Y. Cokeng, are indeed independent from the management and free from any business or other relationship which would, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out their responsibilities as independent directors.

**Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.**

The Company complies with Securities and Regulation Code that limits to five continous service of independent directors and two cooling off period before bringing back an independent director.

**4) Changes in the Board of Directors**
**(Executive, Non-Executive and Independent Directors)**

(a) **Resignation/Death/Removal** - None
(b) **Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension** - None

Stated below are the procedures and the processes for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors.

| | |
|---|---|
| A.Selection Appointment<br>B. Re-appointment<br>C. Reinstatement | Executive Director<br>Non Executive Director<br>Independent Directors |
| Procedure/Process Adopted | Executive Directors are selected by the Nomination Committee.<br><br>The Nomination Committee usually receives nominations of candidates for directorship and screened them against the qualifications and disqualifications as stated in the Company's Revised Manual on Corporate Governance |

| | |
|---|---|
| Criteria | In addition to the qualifications for membership in the Board provided by the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications, which include, among others, the following:<br><br>>College education or equivalent academic degree;<br>>Practical understanding of the business of the Corporation;<br>>Membership in good standing in relevant industry, business or professional organizations;<br>>Previous experience; |
| D.Permanent Disqualification | Executive Director<br>Non Executive Director<br>Independent Directors |
| Procedure/Process Adopted | The Board acting as a collegial body shall act on any ground for disqualification that may come to its knowledge. |
| Criteria | The following shall be grounds for the permanent disqualification of a director:<br><br>>Any person convicted by final judgment or order by a competent judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;<br><br>>Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws that govern securities and banking activities.<br><br>>The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization; |

| | |
|---|---|
| | >Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;<br><br>>Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;<br><br>>Any person earlier elected as independent director who becomes an officer, employee or consultant of the same corporation;<br><br>>Any person judicially declared as insolvent;<br><br>>Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs 4.5.1.1 to 4.5.1.5 above;<br><br>>Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment. |
| E.Temporary Disqualifications<br>F. Suspensions | Executive Director<br>Non Executive Director<br><br>Independent Directors |
| Procedure/Process Adopted | The Board acting as a collegial body shall act on any ground for temporary disqualification/suspensions that may come to its knowledge. |
| Criteria | The Board may provide for the temporary disqualification of a director for any of the following reasons:<br><br>>Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing Rules Regulations. The disqualification shall be in effect as long as the refusal persists.<br><br>>Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election. |

| | |
|---|---|
| | >Dismissal or termination for cause as director, and that the disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.<br><br>>If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.<br><br>>If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.<br><br>>A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent. |
| E. Removal | Executive Director<br>Non Executive Director<br><br>Independent Directors |
| Procedure/Process Adopted | Removal process will be conducted by the Board of Directors. |
| Criteria | If a director fails to pass the qualification and/or subject to disqualifications as stated in table above, he may be removed from office. |

Voting results of 2015 Annual Stockholders' Meeting

On June 26, 2015 Annual Stockholders' Meeting of the Company, stockholders holding 6,444,030,155 or 87% of the outstanding shares attended the meeting and voted, as follows:

| Agenda | For | Against | Abstain |
|---|---|---|---|
| Call to order | 6,200,424,755 (84%) | 0 | 243,605,400 |
| Proof of Notice and Quorum | 6,191,788,555 (84%) | 0 | 252,241,600 |
| Approval of the Minutes of the last stockholders meeting and ratification of all acts of the Board of Directors and management | 6,191,788,555 (84%) | 0 | 252,241,600 |
| Annual Report | 6,188,318,155 (84%) | 0 | 255,712,000 |
| Lucio L. Co | 6,190,826,555 (84%) | 9,598,200 | 243,605.400 |
| Leonardo B. Dayao | 6,172,214,755 (83%) | 28,210,000 | 243,605,400 |
| Eduardo Hernandez | 6,184,087,555 (84%) | 7,701,000 | 252,241,600 |
| Susan P. Co | 6,019,199,350 (81%) | 181,225,405 | 243,605,400 |
| Levi Labra | 6,190,826,555 (84%) | 9,958,200 | 243,605,400 |
| Robert Y. Cokeng | 6,200,101,855 (84%) | 322,900 | 243,605,400 |

| | | | |
|---|---|---|---|
| Oscar Reyes | 6,169,788,755 (83%) | 30,636,000 | 243,605,400 |
| Re-appointment of R.G. Manabat & Company | 6,198,527,555 (84%) | 1,709,300 | 243,793,300 |
| Other matters | 5,977,719,850 (81%) | 216,971,705 | 249,338,600 |
| Adjournment | 6,186,129,555 (84%) | 14,295,200 | 243,605,400 |

6) **Orientation and Education Program**

(a) **Disclose details of the company's orientation program for new directors, if any.**

(b) **State any in-house training and external courses attended by Directors and Senior Management for the past three (3) years:**

(c) **Continuing education programs for directors: programs and seminars and roundtables attended during the year.**

Every year the company is conducting Corporate Governance seminar for all members of the Board conducted by accredited seminar provider by the Securities and Exchange Commission.

December 14, 2011
Corporate Governance Seminar
Dusit Hotel, Makati City
Philippine Securities Consultancy Corporation

February 5 to 6, 2015
Bankers Institute of the Philippines, Inc.

June 22, 2015
Acacia Hotel, Alabang, Muntinlupa City
Center for Training & Development

March 4, 2016
Acacia Hotel, Alabang, Muntinlupa City
Center for Training & Development

## B. CODE OF BUSINESS CONDUCT & ETHICS

1) Stated below are the company's policies on the business conduct or ethics affecting directors, senior management and employees:

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| | | | |

| | | | |
|---|---|---|---|
| (a) Conflict of Interest | Transactions causing conflict of interests are prohibited. | Transactions with members of the senior management causing conflict of interest are prohibited. | Transactions with employees causing conflict of interest are prohibited. |
| (b) Conduct of Business and Fair Dealings | All dealings with directors are at arms-length basis. | Business and Dealings between the Company and the Senior Management are not encouraged. | Business and Dealings between the Company and the employees are not encouraged. |
| (c) Receipt of gifts from third parties | Prohibited. | Prohibited. | Prohibited. |
| (d) Compliance with Laws & Regulations | Full compliance is required. | Full compliance is required. | Full compliance is required. |
| (e) Respect for Trade Secrets/Use of Non-public information | Required. | Required. | Required. |
| (f) Use of Company Funds, Assets and Information | Strictly in accordance with the rules of the company. | Strictly in accordance with the rules of the company. | Strictly in accordance with the rules of the company. |
| (g) Employment & Labor Laws & Policies | Full compliance. | Full compliance. | Full compliance. |
| (h) Disciplinary action | Strictly observed. | Strictly observed. | Strictly observed. |
| (i) Whistle Blower | Strictly observed. | Strictly observed. | Strictly observed. |
| (j) Conflict Resolution | The Company is yet to adopt policy regarding conflict resolution. | The Company is yet to adopt policy regarding conflict resolution. | The Company is yet to adopt policy regarding conflict resolution. |

**2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?**

Yes.

