

# COVER SHEET

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SEC Registration Number

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

(Company's Full Name)

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

M A N I L A

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

CANDY H. DACANAY-DATUON

(Contact Person)

(02) 523-3055

(Company Telephone Number)

1 2

Month

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Day

SEC FORM 17-A

(Form Type)

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Month

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Day

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: December 31, 2017
2. SEC Identification Number: 147669
3. BIR Tax Identification No.: 000-432-378-000
4. Exact name of issuer as specified in its charter: Cosco Capital, Inc.
5. Province, country or other jurisdiction of incorporation or organization: Manila, Philippines
6. Industry Classification Code:                      (SEC Use Only)
7. Address of principal office: No. 900 Romualdez St., Paco, Manila, 1007
8. Registrant's telephone number, including area code: 02-524-9326
9. Former name, former address and former fiscal year, if changed since last report: None
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	7,405,263,564
Debt	4,826,552,598.16

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

Yes [ / ] No [ ]

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

12. Check whether the issuer:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which

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

#### DOCUMENTS INCORPORATED BY REFERENCE

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

Annex "A" - Management Discussion and Analysis

Annex "B" - Consolidated Audited Financial Statements

Annex "C" - Supplementary Schedules

Annex "D" - Summary of SEC 17-C Reports

## PART I BUSINESS AND GENERAL INFORMATION

### Item 1: Business

#### (1) Business Development

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

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

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

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

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

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

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

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

## **(2) Business of Issuer**

Cosco, as an investment holding company, has a current diversified portfolio of business interests in the following industries and business segments.

The discussion below enumerates the principal products, services, and competition of each business segment.

### **Grocery Retail**

PUREGOLD PRICE CLUB, INC. ("Puregold" or "the Company") was incorporated on September 8, 1998 and opened its first Puregold hypermarket store in Mandaluyong City in December of the same year. In 2001, it began its expansion by building 2 additional hypermarket stores in Manila and Paranaque. It also launched its loyalty program, which was eventually renamed as "Tindahan ni Aling Puring" in 2004. Between 2002 to 2006, Puregold continued its expansion at an average of 3 new stores every year and established operations in North and South Luzon.

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

2011 saw the highest number of store openings in Puregold history with the launch of 38 new stores making its number of stores to a total of 100. In the succeeding year, Puregold acquired a related retail company, now Kareila Management Corporation, with 6 S&R Membership Shopping Warehouses (patterned after the Costco and Sam's Club in the USA), opened 31 new Puregold organic stores and acquired Gant Group of Companies known as "Parco Supermarkets" with 19 stores.

In 2013, Puregold acquired another supermarket chain, Company E Corporation, with 15 stores and opened 40 new organic stores. S&R opened 2 warehouses located in Davao Province and Mandaluyong City. Company E and Gant Group of Companies were later merged with Puregold<sup>1</sup>.

In 2014, Puregold opened 28 new organic stores, 1 S&R warehouse and 4 S&R New York Style Pizza/quick service restaurants (QSR). It also partnered with Lawson, Inc. and Lawson Asia Pacific Pte Ltd. through a joint venture company called PG Lawson, Inc. which paved the way for its entry into the convenience store space. PG Lawson plans to build and operate a chain of Lawson convenient stores all over the Philippines. The parties' investment share is 70% Puregold and 30% Lawson.

In 2015, Puregold opened 15 hypermarkets, 11 supermarkets, 1 S&R Warehouse and 10 QSRs. During the year, it also acquired a chain of 9 NE Bodega Supermarkets located in Central & North Luzon and 8 Budgetlane Supermarkets located in Eastern GMA, Laguna and Batangas.

In 2016, Puregold opened another 15 hypermarkets, 8 supermarkets, 2 extras, 1 minimart, 2 S&R Warehouses and 7 QSRs.

In 2017, Puregold opened a total of 35 new organic stores comprising of 25 hypermarkets, 5 minimarts and 5 supermarkets.; 2 S&R warehouses and 9 QSR outlets

<sup>1</sup> Approved by the Securities and Exchange Commission on March 17, 2015.

Puregold also acquired a chain of 5 B & W supermarket stores in Roxas City, Panay Island which paved the way for the company's expansion in the Visayas region.

In November 2017, the SEC approved the merger of Goldtempo Company, Inc., First Lane Super Traders Co., Inc. and Daily Commodities, Inc. with Puregold which paves the way for the full conversion and operational integration of the 9 NE Bodega Supermarkets and 8 Budgetlane Supermarkets into Puregold Supermarkets brand starting in early 2018.

By the end of 2017, Puregold was operating a total of 171 hypermarkets, 103 supermarkets, 29 extra, 6 minimarts, 14 S&R warehouse clubs, 32 S&R-QSRs, for a total of 355 stores located in the following areas:

	Puregold	S&R	QSR	Total
Metro Manila	114	6	22	142
North Luzon	77	2	4	83
South Luzon	90	2	4	96
Visayas	20	2	1	23
Mindanao	8	2	1	11
Total	309	14	9	355

### Real Estate and Property Leasing

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

It currently owns forty seven (47) properties located in the more prominent area of Metro Manila as well as nearby Central and Northern Luzon provinces of Bulacan, Nueva Ecija, Quezon and Cagayan. Among these, twenty five (25) properties are operating as commercial retail buildings, eight (8) are on land long-term lease arrangements and fourteen (14) are in various stages of planning and development.

The commercial retail buildings of Ellimac are also being leased out mostly by prominent retail tenants that support the retail customers of Puregold Price Club, Inc. One of which is the "Fairview Terraces". The Fairview Terraces is the second commercial shopping complex that was co-developed with Ayala Land, Inc. and it is located in the prime commercial area of Quezon City. The Fairview Terraces houses an extensive mix of foreign and local brands, offering an array of dining and shopping experience for families and professionals.

Following the merger of Ellimac with 118 Holdings in January 2016, two (2) parcels of land were transferred under the name of Ellimac. One is located at Subangdaku, Mandaue, Cebu with a total of 32,427 square meters and another one in Imus, Cavite with a total of 12,464 square meters. Both properties are currently leased to Kareila Management Corporation.

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

FERTUNA HOLDING CORPORATION ("Fertuna") is considered to be the stronghold of Cosco Capital in Central Luzon. Fertuna together with Ayala Land Inc. co-developed a commercial retail complex called Harbor Point. This is situated in the heart and bustling economic hub of Subic Bay Freeport Zone. Harbor Point opened in September 2012, where Puregold Supermarket became its anchor tenant.

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

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

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

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

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

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

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

NE PACIFIC SHOPPING CENTERS CORPORATION ("NE") which owns and operates the NE Pacific Mall, was acquired by Cosco Capital in March 2014. NE Pacific Mall, is considered to be the ultimate shopping and family entertainment destination in the province of Nueva Ecija. It is located at km. 111 Maharlika Highway, Cabanatuan City, Nueva Ecija. The 10-hectare parcel of land where the shopping center is built has a total gross floor area of more than 35,000 square meters. The mall has leasable spaces for different brands and establishments and houses a line of tenants such as the supermarket, department store, hardware and appliance centers, restaurants and many others. One of the key tenants of the mall is the Puregold Price Club, Inc. This one stop shopping haven not only provides a unique shopping experience for the family but also brings great value for their money.

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

PURE PETROLEUM CORP. (PPC) constructed a Fuel Terminal facility inside the Subic Bay Freeport Zone in 2009 which became operational in December 2012. It currently operates a

tank farm of 9 fuel storage tanks with a total capacity of 90 Million liters and a 350 KL CME storage tank. The terminal also operates jetty facilities for bulk loading and unloading, two units' mooring buoy, water storage tank for fire protection and maintenance as well as truck loading rack.

It has adapted the best practices of the oil industry, applicable policies and procedures to ensure safe and efficient operation.

