



108142018003311



## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: [mis@sec.gov.ph](mailto:mis@sec.gov.ph)

### Barcode Page

The following document has been received:

**Receiving Officer/Encoder** : Donna Encarnado - COS

**Receiving Branch** : SEC Head Office

**Receipt Date and Time** : August 14, 2018 03:20:05 PM

**Received From** : Head Office

Company Representative

Doc Source

Company Information

SEC Registration No. PW00000277

Company Name SAN MIGUEL CORP.

Industry Classification

Company Type Stock Corporation

### Document Information

Document ID 108142018003311

Document Type 17-Q (FORM 11-Q: QUARTERLY REPORT/FS)

Document Code 17-Q

Period Covered June 30, 2018

No. of Days Late 0

Department CFD

Remarks

# COVER SHEET

|   |   |   |   |   |   |  |  |  |  |
|---|---|---|---|---|---|--|--|--|--|
| P | W | - | 2 | 7 | 7 |  |  |  |  |
|---|---|---|---|---|---|--|--|--|--|

S. E. C. Registration Number

|  |  |  |  |  |  |   |   |   |  |  |  |  |  |  |  |
|--|--|--|--|--|--|---|---|---|--|--|--|--|--|--|--|
|  |  |  |  |  |  | S | A | N |  |  |  |  |  |  |  |
|--|--|--|--|--|--|---|---|---|--|--|--|--|--|--|--|

|  |  |  |  |  |   |   |   |   |   |   |  |  |  |  |  |
|--|--|--|--|--|---|---|---|---|---|---|--|--|--|--|--|
|  |  |  |  |  | M | I | G | U | E | L |  |  |  |  |  |
|--|--|--|--|--|---|---|---|---|---|---|--|--|--|--|--|

|  |  |   |   |   |   |   |   |   |   |   |   |   |  |  |  |
|--|--|---|---|---|---|---|---|---|---|---|---|---|--|--|--|
|  |  | C | O | R | P | O | R | A | T | I | O | N |  |  |  |
|--|--|---|---|---|---|---|---|---|---|---|---|---|--|--|--|

(Company's Full Name)

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |  |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|--|---|---|---|
| N | O | . | 4 | 0 |   | S | A | N |   | M | I | G | U | E | L |  | A | V | E |
| M | A | N | D | A | L | U | Y | O | N | G |   | C | I | T | Y |  |   |   |   |
| M | E | T | R | O |   | M | A | N | I | L | A |   |   |   |   |  |   |   |   |
| P | H | I | L | I | P | P | I | N | E | S |   |   |   |   |   |  |   |   |   |

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

|                        |
|------------------------|
| Atty. Mary Rose S. Tan |
|------------------------|

Contact Person

|                |
|----------------|
| (632) 632-3000 |
|----------------|

Company Telephone Number

|   |   |
|---|---|
| 1 | 2 |
|---|---|

Month

|   |   |
|---|---|
| 3 | 1 |
|---|---|

Day

**SEC FORM (2<sup>nd</sup> Quarter-2018)**

|  |  |   |   |   |   |  |  |
|--|--|---|---|---|---|--|--|
|  |  | 1 | 7 | - | Q |  |  |
|--|--|---|---|---|---|--|--|

FORM TYPE

**2<sup>nd</sup> Tuesday of June**

|  |  |
|--|--|
|  |  |
|--|--|

Month

|  |  |
|--|--|
|  |  |
|--|--|

Day

Annual Meeting



Secondary License Type, If Applicable



Dept. Requiring this Doc.



Amended Articles Number/Section

Total No. of Stockholders

**Total Amount of Borrowings**

|  |
|--|
|  |
|--|

Domestic

|  |
|--|
|  |
|--|

Foreign

-----

To be accomplished by SEC Personnel concerned



File Number

\_\_\_\_\_

LCU



Document I. D.