**3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.**

Any person may file any complaint of misconduct against any employee or any violation with the code of ethics or conduct to the Office of the Chairman or the Human Resource Department (HR). The HR will serve notice to the employee concerned and give him chance to explain himself why he should not be given a disciplinary action. Thereafter, the HR in coordination with the Legal Department and Office the Chairman, will resolve whether or not to cite the employee for disciplinary action.

**4) Related Party Transactions**

**(a) Policies and Procedures**

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

| Related Party Transactions | Policies and Procedures |
|---|---|
| (1) Parent Company | All related party transactions are at arms-length basis duly approved by the Audit Committee, and passed during the meeting of the Board of Directors that is duly attended by independent directors. |
| (2) Joint Venture | |
| (3) Subsidiaries | |
| (4) Entities Under Common Control | |
| (5) Substantial Stockholders | |
| (6) Officers including spouse/children/siblings/parents | |
| (7) Directors including spouse/children/siblings/parents | |
| (8) Interlocking director relationship of Board of Directors | |

**(b) Conflict of Interest**

(i) Directors/Officers and 5% or more Shareholders

Actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

| | Details of Conflict of Interest (Actual or Probable) |
|---|---|
| Name of Director/s | None |
| Name of Officer/s | |
| Name of Significant Shareholders | |

We shall report in case any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

**(ii) Mechanism**

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors and significant shareholders.

| | Directors/Officers/Significant Shareholders |
|---|---|
| Company | Full disclosure of transaction with the Company is required. |
| Group | |

5) Family, Commercial and Contractual Relations

(a) **Relationship of a family, commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:**

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship |
|---|---|---|
| Lucio L. Co | Affinity | Husband of Susan P. Co |
| Susan P. Co | Affinity | Wife of Lucio L. Co |

**(b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:**

None.

**(c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:**

None

6) **Alternative Dispute Resolution**

**Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.**

The Company has yet to establish an Alternative Dispute Resolution System.

**C. <u>BOARD MEETINGS & ATTENDANCE</u>**

**1) Are Board of Directors' meetings scheduled before or at the beginning of the year?**

Yes, regular board meetings are scheduled at the beginning of the calendar year.

| For 2015 | For 2016 |
|---|---|
| March 13, 2015 regular Board meeting | January 29, 2016 regular Board meeting |
| May 12, 2015 regular Board meeting | April 1, 2016 regular Board meeting |
| June 26, 2015 Organizational meeting | May 10, 2016 regular meeting |
| July 30, 2015 regular Board meeting | June 24, 2016 Organizational meeting |
| November 2, 2015 regular Board meeting | August 5, 2016 regular Board meeting |
| December 18, 2015 regular Board meeting | November 4, 2016 regular Board meeting |
| | December 16, 2016 regular Board meeting |

**2) Attendance of Directors for the year 2015**

| Board | Name | Date of Election | No. of Meetings Held during the year | No. of Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman | Lucio L. Co | June 26, 2015 | 6 | 6 | 100% |
| Member | Susan P. Co | June 26, 2015 | 6 | 5 | 83% |
| Member | Leonardo B. Dayao | June 26, 2015 | 6 | 6 | 100% |
| Member | Eduardo Hernandez | June 26, 2015 | 6 | 6 | 100% |
| Member | Levi Labra | June 26, 2015 | 6 | 6 | 100% |
| Independent | Oscar Reyes | June 26, 2015 | 6 | 5 | 83% |
| Independent | Robert Y. Cokeng | June 26, 2015 | 6 | 5 | 83% |

**3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?**

No.

**4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.**

Yes, On April 1, 2016, the Board amended Section 10 Article IV of the By-Laws requiring minimum quorum requirement at two-thirds.

"Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board.

**5) Access to Information**

Every stockholder has access to corporate records.

**(a) How many days in advance are board papers for board of directors meetings provided to the board?**

At least 5 days in advance.

**(b) Do board members have independent access to Management and the Corporate Secretary?**

Yes.

**(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?**

The Corporate Secretary of the Company is a Filipino and a resident of the Philippines. Part of her duties are as follows:

1. Be responsible for the safekeeping and preservation of the integrity of the minutes records of the Corporation;
2. Be loyal to the mission, vision and objectives of the Corporation;
3. Work fairly and objectively with the Board, Management and stockholders;
4. Have appropriate administrative and interpersonal skills;
5. If he is not at the same time the Corporation's legal counsel, be aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities;
6. Have a working knowledge of the operations of the Corporation;
7. Inform the members of the Board, in accordance with the by-laws, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
8. Attend all Board meetings, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent him from doing so;
9. Ensure that all Board procedures, rules and regulations are strictly followed by the members;
10. And if he is also the Compliance Officer, perform all the duties and responsibilities of the said officer as provided for in this Code.

The Corporate Secretary regularly coordinates with the Chairman of the Board in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes.

**Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.**

The Company Secretary, Atty. Jose S. Santos, is lawyer and is duly knowledgeable of basic accounting and company secretarial practices.

**(d) Committee Procedures**

Directors can avail or get information necessary to be able to prepare them in advance for the meetings of different committees:

| Committee | Details of the procedure |
|---|---|
| Executive | Directors are given meeting materials at least 5 days before the meeting. |
| Audit | |

| | |
|---|---|
| Remuneration | |

**6) External Advice**

Directors can receive external advice in order to equip themselves with appropriate information or advise on a specific matters that ask for their approval.

**7) Change/s in existing policies**

No material changes in the policy that have the effect on the business of the company.