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

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

Competition in this segment include SM Supermarkets, Savemore, Robinsons, and Waltermart for those buildings that house the Puregold Supermarkets and other tenants like Jollibee, Abenson, Lukfoo International Cuisine and others. For its specialty mall-999 Shopping mall, competitors would be 168 Mall, 568 Mall, 118 Mall, City Place, and Tutuban Mall which are situated in Divisoria.

#### **Liquor Distribution**

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

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

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

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

MERITUS PRIME DISTRIBUTIONS, INC. is one of the country's liquor and wine distribution companies. Initially founded in March 2010 as the exclusive Philippine distributor of Beam Global Spirits & Wine (presently, Beam Suntory, Inc.), it has now grown into an influential market leader in both domestic and duty free segments.

Along with premier partners such as Beam Suntory (Jim Beam, Maker's Mark) and William Grant & Sons (Glenfiddich, Balvenie and Hendrick's), Meritus is continuously gaining a strong foothold in the spirits industry. Proof of their strength came in the last quarter of 2016 when



they partnered with Spain's well-renowned winery, Bodegas Williams & Humbert, to come up with a premium Spanish brandy, Alhambra Solera Brandy.

Adding to its roster are some of the world's more notable wine companies, such as Barton & Guestier of France, DGB of South Africa, Santa Julia of Argentina, and global number one listed wine company, Treasury Wine Estates.

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

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

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

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

### **Oil & Mining**

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

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

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

### **Specialty Retail**

LIQUIGAZ PHILIPPINES CORPORATION was established in 1995 and was a wholly owned subsidiary of SHV Netherlands. In July 2014, Cosco Capital, Inc. acquired 100% ownership interest in Liquigaz through a wholly-owned subsidiary, Canaria Holdings Corp. The company ranks as the second biggest LPG supplier in the Philippines. It currently holds a market share of 24%.

Liquigaz has two import terminals located in Mariveles, Bataan and Sariaya, Quezon having storage capacities of 12,500 MT each. Thus, Liquigaz' total LPG storage capacity of 25,000 MT is the biggest in the Philippines.

Their terminals are reinforced by two (2) major distribution hubs located in Bulacan, which covers the North Luzon/Metro Manila market, and in Canlubang, Laguna which covers the Southern Luzon/Metro Manila market.

There are five business segments in Liquigaz, namely:

1. Wholesale Business - caters to independent refillers as well as supply to major Oil Companies.
2. Autogas Business - caters to independent Autogas retailers and Taxi operators.
3. Cylinder Business - caters to the household market thru Dealers and own-retail stores.
4. Industrial Business - serves manufacturing industries i.e. Steel, Food, Ceramics, Glass, Automotive.
5. Commercial Business - serves the LPG requirements of food establishments, hotels, malls, hospitals and commissaries.

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

OFFICE WAREHOUSE is a one-stop shop store for quality and cost-efficient office solutions. It provides its customers with reputable brands of Office Supplies, Office Furniture, and a wide array of Technology products. "Cost-cutting starts here!" as it offers quality products at the lowest possible price.

Office Warehouse exclusively distributes topnotch product lines including world's best shredder brand, Fellowes, top German pen brand Schneider, desk accessories brand Eagle, and writing instruments brand Atlas.

Office Warehouse offers convenience to its customers with door-to-door delivery and store pick-up services, as well as being a click away for an online shopping experience. A Loyalty Program, Points Plus+, is in place to give its loyal customers exclusive member perks, privileges, and rewards.

As at the end of December 2017, Office Warehouse has 82 outlets – 65 in the National Capital Region and 17 in nearby provinces.

Its understanding of both the customers' regular and seasonal demands is reflected in the unique and winning assortment of its office supply product offering. Thus, Office Warehouse becomes an office solutions store.

Office Warehouse' Supply Chain seeks of efficiency and timeliness - demand planning, purchase management and inventory replenishment system rack up the most cost-efficient way to handle its operations. It operates its own Distribution Center and In-House Managed Fleet, who work hand in hand with the Supply Chain Group to ensure seamless and cost-optimal flow of stocks from its supply centers to its distribution points and store outlets.

Office Warehouse has also upgraded its IT infrastructure and has been continually adopting new state of the art IT solutions to better service its ever-growing internal and external customer database. It has materially invested in its network structure redundancy, virtual environment security, and other technology-based blueprints to ensure that it is IT-adept in this day and age.

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

Since its incorporation, the Company has never been subjected to nor has been involved in any bankruptcy, receivership or similar proceedings.

**Suppliers**

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

**Dependence upon Single or Few Suppliers or Customers**

All business segments under Cosco Group are not dependent on any single supplier neither reliant on a single or few customers but to the broader buying public in general. All of them are serving Filipinos nationwide, and sourcing its product from a wide range of suppliers, both domestic and international.

**Transactions with Related Parties**

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

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

Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties.

*(For more detailed information please refer to the related party transactions as disclosed in the Audited Financial Statements for the Year 2017)*

**Trademarks**

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

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

<b>TRADENAMES</b>		<b>TRADEMARKS</b>	
Puregold	Puregold Jr.	Aling Puring	Puregold Junior
Puregold Price Club	Puregold Bullit	Puregold	Puregold Price Club
Puregold Choice	Puregold Suki Barangay	Exclusives	Puregold Choice
Puregold Extra	Puregold	Puregold Express	Barangay Puregold

	Puregold		
Puregold Jackpot	Exclusives	Puregold Jackpot	Puregold Bulilit
Puregold Junior		Puregold Jr.	Puregold Suki

### Government Approvals

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

### Effect of existing governmental regulations

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

### Cost and Effect of Compliance with Environmental Laws

The Company estimates its annual cost for maintaining and renewing ECC and other environmental permits at around P7million.

### Employees

As at December 31, 2017, the Company has approximately 7,012 employees divided per business segments as follows:

Retail	6,497
Liquor Distribution	179
Real Estate	171
Specialty Retail	316
Parent and Mining	20

### Major risks

#### Sourcing

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

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

#### Regulation and compliance

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

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

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

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

### **Environment risk**

Environment risk for the Real Estate business includes the effect of the climate change like flooding, erosion and other unforeseen calamity that might affect the real estate properties. The Company mitigates this risk by carefully selecting the sites. There is a group within the Company that conducts research and study in site selection including the environmental factors.

The business of oil exploration and development carry environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions as well as existing Philippine laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on oil spills, releases or emissions of various substances produced in association with oil operations. A company's compliance with such legislation, including health and safety laws, can involve significant costs and expenses and any breach in these laws may result in the imposition of fines and penalties, the amounts of which could be material. There can be no assurance that environmental laws will not result in an increase in exploration and development costs or the curtailment of operations which could adversely affect the results of operations and financial condition as well as its prospects.

### **Market Risk**

#### **a) Competitor risk**

The Company's grocery retailing businesses are highly competitive. The intensity of the competition in the Philippine modern retail industry varies from region to region. Some of the major competitors considered by the Company are the SM malls, supermarkets and hypermarkets, Robinson's Supermarkets, Metro Gaisano and Rustan's Supercenters. Competition includes product selection, product quality, and customer service and store locations.

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

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

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

#### **b) Supply risk**

A supply shortage and/or disruption and the price volatility may adversely affect the operations and financial performance of the Company.

The Company addresses this risk by regularly monitoring its inventories and ensuring that the inventory is always at its optimum level. The Company continuously deals with a wide range of suppliers to ascertain that its merchandising requirements are filled through the year.

**c) Credit risk**

The Company's fast-paced operation requires sufficient liquidity throughout the year. Failure of the Company to collect their trade receivables on time could potentially affect its ability to pay their suppliers on time or increase financing cost should working capital financing be resorted to bridge temporary liquidity gaps.

The Company maintains a credit and collection policy ensuring that receivables are collected on time.

**d) Pricing pressure**

The country's economic condition and market competition are main drivers of this risk. Any adverse change in the economic environment of the Philippines may affect the purchasing power of consumers and unfavorably affect the Company's operating results. Low-growth consumer market means a low-demand growth and low turnover for the Company. The entry of new competitors may trigger a more aggressive price competition among industry players as they try to dominate the market.