\_\_\_\_\_

Cashier

-----

**S T A M P S**

-----

Remarks = pls. Use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**  
**SEC FORM 17-Q**  
**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES**  
**REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended June 30, 2018
2. Commission identification number PW00000227
3. BIR Tax Identification No. 000-060-741-000
4. Exact name of issuer as specified in its charter SAN MIGUEL CORPORATION
5. Philippines  
Province, country or other jurisdiction  
of incorporation or organization
6. Industry Classification Code:  (SEC Use Only)
7. No. 40 San Miguel Avenue,  
Mandaluyong City, Metro Manila 1550  
Address of issuer's principal office Postal Code
8. (632) 632-3000  
Issuer's telephone number, including area code
9. N/A  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

|                                       | Number of Shares of Stock<br>and debt Outstanding<br>as of June 30, 2018 |                      |
|---------------------------------------|--------------------------------------------------------------------------|----------------------|
| <b>Common Shares</b>                  | <u>2,382,547,769</u>                                                     |                      |
| <b>SUB-TOTAL (Common Shares)</b>      |                                                                          | <u>2,382,547,769</u> |
| <b>Series 1 Preferred</b>             | 279,406,667                                                              |                      |
| <b>Series "2-A" Preferred Shares</b>  | 0                                                                        |                      |
| <b>Series "2-B" Preferred Shares</b>  | 90,428,200                                                               |                      |
| <b>Series "2-C" Preferred Shares</b>  | 255,559,400                                                              |                      |
| <b>Series "2-D" Preferred Shares</b>  | 89,333,400                                                               |                      |
| <b>Series "2-E" Preferred Shares</b>  | 134,000,100                                                              |                      |
| <b>Series "2-F" Preferred Shares</b>  | 223,333,500                                                              |                      |
| <b>Series "2-G" Preferred Shares</b>  | 66,666,600                                                               |                      |
| <b>Series "2-H" Preferred Shares</b>  | 164,000,000                                                              |                      |
| <b>Series "2-I" Preferred Shares</b>  | <u>169,333,400</u>                                                       |                      |
| <b>(SUB-TOTAL (Preferred Shares))</b> |                                                                          | <u>1,472,061,267</u> |
| <b>TOTAL Outstanding Shares</b>       |                                                                          | <b>3,854,609,036</b> |

Total Liabilities P 1,120,561 million

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

Yes [☒] No [☐]

If yes, disclose name of the Stock Exchange and class of securities listed therein:

**Philippine Stock Exchange**

- (a) **Common Shares**
- (b) **Series "1" Preferred Shares**
- (c) **Series "2" Preferred Shares - Subseries 2-A<sup>1</sup>**
- (d) **Series "2" Preferred Shares - 2-B**
- (e) **Series "2" Preferred Shares - 2-C**
- (f) **Series "2" Preferred Shares - 2-D**
- (g) **Series "2" Preferred Shares - 2-E**
- (h) **Series "2" Preferred Shares - 2-F**
- (i) **Series "2" Preferred Shares - 2-G**
- (j) **Series "2" Preferred Shares - 2-H**
- (k) **Series "2" Preferred Shares - 2-I**

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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.

Yes [☒] No [☐]

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

Yes [☒] No [☐]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended June 30, 2017) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

### **Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.**

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as **Annex "B"**.

## **PART II--OTHER INFORMATION**

The Company may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.

**NONE**

<sup>1</sup> Subject to trading suspension following their redemption on September 21, 2015.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **SAN MIGUEL CORPORATION**

Signature and Title **FERDINAND K. CONSTANTINO**  
Chief Finance Officer and Treasurer

Date August 14, 2018

Signature and Title **BELLA O. NAVARRA**  
Comptrollership Manager/  
Principal Accounting Officer

Date August 14, 2018

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND DECEMBER 31, 2017**  
*(In Millions)*

