

COVER SHEET**For
AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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COMPANY NAME

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S	U	B	S	I	D	I	A	R	I	E	S															

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

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M	a	n	i	l	a																				

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 548-7110

Mobile Number

No. of Stockholders

Annual Meeting (Month / Day)

March 31

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATIONThe designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Teodoro A. Polinga

Email Address

tedpolinga@coscocapital.com.ph

Telephone Number/s

(02) 548-7110

Mobile Number

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.

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

COSCO CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017, 2016 and 2015



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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

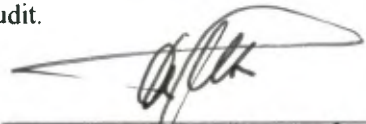
The management of **COSCO CAPITAL, INC. AND SUBSIDIARIES** (the "Group"),- is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2017 and 2016**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

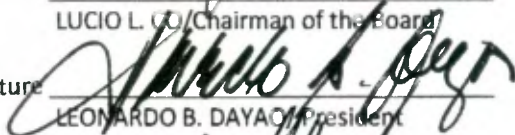
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern and using the going concern basis of accounting unless management intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

Signature 
LUCIO L. CO/Chairman of the Board


Signature 
LEONARDO B. DAYAO/President

Signature 
TEODORO A. POLINGA/ Group Comptroller

SUBSCRIBED AND SWORN to before me this _____ day of _____ 2018 affiants exhibiting to me their respective Tax Identification Number, as follows:

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

Doc. No. 37 ;
Page No. 9 ;
Book No. IX ;
Series of 2018


CAROLINE G. EXCONDE
NOTARY PUBLIC FOR THE CITY OF MANILA
COMMISSION NO. 2018-035
UNTIL DECEMBER 31, 2019
PTR NO. 6952347 MANILA 12-06-17
IBP NO. 1062654/12-07-17
MCLE COMPLIANCE NO. V-0014251/02-16-2015
ROLL NO. 55392/05-02-08
NO. 900 ROMUALDEZ ST., PACO, MANILA 1007



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Internet www.kpmg.com.ph
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REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Cosco Capital, Inc. and Subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



Key Audit Matters

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

Revenue Recognition (P145.75 billion)

Refer to Note 3 to the consolidated financial statements.

The risk

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

Our response

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

- We evaluated and assessed the revenue recognition policies of the Group in accordance with Philippine Accounting Standard No. 18, *Revenues*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- We involved our information technology specialists to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- For retail, specialty retail and liquor distribution segments, we tested, on a sampling basis, sales transactions for the last week of the financial year and the first week of the following financial year to supporting documentation such as generated sales summary reports from point-of-sale system, sales invoices, and delivery receipts to assess whether these transactions are recorded in the correct reporting period. For real estate and property leasing segment, we reviewed the completeness and accuracy of the master list of tenants and, on a sampling basis, we inspected and reviewed new and/or amended lease contracts to ascertain the existence of these lease contracts as well as the completeness and accuracy of the lease terms.
- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents, as applicable, to ascertain that the revenue recognition criteria is met.
- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.



Valuation of Goodwill, Trademark and Customer Relationships (P22.53 billion)
Refer to Note 14 to the consolidated financial statements.

The risk

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

Our response

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

- We assessed management's determination of the recoverable amounts based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management.
- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, cost of inflation and discount rates.
- We also assessed the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected in the risks inherent to the valuation of goodwill, trademark and customer relationships.

Other Information

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

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 1386-AR, Group A, valid until June 14, 2020

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-31-2016

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

PTR No. 6615157MD

Issued January 3, 2018 at Makati City

April 12, 2018

Makati City, Metro Manila

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

		December 31		January 1
			2016	2016
	Note	2017	(As restated - see Note 33)	(As Restated - see Note 33)
ASSETS				
Current Assets				
Cash and cash equivalents	4	P15,353,098	P12,634,464	P14,541,466
Short-term investments	5	-	909,929	561,956
Receivables - net	6	7,901,686	6,805,705	5,648,133
Inventories	7, 20	21,194,691	19,792,366	16,740,693
Investments in trading securities	8	46,888	35,109	34,433
Available-for-sale (AFS) financial assets	9	8,618	8,199	8,587
Due from related parties	25	74,354	185,136	156,017
Prepaid expenses and other current assets	10	3,014,609	1,626,699	1,808,074
Total Current Assets		47,593,944	41,997,607	39,499,359
Noncurrent Assets				
Investments	11	933,797	926,669	989,190
Property and equipment - net	12, 33	26,622,702	24,090,074	22,558,070
Investment properties - net	13, 33	10,753,607	10,010,807	9,974,034
Intangibles and goodwill - net	14	22,776,064	22,598,516	21,005,967
Deferred oil and mineral exploration costs - net	15	122,947	121,381	120,896
Deferred tax assets - net	27	64,438	116,588	343,673
Loans to related parties - noncurrent portion		-	-	211
Other noncurrent assets	16, 21, 33	2,746,790	2,736,901	2,480,940
Total Noncurrent Assets		64,020,345	60,600,936	57,472,981
		P111,614,289	P102,598,543	P96,972,340
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	17	P13,793,132	P11,775,810	P12,180,372
Short-term loans	18	5,562,500	5,362,500	4,316,194
Current maturities of long-term debts	18	2,443,402	164,434	570,000
Income tax payable		1,032,749	1,102,118	1,075,502
Due to related parties	25	849,772	690,335	457,158
Other current liabilities	19	505,407	542,543	441,865
Total Current Liabilities		24,186,962	19,637,740	19,041,091
Noncurrent Liabilities				
Long-term debts - net of current portion	18	4,782,210	7,223,505	8,693,424
Deferred tax liabilities - net	27	774,280	751,935	758,795
Retirement benefits liability	26	592,387	513,453	479,825
Deposits for future subscriptions in a subsidiary		-	150,313	150,313
Other noncurrent liabilities	21, 33	2,834,358	2,533,360	2,304,934
Total Noncurrent Liabilities		8,983,235	11,172,566	12,387,291
Total Liabilities		33,170,198	30,810,306	31,428,382

Forward

	Note	December 31		January 1
		2017	2016 (As restated - see Note 33)	2016 (As Restated - see Note 33)
Equity				
Capital stock	28	P7,405,264	P7,405,264	P7,405,264
Additional paid-in capital	28	9,634,644	9,634,644	9,634,644
Treasury shares	28	(628,203)	(523,865)	(440,507)
Remeasurements of retirement liability - net of tax	26	28,365	692	(28,577)
Net unrealized gain (loss) on AFS financial assets	9	5,012	4,593	4,981
Retained earnings	28	38,147,384	33,808,565	29,868,620
Total Equity Attributable to Equity Holders of Cosco Capital, Inc.		54,592,466	50,329,893	46,444,425
Non-controlling interests		23,851,625	21,458,344	19,099,533
Total Equity		78,444,091	71,788,237	65,543,958
		P111,614,289	P102,598,543	P96,972,340

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	Note	2017	2016	2015
REVENUES				
Net sales		P144,134,663	P127,406,728	P114,902,151
Services		1,614,638	1,778,296	1,848,044
Production lifting		528	1,177	1,987
		145,749,829	129,186,201	116,752,182
COST OF SALES				
Cost of goods sold	33 20	120,510,762	106,327,420	95,829,719
Cost of services	20	917,463	887,905	958,763
		121,428,225	107,215,325	96,788,482
GROSS PROFIT		24,321,604	21,970,876	19,963,700
OTHER OPERATING INCOME	22	3,580,941	3,361,826	2,967,933
		27,902,545	25,332,702	22,931,633
OPERATING EXPENSES	23, 33	16,426,309	14,526,122	12,875,678
INCOME FROM OPERATIONS		11,476,236	10,806,580	10,055,955
OTHER INCOME (EXPENSES) - Net				
Interest expense	18	(406,413)	(345,678)	(426,568)
Interest income		133,433	136,642	134,728
Others - net	24	(78,870)	(40,098)	40,241
		(351,850)	(249,134)	(251,599)
INCOME BEFORE INCOME TAX		11,124,386	10,557,446	9,804,356
INCOME TAX EXPENSE	27	3,291,071	3,088,052	2,817,114
NET INCOME		P7,833,315	P7,469,394	P6,987,242
Net income attributable to:				
Equity holders of				
Cosco Capital, Inc.		P4,924,647	P4,734,101	P4,490,644
Non-controlling interests		2,908,668	2,735,293	2,496,598
		P7,833,315	P7,469,394	P6,987,242
Basic/Diluted earnings per share				
attributable to equity holders of				
Cosco Capital, Inc.	30	P0.69	P0.66	P0.63

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	<i>Note</i>	2017	2016	2015
NET INCOME		P7,833,315	P7,469,394	P6,987,242
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss in subsequent periods				
Changes in fair values of available-for-sale financial assets	9	419	(388)	(1,951)
Item that will never be reclassified subsequently to profit or loss				
Remeasurements of retirement benefit liability	26	77,554	85,948	59,227
Income tax effect		(23,253)	(25,763)	(17,768)
		54,720	59,797	39,508
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		P7,888,035	P7,529,191	P7,026,750
Total comprehensive income attributable to:				
Equity holders of				
Cosco Capital, Inc.		P4,952,739	P4,763,168	P4,509,910
Non-controlling interests		2,935,296	2,766,023	2,516,840
		P7,888,035	P7,529,191	P7,026,750

See Notes to the Consolidated Financial Statements.

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

	Attributable to Equity Holders of the Parent Company							
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Re-measurements of Retirement Liability - Net of Tax	Cumulative Unrealized Gain (Loss) on AFS Financial Assets	Retained Earnings	Non-controlling Interest	Total Equity
As at January 1, 2017	P7,405,264	P9,634,644	(P523,865)	P692	P4,693	P33,808,565	P21,458,344	P71,788,237
Net income for the year	-	-	-	-	-	4,924,647	2,908,668	7,833,315
Other comprehensive loss for the year	-	-	-	27,673	419	-	26,628	54,720
Total comprehensive income for the year	-	-	-	27,673	419	4,924,647	2,935,296	7,888,035
Effect of business combination	-	-	-	-	-	150,313	-	150,313
Acquisition of treasury shares	-	-	(104,338)	-	-	-	-	(104,338)
Cash dividends	-	-	-	-	-	(736,141)	(542,015)	(1,278,156)
Total transactions with the owners	-	-	(104,338)	-	-	(585,828)	(542,015)	(1,127,843)
As at December 31, 2017	P7,405,264	P9,634,644	(P628,203)	P28,365	P5,012	P38,147,384	P23,851,625	P78,444,091
As at January 1, 2016	P7,405,264	P9,634,644	(P440,507)	(P28,577)	P4,981	P29,868,620	P19,099,532	P65,543,957
Net income for the year	-	-	-	29,455	(388)	4,734,101	2,735,293	7,469,394
Other comprehensive income for the year	-	-	-	29,455	(388)	-	30,730	59,797
Total comprehensive income for the year	-	-	-	29,455	(388)	4,734,101	2,766,023	7,529,191
Effect of business combination	-	-	-	(186)	-	(204,124)	(700)	(205,010)
Acquisition of treasury shares	-	-	(83,358)	-	-	-	-	(83,358)
Cash dividends	-	-	-	-	-	(590,032)	(406,511)	(996,543)
Total transactions with the owners	-	-	(83,358)	(186)	-	(794,156)	(407,211)	(1,284,911)
As at December 31, 2016	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,565	P21,458,344	P71,788,237
As at January 1, 2015	P7,405,264	P9,634,644	(P252,621)	(P49,793)	P6,932	P25,925,960	P17,008,378	P59,678,764
Net income for the year	-	-	-	21,216	(1,951)	4,490,644	2,496,598	6,987,242
Other comprehensive income for the year	-	-	-	21,216	(1,951)	-	20,242	39,507
Total comprehensive income for the year	-	-	-	21,216	(1,951)	4,490,644	2,516,840	7,026,749
Effect of business combination	-	-	-	-	-	42,889	-	42,889
Acquisition of treasury shares	-	-	(187,886)	-	-	-	-	(187,886)
Cash dividends	-	-	-	-	-	(590,873)	(425,686)	(1,016,559)
Total transactions with the owners	-	-	(187,886)	-	-	(547,984)	(425,686)	(1,161,556)
As at December 31, 2015	P7,405,264	P9,634,644	(P440,507)	(P28,577)	P4,981	P29,868,620	P19,099,532	P65,543,957

See Notes to the Consolidated Financial Statements.