## D. REMUNERATION MATTERS

**1) Remuneration Process**

The salaries of the President and the four (4) most highly compensated management officers are as follows:

| Process | President | Top 4 Highest Paid Management Officers |
|---|---|---|
| (1) Fixed remuneration | President – Leonardo B. Dayao | Andres Santos, Wyomia Guevarra, Kenrick Lester Nocom, Omar Dayao |
| (2) Variable remuneration | None | |
| (3) Per diem allowance | 50,000.00 per board meeting and Php30,000 per Committee meeting | |
| (4) Bonus | None | |
| (5) Stock Options and other financial instruments | None | |
| (6) Others (specify) | None | |

The salaries of the President and senior management officers are fixed.

**2) Remuneration Policy and Structure for Executive and Non-Executive Directors**

**Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.**

The salaries of the directors are fixed.

**Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.**

No.

### 3) Aggregate Remuneration

The table below present the aggregate remuneration accrued during the year 2015.

| Remuneration Item | Executive Directors | Non-Executive Directors (other than independent directors) | Independent Directors |
|---|---|---|---|
| (a) Fixed Remuneration | Php4,800,000.00 | None | None |
| (b) Variable Remuneration | None | None | None |
| (c) Per Diem Allowance | Php50,000.00 per meeting | Php50,000.00 per meeting | Php50,000.00 per meeting |
| (d) Bonuses | None | None | None |
| (e) Stock Options and/or other financial instruments | None | None | None |
| (f) Others (Specify) | None | None | None |

| Other Benefits | Executive Directors | Non-Executive Directors (other than independent directors) | Independent Directors |
|---|---|---|---|
| (a) Advances | None | | |
| (b) Credit granted | | | |
| (c) Pension Plan/s Contributions | | | |
| (d) Pension Plans, Obligations | | | |
| (e) Life Insurance Premium | | | |
| (f) Hospitalization Plan | | | |
| (g) Car Plan | | | |
| (h) Others (Specify) | | | |

### 4) Stock Rights, Options and Warrants

**(a) Board of Directors** - None

**(b) Amendments of Incentive Programs**

**Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:**

None

### 5) Remuneration of Management

**Identification of the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:**

| Name and Position | 2015 Total Remuneration |
|---|---|
| Dante Chua, Real Estate Manager | Php864,000.00 |
| Wyomia Guevarra, HR Manager | Php780,000.00 |
| Andres Santos, Legal Counsel | Php840,000.00 |
| Kenrick Lester Nocom, Senior Manager | Php504,000.00 |
| Omar B. Dayao, Corporate Planning Officer | Php360,000.00 |

Total 2015 Compensation: Php3,348,000.00

## E. BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

Details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

*Executive Committee*

| | |
|---|---|
| Number of Executive Director | 3 |
| Number of Non Executive Director | 2 |
| Number of Independent Director | 0 |
| Committee Charter | None |
| Functions | It may act on such specific matters which are within the competence of the Board to approve, pass or act upon. |
| Key Responsibilities | To regularly convene and approve business matters within its authority. |

*Audit Committee*

| | |
|---|---|
| Number of Executive Director | 2 members |
| Number of Non Executive Director | None |
| Number of Independent Director | 1 member |

| | |
|---|---|
| Committee Charter | The Board already approved the Audit Committee Charter of Cosco Capital, Inc. |
| Functions | Provide oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risks of the Corporation; Perform oversight functions over the Corporation's internal and external auditors; Review the annual internal audit plan to ensure its conformity with the objectives of the Corporation; Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of its engagement and removal; Monitor and evaluate the adequacy and effectiveness of the Corporation's internal control system, including financial reporting control and information technology security; Review and reports submitted by the internal and external auditors; Recommend appointment, re-appointment or termination of external auditor; Review and quarterly, half-year and annual financial statements before their submission to the Board; Coordinate, monitor and facilitate compliance with laws, rules and regulations and; Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Corporation's overall consultancy expenses. |
| Key Responsibilities | To assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations and perform oversight functions over the Corporation's internal and external auditors. |

*Nomination Committee*

| | |
|---|---|
| Number of Executive Director | 1 |
| Number of Non Executive Director | 1 |
| Number of Independent Director | 1 |
| Committee Charter | None |
| Functions | Assess the effectiveness of the Board's processes and procedures in the election or replacement of directors |
| Key Responsibilities | To receive nomination of directors, qualify or disqualify nominated directors before bringing to the Board |

*Remuneration or Compensation Committee*

| | |
|---|---|
| Number of Executive Director | 2 |
| Number of Non Executive Director | 0 |
| Number of Independent Director | 1 |
| Committee Charter | None |
| Functions | To establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates. |
| Key Responsibilities | To assess the compensation package of the officers. |

*Corporate Governance Committee*

| | |
|---|---|
| Number of Executive Director | 0 |
| Number of Non Executive Director | 2 |
| Number of Independent Director | 1 |
| Committee Charter | None |
| Functions | To check on Corporate Governance policies and compliance of the directors and management of the Company. |
| Key Responsibilities | To check on Corporate Governance policies and compliance of the directors and management of the Company. |

(a) Audit Committee

**Disclose the profile or qualifications of the Audit Committee members.**

All Audit Committee members have accounting and finance backgrounds

***<u>Chairman of the Audit Committee: Robert Y. Cokeng, 64, Filipino, Independent Director</u>***

Mr. Cokeng serves as a director and/or officer in the following companies: Chairman, President and CEO – F&J Prince Holdings Corporation (PSE-Listed Company); President and CEO–Magellan Capital Holdings, Corp.; President and CEO–Magellan Utilities Dev't. Corp.; Chairman, President and CEO–Consolidated Tobacco Ind. of the Phils.; Chairman and President–Center Industrial and Investment, Inc.; Chairman–Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee – Business Process Outsourcing International; Chairman–IPADS Developers, Inc. He was also the

Senior Investment Officer and Philippine Country Officer of International Finance Corporation (World Bank Group) from 1976 to 1986. He worked on investments in East Asia from Washington D.C. Headquarters and from Regional Mission for East Asia located in Manila.

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

***Levi Labra, 58, Filipino***

Mr. Labra was the former Director for Customer Business Development for Asia Pacific Region of Procter and Gamble Distributions, Inc. He was with P&G for 35 years and involved himself in sales management, distributor operations, logistics, forecasting, among others. He is a graduate of University of San Carlos with a Bachelor of Science in Business Administration.