The Company's continuous expansion and revenue growth help mitigate this risk and allow the Company to develop better competitive pricing strategies. Pricing strategies are constantly reviewed to remain competitive and to attract or retain customers. Also, unnecessary costs or expenses are to be avoided by reviewing the supply chain management and eliminating non-value adding activities which will allow the Company to offer lower prices.

**Item 2 Properties**

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

Fourteen (14) owned parcels of land with a total of 33,327.57 square meters located at the following areas:

North Luzon	2
South Luzon	8
Metro Manila	2
Visayas	2
Mindanao	0
Total	14

Sixty three (63) owned buildings with a total of 273,527.34 square meters located at the following areas:

North Luzon	17
South Luzon	21
Metro Manila	23
Visayas	1
Mindanao	1
Total	63

Sixty Two (62) leased parcels of land with a total of 277,841.29 square meters located at the following areas:

North Luzon	18
South Luzon	20
Metro Manila	22
Visayas	1
Mindanao	1

Total	62
-------	----

Two Hundred Fifty Three (253) leased buildings with a total of 557,147.85 square meters located at the following areas:

North Luzon	62
South Luzon	65
Metro Manila	92
Visayas	22
Mindanao	12
Total	253

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

Land and building with a total of 255,767 square meters located at the following areas:

North Luzon	11
South Luzon	6
Metro Manila	12
Visayas	0
Mindanao	0
	29

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

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

Land with a total of 265,830 square meters located at the following areas:

North Luzon	7
South Luzon	6
Metro Manila	8
Visayas	2
Mindanao	0
	23

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

Cosco Capital, Inc. does not directly own any real property assets. However, the company, through its wholly-owned subsidiary, Alcorn Petroleum & Minerals Corporation, has participating interests in the following petroleum and mineral exploration properties in Philippines:

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

Service contract No. 14 is located in 350 meters of water, approximately located offshore 60 kilometers NW from Palawan Island. SC No 14 is divided into four blocks (A,B,C & D)

The Matinloc oil field is located in Block B1 under SC No. 14 located approximately 60 kilometers offshore from Palawan Island. SC No. 14 is divided into four (4) blocks composed of Nido (Block A), North Matinloc (Block B1), West Linapacan (Block C)

and the retention area (Block D). The Company has participating interest in all except in the Nido Block A.

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

The West linapacan oil field is located in Block C2 under SC No. 14 and covers a total area of approximately 80 square kilometers. The block has produced more 8.3 million barrels of oil prior to shut down because of water intrusion.

A separate structure, West Linapacan "B, located 7.5 kilometers from "A" field structure, was drilled in March 1993 with well testing at a rate of 2,860 BOPD.

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

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

**4. Service Contract 6(A)**

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

**5. Service Contract 6 (B)-Bonita, Offshore Northwest Palawan**

The Bonita field under SC No. 6 (B) is located offshore northwest Palawan, adjacent to the Matinloc field of SC No. 14, with an area of 53,293 hectares.

Philodrill continued to implement the approved work program and budget for the block. The work program includes satellite gravity study and its integration into the seismic interpretation, detailed mapping of Top Nido horizon in the northern part of the block with focus on the Elephant Prospect and three other structural closures presently identified and seismic processing of existing lines over the block.

**6. Service Contract 51-East Visayan Basin**

The contract area is located in the central part of the Philippine Archipelago. The contract area is defined by two (2) disjointed blocks, namely an onshore-offshore block over Northwest Leyte and a largely deepwater block in Cebu Strait, between the islands of Cebu and Bohol with an aggregate area of 444,000 hectares.

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

**Item 3 Legal Proceedings**

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



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

During the Annual Stockholders' Meeting in 2017, the following matters were submitted to a vote of security holders:

1. Call to order
2. Certification of service of notice and existence of quorum
3. Approval of the Minutes of the previous Annual Stockholders' Meeting and ratification of all acts and resolutions of the Board of Directors and Management
4. Annual Report of the Chairman and President and Approval of the Audited Financial Statements as of December 31, 2016
5. Election of Directors
6. Appointment of External Auditor
7. Other Matters
8. Adjournment

## PART II OPERATIONAL AND FINANCIAL INFORMATION

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

#### Market Information

The table below shows the stock prices of the Company for years 2016 and 2017:

2017	High	Low	2016	High	Low
January	9.23	8.53	January	8.26	7.04
February	9.28	8.91	February	7.47	7.19
March	8.90	8.48	March	7.76	7.20
April	8.57	8.33	April	8.63	7.36
May	8.35	8.14	May	7.68	7.58
June	8.20	7.89	June	8.03	7.68
July	8.27	7.75	July	8.19	7.68
August	8.07	7.40	August	9.30	8.08
September	8.62	8.00	September	8.55	8.15
October	8.52	8.20	October	8.52	8.10
November	8.50	7.45	November	8.84	8.20
December	7.73	7.40	December	8.83	8.28

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

The market capitalization of the Company's common shares as of end-2017, based on the closing price of P7.70 per share, was approximately P56 Billion.

**Holders.** There are approximately 992 registered holders of common shares as of December 31, 2017 owning at least one board lot per 100 share (based on number of accounts registered with the Stock Transfer Agent).

The top 20 stockholders of the Company as at December 31, 2017 are as follows:

<b>Name of Stockholders</b>	<b>No. of Shares</b>	<b>%</b>
Lucio L. Co	2,321,568,892	32%
Susan P. Co	1,780,182,230	24%
The Hongkong and Shanghai Banking Corp.	715,925,258	10%
Ellimac Prime Holdings, Inc.	244,228,990	3%
Citibank N.A	237,452,087	3%
VFC Land Resources Inc.	220,066,929	3%
Ferdinand Vincent P. Co	209,557,122	3%
Pamela Justine P. Co	209,535,971	3%
Deutsche Bank Manila-Clients A/C	184,084,922	3%
Standard Chartered Bank	178,860,863	2%
Ansaldo, Godinez & Co., Inc.	165,326,025	2%
KMC Realty Corporation	150,832,231	2%
Camille Clarisse P. Co	83,295,231	1%
SPC Resources, Inc.	58,500,000	1%
SB Equities, Inc.	53,533,358	1%
King's Power Securities, Inc.	51,860,725	1%
Strategic Equities Corp.	47,512,790	1%
COL Financial Group, Inc.	37,347,195	1%
Katrina Marie P. Co	35,223,884	0%
BDO Securities Corporation	34,810,546	0%

#### **Dividends**

On December 15, 2017, the Parent Company's BOD approved the declaration of a regular dividend of P0.06 per share and special dividend of P0.04 per share on record date of January 2, 2018 and payment date of January 26, 2018. Total dividends declared amounted to P736,141,264.40.

On December 22, 2016, the Parent Company's BOD approved the declaration of a regular dividend of P0.06 per share and special dividend of P0.02 per share on record date of January 12, 2017 and payment date of January 20, 2017. Total dividends declared amounted to P590,032,717.12

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

On December 18, 2014, Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to P0.08 per share payable to all qualified shareholders as of the record date of January 12, 2015 payable on February 5, 2015.

On June 27, 2014, the Board of Directors of Cosco Capital, Inc. declared and approved the payment of cash dividends amounting to P0.06 per share payable to all qualified shareholders as of the record date of July 11, 2014 payable on July 28, 2014.

#### **Securities sold**

There were no recent sales of unregistered or exempt securities, including issuance of securities constituting an exempt transaction.

## **Item 6 Management Discussion and Analysis or Plan of Operation**

The information requested is attached herewith as Annex "A".

## **Item 7 Financial Statements**

The Consolidated Audited Financial Statements for 2017 is hereto attached as Annex "B".