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

		Years Ended December 31		
	Note	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P11,124,386	P10,557,445	P9,804,356
Adjustments for:				
Depreciation and amortization	12, 13, 14	2,050,105	1,788,344	1,662,555
Interest expense	18	406,414	345,678	426,568
Rent expense in excess of billings		259,803	416,995	424,382
Retirement benefits cost	26	159,361	132,877	105,616
Interest income	4, 5	(133,433)	(136,642)	(134,728)
Share in net loss of joint ventures and associates	11	132,872	62,521	8,275
Unrealized foreign exchange loss		23,468	19,353	18,855
Gain on insurance claim	24	(14,268)	-	(38,722)
Unrealized loss (gain) in trading securities	8, 24	(11,779)	(676)	3,853
Dividend income		(1,856)	(825)	(10,108)
Gain on disposal of property and equipment		(206)	(377)	(3,887)
Gain on sale of available-for-sale financial (AFS) assets		-	-	(2,709)
Operating income before changes in working capital		13,994,867	13,184,693	12,264,306
Decrease (increase) in:				
Receivables - net		(1,095,981)	(1,391,862)	(326,147)
Investments in trading securities		-	-	3,016
Inventories		(1,402,325)	(3,051,673)	(2,948,600)
Prepaid expenses and other current assets		(1,930,501)	(47,677)	(636,494)
Due from related parties		110,782	(28,907)	(138,184)
Increase (decrease) in:				
Accounts payable and accrued expenses		2,175,362	152,687	(1,034,469)
Due to related parties		159,437	233,177	414,552
Other current liabilities		(37,136)	100,678	32,947
Other noncurrent liabilities		41,196	(11,401)	388,945
Cash generated from operations		12,015,701	9,139,715	8,019,872
Income taxes paid		(2,767,602)	(2,651,642)	(2,193,270)
Interest paid		(495,049)	(346,903)	(307,870)
Retirement benefits paid		(1,876)	(13,567)	(6,665)
Net cash provided by operating activities		8,751,174	6,127,603	5,512,067

Forward

		Years Ended December 31		
	Note	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	12	(P4,439,923)	(P3,909,301)	(P2,415,450)
Proceeds from maturity of short-term investments		909,929	-	262,122
Additions to investment properties	13	(680,527)	(725,371)	(2,239,468)
Effect of business combination		(270,000)	(224,627)	(612,946)
Additions to investments	11	(140,000)	-	(87,500)
Interest received		133,433	136,642	134,728
Additions to intangibles	14	(30,349)	(70,901)	(1,531,720)
Proceeds from insurance claim		14,268	-	38,722
Increase in other noncurrent assets		(9,640)	(433,128)	(516,014)
Proceeds from disposal of property and equipment		9,195	4,559	82,789
Dividends received		1,856	825	10,108
Increase in oil and mineral exploration		(1,567)	(486)	(1,728)
Proceeds from redemption of AFS financial assets	9	-	-	4,000
Additions to short-term investments	5	-	(347,973)	-
Net cash used in investing activities		(4,503,325)	(5,569,761)	(6,872,357)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availment of short-term loans	18	6,749,500	3,205,000	3,611,500
Payment of short-term loans	18	(6,549,500)	(2,109,000)	(818,500)
Cash dividends paid		(1,431,408)	(1,532,952)	(1,358,714)
Payment of long-term debts	18	(170,001)	(1,925,180)	(1,006,800)
Buyback of capital stocks		(104,338)	(83,358)	(187,886)
Net cash (used in) provided by financing activities		(1,505,747)	(2,445,490)	239,600
EFFECT OF EXCHANGE RATE CHANGES ON CASH				
		(23,468)	(19,354)	(18,855)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,718,634	(1,907,002)	(1,139,545)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,634,464	14,541,466	15,681,011
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	P15,353,098	P12,634,464	P14,541,466

See Notes to the Consolidated Financial Statements.

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

1. Reporting Entity

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

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

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

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance

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

The accompanying consolidated financial statements were approved and authorized for issuance by the BOD on April 12, 2018.

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 (AFS) assets (except for unquoted equity investments which are measured at cost)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

Functional and Presentation Currency

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

Basis of Consolidation

The consolidation financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and 2016 and for each of the three years ended December 31, 2017. The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group"):

	Effective Percentage of Ownership			
	2017		2016	
	Direct	Indirect	Direct	Indirect
Retail				
Puregold Price Club, Inc. (PPCI) ^(b) and Subsidiaries	51		51	
▪ Kareila Management Corporation (KMC) and Subsidiaries		51		51
▫ S&R Pizza (Harbor Point), Inc.		51		51
▫ S&R Pizza, Inc.		51		51
▪ PPCI Subic, Inc. (PSI)		51		51
▪ Entenso Equities Incorporated (EEI) and Subsidiaries		51		51
▫ Goldtempo Company Incorporated (GCI) ^(b)		51		51
▫ Daily Commodities, Inc. ^(b)		51		51
▫ First Lane Super Traders Co., Inc. ^(b)		51		51
Liquor distribution				
Montosco, Inc.	100		100	
Meritus Prime Distributions, Inc.	100		100	
Premier Wine and Spirits, Inc.	100		100	
Real estate and property leasing				
Nation Realty, Inc.	100		100	
Patagonia Holdings Corp.	100		100	
Ellimac Prime Holdings, Inc. (EPHI) ^(a)	100		100	
Fertuna Holdings Corp.	100		100	
Pure Petroleum Corp.	100		100	
NE Pacific Shopping Centers Corporation (NPSCC)	100		100	
Specialty retail				
Office Warehouse, Inc.	100		100	
Canaria Holdings Corporation (CHC) and Subsidiaries	90		90	
▪ Liquigaz Philippines Corporation (LPC)		90		90
▪ Calor Philippines Holdings, Inc. (CPHI)		90		90
Oil and mining				
Alcorn Petroleum and Minerals Corporation (APMC)	100		100	

^(a) The merger of EPHI and 118 Holdings, Inc. (EPHI as the surviving entity), was approved by SEC on January 28, 2016.

^(b) The merger of PPCI, Goldtempo Company Incorporated, Daily Commodities, Inc., and First Lane Super Traders Co., Inc. (PPCI as the surviving entity), was approved by SEC on November 22, 2017. PPCI adopts January 1, 2018 as the effective date of the merger and is in the process of finalizing documentary requirements to be submitted to SEC.

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

Subsidiaries

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

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

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

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

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

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

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

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

- derecognizes the carrying amounts of the assets (including goodwill, if any) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, and the cumulative transaction differences recorded in equity;
- recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling Interests (NCI)

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

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: PPCI, LPC, CHC and CPHI (see Note 28).

Business Combinations other than Under Common Control

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

Each unit or group of units to which the goodwill is allocated represents the lowest

level within the Group at which the goodwill is monitored for internal management purposes; and is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

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

Common Control Business Combinations

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

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

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

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

Management's Use of Judgments, Estimates and Assumptions

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

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

Judgments

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

Evaluating Classification of Lease Agreements

Operating Lease Commitments - Group as Lessee. The Group has entered into several lease agreements on premises it uses for its operations. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are accounted for under operating lease.

Operating Lease Commitments - Group as Lessor. The Group entered into several arrangements for the lease of land, buildings and commercial spaces on its properties classified under investment properties account and storage tanks classified under the property and equipment account; and various agreements to sublease portion of its leased store spaces. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are accounted for under operating lease.

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

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

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

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

Distinction between Investment Properties and Property and Equipment

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

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

Determining whether Significant Influence or Control Exist in an Investee Company

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

Assessing Joint Arrangements

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

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

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

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

No changes in the estimated useful lives of the property and equipment and investment properties with finite useful lives were made in 2017 and 2016.

Evaluating Useful Lives of Computer Software and Licenses and Leasehold Rights

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

No changes in the estimated useful lives of the computer software and licenses and leasehold rights were made in 2017 and 2016.

Accounting Estimates and Assumptions

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

Estimating Allowance for Impairment Losses on Receivables

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

Allowance for impairment losses on receivables amounted to P137.06 million and P134.84 million as at December 31, 2017 and 2016, respectively (see Note 6).

Estimating Net Realizable Value (NRV) of Inventories

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

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

No provision for impairment losses on merchandise inventories, liquor, wines and spirits and LPG, autogas and LPG accessories had been recognized in 2017 and 2016.

Estimating Fair Value of Investment Properties

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

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

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

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

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

In 2017 and 2016, no impairment loss was recognized on the Group's property and equipment, investment properties, computer software and licenses, leasehold rights, deferred oil exploration costs, investments in associates and joint ventures. As at December 31, 2017 and 2016, deferred mineral exploration cost was fully impaired (see Note 15).

Impairment of Goodwill, Trademarks and Customer Relationships

The Group performed its annual impairment test as at December 31, 2017. The recoverable amount of each CGU has been determined based on a value-in-use (VIU) calculation using cash flow projections from financial budgets based on long range plans approved by management.

The VIU is based on cash flows projections for five (5) years using a terminal growth rate of 1% to 3% and 3% to 10% in 2017 and 2016, respectively, and discount rates of 10.32% to 10.96% and 11.94% to 20.40% in 2017 and 2016, respectively. The values assigned to the key assumptions have been updated to reflect the demand for products and services and are based on internal sources (i.e., historical data).

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

- Growth rate estimates

Growth rates include long-term and terminal growth rates that are based on past experiences and strategies being developed by the management for each segment. The outlook for the industry was also considered in estimating the growth rates. A change in the long-term growth rate by 1% to 4% would not result to impairment.

- Discount rates

The Group uses the weighted-average cost of capital (WACC) as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated based on publicly available market data. An increase in discount rate of 0.08% to 6.00% and 0.10% to 11.10%, in 2017 and 2016, respectively, would result in impairment.

Management assessed that there is no impairment in the value of goodwill, trademarks and customer relationships as at December 31, 2017 and 2016.

Estimating Retirement Benefits

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

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

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

As of December 31, 2017 and 2016, the Group's present value of defined benefit obligations is shown in Note 26 to the consolidated financial statements.

3. Summary of Significant Accounting Policies

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

Adoption of Amendments to Standards

The Group has adopted the following relevant and applicable amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The Group provided a reconciliation between the opening and closing balances for liabilities arising from financing activities (see Note 18).

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12, Income Taxes)*. The amendments clarify that:
 - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
 - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
 - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
 - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The Group's accounting policy for determining the amount of future taxable profits for the recognition of deferred tax assets is consistent with the amendments to standards. Therefore, there are no changes to this accounting policy.

- *Annual Improvements to PFRS 2014-2016 Cycle - Clarification of the scope of the Standard (Amendments to PFRS 12, Disclosure of Interest in Other Entities)*. The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

New Standards and Interpretations and Amendments to Standards Not Yet Adopted

A number of new standards and interpretations and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Group has not applied the following relevant and applicable new standards and interpretations and amendments to standards in preparing these consolidated financial statements.

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 adoption of PFRS 9 will have no significant impact on the classification and measurement of the Group's financial assets and financial liabilities at January 1, 2018. Further, future adoption of the new hedge accounting requirements will have no effect on the Group's consolidated financial statements since the Group has no transactions eligible for hedge accounting. However, the adoption will have an effect on the amount of the Group's credit losses. The management has not yet fully assessed the financial impact of these changes as of date.

- *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 PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group has an ongoing assessment of the application of PFRS 15 and have yet to reasonably estimate the potential impacts on the Group's consolidated financial statements.

- *Transfers of Investment Property (Amendments to PAS 40 Investment Property)* amends the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group's accounting policy for the requirements on when it should transfer a property asset to, or from, investment property is consistent with the amendments to standards. Therefore, there are no expected changes to this accounting policy when adopted.

- *Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration.* The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The Group's accounting policy for determining the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is consistent with the interpretations. Therefore, there are no expected changes to this accounting policy when adopted.

Effective January 1, 2019

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

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

The following interpretations and amendments to standards are not expected to have impact on the Group's consolidated financial statements:

- Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, *Share-based Payment*);
- Applying PFRS 9 with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4);
- Annual Improvements to PFRS 2014 - 2016 Cycle:
 - Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters; and
 - Amendment to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an associate or joint venture at fair value;
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*;

- Prepayment Features with Negative Compensation (Amendments to PFRS 9); and
- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28).

Cash and Cash Equivalents

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

Short-term Investments

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

Financial Instruments

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. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition of Financial Instruments

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

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

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

As at December 31, 2017 and 2016, the Group's financial assets and financial liabilities consist of cash on hand, loans and receivables, financial assets at FVPL, AFS financial assets and other financial liabilities.

'Day 1' difference

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' difference) 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' difference amount.

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term and on initial recognition, they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets may be designated by management at initial recognition at FVPL 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.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value. Changes in fair value are reflected in profit or loss under 'Unrealized valuation gain (loss) on financial assets at FVPL'. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recognized in profit or loss according to the terms of the contract, or when the right to receive payment has been established.

The Group's investments in trading securities are classified under this category (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. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired.

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

The Group's cash and cash equivalents, short-term investments, receivables, due from related parties and security deposits (included as part of "Other noncurrent assets") are included in this category (see Notes 4, 5 and 6).

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

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

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.

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

As at December 31, 2017 and 2016, the Group's AFS financial assets include investments in preferred and common shares, quoted common and golf club shares and investments in bonds (see Notes 9 and 11).

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

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

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

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

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

Financial Liabilities

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

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.

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in 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 asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income is removed from other comprehensive income and recognized in profit or loss.

Impairment losses on equity investments are recognized in the profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any. If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed

Customers' Deposits

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

Fair Value Measurements

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Inventories

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

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

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

Prepaid Expenses and Other Current Assets

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

	Number of Years
Land improvements	25
Buildings	10 - 50

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

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

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

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

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

Construction in Progress

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

Intangible Assets

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

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

	Number of Years
Computer software and licenses	5
Leasehold rights	20

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

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

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

Deferred Oil and Mineral Exploration Costs

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

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

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

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

Impairment of Non-financial Assets

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

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

Employee Benefits

Short-term Employee Benefits

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

Retirement Benefits

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

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

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

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

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

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

Capital Stock

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

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

Retained Earnings and Dividend Distribution

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

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

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding any discounts, rebates, returns and sales taxes.

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

Sale of Goods

Revenue are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Transfer of risk and rewards of ownership coincide either at the point of sale in the stores or with delivery of the goods to the customers.

Rental

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

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

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

Dividend Income

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

Other Operating income

Other income includes commissions, retail display allowances, share from sale of goods under concession arrangements, membership fees, display or slotting fees, and in-store demos and sampling fees and other miscellaneous income. Other income is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be measured reliably.

Cost and Expense Recognition

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

Cost of Sales

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

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

Operating Expenses

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

Borrowing Costs

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

Income Taxes

Current Tax

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

Deferred Tax

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

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

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

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

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

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

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

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

Value Added Tax (VAT)

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

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

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

Operating Leases

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

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

Related Parties

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

Foreign Currency Transactions and Translation

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

Segment Reporting

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

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

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

Provisions

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

Contingencies

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

Basic and Diluted Earnings per Share (EPS)

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

Events After the Reporting Date

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

4. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	2017	2016
Cash on hand		P965,557	P874,643
Cash in banks	31, 32	5,043,320	4,947,574
Money market placements	31, 32	9,344,221	6,812,247
		P15,353,098	P12,634,464

Cash in banks earns interest at the respective bank deposit rates. Money market placements are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing money market placement rates ranging from 0.30% to 3.75% in 2017, 0.05% to 3.74% in 2016 and 0.38% to 4.80% in 2015.