***Leonardo B. Dayao, 72, Filipino***

Mr. Dayao is currently Chairman of PSMT Philippines, Inc. and Chairman and President of Fertuna Holdings Corp. and Vice-Chairman of Liquigaz Philippines Corporation. He is a President and CEO of Catuiran Hydropower Corporation and San Jose City I Power Corp. He is a President of Alcorn Petroleum and Minerals Corporation, Cosco Capital, Inc. (publicly-listed company), CHMI Hotels & Residences, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc. and Union Energy Corporation. He is a Vice-President of 118 Holdings, Inc., Alerce Holdings Corp., Bellagio Holdings, Inc., Ellimac Prime Holdings, Inc., KMC Realty Corporation, Puregold Duty Free, Inc., Puregold Properties, Inc., Union Equities, Inc. and VFC Land Resources, Inc. He is a Director of Philippine Bank of Communications (publicly-listed company), Entenso Equities Incorporated, Nation Realty, Inc. and Puregold Realty Leasing & Management, Inc.

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

**Describe the Audit Committee's responsibility relative to the external auditor.**

Based on the Audit Committee Charter of the Company, the Audit Committee performs oversight function over the work of the external auditor. Specifically, the Audit Committee, under its Charter, is obliged to:

1. Recommend the appointment of the Independent Auditors and their remuneration to the Board.
2. Review and pre-approval of Independent Auditor's plan to understand the basis for their risk assessment and financial statement materiality, including the scope and frequency of the audit.
3. Monitoring of the coordination of efforts between the external and internal auditors.
4. Review of the reports of the Independent Auditors and the regulatory agencies, where applicable, and ensure that management is taking appropriate corrective actions in a timely manner, including addressing control and compliance issues.

5. On an annual basis, review the audit and non-audit fees and services provided by the independent accountant. Approve the Company's proxy disclosure with the respect to such fees and approve for the coming year fees to be paid to the independent accountant including non-audit services.

6. Conduct private review sessions with the Independent Auditors at least annually and as otherwise deemed appropriate by the Committee.

7. Assess the effectiveness of the conduct and performance of independent audit. Review the annual audit report which subsequently produced.

**(b) Others (Specify)**

**Provide the same information on all other committees constituted by the Board of Directors:**

No other committee is constituted by the Board of Directors.

**2) Changes in Committee Members.**

There is no changes in Committee Members.

**3) Work Done and Issues Addressed**

Work done by each committee and the significant issues addressed during the year.

| Name of Committee | Work Done | Issues Addressed |
|---|---|---|
| Audit | Approval of Audited Financial Statements | No major issue |
| Nomination | None | |
| Remuneration | | |
| Others (specify) | | |

**4) Committee Program**

**Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.**

On April 1, 2016 Board meeting of the Company, the Board approved to amend the following provisions of the Company's Articles and by Laws. The amendments were made to improve corporate governance practices of the Company.
The amendments will still undergo stockholders approval and verification by Securities and Exchange Commission. The amendments are expected to be completed before the year ends.

1. Amendment of Article 6 of the Articles of Incorporation

   "SIXTH. That the number of directors of the said Corporation shall be NINE (9).

2. Amendment of Section 10 Article IV of the By-Laws

   "Section 10. Quorum. – Two-thirds (2/3) of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, provided that at least one independent director be present. Every decision of at least majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of majority of all members of the Board."

3. Amendment of Section 3 Article III of the By-Laws

   "Section 3. Notice of Meeting – Notices for regular or special meetings of stockholders may be sent by the Office of the Corporate Secretary by personal delivery or mail at least thirty (30) days prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purposes for which the meeting is called. No publication of notice of meeting in public newspapers shall be required.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

## INTERNAL CONTROL POLICY FRAMEWORK

The Board of Directors (Board) is responsible in formulating clearly defined internal control and risk management systems and policies including guidance in the determination of the appropriate nature and extent of business risks that the Company is willing to take to ensure achievement of strategic objectives based on annual and long term business plans.

The Board is assisted by a Management Committee (ManCom) which is charged with accountability and responsibility to design and ensure risk management policies and procedures are strictly implemented by all business units within the group in the conduct of its day to day business operations and activities. Major policy decisions and actions are elevated to Board of Directors for approval.

The Company's internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of company's resources, reliability of operating and financial records and information, and compliance with policies and regulations.

Internal Controls are designed and continuously enhanced to have reasonable but not absolute assurance against material misstatement, loss or fraud.

## INTERNAL CONTROL SET-UP AND CONTINOUS SYSTEM ENHANCEMENTS:

Internal control and risk management systems comprise of the following areas:

### A. CONTROL SET-UP

On December 18, 2014, the Board created a Corporate Governance and Risk Management Committee to be headed by one of the independent directors, Ms. Marilyn V. Pardo.

The Committee is tasked to ensure compliance by the Company with the written Manual of Corporate Governance; build awareness and control responsibility to further improve and be at par with the best practices.

Key Officers are identified to establish the proper environment for internal control compliance as policies and procedures approver; ensuring adequate controls are in place based on pre-identified risks; where preventive measures are supplemented in the processes. Departmental management is given responsibility as processes reviewers; with objective of advance detection of improprieties. Each store has an identified Key Personnel for effective Procedure Implementation from the Store Management and Store Auditor; both of which are accustomed with the processes. Based on pre-defined annual audit plans and timelines, auditors are tasked to perform periodic compliance review, determine process implementation strengths and areas for improvements. Each process-owner ensures adherence on strict implementation and controls based on pre-defined and agreed Key Results Area as part of their accountability.

The management is continuously refining the internal control frameworks to ensure fair business activity in compliance with the related laws and regulations. The directors and management are well-informed of the review and enhancements of the internal control system. Based on the covered areas, stores, scope of transactions and processes reviewed by the company's Internal Audit Division, the internal control systems are fairly effective and adequate.

### B. RISK ASSESSMENT

There are constant improvements on risk management processes where enhanced reporting is implemented as one of the tools to easily detect quality of risk information. Risk management features are embedded on the enhanced policies and procedures headed by each functional division and department heads.

On a monthly basis, the Executive Committee aims to review and enhance certain policies, systems and procedures related to operations and financial recording and reporting to continuously assess effectiveness of the internal control and risk management programs.