**ANNEX "A"**

**ASSETS**

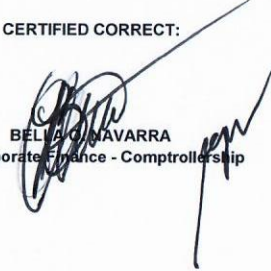
|                                                                                       | 2018<br>Unaudited  | 2017<br>Audited    |
|---------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Current Assets</b>                                                                 |                    |                    |
| Cash and cash equivalents (Notes 2, 9 and 10)                                         | P 222,538          | P 206,073          |
| Trade and other receivables - net (Notes 2, 5, 9 and 10)                              | 128,681            | 116,040            |
| Inventories (Note 2)                                                                  | 127,020            | 102,575            |
| Current portion of biological assets - net                                            | 3,822              | 3,422              |
| Prepaid expenses and other current assets (Notes 2, 9 and 10)                         | 82,677             | 78,228             |
| <b>Total Current Assets</b>                                                           | <b>564,738</b>     | <b>506,338</b>     |
| <b>Noncurrent Assets</b>                                                              |                    |                    |
| Investments and advances - net                                                        | 51,371             | 35,537             |
| Financial assets at fair value through<br>other comprehensive income (Notes 9 and 10) | 42,031             | 42,069             |
| Property, plant and equipment - net (Notes 2 and 6)                                   | 594,184            | 523,586            |
| Investment property - net                                                             | 9,664              | 7,162              |
| Biological assets - net of current portion                                            | 2,760              | 2,695              |
| Goodwill - net (Note 2)                                                               | 131,379            | 60,124             |
| Other intangible assets - net (Note 2)                                                | 137,849            | 134,438            |
| Deferred tax assets                                                                   | 19,417             | 18,412             |
| Other noncurrent assets - net (Notes 2, 5, 9 and 10)                                  | 57,792             | 49,282             |
| <b>Total Noncurrent Assets</b>                                                        | <b>1,046,447</b>   | <b>873,305</b>     |
|                                                                                       | <b>P 1,611,185</b> | <b>P 1,379,643</b> |

**LIABILITIES AND EQUITY**

|                                                                                        | 2018<br>Unaudited  | 2017<br>Audited    |
|----------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Current Liabilities</b>                                                             |                    |                    |
| Loans payable (Notes 2, 5, 9 and 10)                                                   | P 177,853          | P 149,863          |
| Accounts payable and accrued expenses (Notes 2, 5, 9 and 10)                           | 142,603            | 136,993            |
| Finance lease liabilities - current portion (Notes 2, 9 and 10)                        | 18,730             | 16,889             |
| Income and other taxes payable (Note 2)                                                | 19,306             | 16,653             |
| Dividends payable (Notes 5 and 8)                                                      | 5,454              | 4,429              |
| Current maturities of long-term debt - net of debt issue costs (Notes 2, 5, 9 and 10)  | 73,655             | 36,944             |
| <b>Total Current Liabilities</b>                                                       | <b>437,601</b>     | <b>361,771</b>     |
| <b>Noncurrent Liabilities</b>                                                          |                    |                    |
| Long-term debt - net of current maturities and debt issue costs (Notes 2, 5, 9 and 10) | 502,233            | 362,548            |
| Deferred tax liabilities (Note 2)                                                      | 21,085             | 20,674             |
| Finance lease liabilities - net of current portion (Notes 2, 9 and 10)                 | 133,412            | 138,008            |
| Other noncurrent liabilities (Notes 2, 5, 9 and 10)                                    | 26,230             | 25,580             |
| <b>Total Noncurrent Liabilities</b>                                                    | <b>682,960</b>     | <b>546,810</b>     |
| <b>Equity</b>                                                                          |                    |                    |
| Equity Attributable to Equity Holders of the Parent Company                            |                    |                    |
| Capital stock - common                                                                 | 16,436             | 16,435             |
| Capital stock - preferred                                                              | 10,187             | 10,187             |
| Additional paid-in capital                                                             | 177,782            | 177,750            |
| Equity reserves                                                                        | (4,722)            | (4,799)            |
| Retained earnings:                                                                     |                    |                    |
| Appropriated                                                                           | 69,063             | 66,890             |
| Unappropriated                                                                         | 147,569            | 143,335            |
| Treasury stock                                                                         | (109,501)          | (109,501)          |
|                                                                                        | 306,814            | 300,297            |
| Non-controlling Interests (Note 2)                                                     | 183,810            | 170,765            |
| <b>Total Equity</b>                                                                    | <b>490,624</b>     | <b>471,062</b>     |
|                                                                                        | <b>P 1,611,185</b> | <b>P 1,379,643</b> |