## **Item 8 Changes and Disagreements with Accountants on Accounting and Financial Disclosure**

The External Auditor of the Company for the year 2016 and 2017 is R.G. Manabat & Co. (KPMG). The partner-in-charge is Mr. Darwin Virocel. There has been no disagreements on accounting and financial disclosure since the Company engaged the firm in 2014 with Mr. Darwin Virocel as handling partner.

The Company complies with SRC Rule 68, (3), (b), (iv) where it states that changes should be made in assignment of external auditor or assigned partner at least every five (5) years.

### **Audit and Audit Related Fees**

The Company paid R.G. Manabat & Co. (KPMG) the amount P600,000.00 for audit services rendered in 2016 and the same amount of P600,000.00 in 2017. The Company did not engage R.G. Manabat & Company for any non-audit services.

## **ITEM 9 CONTROL AND COMPENSATION INFORMATION**

Below are the profile of the incumbent directors and executive officers of the Company as of December 31, 2017, indicating their respective business experience for the past five (5) years.

### **MR. LUCIO L. CO, 63 years old, Filipino, Chairman of the Board**

Mr. Co has been a Director of the Company since 1997.

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

Mr. Co is also the Chairman of the following privately-owned companies: Alcorn Petroleum & Minerals Corporation, Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Entenso Equities Incorporated, Invescap Incorporated, Liquigaz Philippines Corp., NE Pacific Shopping Centers Corporation, P.G. Holdings, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp. San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.,

He is also a Director of the following privately-owned companies: Alphaland Makati Tower, Inc., Catuiran Hydropower Corporation, Karayan Hydropower Corporation, Kareila Management Corp., LCCK & Sons Realty Corporation, League One Finance and Leasing Corporation, Meritus Prime Distributions, Inc., Montosco, Inc., Nation Realty, Inc., PG Lawson Company, Inc., PPCI Subic, Inc., Patagonia Holdings Corp., Premier Wine & Spirits, Inc., S&R Pizza (Harbor Point), Inc., and S&R Pizza, Inc.

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

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

MRS. SUSAN P. CO, 60 years old, Filipino, Vice-Chairman

Mrs. Co has been a Director of the Company since August 2013.

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

She is currently the Chairman of Alphaland Makati Tower, Inc. and Director of the following private companies: Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Kareila Management Corp., KMC Realty Corp., Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Montosco, Inc., Nation Realty, Inc., NE Pacific Shopping Center Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PG Lawson Company, Inc., PPCI Subic Inc., Premier Wines and Spirits, Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., Pure Petroleum Corp., Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., San Jose City I Power Corp., Union Energy Corporation and Union Equities, Inc.

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

MR. LEONARDO B. DAYAO, 74 years old, Filipino, President

Mr. Dayao has been a Director and Vice-Chairman of the Company since October 1997 and elected as President on June 2010 up to the present.

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

He also holds the following positions in private companies: Chairman of Catuiran Hydropower Corporation, Fertuna Holdings Corp., Kareila Management Corporation, League One Finance and Leasing Corporation, PSMT Philippines, Inc., PG Lawson Company, Inc., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc.; President of Alcorn Petroleum Minerals Corporation, NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alece Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Properties, Inc., Union Equities, Inc., VFC Land Resources, Inc.; and Director of Canaria Holdings Corporation Entenso Equities Incorporated, Karayan Hydropower Corporation, Liquigaz Philippines Corp., and Puregold Realty Leasing & Management, Inc.

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

ATTY. EDUARDO F. HERNANDEZ, 87 years old, Filipino, Director

Atty. Eduardo F. Hernandez is one of the incorporators of the Company. He served as President of Alcorn Gold Resources, from 1988 to 2009, which became Cosco Capital, Inc. where he was been duly elected to hold office as Director.

He is a Senior Counsel of Romulo, Mabanta, Buenaventura Sayoc & De Los Angeles Law Office. Atty. Hernandez obtained his Law Degree in the University of the Philippines in 1953. He served as Supreme Court Bar Examiner in Civil Law in 1968 and in Commercial Law in 1982. He was likewise a former President of the Philippine Bar Association and also served as Regent of the University of the Philippines. He was also the Chairman of the

Philippine Petroleum Association of the Upstream Industry (Oil & Gas), Inc. He is also the author of various law books such as: (a) Landowners' Rights published in 2002 and (b) Philippine Admiralty and Marine Law, published in 2006.

LEVI B. LABRA, 60 years old, Filipino, Director

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

He is a graduate of the University of San Carlos, major in Business Administration (cum laude). Worked for Procter and Gamble Philippines for 35 years in Sales, Forecasting, Supply Chain, Trade Marketing and Organization Development. He was the Sales Head and a member of the management committee for 20 years. He was the Regional Sales manager for three years building the sales organization and systems for India, Indonesia, Malaysia, Singapore, South Korea and Thailand. Currently, a director of Cosco Capital Inc. he is also engaged in strategy and operations development with various companies in the field of retail, consumer goods, micro-insurance, telecom and Agri product distributorships.

OSCAR S. REYES, 71 years old, Filipino, Independent Director

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

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

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

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

ROBERT Y. COKENG, 66 years old, Filipino, Independent Director

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

He also serves as a director and/or officer in the following companies: Chairman, President and CEO – F&J Prince Holdings Corporation (PSE-Listed Company); President and CEO–Magellan Capital Holdings, Corp.; President and CEO–Magellan Utilities Dev't. Corp.;

Chairman, President and CEO—Consolidated Tobacco Ind. of the Phils.; Chairman and President—Center Industrial and Investment, Inc.; Director—Pointwest Technologies Corp. and Pointwest Innovations Corp.; Chairman-Exec. Committee – Business Process Outsourcing International; Chairman—IPADS Developers, Inc. He was also the Senior Investment Officer and Philippine Country Officer of International Finance Corporation (World Bank Group) from 1976 to 1986. He worked on investments in East Asia from Washington D.C. Headquarters and from Regional Mission for East Asia located in Manila. He graduated Magna Cum Laude in Ateneo de Manila University with degree of Bachelor of Arts Economics Honors Program. He also earned his Master in Business Administration in Harvard University with High Distinction and elected a Baker Scholar.

ATTY. JOSE S. SANTOS, JR., 77 years old, Filipino, Corporate Secretary

Atty. Jose Santos has been the Corporate Secretary of the Company since July 1999. He also serves as legal counsel to the Puregold Group of Companies. He has been a practicing lawyer since 1962.

ATTY. CANDY H. DACANAY-DATUON, 39 years old, Filipino, Assistant Corporate Secretary and Compliance Officer

Atty. Dacanay-Datuon has been the Compliance Officer and Assistant Corporate Secretary of the Company since November 25, 2011. Ms. Dacanay-Datuon is a lawyer and a member of the Philippine Bar since 2004. On the same year, she was employed as counsel for the Company. She is currently the Corporate Secretary of Kareila Management Corporation (S&R) and League One Finance and Leasing Corporation.

She received a Bachelor of Arts, Cum Laude, in Political Science from the Colegio de San Juan de Letran and a Bachelor of Laws Degree from the University of Santo Tomas.

MR. TEODORO A. POLINGA, 59 years old, Filipino, Comptroller

Mr. Polinga has been the Company's Group Comptroller since July 2014 up to the present. Concurrently, he has also been the Controller of the Company's publicly listed subsidiary, Puregold Price Club, Inc. since March 2015 up to the present.

Prior to joining Cosco, he was engaged as one of the founding directors and President of MTM Ship Management Philippines from October 2013 up to June 2014. He was a founding member, Executive Director & CFO of Singapore registered companies Alchem Energy Limited and Summit Minerals, Pte. Ltd from 2010 to 2012. He was Chief Finance Officer and Director of Phoenix Petroleum Philippines from 2007 to 2008; Deputy CFO for PT Citramegah Karya Gemilang – Libya branch from 2008 to 2010; Senior Vice President for Finance of Citadel Commercial Group, 2001 to 2003; Senior Vice-President for Business Development of Citadel Commercial Group, 2003 to 2005; Executive Vice President of Citadel Commercial Group, 2005 to 2007; Vice-President, CFO and Director of Unicol Management Services, 1989 to 2001. Mr. Polinga is a Certified Public Accountant and started his career in public accounting practice with SGV & Co. He is also an alumnus of the Asian Institute of Management where he took up a Management Development Program in May 1990.