The Board Audit Committee reviews high risk areas once a year based on internal audit reports; the company aims to increase frequency of reviews on a quarterly basis to determine effectiveness in relation to identified risk on financial reporting process.
Regular internal management coordination meetings are held to fully discuss immediate action plans and solutions on identified risks and determine further enhancements on overall risk assessment process through the build-up teamwork of the group.

### C. CONTROL ACTIVITIES

A regular and continuing internal audit and review process are implemented by Internal Audit Division covering the group's operating and support organizational structures, systems and processes to ensure compliance with established internal control systems and standards. Identify possible non-compliance on internal controls, financial standard policies and procedures and corrective measures necessary.

Defined internal control standards, are more focused on accountability segregation, established gray areas clarity on functions and responsibilities and early detection of preventive measures and controls.

**D. INFORMATION AND COMMUNICATION**

Written business policies, procedures and systems manuals are maintained in the Company's online procedures and manual portal and accessible to the authorized users for their reference. Duly approved additions or process enhancements are added to the portal by authorized Business Process personnel on a regular basis.

These new processes are also communicated through email to the responsible department heads and key personnel in-charge of training.

**E. MONITORING**

Internal financial reporting is improved on an ongoing basis; policies and procedures are aligned within the companies. Monthly financial reports are submitted and presented to the Executive Committee as basis for the conduct of monthly financial and operating reviews and analysis, identify possible non-compliance on internal controls, financial standard policies and procedures and corrective measures necessary.

The Board Audit Committee follows up on the corrective actions to ensure internal control weaknesses identified are corrected. Internal Audit performs follow up audit engagement on areas with identified high risks areas to ensure internal controls are strengthen based on the recommended solutions and actions.

**SECTION B.**

- **Internal Audit Division (IAD) - Role, Scope and Function**

The Company's Internal Audit Division's core objective is to establish reasonable assurance that the Company's governance, risk management, internal and management controls over efficiencies and effectiveness of operations, reliability of financial management are adequate to ensure, among others:

- Risks are appropriately identified and managed
- Significant financial, managerial and operational information is accurate, reliable and timely
- Employees' performance and actions are in compliance with set policies
- Resources are acquired economically, efficiently utilized and adequately protected
- Quality and continuous enhancements are fostered in the Company's procedures, guidelines and control processes.
- Programs, plans, objectives and timelines are defined and communicated to ensure achievement of the set goals

The IAD employs both Risk-Based Audit methodology and transactional audit. The scope of internal audit functions are divided into three areas, as follows:

- Financial Audit
- Aim to assess effectiveness of an entity's suite of controls over record keeping and reporting are adequate and effective; concentrating on such areas as proper authorization, the safeguarding of assets, and the segregation of duties.
- Major scope is the sales audit in the stores, for the timely checking and assurance of completeness, timeliness and adequate loading to financial modules.

- Store Operations Audit
- To evaluate compliance with policies, procedures, methods and standards.
- To determine control weaknesses and provide guidelines for procedure documentation or enhancement
- To evaluate if controls are in place that eliminates opportunity for damage, loss, fraud or irregularities.
- To appraise units or functions effectiveness and efficiency.
- Computer Information System Audit
- To evaluate internal controls in the computerized systems and identify control weaknesses, risks and deviations.
- To identify the nature and extent of risks to financial reporting posed by the use of information technology
- To review new systems/software development and ensure coordinated and proper implementation
- To identify risks of fraud, errors, irregularities, accidental and deliberate damage.

The Audit Manager reports to the Audit Committee, the Executive Committee and to the Chairman and the President. The internal auditors have direct and unfettered access to the Board of Directors, the Audit Committee, store management and access to all records, properties, and personnel.

- **Do the appointment and/or removal of the Internal Auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?**

  The Audit Committee approval is required for the appointment and/or removal of the Internal Auditor or the accounting/auditing firm or corporation to which the internal audit function is outsourced.

- **Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct access to the board of directors and the audit committee?**

  The Audit Manager reports to the Audit Committee, the Executive Committee and to the Chairman and the President. The internal auditors have direct and unfettered access to the Board of Directors, the Audit Committee, store management and access to all records, properties, and personnel.

- **Resignation, Re-assignment and Reasons.**
- **Progress against Plans, Issues, Findings and Examination Trends**
  Risk-Based audit is embedded on the audit activities based on Annual Audit Plan.
- Store Auditors identified key high risk areas where regular audit is performed; subject for review on a monthly basis.
- Inventory Management
- Quality Assurance
- Policies and procedures
- Tenants accounts and contracts
- Functions and Plantilla
- Financial Process
- Major financial accounts are audited and established controls and systems and processes are enhanced based on risk identified.

- Information Systems
- system access and security
- Pre-implementation and post implementation reviews of in-house systems
- Data integrity across systems

**Progress against Plans:**

Volume of transactions, manpower staffing, level of new stores opening and launching and on-going enhancements of the Company's operating IT systems as well as certain in-house programs, among others, were duly considered in the formulation of the annual internal audit plans and programs during the year.

Nevertheless, the audit activities are considered adequate to determine the effectiveness of the system and compliance in the procedures, especially when we focused on the process stated above. The audited activities have further provided new and enhanced insights on improvements of procedures and controls, and development of new systems.

**Issues and Findings:**

The fast expansions and launching of new stores also mean increase in manpower and extensive retraining of procedures. Certain issues are raised on how immediate the organization (and stores) must adapt to these changes and the challenge of aligning the process, people and the functions (procedures).

Audit findings include existence of various non-value processes and non-compliance on certain procedures that rendered lag in the process. These are gradually being resolved by each unit or department's efforts to restructure and improve. IAD is also working with Business Process Department for the continuous process assessments and improvements.

**Examination Trends**

The current challenges to adapt to changes, to keep up with the ongoing expansion, while doing implementation of new systems, are very much expected by everyone in the management. The issues and findings are pervasive as expected, but the Company's management is committed to keep abreast and be on top of these changes by doing incessant evaluation and finding solutions to the demands of these challenges.