Interest income earned from cash in banks and money market placements amounted to P121.04 million, P127.21 million and P128.24 million in 2017, 2016 and 2015, respectively.

5. Short-term Investments

These short-term investments are investments with original maturities of more than three months to one year from dates of acquisition and earn interest at the prevailing short-term investment rates ranging from 1.0% to 2.50% in 2016 and 2015.

Interest income earned from short-term investments amounted P12.39 million, P9.43 million and P6.49 million in 2017, 2016 and 2015, respectively.

6. Receivables

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Trade receivables		P5,933,015	P5,003,919
Non-trade receivables		2,034,863	1,831,823
Others		68,228	104,802
		8,036,106	6,940,544
Less allowance for impairment losses on trade receivables		134,420	134,839
	31, 32	P7,901,686	P6,805,705

Trade receivables consist of receivables from retail, specialty retail, liquor distribution and real estate and property leasing segments. These pertain to credit sales significantly from the Company's credit account holders and credit card companies. These are noninterest-bearing and are generally on a 3 to 90 days credit terms.

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

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

<i>(In thousands pesos)</i>	Note	2017	2016
Beginning balance		P134,839	P149,684
Provisions during the year	23	128	-
Write-offs during the year		(547)	(14,845)
Ending balance		P134,420	P134,839

7. Inventories

This account consist of:

<i>(In thousands pesos)</i>	Note	2017	2016
At cost:			
Merchandise inventories		P18,045,055	P16,762,355
Liquors, wines and spirits		2,571,323	2,752,628
LPG, autogas and LPG accessories		578,313	277,383
	20	P21,194,691	P19,792,366

Inventory charged to cost of sales amounted to P120.51 billion, P106.33 billion and P95.83 billion in 2017, 2016 and 2015, respectively (see Note 20).

8. Investments in Trading Securities

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

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

Net changes in fair value of investments in trading securities is included in Others - net under "Unrealized valuation gain (loss) on investments in trading securities" account in the consolidated statements of income (see Note 24).

9. Available-for-Sale Financial Assets

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Investments in shares of stock			
Quoted	31, 32	P6,931	P6,512
Unquoted	31, 32	2,304	2,304
		9,235	8,816
Investments in debt securities	31, 32	7,262	7,262
		16,497	16,078
Less current portion		8,618	8,199
	11	P7,879	P7,879

The movements in the AFS financial assets are as follows:

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P16,078	P16,466
Unrealized fair value gains (losses)	419	(388)
Balance at end of year	P16,497	P16,078

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

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P4,593	P4,981
Change in fair value during the year	419	(388)
Balance at end of year	P5,012	P4,593

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

Unquoted shares of stock represent investments in an unlisted entity incorporated in the Philippines and club shares. These are carried at cost since the fair values cannot be determined reliably in the absence of an observable market data on these related assets.

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

10. Prepaid Expenses and Other Current Assets

This account consists of:

<i>(In thousands pesos)</i>	2017	2016
Prepaid expenses	P1,192,488	P623,929
Input VAT - net	716,597	550,876
Advances to suppliers	560,510	210,025
Deferred input VAT - current	262,461	137,736
Advances to contractors	215,534	13,988
Creditable withholding tax	53,789	63,840
Others	13,230	26,305
	P3,014,609	P1,626,699

The details of prepaid expenses are as follows:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Rent	21	P709,659	P455,896
Supplies		227,853	21,569
Taxes and licenses		144,181	65,343
Insurance		97,659	64,881
Repairs and maintenance		6,228	7,410
Others		6,908	8,830
		P1,192,488	P623,929

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

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

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

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

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

11. Investments

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Investments in associates		P508,230	P495,942
Investments in joint ventures		417,688	422,848
AFS financial assets - noncurrent	9	7,879	7,879
		P933,797	P926,669

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

<i>(In thousands pesos)</i>	Percentage of Ownership		Carrying Value	
	2017	2016	2017	2016
Associates				
San Roque Supermarkets Retail Systems, Inc. (SRS)	49	49	P433,543	P424,425
Peninsula Land Bay Realty Corporation (PLBRC)	50	50	74,687	71,517
			508,230	495,942
Joint ventures				
PG Lawson Company, Inc. (PG Lawson)	70	70	237,190	256,996
AyaGold Retailers, Inc. (AyaGold)	50	50	123,005	110,350
Mariveles Joint Venture Corporation (MJVC)	50	50	57,493	55,502
			417,688	422,848
			P925,918	P918,790

All associates and joint ventures are incorporated in the Philippines.

Investments in Associates

SRS

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

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

PLBRC

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

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

<i>(In thousands pesos)</i>	SRS		PLBRC	
	2017	2016	2017	2016
Current assets	P1,063,945	P715,776	P 98,227	P 78,377
Noncurrent assets	205,635	214,619	59,743	79,123
Current liabilities	933,892	618,297	8,596	14,466
Noncurrent liabilities	16,505	11,395	-	-
Net assets	P319,183	P300,703	P149,374	P143,034
Group's share of net assets	P157,485	P148,367	P74,687	P71,517
Adjustments	276,058	276,058	-	-
Carrying amount of the investment	P433,543	P424,425	P74,687	P71,517
Revenue	P6,513,842	P5,836,932	P60,000	P60,000
Net income (loss)	18,479	(7,607)	6,340	6,180
Other comprehensive income	-	6,939	-	-
Total comprehensive income (loss)	P18,479	(P668)	P6,340	P6,180
Share of comprehensive income (loss) for the year	P9,118	(P328)	P3,170	P3,090

Investments in Joint Ventures

PG Lawson

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

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

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

AyaGold

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

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

MJVC

MJVC is a 50-50 joint venture between LPC and Total Petroleum Philippines Corporation [now Total (Philippines) Corporation]. MJVC is organized primarily to manage, operate and maintain jetties and equipment installed for its benefit and/or for the benefit of owners/operators of storage facilities for oil products and/or LPG and loading facilities and all related equipment; own, manage, operate, upgrade and maintain ancillary facilities dedicated for the common use by the users of the storage facilities, LPG storage tanks, loading facilities and all related equipment; and perform consultancy, supervision and management services concerning the development and/or redevelopment of jetties and the upgrading of equipment and dedicated ancillary facilities installed (see Note 25).

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

<i>(In thousands pesos)</i>	PG Lawson		AyaGold		MJVC	
	2017	2016	2017	2016	2017	2016
Current assets	P230,148	P188,220	P259,743	P133,396	P67,396	P53,653
Noncurrent assets	254,166	290,773	155,518	166,864	51,202	61,425
Current liabilities	127,069	98,539	173,018	83,326	3,664	4,133
Noncurrent liabilities	18,295	7,818	-	-	-	-
Net assets	P338,950	P372,636	P242,243	P216,934	P114,934	P110,945
Group's share of net assets	P237,189	P256,996	P121,122	P108,467	P57,493	P55,502
Goodwill	-	-	1,883	1,883	-	-
Carrying amount of the investment	P237,190	P256,996	P123,005	P110,350	P57,493	P55,502
Revenue	P457,912	P270,882	P455,099	P346,622	P28,000	P25,000
Net income (loss)/ total comprehensive income (loss)	(P233,794)	(P87,544)	P25,308	(P10,866)	P3,988	P4,866
Share of comprehensive income (loss) for the year	(P159,806)	(P61,281)	P12,655	(P3,771)	P1,991	P2,433

12. Property and Equipment

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

<i>(In thousands pesos)</i>	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Wells, Platforms and Other Facilities	Construction in-progress	Total
Cost										
January 1, 2016, as restated	P3,226,873	P9,212,378	P1,488,728	P2,417,133	P6,155,723	P280,671	P6,396,435	P204,955	P384,830	P29,767,726
Additions	451,847	432,778	39,191	174,606	763,006	76,862	579,212	-	2,008,554	4,526,056
Disposals	-	-	-	(1,436)	(5,419)	(5,526)	(782)	-	-	(13,163)
Reclassification	(24,870)	100,393	-	38,826	228,483	(921)	1,047,049	-	(1,141,618)	247,342
December 31, 2016, as restated	3,653,850	9,745,549	1,527,919	2,629,129	7,141,793	351,086	8,021,914	204,955	1,251,766	34,527,961
Additions	29,667	908,441	47,065	208,639	772,806	20,001	489,192	-	2,138,426	4,614,239
Reclassifications	26,752	60,269	-	51,644	337,014	-	905,681	-	(1,598,302)	(216,942)
Disposals	-	(1,736)	(62)	(1,726)	(13,569)	(2,370)	(2,382)	-	-	(21,845)
December 31, 2017	3,710,269	10,712,523	1,574,922	2,887,686	8,238,044	368,717	9,414,405	204,955	1,791,890	38,903,411
Accumulated Depreciation and Amortization										
January 1, 2016, as restated	-	2,457,985	450,088	1,032,596	3,476,301	178,805	1,121,064	44,918	-	8,761,757
Depreciation and amortization, as restated	-	296,186	57,270	176,730	724,003	77,511	354,348	-	-	1,686,048
Disposals/retirements	-	-	-	(141)	(3,108)	(5,526)	(206)	-	-	(8,981)
Reclassification	-	-	-	187	(207)	(917)	-	-	-	(937)
December 31, 2016, as restated	-	2,754,171	507,358	1,209,372	4,196,989	249,873	1,475,206	44,918	-	10,437,887
Depreciation and amortization	-	314,377	60,113	204,106	859,662	34,368	442,555	-	-	1,915,181
Disposals	-	(554)	(24)	(1,606)	(7,484)	(2,343)	(846)	-	-	(12,857)
Reclassifications	-	(53,267)	-	-	-	-	(6,235)	-	-	(59,502)
December 31, 2017	-	3,014,727	567,447	1,411,872	5,049,167	281,898	1,910,680	44,918	-	12,280,709
Carrying Amounts										
December 31, 2016, as restated	P3,653,850	P6,991,378	P1,020,561	P1,419,757	P2,944,804	P101,213	P6,546,708	P160,037	P1,251,766	P24,090,074
December 31, 2017	P3,710,269	P7,697,796	P1,007,475	P1,475,814	P3,188,877	P86,819	P7,503,725	P160,037	P1,791,890	P26,822,702

Transfer from property and equipment with net book value amounting to P162,710 pertain to transfer of "Buildings" account to "Investment properties" due to the change in use as determined by the management.

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

<i>(In thousands pesos)</i>	Note	2017	2016	2015
Cost of sales	21	P251,714	P221,657	P181,024
Operating expenses	23, 33	1,663,467	1,464,391	1,304,351
		P1,915,181	P1,686,048	P1,485,375

13. Investment Properties

This account consists of:

<i>(In thousands pesos)</i>	Land	Building	Construction in-progress	Total
Cost				
January 1, 2016, as restated	P6,185,159	P4,335,618	P224,697	P10,745,474
Additions	51,582	7,839	49,193	108,614
December 31, 2016, as restated	6,236,741	4,343,457	273,890	10,854,088
Additions	314,903	42,826	322,797	680,526
Reclassifications	-	246,256	(29,313)	216,943
December 31, 2017	6,551,644	4,632,539	567,374	11,751,557
Accumulated Depreciation				
January 1, 2016, as restated	-	771,439	-	771,439
Depreciation, as restated	-	71,842	-	71,842
December 31, 2016, as restated	-	843,281	-	843,281
Depreciation	-	95,167	-	95,167
Reclassifications	-	59,502	-	59,502
December 31, 2017	-	997,950	-	997,950
Carrying Amounts				
December 31, 2016, as restated	P6,236,741	P3,500,176	P273,890	P10,010,807
December 31, 2017	P6,551,644	P3,634,589	P567,377	P10,753,607

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

Depreciation expense are charged to cost of services (see Notes 20 and 34).

As at December 31, 2017 and 2016, the fair value of the investment properties amounted to P23.5 billion based on independent appraisals obtained in 2012. The fair value of the land and buildings is determined based on the comparative sales of similar or substitute properties and related market data and is based on current cost and comparison with similar new properties, respectively, which is categorized as Level 2 under the fair value hierarchy. Management believes that the appraisal in 2012 is still applicable for disclosure purposes as at December 31, 2017 as there are no significant changes in the condition of its land and buildings.

The rental income earned by the real estate and property leasing segment of the Group from these properties amounted to P1,614.64 million, P1,778.29 million and P1,848.04 million in 2017, 2016 and 2015, respectively (see Note 21).

Direct costs incurred pertaining to the lease of these properties amounted to P917.46 million, P887.91 million and 958.76 million in 2017, 2016 and 2015, respectively (see Note 20).

14. Intangibles and Goodwill and Business Combination

This account consists of:

<i>(In thousands pesos)</i>	2017	2016
Goodwill	P17,929,386	P17,742,733
Trademark	3,709,661	3,709,661
Customer relationships	889,453	889,453
Leasehold rights	188,915	62,417
Computer software and licenses - net	58,649	194,252
	P22,776,064	P22,598,516

Goodwill

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

<i>(In thousands pesos)</i>	2017	2016
Retail		
KMC	P12,079,474	P12,079,474
Budgetlane Supermarkets	857,974	838,525
Gant ⁽¹⁾	742,341	742,341
NE Supermarkets	685,904	685,904
Company E ⁽²⁾	358,152	358,152
B&W Supermart	187,204	-
PJSI ⁽¹⁾	11,370	11,370
Merger of PJSI and Gant to PPCI ⁽¹⁾	4	4
Specialty Retail		
LPC	1,624,428	1,624,428
OWI	893,790	893,790
CPHI	51,432	51,432
CHC	9	9
Real Estate and Property Leasing		
NPSCC	457,304	457,304
	P17,929,386	P17,742,733

⁽¹⁾ On August 14, 2012, the SEC approved the Articles and Plan of Merger of the Company for the merger of PPCI to Puregold Junior Supermarket, Inc. (PJSI) and Gant Group of Companies Incorporated (Gant), with PPCI as the surviving entity. Both entities were acquired through business combination in 2012. Upon approval by the SEC of the merger, the costs of investment were eliminated and the corresponding goodwill were still recognized.