## **Item 10 Executive Compensation**

The table below sets the total annual compensation of the CEO, four most highly compensated executive officers and all other officers as a group unnamed for the year 2016, 2017 and projected compensation for 2018:

Name and position	Year	Salary	Bonus/Other compensation
Lucio L. Co			
Susan P. Co			
Leonardo B. Dayao			
Wyomia P. Guevarra			
Andres S. Santos			
CEO and most highly compensated executive officers	2016	4,273,906.00	-
	2017	6,412,772.70	
	2018	6,412,772.70	
All other officers as group unnamed	2016	1,851,223.00	-
	2017	1,810,987.32	
	2018	1,810,987.32	

#### Item 11 Security Ownership of Certain Record and Beneficial Owners and Management

The Company has the following information about persons or group of persons known to be record or beneficial owners of more than 5% of the capital stock of the Company as of December 31, 2017:

Title of Class	Name, Address of record owner	Relationship with the Company	Name Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares held	Percent
Common	Lucio L. Co, No. 2 Pili Avenue, South Forbes Park, Makati City	Chairman of the Board	Direct and Indirect	Filipino	2,321,568,892	31%
Common	Susan P. Co, No. 2, Pili Avenue, South Forbes Park, Makati City	Vice-Chairman and Treasurer	Direct and Indirect	Filipino	1,780,182,230	24%
Common	The Hongkong and Shanghai Banking Corporation, 12/F The Enterprise Center, Tower One, 6766 Ayala Avenue, Makati City	Stockholder			715,925,258	10%

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

There have been no arrangements that have resulted in a change in control of the Company during the period covered by this report.

#### Change in Control

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

## **ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

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

Transactions between related parties are on arm's length basis in a manner similar to transactions with non-related parties. The terms under which the Group binds itself with related parties are comparable to those available from unrelated third parties. To ensure this, the Group uses the terms and provisions it has in place for similar contracts with unrelated third parties as a benchmark for its agreements with related parties. (For more detailed information please refer to the related party transactions as disclosed in the Audited Financial Statements for the Year 2016)

### **Item 13 Updates on Corporate Governance**

The company adopted the new Manual on Corporate Governance for publicly listed companies as mandated by the SEC in its Memorandum Circular No. 19 dated November 22, 2016.

And as part of the continuing education of the directors and officers of the Company, a Corporate Governance seminar was conducted on February 23, 2018 at the Acacia Hotel, Alabang, Muntinlupa City from 1:00 pm to 5:00 pm. The seminar was conducted by the Sycip Gorres Velayo & Co., an accredited corporate governance provider of the SEC.

On February 9, 2018, the Board approved the Company's Data Privacy Manual and appointed Ms. Maricel Mariano as Data Protection Officer in accordance with Data Privacy Act (RA 10173).

## **PART V - EXHIBITS AND SCHEDULES**

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

#### **(a) Exhibits**

- Annex "A" – Management Discussion and Analysis and Plan of Operation
- Annex "B" – Consolidated Audited Financial Statements
- Annex "C" – Supplementary Schedules
- Annex "D" – Summary of SEC 17- C Reports

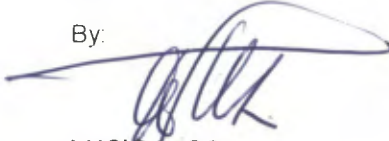


SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this ANNUAL REPORT (SEC 17-A) to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Manila on April 16, 2018.

**COSCO CAPITAL, INC.**  
Issuer

By:



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



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



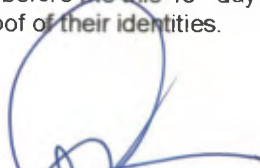
**TEODORO A. POLINGA**  
Comptroller  
TIN No. 104-883-077



**CANDY H. DACANAY-DATUON**  
Assistant Corporate Secretary  
TIN No. 233-200-394

SUBSCRIBED AND SWORN to before me this 16<sup>th</sup> day of April 2018 in the City of Manila, affiants presented competent proof of their identities.

Doc. No. 39  
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. 692347 MANILA 12-06-17  
IBP NO. 1062654/12-07-17  
MCLE COMPLIANCE NO. V40014251/02-16-2016  
ROLL NO. 55392/05-02-08  
NO. 900 ROMUALDEZ ST., PACO, MANILA 1007

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

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2017 audited consolidated financial statements and notes attached herewith as Annex "B".

#### Key Performance Indicators

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

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

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

Performance Indicators	2017	2016	2015
Return on investment	<b>10.43%</b>	10.88%	11.16%
Profit margin	<b>5.37%</b>	5.78%	5.98%
EBITDA to interest expense	<b>34.14x</b>	36.28x	27.37x
Current ratio	<b>1.97:1</b>	2.14:1	2.07:1
Asset turnover	<b>1.36:1</b>	1.29:1	1.25:1
Asset to equity	<b>1.42:1</b>	1.44:1	1.49:1
Debt to equity ratio	<b>0.42:1</b>	0.44:1	0.49:1

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

## Comparative Years 2017 and 2016

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

<i>(In Thousands)</i>	2017	%	2,016	%	<b>INCREASE (DECREASE)</b>	%
	P145,749,829	100.00	P129,186,201	100.00		
<b>REVENUES</b>		%		%	<b>P16,563,628</b>	<b>12.82%</b>
<b>COST OF SALES/SERVICES</b>	<b>121,428,225</b>	<b>83.31%</b>	<b>107,273,972</b>	<b>83.04%</b>	<b>14,154,253</b>	<b>13.19%</b>
<b>GROSS PROFIT</b>	<b>24,321,604</b>	<b>16.69%</b>	<b>21,912,229</b>	<b>16.96%</b>	<b>2,409,375</b>	<b>11.00%</b>
<b>OTHER OPERATING INCOME</b>	<b>3,580,941</b>	<b>2.46%</b>	<b>3,361,826</b>	<b>2.60%</b>	<b>219,114</b>	<b>6.52%</b>
<b>GROSS OPERATING INCOME</b>	<b>27,902,545</b>	<b>19.14%</b>	<b>25,274,056</b>	<b>19.56%</b>	<b>2,628,489</b>	<b>10.40%</b>
<b>OPERATING EXPENSES</b>	<b>16,426,309</b>	<b>11.27%</b>	<b>14,467,476</b>	<b>11.20%</b>	<b>1,958,833</b>	<b>13.54%</b>
<b>INCOME FROM OPERATIONS</b>	<b>11,476,236</b>	<b>7.87%</b>	<b>10,806,579</b>	<b>8.37%</b>	<b>669,656</b>	<b>6.20%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>(351,850)</b>	<b>-0.24%</b>	<b>(249,135)</b>	<b>-0.19%</b>	<b>(102,716)</b>	<b>41.23%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>11,124,386</b>	<b>7.63%</b>	<b>10,557,445</b>	<b>8.17%</b>	<b>566,941</b>	<b>5.37%</b>
<b>INCOME TAX EXPENSE</b>	<b>3,291,071</b>	<b>2.26%</b>	<b>3,088,051</b>	<b>2.39%</b>	<b>203,021</b>	<b>6.57%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>P7,833,314</b>	<b>5.37%</b>	<b>P7,469,394</b>	<b>5.78%</b>	<b>P363,920</b>	<b>4.87%</b>
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	<b>P4,924,646</b>	<b>3.38%</b>	<b>P4,734,101</b>	<b>3.66%</b>	<b>P190,545</b>	<b>4.02%</b>
Non-controlling interests	<b>2,908,668</b>	<b>2.00%</b>	<b>2,735,293</b>	<b>2.12%</b>	<b>173,375</b>	<b>6.34%</b>
	<b>P7,833,314</b>	<b>5.37%</b>	<b>P7,469,394</b>	<b>5.78%</b>	<b>P363,920</b>	<b>4.87%</b>