- **Audit Control Policies and Procedures**

**Internal Audit Controls, policies and procedures**
Audit assessments have resulted to various major and minor updates and enhancements in controls and policies, and streamlining of store procedures. The following areas have significant new and enhanced policies and procedures implementation, among others:

1. General

- KPI reporting and evaluation process

2. Finance related processes

    - Payment processes and recording
    - Collection processes and recording

- Assets management – ongoing

3. Business Operation related processes

- Mother Purchase Order
- Cycle and Annual Inventory Count
- CRM
- **Mechanism and Safeguards**

The Audit Division has been an independent functional business unit. The internal auditors, although substantially based at the stores, are functionally reporting to the Audit Officers and Managers at the head office.

The scope of the audit works and activities are directed and supervised by the division based on annual audit planning. Any requests for audit investigation, analysis or store-related auditing are approved first with the Audit Officers. Performance of the internal auditors is rated solely by the Audit Managers and not by Store Managers.

- **State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance.**

The Chairman, based on the recommendations of the Company's Compliance Officer, attests that the Company, under his chairmanship, always strives to be in full compliance with the SEC Code of Corporate Governance, and that all directors, officers and other key employees of the Company have been given proper guidance on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure compliance.

## H. ROLE OF STAKEHOLDERS

1) The company's policy and activities relative to the following:

| | Policy | |
|---|---|---|
| Customer's welfare | Total satisfaction for our customers from the kind of service to the prices of our merchandise | It can be shown in the daily operation in all of the Company's stores |
| Supplier/contractor selection practice | Supplier must be accredited, we make sure that their goods are safe, genuine and registered with government bodies regulating them | Consistently practiced by the vendors in the merchandising department |
| Environmentally friendly value-chain | All our stores have sufficient environment compliance certificate and continously observing environmental laws | From the construction of the stores up to its opening, the Company ensures to have all the environmental permits required |
| Community interaction | Supportive of educational foundations and small enterprise | The Company is in coordination with LCCK Foundations granting scholarships to well deserving students and the Aling Puring Program is reaching out to sari sari store owners to enhance their businesses. |
| Anti-corruption programmes and procedures? | Strictly no bribery to any agency and no bribery within the Company. | Gift or any form of consideration from any party with dealings in the Company are prohibited and this policy is |

| | | |
|---|---|---|
| | | widely known especially among suppliers. |
| Safeguarding creditors' gifts | The policy of not accepting gifts or any form of consideration from any party with dealings in the Company are widely known to all the employees. | Any complaint for such is strictly monitored by the Company. |

**2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?**

This is jointly administered by the Office of the Vice-President for Administration and Human Resource Department.

**3) Performance-enhancing mechanisms for employee participation.**

**(a) What are the company's policy for its employee's safety, health and welfare?**

The company complies with the following workplace policies mandated by Department of Labor and Employment (DOLE):

1. Company Safety Policies
2. Contingency Plans and Procedures
3. Company Policy and Rule on STD/HIV/AIDS
4. Drug-Free Workplace Policy
5. Anti-sexual Harassment Policy
6. Workplace Policy and Program on Tuberculosis (TB) Prevention and Control
7. Workplace Policy and Program on Hepatitis B
8. Workplace Policy and Program on Maternity Leave
9. Workplace Policy and Program on Paternity Leave
10. Workplace Policy and Program on Solo Parents
11. Workplace Policy and Program on Special Leave for Women
12. Workplace Policy and Program on Leave for Victims of Violence against Women and their Children
13. Breastfeeding Policy

Together with above company polices, the company submits annual report on Safety and Health Organization, Medical Report and Accident/Illness Report to DOLE.

**(b) Show data relating to health, safety and welfare of its employees.**

Originally, the company has 235 accredited first aiders. Currently, the company is already coordinating on the schedule of First Aid and Basic Life Support training to DOLE accredited training institution for the renewal of accreditation of current first aiders and for the new and additional first aiders for the newly-opened stores.

Currently, the company has 100 accredited safety officers. The company is coordinating on the schedule of Basic Occupational Safety and Health training to DOLE accredited training institution to increase the number of accredited safety officers.

There are 1,517 employee-members enrolled in health maintenance program under Maxicare. Total claims amounted to ₱4,240,731.11.

There are 5,199 enrollees on Group Personal Accident Insurance Plan and total claims for the past coverage period is 194,510.60.

**(c) State the company's training and development programmes for its employees. Show the data.**

1. TCMT – (no changes on the course description). In 2015, there were 111 Management Trainees who underwent this course.
2. TCSS – (no changes on the course description). Last year, there were 304 participants trained in this program.
3. CSP – (no changes on the course description). In 2015, 1,411 newly hired employee attended this program.
4. SMH – (no changes on the course description). In 2015, 175 participants attended the training program.
5. DTC – (no changes on the course description). Last year, 507 undergone this program.
6. Puregold Price Club Inc., together with its yearly Sportsfest, held a series of Learning Sessions with the theme ***"Discovery and Empowerment: Values in Action"***. The objective of the learning session is to re-align personal and work values with the corporate values towards a deepen commitment and work productivity. This year's series of learning sessions is the first that is spearheaded by the Training and Development Department and was cascaded to 25 batches or a total of 1,201 employees.
7. We are designing Training Curriculum for all employees across all levels.

**(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.**

Currently, the Company is working on the Key Performance Indicators measures which is a device to eventually account for every employee's performance.

**(e) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.**

Any person may file any complaint of misconduct against any employee or any violation of company's Code of Discipline to the Office of the Chairman or the Human Resource Department (HRD). The HRD will serve notice to the employee involved and give him the chance to explain himself why he should not be given a disciplinary action. Thereafter, the HRD in coordination with the Legal Department and Office of the Chairman, will resolve whether or not to cite the employee for disciplinary action.

In addition to the initiatives on the non-terminable cases, the company started administering counseling to employees charged of tardiness. The HRD is planning to implement the use of counseling session to all offenses to ensure efficient corrective measure.

The Management respects the wish of the complainant if he prefers that his identity be kept Confidential. In this case, the Management will conduct its own investigation and gather evidence on its own.