⁽²⁾ On March 12, 2015, the SEC approved the Articles and Plan of Merger of the Company for the merger of PPCI to Company E Corporation (Company E), with PPCI as the surviving entity. Company E was acquired through business combination in 2013. Upon approval by the SEC of the merger, the cost of investment was eliminated and the corresponding goodwill was still recognized.

Movement in goodwill is as follows:

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of the year	P17,742,733	P17,711,048
Additions	187,204	-
Fair value adjustments	(551)	31,685
	P17,929,386	P17,742,733

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

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

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

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

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

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

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

Acquisition of Bargain City Inc., Multi-Merchantrade Inc. and Superplus Corporation (collectively referred to as "Budgetlane Supermarkets")

On August 6, 2015, the Group through GCI acquired substantially all of the assets of Budgetlane Supermarkets and took over the operations of the eight (8) supermarkets located mainly in Metro Manila and other parts of Luzon. The said acquisition was considered as a business combination in accordance with PFRS 3.

In 2015, the accounting for the business combination in the Group's consolidated financial statements was determined provisionally as the Group has to finalize the information with respect to the recognition of the fair value of identifiable assets and liabilities arising from the acquisition.

In 2016, the fair values of the assets and liabilities of Budgetlane Supermarkets at the date of acquisition were finalized as follow:

Purchase price consideration transferred	P1,496,501
Total fair value of identifiable net assets	657,976
Goodwill	P838,525

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

Acquisition of Daily Commodities, Inc. and First Lane Super Traders Co., Inc. (collectively referred to as "NE Supermarkets")

On February 3, 2015, the Group through EEI acquired 100% interest in NE Supermarkets which is currently engaged in the business of trading goods on a wholesale and retail basis in the Northern Luzon.

In 2015, the accounting for the business combination in the Group's consolidated financial statements was determined provisionally as the Group has to finalize the information with respect to the recognition of the fair value of identifiable assets and liabilities arising from the acquisition.

In 2016, the fair values of the assets and liabilities of NE Supermarkets at the date of acquisition were finalized as follow:

Purchase price consideration transferred	P768,485
Total fair value of identifiable net assets	132,581
Goodwill	P635,904

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

Trademark and Customer Relationships

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

Leasehold Rights

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

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

<i>(In thousands pesos)</i>	Computer Software and Licenses	Leasehold Rights	Total
Cost			
January 1, 2016	P308,564	P75,355	P383,919
Additions	37,880	-	37,880
December 31, 2016	346,444	75,355	421,799
Additions	30,352	-	30,352
December 31, 2017	376,796	75,355	452,151
Accumulated Amortization			
January 1, 2016	125,505	9,170	134,675
Amortization	26,687	3,768	30,455
December 31, 2016	152,192	12,938	165,130
Amortization	35,989	3,768	39,757
December 31, 2017	188,181	16,706	204,887
Carrying Amounts			
December 31, 2016	P194,252	P62,417	P256,669
December 31, 2017	P188,615	P58,649	P247,264

Amortization is charged to operating expenses (see Note 23).

15. Deferred Oil and Mineral Exploration Costs

This account consists of:

<i>(In thousands pesos)</i>	Note	Participating Interest	2017	2016
I. Oil exploration costs:				
SC 14	<i>a</i>			
Block C2 (West Linapacan)		1.53%	P55,024	P53,746
Block D		5.84%	8,071	8,031
Block B1 (North Matinloc)		13.55%	2	2
			63,097	61,779
SC 6A				
Octon Block	<i>b</i>	0.50%	17,260	17,012
North Block		1.57%	600	600
			17,860	17,612
SC 51	<i>c</i>	9.32%	32,817	32,817
SC 6B (Bonita)	<i>d</i>	2.11%	8,027	8,027
Other oil projects			527	527
			41,371	41,371
Balance at end of year			122,328	120,762
II. Mineral exploration costs:				
Nickel project	<i>e, f</i>	100.00%	19,208	19,208
Anoling gold project	<i>g</i>	3.00%	13,817	13,817
Gold projects	<i>h</i>	100.00%	13,036	13,036
Cement project	<i>i</i>	100.00%	9,603	9,603
Other mineral projects	<i>j, k</i>		382	382
			56,046	56,046
Accumulated impairment losses for unrecoverable deferred mineral exploration costs:			(56,046)	(56,046)
Balance at end of year			-	-
III. Other deferred charges				
			619	619
			P122,947	P121,381

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

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

a) SC 14 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.

In 2017, additional deferred charges amounting to P1,318 was capitalized.

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

The SC 6A oil field, discovered in 1990, is located in Offshore Northwest Palawan near Galoc Block. As at December 31, 2011, the Parent Company 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. The Parent Company for its part will be carried free up to the drilling of the two exploration wells on the block.

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

In 2017 and 2016, additional deferred charges amounting to P248 and P414, respectively, were capitalized.

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, 2017 and 2016, there were no further developments on the said project.

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

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

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

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

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

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

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

e) Exploration Permit Application No. 175-IVB - Nickel Project Aborlan, Palawan

An Order of Denial has been issued by MGB-IVB during the last quarter of 2010 due to inactivity and lack of NCIP clearance among others. The Parent Company submitted a letter of reconsideration and MGB-IVB granted a temporary reprieve in order for the Parent Company to show commitment in completing the application.

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

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

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

As at December 31, 2017 and 2016, 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, 2017 and 2016, there were no further developments on the said project.

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

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

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

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

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

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

As at December 31, 2017 and 2016, 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, 2017 and 2016, there were no further developments on the said project.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at December 31, 2017 and 2016, there were no further developments on the said project.

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

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

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

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

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

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

On January 13, 2014, Vale took over of the project Operation. The US\$20,000 cash consideration was paid to the Parent Company on January 23, 2014.

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

As at December 31, 2017 and 2016, there were no further developments on the said project.

16. Other Noncurrent Assets

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Security deposits	21	P1,658,440	P1,531,843
Accrued rent income	21	582,693	530,643
Deferred input VAT - noncurrent		199,029	424,592
Prepaid rent	21	158,308	162,195
Others		148,320	87,628
		P2,746,790	P2,736,901

17. Accounts Payable and Accrued Expenses

This account consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016
Trade payables		P8,643,738	P6,301,050
Non-trade payables		1,644,108	2,166,709
Dividends payable	18	1,200,393	1,353,645
Due to government agencies		660,554	570,873
Retention payable		74,437	43,163
Construction bonds		26,371	17,283
Advance rentals	21	16,293	19,077
Trust receipts payable		4,091	-
Accrued expense			
Manpower agency services		913,056	561,728
Utilities		164,612	99,605
Rent		104,846	63,481
Professional fees		61,929	61,104
Inventory		26,753	-
Interest		6,825	3,941
Fixed asset acquisition		5,712	24,975
Tax assessments		-	199,114
Others		239,414	290,062
		P13,793,132	P11,775,810

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

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

Retention payable pertains to amounts withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to certain percentage % of every billing made by the contractor. Upon completion of the contracted projects, the amounts are returned to the contractors.

Construction bonds pertain to surety bond collected from tenants for their construction of their leased spaces. These are non-interest bearing and refundable upon construction has been completed. The purpose of these bonds is to protect the Group from any damages that the tenants may incur during construction. Upon completion of the construction, the amounts are returned to the tenants.

18. Loans Payable

As at December 31, 2017 and 2016, the Group has the following outstanding loans:

a. Short-term Loans

Details of peso-denominated short-term loans follow:

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P5,362,500	P4,266,500
Availments	6,749,500	3,205,000
Payments	(6,549,500)	(2,109,000)
Balance at end of year	P5,562,500	P5,362,500

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

Segment	Purpose(s)	Interests	2017	2016
Grocery retail	- Inventory financing - Working capital requirements	2.00% to 2.875%	P3,812,500	P4,517,500
Liquor distribution	- Inventory financing	2.40% to 3.57%	850,000	245,000
Real estate	- Capital expenditure requirements	2.50% to 2.88%	600,000	600,000
Specialty retail	- Working capital requirement	2.38% to 2.88%	300,000	-
			P5,562,500	P5,362,500

b. Long-term Debts

Details of long-term debts follow:

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P7,387,939	P9,313,118
Payments during the year	(170,001)	(1,932,556)
Amortization of debt issue cost	7,674	7,377
	7,225,612	7,387,939
Less current portion	2,443,402	164,434
	P4,782,210	P7,223,505

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

<i>(In thousands pesos)</i>	Note	2017	2016
Cosco			
Fixed-rate peso-denominated loan of 5.267%	<i>a</i>	P3,862,264	P3,897,433
Fixed-rate peso-denominated loan of 5.579%	<i>b</i>	964,143	973,409
PPCI			
Fixed-rate peso-denominated note of 3.50%	<i>c</i>	1,999,205	1,997,097
Fixed-rate peso-denominated note of 2.375%	<i>d</i>	-	120,000
KMC			
Fixed-rate peso-denominated loan of 3.50%	<i>e</i>	400,000	400,000
		7,225,612	7,387,939
Less current portion		2,443,403	164,434
		P4,782,209	P7,223,505

Cosco

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

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

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

As of December 31, 2017 and 2016, Cosco complied with the covenants of the aforementioned loans.

PPCI

- c. On June 13, 2013, PPCI issued a P2 billion peso-denominated promissory note. The note bears a fixed interest of 3.50% per annum. Debt issuance costs related to this loan amounted to P10.0 million. The note has a term of 1,803 days and will be paid on a lump sum on May 21, 2018.
- d. On April 14, 2013, PPCI signed and executed a 2-year, peso-denominated promissory note amounting to P963.70 million. The note bears a fixed interest of 3.25% and shall be repaid in a single payment on maturity.

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

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

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

KMC

- e. On July 23, 2013, KMC signed and executed a P500 million loan with a local bank. The 5-year, peso-denominated loan bears a fixed rate of 3.50% per annum and shall be paid on a lump sum at maturity. In 2015, KMC paid in advance a total of P100 million.

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

Movements of debt issue costs as at December 31 are as follow:

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P32,061	P39,438
Amortization for the year	7,674	7,377
Balance at end of year	P24,387	P32,061

Total interest incurred on the above-mentioned loans payable amounted to P497.93 million, P489.49 million and P518.79 million for the years ended 2017, 2016 and 2015, respectively. Capitalized interest in 2017, 2016 and 2015 amounted to P91.52 million, P143.81 million and P92.22 million, respectively (see Notes 12 and 13).

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

<i>(In thousands pesos)</i>	Short-term Loans	Long-term Debts	Interest Payable	Dividends Payable	Total
Balance at beginning of year	P5,362,500	P7,387,939	P3,941	P1,353,645	P14,108,025
Proceeds from loans	6,749,500	-	-	-	6,749,500
Payment of loans	(6,549,500)	(170,001)	-	-	(6,719,501)
Interest expense	-	-	490,259	-	490,259
Interest paid	-	-	(487,375)	-	(487,375)
Cash dividends declared ⁽¹⁾	-	-	-	1,278,156	1,278,156
Cash dividends paid ⁽¹⁾	-	-	-	(1,431,408)	(1,431,408)
Total changes from financing cash flows	200,000	(170,001)	2,884	(153,252)	(120,369)
Amortization of debt issue cost	-	7,674	-	-	7,674
Balance at end of year	P5,562,500	P7,225,612	P6,825	P1,200,393	P13,995,330

⁽¹⁾ Including dividends to non-controlling shareholders

19. Other Current Liabilities

This account as at December 31 consists of:

<i>(In thousands pesos)</i>	Note	2017	2016
Customers' deposits	21, 31, 32	P252,426	P274,330
Unredeemed gift certificates		89,840	102,276
Loyalty and rewards		85,730	88,450
Output VAT - net		32,251	48,368
Promotion fund		19,997	13,403
Others	31, 32	25,163	15,716
		P505,407	P542,543

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

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

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

Others include cash bond withheld from each cashier to compensate for any possible cash shortages in the Group's retail store.

20. Cost of Sales

This account for the years ended December 31 consists of:

Cost of Goods Sold

<i>(In thousands pesos)</i>	2017	2016	2015
Beginning inventory	P19,792,366	P16,740,693	P13,921,685
Transfer-in	-	-	2,441,804
Purchases	121,348,157	108,825,535	95,711,852
Overhead costs	564,930	553,558	495,071
Total goods available for sale	141,705,453	126,119,786	112,570,412
Ending inventory	21,194,691	19,792,366	16,740,693
	P120,510,762	P106,327,420	P95,829,719

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

<i>(In thousands pesos)</i>	Note	2017	2016	2015
Freight - in		P336,611	P352,494	P303,334
Depreciation and amortization	12	162,722	140,352	129,592
Throughput fees	25	30,000	30,000	30,000
Brokers' and other fees		15,880	13,376	17,297
Filling costs		14,888	15,162	11,629
Other overhead cost		4,830	2,174	3,219
		P564,930	P553,558	P495,071

Transfer-in pertains to the beginning inventory of acquired subsidiaries during the year.