### Growth in Revenues

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

The growth in consolidated revenues in 2017 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; exceptional revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume; revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio; and sustained growth in revenue contributions from the liquor and wine distribution business segment;

### Growth in Net Income

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

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

### **Grocery Retail Segment**

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

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

### **Real Estate Segment**

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

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

### **Liquor Distribution Segment**

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

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

### Specialty Retail

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

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

## **Segment Operating & Financial Highlights**

### Grocery Retail

#### **Net Sales**

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

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

#### **Gross Profit**

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

#### **Other Operating Income**

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

#### **Operating Expenses**

Operating expenses increased by P1,808 million or 13.2% from P13,707 million in the year ended December 31, 2016 to P15,516 million in 2017 of the same period. The increase was mainly attributable to the Grocery Retail segment's operating costs and expenses in establishing new

organic stores and warehouses clubs including the operation of the QSR food service outlets such as manpower costs, as well as rent expenses relative to new lease contracts, supplies expense and business permits and taxes, all related to full year operation of acquired stores and operation of new organic stores.

#### **Other Expense - net**

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

#### **Net Income**

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

#### **Commercial Real Estate**

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

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

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

In December 2017, the group opened its latest community mall asset called Arvo Mall located in Marikina, Rizal which is its third joint development project with Ayala Land with Puregold as its anchor tenant. Also during the year, the group continued its ongoing development and construction pipeline of four (4) other community mall development assets located in Cavite, Muntinlupa, Subic and Las Pinas involving an additional GLA of 5,368 square meters which could be operational within the first half of 2018.

The group also acquired four (4) additional land assets located in Subic, Zambales; Antipolo, Rizal; Laoag, Ilocos Norte, and Maria Aurora, Aurora involving a total land area of 9,834 sq.m., thereby expanding its landbank portfolio to a total of nine (9) assets with a gross land area of 146,148.70 sq.m. It was also awarded as a winning bidder for a property located in Bayawan, Negros Oriental with an area of 12,052 sq. m. also for future development.

#### **Liquor Distribution**

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

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

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

### **Specialty Retail**

#### *Office Warehouse*

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

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

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

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

#### *Liquigaz*

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

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

## Consolidated Statements of Financial Position

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

(In Thousands)	2017	%	2016	%	INCREASE (DECREASE)	%
<b>A S S E T S</b>						
<b>Current Assets</b>						
Cash and cash equivalents	15,353,098	13.75%	12,634,464	12.31%	2,718,634	21.52%
Receivables - net	7,902,970	7.08%	6,805,704	6.63%	1,095,982	16.12%
Available-for-sale financial assets	8,618	0.01%	8,199	0.01%	419	5.11%
					-	-
Short-term investments		0.00%	909,928	0.89%	(909,928)	100.00%
Investment in trading securities	46,888	0.04%	35,109	0.03%	11,779	33.55%
Inventories	21,194,691	18.98%	19,792,366	19.29%	1,402,324	7.09%
Due from related parties	74,354	0.07%	185,136	0.18%	(110,782)	-59.84%
Prepayments and other current assets	3,014,609	2.70%	1,626,699	1.59%	1,387,910	85.32%
	47,585,227	42.63%	41,997,606	40.93%	5,597,621	13.33%
<b>Noncurrent Assets</b>						
Property and equipment - net	26,622,703	23.85%	24,090,074	23.48%	2,532,629	10.51%
Investment properties - net	10,753,607	9.63%	10,010,807	9.76%	742,800	7.42%
Intangible assets	22,776,064	20.40%	22,598,516	22.03%	177,548	0.79%
Investments	933,797	0.84%	926,669	0.90%	7,128	0.77%
Deferred oil and mineral exploration costs	122,948	0.11%	121,382	0.12%	1,566	1.29%
Deferred tax assets-net	64,438	0.08%	116,587	0.11%	(52,150)	-44.73%
Other non-current assets	2,746,788	2.46%	2,736,900	2.67%	9,887	0.36%
	64,020,346	57.37%	60,600,937	59.07%	3,419,408	5.64%
<b>TOTAL ASSETS</b>	<b>111,643,672</b>	<b>100.00%</b>	<b>102,598,543</b>	<b>100.00%</b>	<b>9,017,029</b>	<b>8.79%</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	P13,790,325	12.35%	P11,775,810	11.48%	P2,014,516	17.11%
Income tax payable	1,032,749	0.93%	1,102,118	1.07%	(69,369)	-6.29%
Short-term loans payable	5,562,500	4.98%	5,362,500	5.23%	200,000	3.73%
Current portion of long-term borrowing	2,443,402	2.19%	164,434	0.16%	2,278,969	-
Due to relate parties	849,772	0.76%	690,335	0.67%	159,437	100.00%
Trust receipts payable	4,091	0.00%		0.00%	4,091	100.00%
Other current liabilities	505,407	0.45%	542,543	0.53%	(37,136)	-8.84%
	24,188,247	21.67%	19,637,739	19.14%	4,550,508	23.17%
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	592,387	0.53%	513,453	0.50%	78,934	15.37%
Deferred tax liabilities	774,280	0.69%	751,935	0.73%	22,345	2.97%
Long term loans payable - net of debt issue cost	4,782,209	4.28%	7,223,505	7.04%	(2,441,296)	-33.80%
					-	-
Deposits for future stock subscription		0.00%	150,313	0.15%	(150,313)	100.00%
Non-current accrued rent	2,421,313	2.17%	2,088,230	2.04%	333,083	15.95%
Other non-current liabilities	413,046	0.37%	445,130	0.43%	(32,084)	-7.21%
	8,983,235	8.05%	11,172,567	10.89%	2,189,332	-19.60%
<b>TOTAL LIABILITIES</b>	<b>33,171,482</b>	<b>29.72%</b>	<b>30,810,306</b>	<b>30.03%</b>	<b>2,361,176</b>	<b>7.66%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	6.63%	7,405,264	7.22%		0.00%
Additional paid-in capital	9,634,644	8.63%	9,634,644	9.39%		0.00%
Remeasurement of retirement liability - net of tax	30,640	0.03%	692	0.00%	29,949	-
Reserve for fluctuations in value of AFS financial assets	5,013	0.00%	4,593	0.00%	419	9.12%
Treasury shares	(628,203)	-0.56%	(523,865)	-0.51%	(104,338)	19.92%
Retained earnings	38,147,383	34.18%	33,808,565	32.95%	4,338,818	12.83%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>54,592,465</b>	<b>48.91%</b>	<b>50,329,893</b>	<b>49.06%</b>	<b>4,262,572</b>	<b>8.47%</b>
<b>Non-controlling interest</b>	<b>23,851,625</b>	<b>21.37%</b>	<b>21,458,344</b>	<b>20.91%</b>	<b>2,393,282</b>	<b>11.15%</b>
<b>TOTAL EQUITY</b>	<b>78,444,090</b>	<b>70.28%</b>	<b>71,788,237</b>	<b>69.97%</b>	<b>6,655,853</b>	<b>9.27%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P111,615,572</b>	<b>100.00%</b>	<b>P102,598,543</b>	<b>100.00%</b>	<b>P9,017,029</b>	<b>8.79%</b>



### Current Assets

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

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

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

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

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

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

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

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

### Non-current Assets

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

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

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

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

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

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

### **Current Liabilities**

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

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

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

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

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

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

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

### **Noncurrent Liabilities**

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

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

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

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

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

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

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

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

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

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

## Comparative Years 2016 and 2015

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

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

### Growth in Revenues

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

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

### **Growth in Net Income**

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

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

#### **Grocery Retail Segment**

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

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

#### **Real Estate Segment**

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

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

#### **Liquor Distribution Segment**

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

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

#### **Specialty Retail**

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

On the other hand, Liguigaz Philippines Corporation contributed about P8.92 Billion to the Group's consolidated revenue during the same period in 2016 representing a decrease by about P2.92 Billion or 24.70% lower as compared to the 2015 revenue contribution of P11.85 Billion mainly attributable to the effects of the continuing depressed global petroleum and gas prices in 2016.