## I. <u>DISCLOSURE AND TRANSPARENCY</u>

### 1) Ownership Structure

(a) Holding 5% shareholding or more

| Shareholder | Number of Shares | Percent | Beneficial Owner |
|---|---|---|---|
| Lucio L. Co | 2,317,503,092 | 31% | None |
| Susan P. Co | 1,780,182,230 | 24% | None |

(b) Member of Senior Management

| Member of Senior Management | Direct Shares | Indirect Shares | Percentage to Outstanding Shares |
|---|---|---|---|
| Lucio L. Co | 2,282,116,129 | 35,386,963 | 31% |
| Susan P. Co | 1,777,124,852 | 3,057,378 | 24% |
| Leonardo B. Dayao | 163,778 | 393,602 | 0% |

## 2) Does the Annual Report disclose the following:

| | |
|---|---|
| Key risks | Yes |
| Corporate objectives | Yes |
| Financial performance indicators | Yes |
| Non-financial performance indicators | Yes |
| Dividend policy | Yes |
| Details of whistle-blowing policy | Yes |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorship of listed companies) of directors/commissioners | Yes |
| Training and/or continuing education program attended by each director/commissioner | Yes |
| Number of board of directors/commissioners meetings held during the year | Yes |
| Attendance details of each director/commissioner in respect of meetings held | Yes |
| Details of remuneration of the CEO and each member of the board of directors/commissioners | Yes |

## 3) External Auditor's fee

The External Auditor for the year 2015 is R.G. Manabat & Company, (KPMG).

| 2015 Audit Fee | 2015 Non-Audit Fee |
|---|---|
| Php3,220,500 | None |

## 4) Medium of Communication

The following are the modes of communication that the company is using for disseminating information.

For Corporate events for stockholders - the Company website and PSE website.
The Company is also using television, print, and radio as form of communicating its projects, promos, and events.

**5) Date of release of audited financial report**

On or before April 15 of every year

**6) Company Website**

Does the company have a website disclosing up-to-date information about the following:

| | |
|---|---|
| Business operations | Yes |
| Financial statements/reports (current and prior years) | Yes |
| Materials provided in briefings to analysts and media | Yes |
| Shareholding structure | Yes |
| Group corporate structure | Yes |
| Downloadable annual report | Yes |
| Notice of AGM and/or EGM | Yes |
| Company's constitution (company's by-laws, memorandum and articles of association) | Yes |

**Disclosure of RPT**

**When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?**

The Company's related party transactions, its nature and value are itemized in the financial statements.

When RPTs are involved, the Company ensures that transactions are objective and are on an arm's length basis in a manner similar to transactions with non-related parties. A RPTs are reviewed as to its business purpose, its terms and its benefits, and it requires approval process to safeguard the interest of the Company and shareholders.

## J. RIGHTS OF STOCKHOLDERS

### 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

**(a) Quorum**

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-Laws.

| | |
|---|---|
| Quorum Required | Majority except those specified under the Corporate Code that requires 2/3 approval |

**(b) System Used to Approve Corporate Acts**

Explain the system used to approve corporate acts.

| | |
|---|---|
| System Used | During board meetings where directors personally attend and approve corporate acts |
| Description | Personal meetings |

**(c) Stockholders' Rights**

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Stockholders rights are those laid down in the Corporation Code.

**(d) Stockholders' Participation**

1. **State , if any, the measures adopted to promote stockholder participation in the Annual/Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.**

   **Before the ASM:** The Company issues an information statement to the stockholders where the all the matters for approval to the stockholders are fully discussed. In case they cannot attend in person, stockholders are given proxy forms where they can manifest their approval or disapproval to any matter on the agenda.

   **During the ASM:**
   Measures Adopted: Question and Answer during the ASM
   Communication Procedure: The Chairman always opens the floor to all stockholders who may want to raise question in any agenda item of the ASM.

2. **State the company policy of asking shareholders to actively participate in corporate decisions regarding:**

a. Amendments to the company's constitution
b. Authorization of additional shares
c. Transfer of all or substantially assets, which in effect results in the sale of the company

The Company is in full compliance with the provisions of the Corporation Code specially on the rights of the stockholders to appraisal rights, and any amendment of the Company's articles of incorporation where stockholders representing at least 2/3 of the capital stock must vote in the affirmative.

3. **Does the company observe a minimum of 21 business days for giving out of notices to the AM where items to be resolved by shareholders are taken up?** Yes.

a. Date of sending out notices – May 27, 2015
b. Date of the Annual/Special Stockholders' Meeting – June 26, 2015

4. **State, if any, questions and answers during the Annual/Special Stockholders' Meeting.**

The Chairman opened the floor for questions and answers portion but no significant question was raised during Annual/Special Stockholders' Meeting in 2015.

5. Result of Annual/Special **Stockholders' Meeting Resolutions**

On June 26, 2015 Annual Stockholders' Meeting of the Company, stockholders holding 6,444,030,155 or 87% of the outstanding shares attended the meeting.

| Agenda | For | Against | Abstain |
|---|---|---|---|
| Call to order | 6,200,424,755 (84%) | 0 | 243,605,400 |
| Proof of Notice and Quorum | 6,191,788,555 (84%) | 0 | 252,241,600 |
| Approval of the Minutes of the last stockholders meeting and ratification of all acts of the Board of Directors and management | 6,191,788,555 (84%) | 0 | 252,241,600 |
| Annual Report | 6,188,318,155 (84%) | 0 | 255,712,000 |
| Lucio L. Co | 6,190,826,555 (84%) | 9,598,200 | 243,605.400 |
| Leonardo B. Dayao | 6,172,214,755 (83%) | 28,210,000 | 243,605,400 |
| Eduardo Hernandez | 6,184,087,555 (84%) | 7,701,000 | 252,241,600 |
| Susan P. Co | 6,019,199,350 (81%) | 181,225,405 | 243,605,400 |
| Levi Labra | 6,190,826,555 (84%) | 9,958,200 | 243,605,400 |
| Robert Y. Cokeng | 6,200,101,855 (84%) | 322,900 | 243,605,400 |
| Oscar Reyes | 6,169,788,755 (83%) | 30,636,000 | 243,605,400 |
| Re-appointment of R.G. Manabat & Company | 6,198,527,555 (84%) | 1,709,300 | 243,793,300 |
| Other matters | 5,977,719,850 (81%) | 216,971,705 | 249,338,600 |
| Adjournment | 6,186,129,555 (84%) | 14,295,200 | 243,605,400 |

6. **Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:**

Result is not published in newspapers but posted in Company's website.