Cost of Services

<i>(In thousands pesos)</i>	Note	2017	2016	2015
Utilities		P357,787	P383,928	P399,621
Depreciation	12, 13, 34	184,159	153,147	202,322
Taxes and licenses		86,795	84,483	78,079
Security services		83,439	73,720	80,434
Janitorial services		49,469	39,515	40,538
Repairs and maintenance		47,125	46,692	50,598
Rentals	21	37,362	32,774	41,627
Management fees		29,568	42,238	27,816
Insurance		18,104	8,792	7,578
Salaries and wages		18,035	14,893	15,713
Amusement tax		1,970	1,943	3,907
Retirement benefit cost		664	170	-
Operator services		-	2,460	2,541
Others		2,986	3,150	7,989
		P917,463	P887,905	P958,763

21. Lease Agreements

As Lessor

The Group leases out its investment properties to various lessees. These non-cancellable leases have lease terms of up to twenty five (25) years. Some of the leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease agreements, among others, include customers' deposits. These deposits shall answer for any unpaid obligations of the lessee to the Group including damages to the leased properties. Customers' deposits, which are carried at amortized cost, are non-interest bearing and refundable upon termination of the lease agreement, provided that there is no outstanding charges against the tenant. Customers' deposits amounted to P301.13 million and P253.90 as at December 31, 2017 and 2016, respectively. These are included under "Other noncurrent liabilities" account in the consolidated statements of financial position.

Customers' deposits are recognized initially at fair value and subsequently carried at amortized cost. The fair values of customers' deposits are determined using risk-free interest rates. The difference between the fair value and original amounts of customers' deposits amounted to P121.09 million and P127.13 million as at December 31, 2017 and 2016, respectively, and are accounted under "Other noncurrent liabilities" account in the consolidated statements of financial position. These are amortized on a straight-line basis.

Rent income is accounted on a straight-line basis over the lease term. The excess of the total lease income over rental collections amounted to P582.69 million and P530.64 million as at December 31, 2017 and 2016, respectively, and are accounted under "Other noncurrent assets" account in the consolidated statements of financial position (see Note 16).

Rent income recognized as part of "Services" account in profit or loss amounted to P1,614.64 million, P1,778.29 million and P1,848.04 million in 2017, 2016 and 2015, respectively (see Note 13).

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

<i>(In thousands pesos)</i>	2017	2016	2015
Due within one year	P467,283	P675,624	P539,736
Due more than one year but not more than five years	1,875,070	1,098,879	212,455
Due more than five years	2,074,126	3,064,695	2,479,500
	P4,416,479	P4,839,198	P3,231,691

The retail segment of the Group subleases portion of its store space to various lessees for an average lease term of one (1) to ten (10) years. The lease contracts may be renewed upon mutual agreement by the parties. Rental payments are computed either based on monthly sales or a certain fixed amount, whichever is higher. Upon inception of the lease agreement, tenants are required to pay certain amounts of deposits. Tenants likewise pay a fixed monthly rent which is shown under "Other current liabilities" account in the consolidated statements of financial position (see Note 19).

Rent income recognized as part of "Other Operating Income" account in profit or loss amounted to amount P388.65 million, P377.28 million and P370.81 million, respectively (see Note 23).

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

<i>(In thousands pesos)</i>	2017	2016	2015
Due within one year	P186,083	P213,715	P221,219
Due more than one year but not more than five years	237,501	257,952	296,252
Due more than five years	100,984	148,073	167,316
	P524,568	P619,740	P684,787

As Lessee

The Group enters into lease agreements for the Group's retail stores, warehouses, corporate office spaces, equipment, plant facilities and refilling stations. These leases have terms ranging from one (1) to fifty (50) years and generally provide for either: (a) fixed amounts which are calculated either fixed monthly rent or is calculated in reference to a fixed sum per square meter of area leased based on the contracts; or (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Certain leases include a clause to enable upward revision on the rental charge on an annual basis based on prevailing market conditions.

The Group is required to pay advance rental payments and security deposits on the above leases which are either fixed monthly rent or are calculated in reference to a fixed sum per square meter of area leased. These are shown under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, in the consolidated statements of financial position (see Notes 10 and 16).

Rent expense is accounted on a straight-line basis over the lease term. The excess of the total rent expense over the rental payments amounting to P2,412.14 million and P2,152.33 million as at December 31, 2017 and 2016, respectively, are accounted for under "Other noncurrent liabilities" in the consolidated statements of financial position.

Rent expense charged as at December 31 are as follows:

<i>(In thousands pesos)</i>	Note	2017	2016	2015
Cost of services	20	P37,362	P32,774	P41,627
Operating expenses	23	2,375,871	2,196,065	1,863,394
		P2,413,233	P2,228,839	P1,905,021

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

<i>(In thousands pesos)</i>	2017	2016	2015
Due within one year	P1,787,121	P1,634,856	P1,485,904
Due more than one year but not more than five years	7,203,212	6,038,491	4,534,239
Due more than five years	28,062,979	26,233,968	24,539,387
	P37,053,312	P33,907,315	P30,559,530

22. Other Operating Income

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	Note	2017	2016	2015
Concession income		P1,647,845	P1,517,080	P1,386,648
Display allowance		652,853	615,884	531,928
Rent income	21	388,645	379,265	371,262
Membership income		452,974	399,966	361,239
Service income		98,362	151,203	90,099
Listing fee		69,911	70,254	30,958
Commission income		67,567	82,317	43,257
Demo/sampling income		17,206	12,870	8,554
Miscellaneous		185,578	132,987	143,988
		P3,580,941	P3,361,826	P2,967,933

Concession income refers to the share of the Group's retail segment from sale of goods under concession arrangements.

Display allowance refers to the fees received by the Group's retail segment from its suppliers in exchange for an improved and/or additional display of their products in the Group's retail stores, such as endcap spaces or mass displays.

Membership income refers to the fees paid by the members of KMC which permits member-customers to avail products and services of KMC. KMC operates 'S&R Membership Shopping' stores in the Philippines.

Rent income refers to the income earned by the Group's retail segment for the store spaces leased by its tenants.

Service income pertains to income generated from promotional activities.

Listing fees refers to the fee charged by the Group's retail segment to its suppliers for the enrollment of their products in the classified business line.

Commission income is earned by the Group's liquor distribution segment from intermediating between local distributors of wines and liquors and foreign suppliers.

Demo/sampling income refers to the fees paid by KMC's suppliers in exchange for a privilege which allows their representatives to conduct in-store demos and/or sampling inside the selling areas.

Miscellaneous account consists of amounts collected from the customers for delivering their purchases, cashiers' overages, sale of used packaging materials and others.

23. Operating Expenses

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016	2015
Manpower agency		P2,509,972	P2,138,732	P1,820,179
Rent	21	2,375,871	2,196,065	1,863,394
Salaries and wages		2,152,204	1,911,550	1,674,066
Communication, light and water		1,952,586	1,721,292	1,644,044
Depreciation and amortization	12, 14, 33	1,703,223	1,494,847	1,330,641
Outside services		1,519,908	1,364,839	1,188,292
Taxes and licenses		703,329	575,972	492,778
Store and office supplies		556,194	483,352	445,762
Advertising and marketing		524,284	322,057	274,977
Concession expense		503,476	477,642	475,969
Repairs and maintenance		393,479	402,930	352,351
Distribution costs		330,494	203,530	201,271
Insurance		204,470	192,353	163,069
Retirement benefits cost	26	158,377	132,707	111,792
Transportation		140,532	130,392	125,555
SSS/Medicare and HDMF contributions		139,091	118,674	102,634
Input VAT allocable to exempt sales		110,968	93,803	81,816
Representation and entertainment		85,283	80,910	126,298
Fuel and oil		57,937	45,918	42,815
Professional fee		46,380	49,782	31,206
Royalty expense	25	46,332	42,220	37,211
Impairment loss on receivables	6	128	-	11,294
Deficiency tax		-	51,390	-
Others		211,791	295,165	278,264
		P16,426,309	P14,526,122	P12,875,678

24. Others

This account for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	<i>Note</i>	2017	2016	2015
Unrealized valuation gain (loss) on investments in trading securities	8	P11,779	P676	(P3,853)
Gain (loss) on disposal of property and equipment		206	377	(3,887)
Share in net loss of joint ventures and associates	11	(132,872)	(62,521)	(9,135)
Bank charges		(36,735)	(39,754)	(30,149)
Foreign exchange loss		(23,468)	(19,353)	(18,855)
Gain (loss) on insurance claim		(14,268)	-	38,722
Parking fee		-	-	15,684
Reimbursement of expenses		-	790	-
Miscellaneous		116,488	79,687	51,714
		(P78,870)	(P40,098)	P40,241

Reimbursements of expenses pertain to recovery of expense charged by the Group's retail segment for promoting the products of its major suppliers.

Gain (loss) on insurance claim represents the net of the insurance proceeds received over the cost of the inventories and machineries damaged by flood and fire.

25. 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
Under Common Control							
▪ Advances	2017	25a	P24,570	P26,328	P387,850	Due and demandable;	Unsecured
	2016	25a	86,871	184,006	395,307	non-interest bearing	
▪ Management fees	2017	25d	23,183	-	-	Due and demandable;	Unsecured
	2016	25d	23,896	-	-	non-interest bearing	
▪ Rent income	2017	25e	125,909	-	-	Due and demandable;	Unsecured
	2016	25e	125,909	-	-	non-interest bearing	
▪ Rent expense	2017	25f	24,000	-	-	Due and demandable;	Unsecured
	2016	25f	25,030	-	-	non-interest bearing	
Associates							
▪ Throughput fees	2017	25b	30,000	-	8,572	Outstanding balance is settled in cash within a month after the end of each quarter;	Unsecured
	2016	25b	30,000	-	8,975		
▪ Concession expense	2017	25c	503,476	-	-	Due and demandable;	Unsecured
	2016	25c	477,642	-	-	non-interest bearing	
Key Management Personnel							
▪ Advances	2017	25a	32,790	48,026	453,350	Due and demandable;	Unsecured
	2016	25a	670,000	1,130	215,510	non-interest bearing	
▪ Royalty expense	2017	25g	46,332	-	37,066	Due and demandable;	Unsecured
	2016	25g	42,220	-	33,777	non-interest bearing	
▪ Short-term benefits	2017		13,492	-	-		
	2016		124,593	-	-		
Total	2017			P74,354	P886,838		
Total	2016			P185,136	P653,569		

a. Advances

The Group obtained from/extended to its affiliates and key management personnel cash advances for working capital requirements.

b. Throughput Agreement

On December 15, 2000, the Group thru LPC, together with its co-joint venture in MJVC, as "Users", entered into a throughput agreement (TA) with MJVC and PLBRC. Under the TA, MJVC will provide the services to enable basis, each of the users to load and off-load products from vessels and receive products from MJVC's storage facilities. LPC, as the User, shall pay the services and annual fees based on a certain formula agreed upon under the TA. The fee shall be shared between the users based on the actual tonnage off-loaded or loaded from and to ships. The term of the agreement is for 25 years and shall expire on December 15, 2025.

Throughput fees are shown as part of "Cost of Sales" in the consolidated statements of comprehensive income.

c. On September 27, 2006, PSMT Philippine, Inc. (PriceSmart), referred to as the "Consignee," an entity under common control, entered into a consignment and concession contract with the Group thru KMC, referred to as the "Consignor." The Consignee is the owner and operator of four (4) Warehouse, (1) Fort Bonifacio Global City, Taguig City, Metro Manila; (2) Congressional Avenue, Bago-Bantay, Quezon City; (3) Aseana Business Park, Brgy. Tambo, Paranaque City; and (4) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment presently situated therein.

Under the contract, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) stores.
- The Consignor shall give the Consignee a trade or volume discount of its gross sales.
- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.
- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) stores whichever is later, renewable upon mutual agreement of the parties.
- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to fifteen percent (15%) of the consignee's gross sales which was decreased to ten percent (10%) through an amendment of the contract on January 1, 2011. On February 23, 2012, the contract was further amended giving the consignee a trade or volume discount of five percent (5%) of the consignee's gross sales.

On February 23, 2012, a new agreement was made between the Consignor and Consignee. Under the new agreement, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignor shall pay the Consignee four percent (4%) monthly consignment/concession fee based on the Consignor's monthly gross sales.
 - Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.
 - Ownership of the goods delivered to the Consignor at the stores shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.
 - The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.
- d. The Group entered into a management agreement with Puregold Realty Leasing and Management, Inc. (PRLMI), an entity under common control. Under the agreement, PRLMI shall handle the leasing and marketing, billing and collection, documentation, and property management services of the properties owned by the realty segment of the Group. In consideration of such services, the Group shall pay monthly management fee to PRLMI equivalent to 5.0% to 8.5% of rental collected by PRLMI. The agreement is valid for a year, and is renewable upon mutual agreement of both parties.
- e. The Group and PriceSmart entered into lease agreement for the rental of land. The term of the lease is twenty three (23) years and renewable under such terms and conditions that shall be agreed upon by the parties.
- f. The Group entered into lease agreement with Union Equities, Inc., an entity under common control. The lease covers a parcel of land where the Group's Sariaya Facilities are located. The term of the lease is for 10 years commencing on December 16, 2015 and may be terminated by the Group at any time with cause and prior notice to the lessor.
- g. On August 15, 2011, PPCI ("licensee") entered into a license agreement with a stockholder ("licensor") for its use of trademark and logo. The licensee will pay the licensor royalties in an amount equivalent to 1/20 of 1% of net sales for the period of thirty (30) years, renewable upon mutual written consent of the parties. These royalty fees and payables are unsecured, non-interest bearing and due and demandable.

Amounts owed by and owed to related parties are to be settled in cash.

Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation in 2017 and 2016 are as follows:

a. Advances from the Parent Company to its subsidiaries

<i>(In thousands pesos)</i>	Outstanding Balance
2017	P9,531,783
2016	9,873,142

These advances are unsecured and with various terms. These are payable in cash.