Due to the decline in revenue, net income contribution in 2016 amounted to P273.18 Million, decrease by P181.53 Million or 39.92% as compared to the net income contribution in 2015 amounting to P454.72 Million.

## Segment Operating & Financial Highlights

### Grocery Retail

#### **Net Sales**

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

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>6.2%</b>	<b>4.4%</b>
Net Ticket	<b>5.5%</b>	<b>2.0%</b>
Traffic	<b>0.6%</b>	<b>2.4%</b>

#### **Gross Profit**

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

#### **Other Operating Income**

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

#### **Operating Expenses**

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

**Other Expense - net**

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

**Net Income**

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

**Real Estate**

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

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

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

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

**Liquor Distribution**

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

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

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

## **Specialty Retail**

### *Office Warehouse*

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

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

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

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

### *Liquigaz*

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

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

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



## Consolidated Statements of Financial Position

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

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

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

### **Current Assets**

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

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

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

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

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

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

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

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

### **Non-current Assets**

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

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

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

**Investments** decreased by P63 Million or 6.32% from P989 Million in December 2015 to P927 Million in December 2016 resulting from the share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

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

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

### **Current Liabilities**

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

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

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

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

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

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

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

### **Noncurrent Liabilities**

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

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

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

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

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

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

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

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

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

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

## Comparative Years 2015 and 2014

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

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

## Comparison of Results of Operations between 2015 and 2014

### ***Growth in Revenues***

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P116.75 Billion for the year ended December 31, 2015 which reflects an increase by P17.96 Billion or representing a growth of 18% compared to last year's revenue of P98.79 Billion. The growth in consolidated revenues has been largely driven by a combination of the Group's sustained organic growth from its aggressive stores expansion program for its grocery retail, real estate and liquor distribution business segments as well as revenue contributions realized from the strategic acquisitions made during the period involving its commercial real estate portfolio as well as investments in specialty retailing business segment with the acquisition of Office Warehouse in February 2014 as well as Liquigaz Philippines in July 2014. During the year 2015, Liquigaz' sustained a reduction in its revenues by 37% from its 2014 level due to the effect of downward spiral of the global prices of petroleum and LPG.

### ***Growth in Net Income***

During the same period, the Group realized a consolidated net income of P6.99 Billion which is higher by P752 Million representing a 12% increase as compared to last year's net income of P6.23 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.491 Billion in 2015 which increased by about P464 Million or 12% as compared to the 2014 PATMI amounting to P4.027 Billion.

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

#### ***Grocery Retail Segment***

During 2015, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P97.17 Billion or an increase of P12.47 Billion or 15% growth as compared to the segment's revenue contribution of P84.70 Billion in 2014 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions. Consolidated net income contribution in 2015 amounted to P5.00 Billion which increased by P481 Million or 11% as compared to the net income contribution of P4.52 Billion in 2014.

#### ***Real Estate Segment***

The commercial real estate business segment contributed P1.85 Billion to the Group's consolidated revenue in 2015 representing a growth of about P452 Million or 32% as compared to last year amounting to P1.39 Billion. This was mainly attributable to the segment's expanded commercial mall operations with the operations of its Fairview Terraces mall as well as the acquisition of NE Pacific Mall on February 11, 2014 and additional acquisitions made during the year involving six (6) community mall properties with a GLA of 35,649 sq.m. added to its assets portfolio. Net income contribution in 2015 amounted to about P1.028 Billion which increased by about P68.74 Million or 7% as compared to the net income contribution of P959 Million in 2014.

### Liquor Distribution Segment

Similarly, the liquor distribution business segment contributed about P4.57 Billion to the Group's consolidated revenue during the same period in 2015 representing an increase by about P857 Billion or 23% higher as compared to the 2014 revenue contribution of P3.72 Billion mainly attributable to its aggressive sales and marketing campaign. Net income contribution in 2015 amounted to about P659 Million which increased by P56 Million or 9% as compared to the net income contribution in 2014 amounting to P603 Million.

### Specialty Retail

Office Warehouse, Inc., which was acquired in April 2014, contributed the amount of P1.30 Billion to the Group's consolidated revenue and P54 Million to the Group's consolidated net income during the year 2015.

On the other hand, Liquigaz Philippines Corporation, which was acquired on July 21, 2014, contributed the amount of P11.85 Billion to the Group's consolidated revenues and P455 Million to the Group's consolidated net income during 2015. It's 2015 revenues, however, decreased by 37% from its 2014 level due to the effects of the downward spiral of the global oil and gas prices sustained during the year.

## **Segment Operating Highlights**

### Grocery Retail

#### **Net Sales**

For the year ended December 31, 2015, the Grocery Retail segment posted a consolidated net sales of P97,172 million for an increase of P12,474 million or a growth of 14.7% compared to P84,697 million in the same period of 2014. New stores put up in 2014 were fully operating in 2015 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>2015</b>	<b>2014</b>
Net Sales	<b>2.9%</b>	3.5%
Net Ticket	<b>4.6%</b>	5.4%
Traffic	<b>-1.7%</b>	-1.8%

#### **Gross Profit**

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



### **Other Operating Income**

Other operating income increased by P323 million or 12.6% from P2,563 million in the year ended December 31, 2014 to P2,886 million in 2015 of the same period. This is attributable to increase in display allowance, rent income, membership income and service income driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

### **Operating Expenses**

Operating expenses increased by P1,380 million or 12.7% from P10,845 million in the year ended December 31, 2014 to P12,225 million in 2015 of the same period. The increase was mainly attributable to manpower cost of the Grocery Retail segment's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to acquisitions and operation of new organic stores.

### **Other Expense - net**

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

### **Net Income**

For the year ended December 31, 2015, the Grocery Retail segment earned a consolidated net income of P5,002 million at 5.1% net margin and an increase of 10.6% from P4,520 million at 5.3% net margin in 2014 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores (both organic and strategic acquisitions) complemented by operating efficiencies and strategic costs controls on operating expenses at its current level.

### **Real Estate**

The Group's Real Estate Segment posted P2.42 Billion in revenues for the year ended December 31, 2015 or a 10% increase from P2.21 Billion in the previous year. The acquisition of NE Pacific Shopping Centers Corporation, the operation of Fairview Terraces Mall as well as the acquisition of six (6) community malls in 2015, expanded the Group's commercial mall portfolio and mainly contributed to the increase of the segment's revenue.

Income from operations before depreciation increased by P134 Million from P1.37 Billion of the year ended December 31, 2015.

Real Estate Segment's net income for the period amounted to P1.028 Billion or a 5% increase from last year's P975 Million brought about by growth in revenue.

### **Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P5.68 Billion in 2015 or 17% growth from last year's P4.84 Billion. The growth in revenue is attributable to the increase in sales of the spirits sector particularly brandy and whisky. Wines and specialty beverages also experienced dramatic growths in the current year and contributed to the segment's overall sales growth.

Income from operations increased to P919 Million in 2015 or 10% higher from last year's P838 Million.

Net income for the 2015 increased by P57 Million from P603 million in 2014 to P660 Million in 2015 or a 9% growth.

### **Specialty Retail**

The Group's Specialty Retail Segment was initially established with the acquisition of 100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of 59 specialty retail outlets during the current year engaged in selling school and office supplies, technology items, home/office furniture and equipment and related products

For the year ended December 31, 2015, Office Warehouse contributed the amount of P1.30 Billion to the Group's consolidated revenue and P54 Million to the Group's consolidated net income.