**(e) Modifications**

**State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:**

None

**(f) Stockholders' Attendance**

(i) Attendance in the Annual/Stockholders' Meeting held:

| Type of Meeting | Names of Board members/Officers present | Date of Meeting | Voting Procedure (by poll, show of hands, etc.) |
|---|---|---|---|
| Annual | All directors were present except for Mr. Oscar Reyes – Independent Director<br><br>Present:<br>Lucio L. Co – Chairman<br>Susan P. Co – Vice Chairman<br>Leonardo B. Dayao – President<br>Levi Labra – Director<br>Eduardo Hernandez – Director<br>Robert Y. Cokeng – Independent Director | June 26, 2015 | By ballot, however, the same was waived considering that substantial votes were already made and casted in favor of the matters approved by the major stockholders and by proxy. |

(ii) **Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?**

RCBC-Stock transfer agent is the independent party appointed by the Company to and/or validate the votes at the ASM.

**(iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.**

Yes.

**(g) Proxy Voting Policies**

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

| | Company's Policies |
|---|---|
| Execution and acceptance of proxies | Stockholders are fully informed |
| Notary | Not required, but for corporations, the authority of the representative must be stated in a board resolution under oath by the Corporate Secretary |
| Submission of Proxy | Liberal implementation |
| Several Proxies | Allowed |
| Validity of Proxy | Done through the stock transfer agent |
| Proxies executed abroad | Allowed |
| Invalidated Proxy | Not counted |
| Validation of Proxy | Done through the stock transfer agent |
| Violation of Proxy | Not counted |

**(h) Sending of Notices**

**State the company's policies and procedures on the sending of notices of Annual/Special Stockholders' Meeting.**

On April 1, 2016, the Board of Directors approved the amendment of the By Laws requiring 30 days notice prior to Stockholders' Meeting, annual or special. Upon approval of the stockholders of the amendment on June 24, 2016, the 30 day notice will be implemented starting 2017 ASM.

**(i) Definitive Information Statements and Management Report**

| | |
|---|---|
| Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials | All stockholders as of record date |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners | 23 days before the Stockholders Meeting |
| Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders | 23 days before the Stockholders Meeting |
| State whether CD format or hard copies were distributed | CD Format |
| If yes, indicate whether requesting stockholders were provided hard copies | Yes |

**(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:**

| | |
|---|---|
| Each resolution to be taken up deals with only one item. | Yes |
| Profiles of directors (at least age, qualification, date of first appointment, experience and directorships in other listed | Yes |

| | |
|---|---|
| companies) nominated for election/re-election. | |
| The auditors to be appointed or reappointed. | Yes |
| An explanation of the dividend policy, if any dividend is to be declared. | Yes |
| The amount payable for final dividends. | Yes |
| Documents required for proxy vote. | Yes |

**2) Treatment of Minority Stockholders**

**(a) State the company's policies with respect to the treatment of minority stockholders.**
Please see below provisions in the Revised Manual on Corporate Governance:

"The Board shall respect the rights of the stockholders as provided for in the Corporation Code; namely;

Right to vote on all matters that require their consent or approval;
Right to inspect corporate books and records;
Right to information;
Right to dividends; and
Appraisal right.

The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the Corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the by-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.

It is the duty of the Board to promote the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.

The Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be make available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.

Although all stockholders should be treated equally or without discrimination, the Board should give minority stockholders the right to propose the holding of meetings and the items for discussion in the agenda that relate directly to the business of the Corporation.

**(b) Do minority stockholders have a right to nominate candidates for board of directors?** Yes.

## K. INVESTORS RELATIONS PROGRAM

**1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.**

The Company adheres to the principle of transparency. It makes sure that the external and internal communication processes reflect such guiding principle.
Company announcements are handled by the offices of the Corporate Secretary and Investor Relations Officer.

2) **Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.**

The Company will adopt a more comprehensive program for investors relations.
It is the strategy of the office to constantly update the website of the Company and reflect thereon all projects and disclosures made to the Philippine Stock Exchange.

3) **What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?**

As long as in line with the Company's business plan, and made after compliance with all regulatory approvals required by the Securities and Exchange Commission and Philippine Stock Exchange.

**Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price**
In the recent acquisition of Lucio Co Group of Companies, Cosco engaged the services of Isla Lipana and Company to evaluate the fairness of the share for share swap transaction between the Company and Lucio Co Group.

## L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

The Company has not yet established a formal policy or started with any initiatives on corporate social responsibility. The Company will soon adopt one that is relevant to its current business being a holding company of retail focused businesses.

## M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

**Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director and the CEO/President.**

Assessment is yet to be done. We will inform the Commission of such assessment once made.

## M. INTERNAL BREACHES AND SANCTIONS

**Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees.**

After due notice and hearing, any director, officer or employee who have been found in violation of the corporate governance manual shall have the following penalties: First Offense, warning/reprimand; Second offense, suspension from office and the duration shall be determined by the Board of Directors and; Third offense, the maximum penalty of removal from office.

SIGNATURES

Pursuant to the requirement of the Securities and Exchange Commission, this **Updates on Annual Corporate Governance Report** is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Manila on April 11, 2016.

| | | | |
|---|---|---|---|
| **LUCIO L. CO**<br>Chairman<br>TIN No. 108-975-971 | **LEONARDO B. DAYAO**<br>President<br>TIN No. 135-546-815 | **ROBERT Y. COKENG**<br>Independent Director<br>TIN No. 100-868-503 | **OSCAR S. REYES**<br>Independent Director<br>TIN No. 136-623-569 |
| **JOSE S. SANTOS, JR.**<br>Corporate Secretary/Compliance Officer<br>TIN No. 136-370-998 | | **CANDY H. DACANAY-DATUON**<br>Corporate Information Officer<br>TIN No. 233-200-394 | |

SUBSCRIBED AND SWORN to before me this APR 13 2016 day of April 2016, affiant(s) exhibiting to me their identification card:

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Book no. IV
Series of 2016.

CAROLINE G. EXCONDE
NOTARY PUBLIC FOR THE CITY OF MANILA
APPOINTMENT NO. 2016-068
UNTIL DECEMBER 31, 2017
PTR NO. 4915031 MANILA 01-04-16
IBP NO. 977984/1-5-16/PPLM
MCLE COMPLIANCE NO. V-0014291/02-16-2016
ROLL NO. 55392/05-02-08
NO. 900 ROMUALDEZ ST., PACO, MANILA 1007