Interest income from these advances amounted to P20.57 million and P24.6 million in 2017 and 2016, respectively.

b. Advances from subsidiaries to their fellow subsidiaries

<i>(In thousands pesos)</i>	Outstanding Balance
2017	P296,512
2016	209,637

These advances are unsecured and with various terms. These are payable in cash.

Interest income from these advances amounted to P770 in 2017.

c. Sale of goods of the subsidiaries within the Group

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P1,972,635	P597,635
2016	1,562,470	420,394

Receivables from sale of goods are non-interest bearing are generally on a 30 days credit terms.

d. Sale of services of the subsidiaries within the Group

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P582,570	P82,414
2016	532,215	43,790

Receivables from sale of services are unsecured, non-interest bearing are generally on a 30 days credit terms.

- e. Dividend income received by the Parent Company from dividends declared by its subsidiaries

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P1,064,347	P1,739,347
2016	723,103	1,248,023

Cash dividends are due on payment date.

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

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P78	P56
2016	80	80

Cash dividends are due on payment date.

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

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P24,501	P40,426
2016	19,536	19,535

Cash dividends are due on payment date.

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

<i>(In thousands pesos)</i>	Amount of Transactions	Outstanding Balance
2017	P110,000	P142,000
2016	200,000	182,000

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

26. Retirement Benefit Costs

The Group has an unfunded, non-contributory, defined benefit plan covering all of its permanent employees. The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. Valuations are obtained on a periodic basis.

The retirement benefits liability recognized in the consolidated statements of financial position as at December 31 are as follows:

<i>(In thousands pesos)</i>	2017	2016
Present value of defined benefits obligation	P618,300	P538,453
Fair value of plan assets	(25,913)	(25,000)
	P592,387	P513,453

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

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P538,453	P504,825
Included in profit or loss		
Current service cost	125,920	101,720
Interest cost	29,035	26,069
Past service cost	5,831	6,333
	160,786	134,122
Included in other comprehensive income		
Remeasurements gain:		
Financial assumptions	(40,467)	(58,260)
Experience adjustments	(38,596)	(28,933)
	(79,063)	(87,193)
Benefits paid	(1,876)	(13,567)
Effect of business combination	-	266
Balance at end of year	P618,300	P538,453

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

<i>(In thousands pesos)</i>	2017	2016
Balance at beginning of year	P25,000	P25,000
Interest income	1,425	1,245
Return on plan asset excluding interest	(512)	(1,245)
Balance at end of year	P25,913	P25,000

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

<i>(In thousands pesos)</i>	2017	2016
Cash in banks	P2,033	P3,091
Debt instruments - government bonds	23,648	21,706
Trust fees payable	(13)	(13)
Other	245	216
	P25,913	P25,000

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

	2017	2016
Discount rate	5.29% to 5.70%	5.29% to 5.70%
Future salary increases	3.00% to 8.00%	3.00% to 8.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 25.8 years.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

2017

<i>(In thousands pesos)</i>	Increase	Decrease
Discount rate (1% movement)	(P141,076)	P110,151
Future salary increase rate (1% movement)	125,099	(104,120)

2016

<i>(In thousands pesos)</i>	Increase	Decrease
Discount rate (1% movement)	(P128,039)	P99,486
Future salary increase rate (1% movement)	112,926	(93,857)

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

Funding Arrangements

Since the Group does not have a formal retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

Maturity analysis of the benefit payments:

<i>(In thousands pesos)</i>	2017				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P618,300	P176,287	P25,637	P26,616	P124,034

<i>(In thousands pesos)</i>	2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P538,453	P154,869	P21,592	P37,838	P95,439

Multi-employer Retirement Plan

On February 17, 2014, the PPCI entered into a multi-employer retirement plan agreement with a trust company. PPCI made an initial cash contribution of P25 million pesos.

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Company's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

The Group does not expect to contribute to the plan in 2017.

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 2018.

27. Income Taxes

The income tax expense for the years ended December 31 consists of:

<i>(In thousands pesos)</i>	2017	2016	2015
Current tax	P3,216,409	P2,842,064	P3,017,788
Deferred tax	74,662	245,988	(200,674)
	P3,291,071	P3,088,052	P2,817,114

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense as shown in profit or loss for the years ended December 31 is as follows:

<i>(In thousands pesos)</i>	2017	2016	2015
Income before income tax	P11,124,386	P10,557,445	P9,804,356
Income tax expense at the statutory income tax rate:			
30%	P3,439,307	P3,294,853	P3,243,211
5%	12,833	15,845	7,613
Income tax effects of:			
Nondeductible other expenses	6,368	34,121	1,301
Changes in unrecognized DTA	1,245	10,998	73,268
Non-deductible interest expense	7,291	10,268	10,159
Nondeductible expense	164,576	1,146	35,928
Dividend income exempt from final tax	(150,407)	(223,048)	(358,095)
Interest income subjected to final tax	(12,223)	(31,600)	(31,007)
Deduction from gross income due to availment of optional standard deduction	(170,482)	(21,720)	(23,199)
Share in net income of an associate	(953)	(1,779)	(791)
Non-taxable rental income	(2,735)	(1,032)	(95)
Recognition of unrecognized DTA	-	-	(113,768)
Expired NOLCO	-	-	(10,860)
Non-taxable income-net subjected to final tax	(3,749)	-	(16,250)
Dividend income subjected to final tax	-	-	(301)
	3,291,071	P3,088,052	P2,817,114

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:

<i>(In thousands pesos)</i>	2017	2016
	DTA (DTL)	DTA (DTL)
Accrued rent expense	P1,039,731	P955,296
Retirement benefits liability	227,447	183,910
Allowance for impairment losses on receivables	41,916	42,011
NOLCO	4,610	1,381
Advanced rentals	1,653	2,909
Unrealized foreign exchange loss	617	500
Recognition of DTA	117	101
Actuarial losses	3	(500)
Provision for gas cylinders	-	510
DTA	1,316,094	1,186,118
Fair value of intangible assets from business combination	(1,379,734)	(1,379,734)
Accrued rent income	(448,013)	(398,328)
Remeasurement on retirement liability	(50,358)	(22,278)
Prepaid rent	(113,791)	(20,136)
Borrowing cost	(4,535)	-
Unrealized foreign exchange gain	(121)	(988)
DTL	(1,996,552)	(1,821,464)
Net	(P680,458)	(P635,346)

The realization of these deferred tax assets is dependent upon future taxable income that temporary differences and carry forward benefits are expected to be recovered or applied. Deferred tax expense recognized in other comprehensive income pertains to the remeasurements of the retirement benefit liability.

The Group has temporary differences for which deferred tax assets were not recognized because management believes that it is not probable that sufficient taxable profits will be available against which the benefits of the deferred taxes can be utilized:

The unrecognized deferred tax assets as at December 31 are as follows:

<i>(In thousands pesos)</i>	2017	2016
NOLCO	P85,749	P76,682
MCIT	11,831	9,528
	P97,580	P86,210

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
2012	P22,654	(P22,654)	P -	2015
2013	376,230	(376,230)	-	2016
2014	104,037	(104,037)	-	2017
2015	471,225	-	471,225	2018
2016	261,275	-	261,275	2019
2017	130,158	-	130,158	2020
	P1,365,579	(P502,921)	P862,658	

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
2012	P2,612	(P2,612)	P -	2015
2013	1,316	(1,316)	-	2016
2014	2,569	(2,569)	-	2017
2015	4,071	-	4,071	2018
2016	9,512	-	9,512	2019
2017	3,593	-	3,593	2020
	P23,673	(P6,497)	P17,176	

28. Equity

Capital Stock

The details of the Parent Company's common shares follow:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - P1.00 par value	10,000,000,000	P10,000,000	10,000,000,000	P10,000,000
Issued and outstanding				
Issued	7,405,263,564	P7,405,264	7,405,263,564	P7,405,264
Less: Treasury shares	(288,081,290)	(288,081)	(274,083,590)	(274,084)
Outstanding	7,117,182,274	P7,117,183	7,131,179,974	P7,131,180
Treasury shares				
Balance at beginning of year	274,083,590	P523,865	263,576,290	P440,507
Share buyback	13,997,700	104,338	10,507,300	83,358
Balance at end of year	288,081,290	P628,203	274,083,590	P523,865

Treasury Shares

On December 18, 2014, the Parent Company's BOD approved to buy back its common shares up to P1 billion within one year from the approval. This aims to enhance the shareholders' value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Parent Company as not reflective of its fair corporate value. In 2017 and 2016, the Parent Company renewed its program to buy back its shares for another year.

Of the total shares sold to the public, 43,842,300 and 29,854,600 common shares were reacquired by the Group as at December 31, 2017 and 2016, respectively.

Retained Earnings

Declaration of Cash Dividends

In 2017, 2016 and 2015, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividends Per Share
Cash	December 18, 2015	January 8, 2016	January 18, 2016	P0.06
Cash	December 18, 2015	January 8, 2016	January 18, 2016	0.02
Cash	December 22, 2016	January 12, 2017	January 20, 2017	0.06
Cash	December 22, 2016	January 12, 2017	January 20, 2017	0.02
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.06
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.04

As of December 31, 2017 and 2016, total unpaid cash dividends on common shares amounting to P1.20 billion and P1.35 billion, respectively, are included as part of as "Accounts payable and accrued expenses" in the consolidated statements of financial position (see Note 17).

Appropriation of Retained Earnings

LPC

On March 29, 2016, LPC's BOD approved an appropriation of retained earnings amounting to P450.0 million (P45.0 million - attributable to NCI) for the construction of LPG South Terminal located in Sariaya, Quezon which was expected to be completed in 2017. The first phase of the project includes the rehabilitation of the existing 5,100-metric-ton capacity storage tanks while the second phase of the project is the expansion of its storage capacity for an additional 12,000 metric tons.

On October 30, 2017, LPC's BOD approved the proposal to revise the current level of appropriated retained earnings for the rehabilitation of the said terminal by approving additional appropriation amounting to P400.0 million (P40.0 million - attributable to NCI). The revised completion date of the project will be in 2018.

KMC

On December 21, 2016, KMC's BOD approved an appropriation of retained earnings amounting to P2.7 billion (P1.3 billion - attributable to NCI) to finance the construction of four (4) 'S&R Membership Shopping' stores and twelve (12) 'S&R New York Style Pizza' quick service restaurants (QSRs). In 2017, the said appropriation was reversed.

On December 15, 2017, KMC's BOD approved an appropriation of retained earnings amounting to P4.7 billion (P2.3 billion - attributable to NCI) to finance the construction of six (6) new stores and twelve (12) QSRs.

The expansion project is expected to be completed in a period of two (2) years.

NPSCC

On December 10, 2016, NPSCC's BOD approved an appropriation of retained earnings amounting P10.0 million to finance the purchase of new software. The appropriated amount is expected to be utilized within 5 years.

On December 10, 2017, NPSCC's BOD approved an appropriation of retained earnings amounting P70.0 million to finance the improvements in the NE Pacific Mall. The appropriated amount is expected to be utilized within 30 years.

The appropriated retained earnings attributable to the equity holders of the Parent Company as at December 31, 2017 and 2016 amounted to P4.62 billion and P1.79 billion, respectively.

Non-controlling Interests

For the years ended December 31, 2017, 2016 and 2015, movements in NCI pertain to the share in net earnings of and dividends paid to non-controlling shareholders, and NCI on business combinations.

The following table summarizes the financial information of subsidiaries that have material non-controlling interests:

<i>(In thousands pesos)</i>	2017				2016			
	PPCI	LPC	CHC	CPHI	PPCI	LPC	CHC	CPHI
NCI percentages	49%	10%	10%	10%	49%	10%	10%	10%
Carrying amounts of NCI	P23,501,309	P317,393	P10,194	P593	P21,154,073	P2,732	P10,202	P523
Current assets	P31,556,445	P2,120,921	P2,913	P23	P27,801,590	P1,617,493	P2,963	P23
Noncurrent assets	39,905,913	2,711,600	3,528,451	43,816	37,581,124	1,981,876	3,528,451	42,352
Current liabilities	17,461,565	1,634,254	3,429,418	37,913	16,063,776	873,016	3,429,395	36,951
Noncurrent liabilities	6,038,937	24,328	-	-	6,147,359	21,878	-	-
Net assets	P47,961,856	P3,173,939	P101,946	P5,927	P43,171,579	P2,704,475	P102,019	P5,424
Net income attributable to NCI	P2,861,704	P28,925	P5	P50	P2,707,853	P27,319	P6	P152
Other comprehensive attributable to NCI	P26,629	(P584)	P -	P -	P30,956	(P226)	P -	P -
Revenue	P124,491,024	P13,128,497	P1,464	P1,464	P112,589,366	P8,926,568	P3	P2,048
Net income (loss)	P5,840,212	P469,202	(P52)	P502	P5,526,230	P273,187	(P59)	P1,516
Other comprehensive income (loss)	54,345	(5,840)	-	-	63,175	(2,262)	-	-
Total comprehensive income (loss)	P5,894,557	P463,362	(P52)	P502	P5,589,405	P270,925	(P59)	P1,516
Net cash flows provided by (used in):								
Operating	P7,870,357	P391,638	(P50)	P24	P2,699,997	P10,898	P3	P24
Investing	(4,035,979)	(923,700)	50	-	(3,130,992)	(805,018)	-	-
Financing	(2,184,614)	369,043	-	-	600,385	-	-	-
Net increase (decrease) in cash and cash equivalents	P1,649,764	(P163,019)	P -	P24	P169,390	(P794,120)	P3	P24

This information is based on amounts before inter-company eliminations.