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

  
**BELÉN O. NAVARRA**  
 VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE PERIODS ENDED JUNE 30, 2018 AND 2017**  
*(In Millions, Except Per Share Data)*

|                                                                  | 2018<br>Unaudited | 2017<br>Unaudited | For the Quarter Ended |                   |
|------------------------------------------------------------------|-------------------|-------------------|-----------------------|-------------------|
|                                                                  |                   |                   | 2018<br>Unaudited     | 2017<br>Unaudited |
| SALES (Note 3)                                                   | P 499,000         | P 393,405         | P 264,653             | P 197,643         |
| COST OF SALES                                                    | 392,855           | 304,921           | 209,180               | 153,569           |
| GROSS PROFIT                                                     | 106,145           | 88,484            | 55,473                | 44,074            |
| SELLING AND ADMINISTRATIVE EXPENSES                              | (39,139)          | (35,041)          | (21,154)              | (18,144)          |
| INTEREST EXPENSE AND OTHER FINANCING CHARGES                     | (20,162)          | (18,207)          | (11,210)              | (10,007)          |
| INTEREST INCOME                                                  | 3,072             | 2,048             | 1,699                 | 1,053             |
| EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES | (90)              | 164               | (136)                 | 20                |
| GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT           | 337               | 396               | 329                   | 424               |
| OTHER INCOME (CHARGES) - Net (Note 4)                            | (10,906)          | (600)             | (6,689)               | 504               |
| INCOME BEFORE INCOME TAX                                         | 39,257            | 37,244            | 18,312                | 17,924            |
| INCOME TAX EXPENSE                                               | 11,672            | 11,151            | 6,336                 | 5,659             |
| NET INCOME                                                       | P 27,585          | P 26,093          | P 11,976              | P 12,265          |
| Attributable to:                                                 |                   |                   |                       |                   |
| Equity holders of the Parent Company                             | P 12,780          | P 12,967          | P 5,445               | P 6,728           |
| Non-controlling interests                                        | 14,805            | 13,126            | 6,531                 | 5,537             |
|                                                                  | P 27,585          | P 26,093          | P 11,976              | P 12,265          |
| Earnings Per Common Share Attributable to Equity                 |                   |                   |                       |                   |
| Holders of the Parent Company (Note 7):                          |                   |                   |                       |                   |
| Basic                                                            | P 3.83            | P 3.91            | P 1.52                | P 2.06            |
| Diluted                                                          | P 3.83            | P 3.90            | P 1.52                | P 2.05            |

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLARDO NIWARRA  
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED JUNE 30, 2018 AND 2017**  
*(In Millions)*