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

For the year ended December 31, 2015, Liquigaz contributed the amount of P11.85 Billion to the Group's consolidated revenues and P455 Million to the Group's consolidated net income. Its 2015 twelve-month year on year net income grew by 18%, as compared to its 2014 operating results.

## Consolidated Statements of Financial Position

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

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

<i>(In Millions)</i>	2015	%	2014	%	<b>INCREASE (DECREASE)</b>	%
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	12,175	12%	12,715	14%	-540	-4%
Income tax payable	1,076	1%	830	1%	246	30%
Short-term loans payable	4,316	4%	2,259	3%	2,057	91%
Current portion of long-term borrowing	570	1%	1,008	1%	-438	-43%
Trust receipts payable	5	0%	-	0%	5	100%
Due to related parties	457	0%	43	0%	415	-
Other current liabilities	442	0%	409	0%	33	8%
	<b>19,041</b>	<b>20%</b>	<b>17,263</b>	<b>19%</b>	<b>1,778</b>	<b>10%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	480	0%	433	0%	46	11%
Deferred tax liabilities	759	1%	754	1%	5	1%
Long term loans payable - net of debt issue cost	8,693	9%	8,859	10%	-165	-2%
Deposits for future stock subscription	150	0%	150	0%	-	-
Other non-current liabilities	2,949	3%	2,560	3%	389	15%
	<b>13,032</b>	<b>13%</b>	<b>12,757</b>	<b>14%</b>	<b>275</b>	<b>2%</b>
<b>TOTAL LIABILITIES</b>	<b>32,073</b>	<b>33%</b>	<b>30,020</b>	<b>33%</b>	<b>2,053</b>	<b>7%</b>
<b>EQUITY</b>						
Capital stock	7,405	8%	7,405	8%	-	-
Additional paid-in capital	9,635	10%	9,635	11%	-	-
Remeasurement of retirement liability - net of tax	-8	0%	-50	0%	41	-83%
Reserve for fluctuations in value of AFS financial assets	5	0%	7	0%	-2	-28%
Treasury shares	-441	0%	-253	0%	-188	74%
Retained earnings	29,869	31%	25,926	29%	3,943	15%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>46,465</b>	<b>48%</b>	<b>42,670</b>	<b>48%</b>	<b>3,794</b>	<b>9%</b>
<b>Non-controlling interest</b>	<b>19,079</b>	<b>20%</b>	<b>17,008</b>	<b>19%</b>	<b>2,071</b>	<b>12%</b>
<b>TOTAL EQUITY</b>	<b>65,544</b>	<b>67%</b>	<b>59,679</b>	<b>67%</b>	<b>5,865</b>	<b>10%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>97,617</b>	<b>100%</b>	<b>89,699</b>	<b>100%</b>	<b>7,918</b>	<b>9%</b>

### Current Assets

**Cash and cash equivalents** amounted to P14.54 Billion as at December 31, 2015 with a decrease of P1.14 Billion from December 31, 2014 balance or an 7% decrease due basically to the net effect of the Real estate segment's acquisitions of additional six (6) community mall properties during the current period, coupled by significant decrease in cash of the Retail Segment used in settling their trade and non-trade payables, payment of cash dividends, acquisition of seventeen (17) supermarket stores in 2015 and capital expenditures for 2015 new stores development including new QSRs outlets under the S&R portfolio.

**Short-term investments** decreased by 32% from December 31, 2014 balance of P824 Million to this year's balance of P562 Million due mainly to the matured placements made by the Real Estate segment.

**Receivables** increased by 6% from December 31, 2014 balance of P5.32 Billion to this year's balance of P5.65 Billion due mainly to the increase in sales in 2015.

**Available-for-sale financial assets** decreased by 40% from December 31, 2014 balance of P14 Million to this period's balance of P9 Million due mainly to the redemption of certain investments and the effect of changes in stock prices.

**Investment in trading securities** decreased by 8% from December 31, 2014 balance of P37 Million to this period's balance of P34 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 20% from 2015 balance of P13.92 Billion to this year's balance of P16.74 Billion due to the retail segment's expansion and additional stocking requirement of the new organic and acquired stores during the year as well as the additional stocking requirements of the liquor distribution segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the retail segment amounting to P12.98 Billion.

**Prepayments and other current assets** increased by P643 Million or 55% at the end of December 2015, due primarily to additional input vat coming from purchase of inventory and payment of various expenses and increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** increased by P146 Million at the end of December 2015, due primarily to additional advances.

### Non-current Assets

As at December 31, 2015 and 2014, total non-current assets amounted to P58.12 Billion or 60% of total assets, and P52.72 Billion or 59% of total assets, respectively, for an increase of P5.39 Billion or 10%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P852 Million from P15.28 Billion in December 2014 to P16.14 Billion in December 2015 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment during the period.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P2.07 Billion or 16% from P12.77 Billion in December 2014 to P14.84 Billion in December 2015 due principally to additional six (6) commercial mall assets acquired during the year.

**Investments** increased by P77 Million or 8% from P912 Million in December 2014 to P989 Million in December 2015 resulting mainly from the additional investment equity investments during the

year to its unconsolidated joint venture affiliate, Ayagold Retailers and offset by the effect of share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

Similarly, **intangible assets** increased by P1.66 Billion or 8% in 2015 representing additional goodwill amounts paid resulting from the acquisition by the Grocery Retailing Segment of nine (9) NE supermarkets in February 2015 and eight (8) supermarket stores operating under trade name Budgetlane through Goldtempo Company, Incorporated, a wholly-owned subsidiary of Entenso Equities in August 2015.

**Deferred tax assets** increased by P223 Million or 186% from P120 Million in December 2014 to P344 Million in December 2015 resulting mainly from the additional deferred tax assets recognized by Specialty Retail and Real Estate Segments.

**Other non-current assets** increased by P516 Million from P2.61 Billion in December 2014 to P3.12 Billion in December 2015. About 45% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development for the Grocery Retail segment as well as accrued rental income (PAS17) pertaining to future periods for both the Real Estate and the Grocery Retail segments.

### **Current Liabilities**

As at December 31, 2015 and 2014, total current liabilities amounted to P19.0 Billion and P17.26 Billion respectively, for an increase of P1.78 Billion or 10% .

About 73% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P540 Million or 4% was primarily due to the additional purchases during by the Retail and Liquor Distribution segment partially offset by the net settlement of trade and non-trade liabilities.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P246 Million from P830 Million as at December 2014 to P1.07 Billion as at December 2015 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2015 in relation to the same period in 2014.

**Short-term loans payable** account increased by P2.06 Billion mainly due to additional loans availed during 2015 principally by the Grocery Retail, Real Estate and Liquor Distribution segments to augment working capital requirements, offset by the payments made by Liquor Distribution and Specialty Retail Segments.

**Current portion of long term borrowing** decreased by P438 Million due to settlement made during the period by the Grocery Retail Segment.

**Due to related parties** increased by P415 Million mainly due to the additional advances made by the Real Estate segment during 2015.

**Other current liabilities** Increased by 8% from P409 Million as at December 31, 2014 to P442 Million as at December 31, 2015 relatively due to redemption of PERKS points earned by members and recognition of other income from promotions for the period by the Grocery Retail Segment and additional deposits recognized by Real Estate segment.

### **Noncurrent Liabilities**

As at December 31, 2015 and 2014, total non-current liabilities amounted to P13.04 Billion and P12.76 Billion, respectively, for an increase of P280 Million or 2%.

**Retirement benefit cost** increased by P46 Million or 11% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P165 Million pertains to the settlement of loan made by Oil, holding and gas, Grocery Retail and Real Estate segments.

**Other non-current liabilities**, which is primarily composed of non-current accrued rent, increased by P394 Million or 15% from P2.56 Billion as at December 31, 2014 to P2.95 Billion as at December 31, 2015 due to recognition of rent expense for lease contracts by the Grocery Retail segment in compliance with PAS 17 – Leases.

### Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

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

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

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

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

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

## Material Events and Uncertainties

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

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