29. Segment Information

Segment information reported externally was analyzed on the basis of types of goods supplied and services provided by the Group's operating divisions. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of goods or services delivered or provided. The Group's reportable segments are as follows:

Retail	Includes selling of purchased goods to a retail market
Specialty retail	Includes selling of office supplies both on wholesale and retail business and import, export, storage and transshipment of LPG, filling and distributions of LPG cylinders as well as distributions to industrials, wholesale and other customers.
Liquor distribution	Includes selling of purchased goods based on a distributorship channel to a wholesale market
Real estate and property leasing	Includes real estate activities such as selling and leasing of real properties
Oil and mining	Includes exploration, development and production of oil, gas, metallic and nonmetallic reserves

The following segment information does not include any amounts for discontinued operations.

Information regarding the Group's reportable segments is presented hereunder:

Segment Revenue and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

(In thousands pesos)	Segment Revenues			Segment Profit		
	2017	2016	2015	2017	2016	2015
Grocery retail	P124,491,024	P112,589,366	P97,171,520	P5,840,212	P5,526,230	P5,001,872
Specialty retail	14,953,360	10,461,156	13,156,565	528,199	337,935	508,245
Liquor distribution	6,662,915	5,903,677	5,676,831	628,232	581,362	659,633
Real estate and property leasing	2,197,208	2,325,509	2,422,604	971,732	1,022,806	1,027,891
Holding oil and mining	528	1,177	1,987	953,756	743,781	973,987
Total	148,305,035	131,280,885	118,429,507	8,922,131	8,212,114	8,171,628
Eliminations	2,549,245	2,094,685	1,677,324	1,088,848	742,720	1,184,385
	P145,755,790	P129,186,200	P116,752,183	P7,833,283	P7,469,394	P6,987,243

Revenue reported above represents revenue generated from external customers and inter-segment sales broken down as follows:

<i>(In thousands pesos)</i>	2017	2016
Grocery retail		
From external customers	P124,491,023	P112,589,366
Specialty retail		
From external customers	14,949,102	10,458,999
From intersegment sales	4,258	3,158
	14,953,360	10,462,157
Liquor distribution		
From external customers	4,694,538	4,344,365
From inter-segment sales	1,968,377	1,559,312
	6,662,915	5,903,677
Real estate and property leasing		
From external customers	1,620,599	1,793,294
From intersegment sales	582,570	532,215
	2,203,169	2,325,509
Oil and mining		
From external customers	528	1,177
Total revenue from external customers	P145,755,790	P129,187,201
Total intersegment revenue	P2,555,205	P2,094,685

No single customer contributed 10% or more to the Group's revenue for the years ended December 31, 2017 and 2016.

The Group's reportable segments are all domestic operations.

Segment Assets and Liabilities

Below is the analysis of the Group's segment assets and liabilities:

<i>(In thousands pesos)</i>	2017	2016
Segment Assets		
Grocery retail	P71,462,359	P65,382,714
Specialty retail	5,500,231	4,181,844
Liquor distribution	6,069,221	5,357,380
Real estate and property leasing	24,083,318	22,855,131
Oil and mining	97,498,623	97,291,932
Total segment assets	204,613,752	195,069,001
Intercompany assets	91,907,084	91,648,804
Total assets	P112,706,668	P103,420,197
Segment Liabilities		
Grocery retail	P23,500,503	P22,211,135
Specialty retail	1,942,052	1,295,232
Liquor distribution	2,434,362	2,196,680
Real estate and property leasing	9,303,643	8,519,401
Oil and mining	9,431,182	9,338,029
Total segment liabilities	46,611,742	43,560,477
Intercompany liabilities	12,382,182	11,928,518
Total liabilities	P34,229,560	P31,631,959

30. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

<i>(In thousands pesos)</i>	2017	2016	2015
Net income attributable to equity holders of the Parent Company (a)	P4,924,615	P4,734,101	P4,490,644
Weighted average number of common shares (b)	7,129,817,457	7,136,692,757	7,148,662,605
Basic/diluted EPS (a/b)	P0.69	P0.66	P0.63

There were no potential dilutive common shares in 2017, 2016 and 2015.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

31. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market 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. Outstanding amounts are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands pesos)</i>	December 31, 2017			
	Neither Past Due nor impaired	Past Due but not Impaired	Impaired	Total
Loans and Receivables				
Cash and cash equivalents ⁽¹⁾	P14,387,541	P -	P -	P14,387,541
Receivables	5,585,612	2,181,654	134,420	7,901,686
Due from related parties	74,354	-	-	74,354
Security deposits ⁽²⁾	1,658,440	-	-	1,657,315
Financial Assets at FVPL				
Investments in trading securities	46,888	-	-	46,888
AFS Investments				
Investments in debt securities	7,262	-	-	7,262
Investments in shares of stock				
Quoted	6,931	-	-	6,931
Unquoted	2,304	-	-	2,304
	P21,769,332	P2,181,654	P134,420	P24,084,281

⁽¹⁾ Excluding cash on hand amounting to P965.56 million.

⁽²⁾ Included as part of "Other noncurrent assets".

<i>(In thousands pesos)</i>	December 31, 2016			
	Neither Past Due nor impaired	Past Due but not Impaired	Impaired	Total
Loans and Receivables				
Cash and cash equivalents ⁽¹⁾	P11,759,821	P -	P -	P11,759,821
Short-term investments	909,929	-	-	909,929
Receivables	4,918,570	1,752,296	134,839	6,805,705
Due from related parties	185,136	-	-	185,136
Security deposits ⁽²⁾	1,531,843	-	-	1,531,843
Financial Assets at FVPL				
Investments in trading securities	35,109	-	-	35,109
AFS Investments				
Investments in debt securities	7,262	-	-	7,262
Investments in shares of stock				
Quoted	6,512	-	-	6,512
Unquoted	2,304	-	-	2,304
	P19,356,486	P1,752,296	P134,839	21,243,621

⁽¹⁾ Excluding cash on hand amounting to P874.64 million.

⁽²⁾ Included as part of "Other noncurrent assets".

The Group has assessed the credit quality of the following financial assets that are neither past due nor impaired as high grade:

- a. Cash in banks and cash equivalents and short-term investments were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit risk for investment in debt securities are considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.
- b. Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- c. Due from related parties and security deposits were assessed as high grade since these have a high probability of collection and there is no history of default.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

December 31, 2017					
<i>(In thousands pesos)</i>	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
Other Financial Liabilities					
Accounts payable and accrued expenses ⁽¹⁾	P13,180,435	P13,180,435	P13,176,344	P -	P -
Short-term loans	5,562,500	5,562,500	5,562,500	-	-
Due to related parties	849,772	849,772	849,772	-	-
Long-term debts ⁽²⁾	7,225,612	8,349,818	2,745,807	4,616,045	987,966
Customers' deposits ⁽³⁾	252,426	252,426	252,426	-	-
	P27,070,745	P28,194,951	P22,586,849	P4,616,045	P987,966

⁽¹⁾ Excluding due to government agencies.

⁽²⁾ Including current and non-current portion.

⁽³⁾ Included as part of "Other current liabilities".

December 31, 2016					
<i>(In thousands pesos)</i>	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
Other Financial Liabilities					
Accounts payable and accrued expenses ⁽¹⁾	P11,185,860	P11,185,860	P11,185,860	P -	P -
Short-term loans	5,362,500	5,362,500	5,362,500	-	-
Due to related parties	690,335	690,335	690,335	-	-
Long-term debts ⁽²⁾	7,387,939	9,239,329	913,799	7,277,487	1,048,043
Customers' deposits ⁽³⁾	274,330	274,330	274,330	-	-
	P24,900,964	P28,752,354	P18,426,824	P7,277,487	P1,048,043

⁽¹⁾ Excluding due to government agencies.

⁽²⁾ Including current and non-current portion.

⁽³⁾ Included as part of "Other current liabilities".

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices that will adversely affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company is subject to various market risks, including risks from changes in foreign currency risk, interest rate risk and equity price risk.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Company's exposure to the risks for changes in market interest rates relates mainly to the Group's loan payables (both short-term loans and long-term debts). The Group manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Group does not have significant interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk relates primarily to the Group's foreign currency-denominated monetary assets and liabilities. The currencies in which these transactions are primarily denominated are United States dollar (USD), Singaporean dollar (SGD), British pound (GBP), Australian dollar (AUD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2017					PHP
<i>(In thousands)</i>	USD	SGD	GBP	AUD	EUR	Equivalent
Foreign Currency-Denominated Monetary Assets						
Cash	596	-	-	-	-	29,766
Trade receivables	3,397	-	-	-	6	169,962
	3,993	-	-	-	6	199,728
Foreign Currency-Denominated Monetary Liabilities						
Trade payable	8,792	36	22	126	893	499,971
Net Foreign Currency-Denominated Monetary Liabilities	(4,799)	(36)	(22)	(126)	(887)	(300,243)

<i>(In thousands)</i>	December 31, 2016					PHP
	USD	SGD	GBP	AUD	EUR	Equivalent
Foreign Currency-Denominated Monetary Assets						
Cash	881	-	-	-	-	43,905
Trade receivables	2,208	-	-	-	-	110,001
	3,089	-	-	-	-	153,906
Foreign currency-denominated monetary liabilities						
Trade payable	1,432	52	-	242	2,155	193,522
Net Foreign Currency-Denominated Monetary Assets (Liabilities)	1,657	(52)	-	(242)	(2,155)	(39,616)

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2017	2016
USD	49.93	49.81
SGD	37.32	34.35
GBP	67.12	60.87
AUD	38.91	35.78
EUR	59.61	51.84

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

<i>(In thousands pesos)</i>	December 31, 2017	
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P8,386 decrease
SGD	7%	65 decrease
GBP	10%	105 decrease
AUD	3%	103 decrease
EUR	9%	3,354 decrease

<i>(In thousands pesos)</i>	December 31, 2016	
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	1%	P578 increase
SGD	5%	63 decrease
AUD	7%	424 decrease
EUR	3%	2,346 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

Equity Price Risk

Equity price risk is the risk that the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The Group is exposed to equity price risk because of equity securities held as financial assets at FVPL and AFS investments by the Group.

The table below shows the sensitivity to a reasonably possible change in equity prices, with all other variables held constant, of the Group's equity securities due to changes in their carrying values.

<i>(In thousands pesos)</i>	Percentage Increase (Decrease) in Equity Price	Effect in Total Comprehensive Income
2017	25%	P13,455 increase
2016	(2%)	P832 decrease

The sensitivity range is based on the historical volatility of the Philippine Stock Exchange index (PSEi) for the past year. A movement in the opposite direction would increase/decrease total comprehensive income by the same amount, on the basis that all other variables remains constant.

Capital Management

The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group's President has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group defines capital as paid-up capital, remeasurements and retained earnings.

There were no changes in the Group's approach to capital management during the year.

The Parent Company maintains equity at a level that is compliant with its loan covenants.

32. Fair Value of Financial Instruments

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2017 and 2016.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Due from Related Parties

The carrying amounts of cash and cash equivalents, short-term investments, receivables and due from related parties approximate their fair values due to the relatively short-term maturities of these financial instruments.

Security Deposits

The estimated fair value of security deposits is based on the present value of expected future cash flows using the applicable discount rates based on the current market rates of identical or similar types of loans and receivables as at reporting date. The difference between the carrying amount and fair value of security deposits is considered immaterial by management.

Investments in Trading Securities and AFS Financial Assets – Quoted (Level 1)

The fair values of investments in trading securities and quoted AFS financial asset and similar investments are based on quoted market prices in an active market.

AFS Financial Assets - Unquoted

Unquoted AFS financial assets are carried at cost less any allowance for impairment losses because fair value cannot be reliably measured due to the unpredictable nature of cash flows and lack of suitable methods of arriving at a reliable fair value.

Accounts Payable and Accrued Expenses, Short-term Loans, Due to Related Parties and Customers' Deposits

The carrying amounts of accounts payable and accrued expenses, short-term loans, due to related parties and customers' deposits approximate the fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debts

The fair value of long-term debts is based on the discounted value of expected future cash flows using the applicable market rates for similar types of loans as at reporting date. The difference between the carrying amount and fair value of long-term debts is considered immaterial by management.

As at December 31, 2017 and 2016, the Group has no financial instruments valued based on Level 2 and 3. During the year, there were no transfers into and out of Level 3 fair value measurements.

33. Reclassification of Accounts

Certain accounts in 2016 consolidated financial statements have been reclassified to conform with the 2017 consolidated financial statements presentation as follows:

<i>(In thousands pesos)</i>	January 1, 2016		
	As Previously Reported	Reclassification	As Restated
Statement of Financial Position			
Noncurrent assets:			
Property and equipment - net	P16,136,868	P6,421,202	P22,558,070
Investment properties - net	14,843,133	(6,421,202)	9,974,034
Other noncurrent assets	3,125,426	(644,486)	2,480,940
Noncurrent liability			
Other noncurrent liability	2,949,420	(644,486)	2,304,934

<i>(In thousands pesos)</i>	December 31, 2016		
	As Previously Reported	Reclassification	As Restated
Statement of Financial Position			
Noncurrent assets			
Property and equipment - net	P18,662,865	P5,427,209	P24,090,074
Investment properties - net	15,438,016	(5,427,209)	10,010,807
Other noncurrent assets	3,125,426	(821,654)	2,736,901
Noncurrent liability			
Other noncurrent liability	3,355,014	(821,654)	2,533,360
Statement of Comprehensive Income			
Cost of services			
Cost of services	107,273,971	(58,646)	107,215,325
Operating expenses			
Operating expenses	14,467,476	58,646	14,526,122

Owner-occupied properties previously classified as part of "Investment properties - net" has been reclassified to "Property and equipment - net". These pertain to properties owned by the Group's real estate and property leasing segment which are being leased out by the Group's retail segment. Consequently, related depreciation charges were also reclassified from "Cost of services" to "Operating expenses".

Intercompany accrued rent income/expense were offset.



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REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

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

We have audited, in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Cosco Capital, Inc. (the "Company") and Subsidiaries (the "Group") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and have issued our report thereon dated April 12, 2018.

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

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

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and not required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated 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-AR, Group A, valid until June 14, 2020
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-31-2016
Issued October 18, 2016; valid until October 17, 2019
PTR No. 6615157MD
Issued January 3, 2018 at Makati City

April 12, 2018
Makati City, Metro Manila

COSCO CAPITAL, INC. AND SUBSIDIARIES
SEC Supplementary Schedules and Other Documents
December 31, 2017

Table of Contents

<i>Schedule</i>	<i>Description</i>	<i>Page</i>
A	Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	N/A
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	2
D	Intangible Assets - Other Assets	3
E	Long-term Debt	4
F	Indebtedness to Related Parties	N/A
G	Guarantees of Securities of Other Issuers	N/A
H	Capital Stock	5
I	Map of Conglomerate	6
J	Schedule of Philippine Financial Reporting Standards	7
K	Financial Soundness Indicator	16
L	Reconciliation of Retained Earnings Available for Dividend Declaration	17

COSCO CAPITAL, INC. AND SUBSIDIARIES**SCHEDULE A: FINANCIAL ASSETS****December 31, 2017**

(Amounts in thousands pesos)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Investments in trading securities	various	P46,888	P46,888	P11,779 ⁽¹⁾
Available-for-sale financial assets	various			
Investments in debt securities	various	7,262	7,262	1,856 ⁽²⁾
Investments in shares of stock	various			
Quoted	various	6,931	6,931	419 ⁽¹⁾
Unquoted	various	2,304	2,304	-
		P63,385	P63,385	P14,054

⁽¹⁾ This represents Unrealized fair value gains.⁽²⁾ This represents Dividend income.

COSCO CAPITAL, INC. AND SUBSIDIARIES

SCHEDULE C: AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

December 31, 2017

(Amounts in thousands pesos)

Name and designation of debtor	Balance at the beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current
Advances						
Meritus Prime Distributions, Inc.	P50,000	P -	P30,000	P -	P20,000	P -
Montosco, Inc.	524,000	-	290,000	-	234,000	-
Premier Wine and Spiritis, Inc.	191,000	-	-	-	191,000	-
Ellimac Prime Holdings, Inc.	3,651,328	183,026	107,122	-	3,727,232	-
Fertuna Holding Corporation	104,441	-	-	-	104,441	-
Patagonia Holdings Corp.	917,808	-	-	-	917,808	-
Nation Realty, Inc.	300,966	-	-	-	300,966	-
Liquigaz Philippine Corporation	14	-	14	-	-	-
Calor Philippine Holdings, Inc.	36,637	875	-	-	37,512	-
Office Warehouse, Inc.	1,519	-	-	-	1,519	-
Canaria Holdings Corporation	3,429,215	-	-	-	3,429,215	-
Alcorn Petroleum and Minerals Corporation	395,974	-	4,371.23	-	-	-
Fertuna Holdings Corp.	15,000	-	-	-	15,000	-
Kareila Management	500,000	-	-	-	300,000	-
NE Pacific Shopping Centers Corp.	9	-	-	-	-	-
Dividends						
Puregold Price Club, Inc.	423,103	564,347	423,103	-	564,347	-
NE Pacific Shopping Centers Corporation	75,000	50,000	-	-	125,000	-
Nation Realty, Inc.	50,000	50,000	-	-	100,000	-
Patagonia Holdings Corp.	150,000	100,000	100,000	-	150,000	-
Ellimac Prime Holdings, Inc.	150,000	50,000	-	-	200,000	-
Fertuna Holdings Corp.	150,000	50,000	50,000	-	150,000	-
Pure Petroleum Corporation	150,000	50,000	-	-	200,000	-
Montosco, Inc.	-	100,000	-	-	100,000	-
Meritus Prime Distributions, Inc.	-	50,000	-	-	50,000	-
Premier Wine and Spirits, Inc.	100,000	-	-	-	100,000	-
Trade and other receivables						
Puregold Price Club, Inc.	462,555	209,985	-	-	672,540	-
Meritus Prime Distributions, Inc.	29,100	-	29,100	-	-	-
Montosco, Inc.	67,900	-	67,900	-	-	-
Premier Wine and Spiritis, Inc.	45,000	48,500	-	-	93,500	-
Nation Realty, Inc.	42,500	48,500	42,500	-	48,500	-
	P12,013,068	P1,555,233	P1,344,119	P -	P8,794,966	P -

COSCO CAPITAL, INC. AND SUBSIDIARIES**SCHEDULE D: INTANGIBLE ASSETS - OTHER ASSETS****December 31, 2017**

(Amounts in thousands pesos)

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill	P17,742,733	P186,653	P -	P -	P -	P17,930,386
Trademark	3,709,661	-	-	-	-	3,709,661
Customer relationships	889,453	-	-	-	-	889,453
Computer software and licenses-net	194,252	30,352	35,989	-	-	188,615
Leasehold rights	62,417	-	3,768	-	-	58,649
	P22,598,516	P217,005	P39,757	P -	P -	P22,776,764

COSCO CAPITAL, INC. AND SUBSIDIARIES**SCHEDULE E: LONG-TERM DEBTS****December 31, 2017**

(Amounts in thousands pesos)

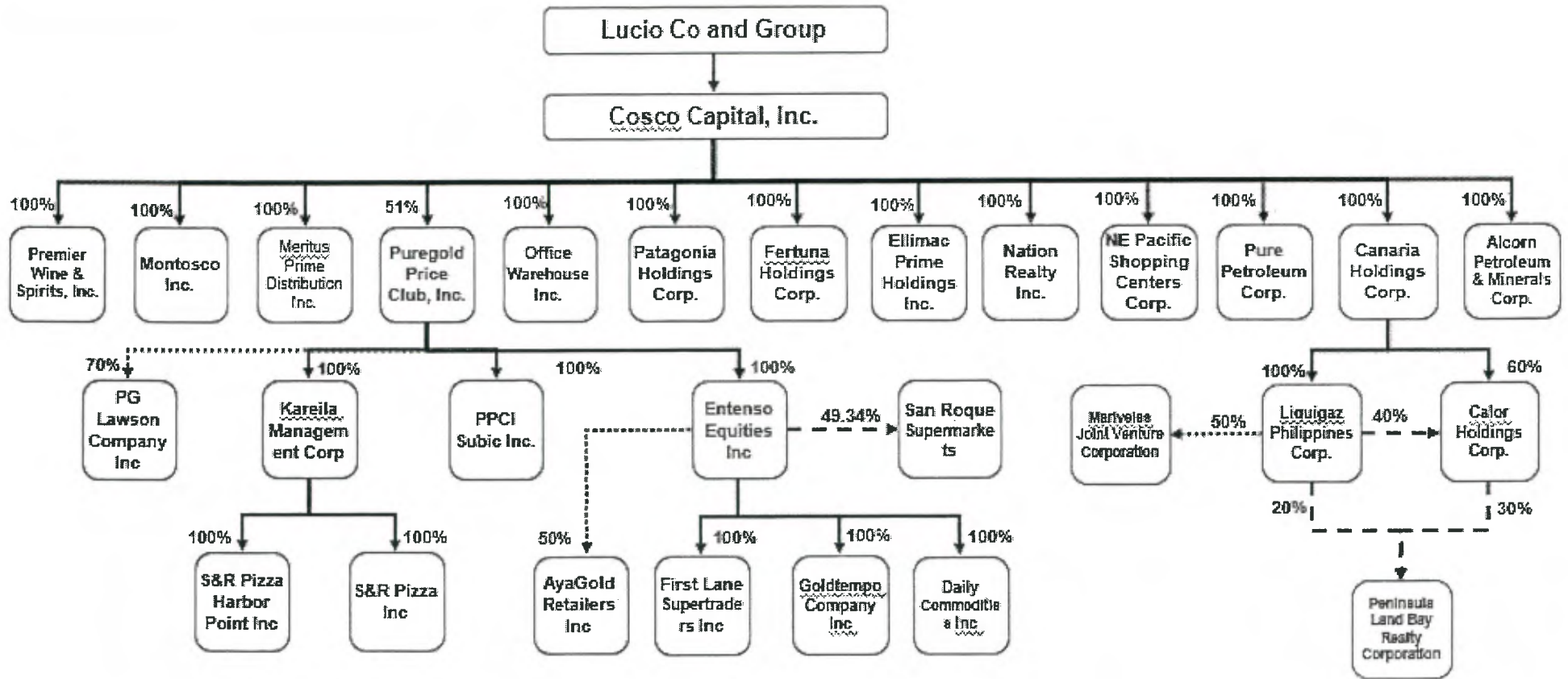
Agent	Type	Total Outstanding Balance	Current portion	Noncurrent portion
- Land Bank of the Philippines	Fixed-rate peso-denominated corporate notes of 5.2667%	P3,862,264	P34,908	P3,827,356
- Rizal Commercial Banking Corporation				
- Maybank Philippines, Inc.				
- Robinsons Bank Corporation				
- Security Bank Corporation				
- United Coconut Planters Bank				
- The Insular Life Assurance Company, Ltd.	Fixed-rate peso-denominated corporate notes of 5.579%	964,143	9,289	954,854
- Security Bank Corporation				
- Metropolitan Bank & Trust Company	Fixed-rate peso-denominated loan of 3.50%	1,999,205	1,999,205	-
- Metropolitan Bank & Trust Company				
- Metropolitan Bank & Trust Company	Fixed-rate peso-denominated loan of 3.50%	400,000	400,000	-
		P7,225,612	P2,443,402	P4,782,209

COSCO CAPITAL, INC. AND SUBSIDIARIES
SCHEDULE H: CAPITAL STOCK
December 31, 2017

Title of Issue	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	Directors, officers and employees	Others
COMMON SHARES - P1 par value	10,000,000,000	Issued - 7,405,263,564 Outstanding - 7,117,182,274	-	722,738,523	4,683,448,973	1,955,223,768

⁽¹⁾ On December 18, 2014, the Parent Company's BOD approved to buy back its common shares up to P1 billion within one year from the approval. This aims to enhance the shareholders' value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Parent Company as not reflective of its fair corporate value. In 2017 and 2016, Cosco Capital, Inc. renewed its program to buy back its shares for another year. Of the total shares sold to the public, 288,081,290 common shares were reacquired by the Group as at December 31, 2017.

SCHEDULE I: CONGLOMERATE MAP



———— Subsidiary - - - - Investment in Associate Investment in Joint Venture

COSCO CAPITAL INC. AND SUBSIDIARIES
Schedule J

List of Philippine Financial Reporting Standards
December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		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			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
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'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
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			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)		✓	
	<i>Amendments to PFRS 9: Prepayment Features with Negative Compensation</i>			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	
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	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
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			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
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, 2017		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)			✓
	Amendments to PAS 40: Transfers of Investment Property		✓	
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	<i>Determining Whether an Arrangement Contains a Lease</i>	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	<i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>			✓
IFRIC 7	<i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>			✓
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			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration			✓
IFRIC 23	Uncertainty over Income Tax Treatments			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
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			✓
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			✓

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

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied		✓	
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements		✓	
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business		✓	
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items		✓	
PIC Q&A 2018-10	Scope of disclosure of inventory write-down		✓	

Legend:

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

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

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

COSCO CAPITAL, INC. AND SUBSIDIARIES
SCHEDULE K: FINANCIAL SOUNDNESS INDICATOR
December 31, 2017

Ratio	December 31, 2017	December 31, 2016	Formula
Current ratio	1.97	2.14	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Quick ratio	0.63	0.64	$\frac{\text{Cash and cash equivalents}}{\text{Current liabilities}}$
Debt-to-equity ratio	0.16	0.18	$\frac{\text{Interest bearing loans and borrowings and bonds payable}}{\text{Total stockholders' equity}}$
Debt-to-asset ratio	0.11	0.12	$\frac{\text{Interest bearing loans and borrowings and bonds payable}}{\text{Total assets}}$
Asset-to-equity ratio	1.42	1.43	$\frac{\text{Total assets}}{\text{Total stockholders' equity}}$
Interest rate coverage ratio	22.47	17.53	$\frac{\text{Earnings before income tax and interest expense}}{\text{Interest payments}}$
Net profit margin	5.37%	5.78%	$\frac{\text{Net income}}{\text{Total revenues}}$
Return on asset	0.07	0.07	$\frac{\text{Net profit}}{\text{Average total assets}}$
Return on equity	0.09	0.10	$\frac{\text{Net profit attributable to the company's shareholders}}{\text{Average stockholders' equity attributable to the company's shareholders}}$
Earnings per share	0.69	0.66	$\frac{\text{Net profit attributable to the company's shareholders}}{\text{Weighted average number of common shares}}$

COSCO CAPITAL, INC.
900 Romualdez Street, Paco Manila

Schedule L
RECONCILIATION OF RETAINED EARNINGS AVAILABLE
FOR DIVIDEND DECLARATION
(Amounts in thousands pesos)

*(Figures based on functional
currency audited financial
statements as at and
for the year ended
December 31, 2017)*

Unappropriated retained earnings, beginning	P547,772
Adjustments in previous year's reconciliation	(245,721)
Unappropriated retained earnings, as adjusted, beginning	302,051
Net income based on the face of audited financial statements	949,911
Less: Non-actual/unrealized income, net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	-
Fair value adjustment (M2M gains)	-
Fair value adjustment 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 the PFRS	-
Deferred tax benefit	-
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 actual/realized	949,911
Add (Less):	
Dividend declarations during the year	(736,141)
Appropriations of Retained Earnings during the year	-
Release of appropriations during the year	-
Effects of prior period adjustments	-
Treasury shares	(345,949)
	(1,082,090)
Unappropriated retained earnings, as adjusted, ending	P169,872