|                                                                                      | 2018            | 2017            | For the Quarter Ended |                 |
|--------------------------------------------------------------------------------------|-----------------|-----------------|-----------------------|-----------------|
|                                                                                      | Unaudited       | Unaudited       | 2018                  | 2017            |
|                                                                                      |                 |                 | Unaudited             | Unaudited       |
| <b>NET INCOME</b>                                                                    | <b>P 27,585</b> | <b>P 26,093</b> | <b>P 11,976</b>       | <b>P 12,265</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                             |                 |                 |                       |                 |
| <b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>                         |                 |                 |                       |                 |
| EQUITY RESERVE FOR RETIREMENT PLAN                                                   | 35              | 10              | 34                    | 14              |
| INCOME TAX EXPENSE                                                                   | (7)             | -               | (7)                   | -               |
| NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | (21)            | -               | 8                     | -               |
| INCOME TAX EXPENSE                                                                   | (5)             | -               | (4)                   | -               |
| SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net    | (119)           | 76              | 20                    | 74              |
|                                                                                      | (117)           | 86              | 51                    | 88              |
| <b>ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS</b>                              |                 |                 |                       |                 |
| GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS             | 4,642           | 2,364           | (380)                 | 1,257           |
| NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME        | (6)             | -               | (3)                   | -               |
| INCOME TAX BENEFIT                                                                   | 2               | -               | 1                     | -               |
| NET GAIN ON AVAILABLE-FOR-SALE FINANCIAL ASSETS                                      | -               | 126             | -                     | 86              |
| INCOME TAX EXPENSE                                                                   | -               | (2)             | -                     | (1)             |
|                                                                                      | 4,638           | 2,488           | (382)                 | 1,342           |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>                                | <b>4,521</b>    | <b>2,574</b>    | <b>(331)</b>          | <b>1,430</b>    |
| <b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>                                       | <b>P 32,106</b> | <b>P 28,667</b> | <b>P 11,645</b>       | <b>P 13,695</b> |
| <b>Attributable to:</b>                                                              |                 |                 |                       |                 |
| Equity holders of the Parent Company                                                 | P 15,298        | P 14,474        | P 5,410               | P 7,600         |
| Non-controlling interests                                                            | 16,808          | 14,193          | 6,235                 | 6,095           |
|                                                                                      | P 32,106        | P 28,667        | P 11,645              | P 13,695        |

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BELLARMINO  
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIODS ENDED JUNE 30, 2018 AND 2017  
(In Millions)

| Equity Attributable to Equity Holders of the Parent Company                          |           |                            |   |                             |   |                    |   |                     |   |                      |   |                   |                |                |           |         | Non-controlling Interests |         |   | Total Equity |   |          |   |         |   |         |   |         |
|--------------------------------------------------------------------------------------|-----------|----------------------------|---|-----------------------------|---|--------------------|---|---------------------|---|----------------------|---|-------------------|----------------|----------------|-----------|---------|---------------------------|---------|---|--------------|---|----------|---|---------|---|---------|---|---------|
| Equity Reserves                                                                      |           |                            |   |                             |   |                    |   |                     |   |                      |   |                   |                |                |           |         |                           |         |   |              |   |          |   |         |   |         |   |         |
| Capital Stock                                                                        |           | Additional Paid-in Capital |   | Reserve for Retirement Plan |   | Fair Value Reserve |   | Translation Reserve |   | Other Equity Reserve |   | Retained Earnings |                | Treasury Stock |           | Total   |                           |         |   |              |   |          |   |         |   |         |   |         |
| Common                                                                               | Preferred |                            |   |                             |   |                    |   |                     |   |                      |   | Appropriated      | Unappropriated | Common         | Preferred |         |                           |         |   |              |   |          |   |         |   |         |   |         |
| As of January 1, 2018, As previously reported (Audited)                              | P         | 16,435                     | P | 10,187                      | P | 177,750            | P | (2,664)             | P | 277                  | P | 2,748             | P              | (5,160)        | P         | 66,890  | P                         | 143,335 | P | (67,093)     | P | (42,408) | P | 300,297 | P | 170,765 | P | 471,062 |
| Adjustments due to Philippine Financial Reporting Standards (PFRS) 9 and 15 (Note 1) |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | 46      |                           | -       |   | -            |   | -        |   | 46      |   | 59      |   | 105     |
| As of January 1, 2018, As adjusted                                                   |           | 16,435                     |   | 10,187                      |   | 177,750            |   | (2,664)             |   | 277                  |   | 2,748             |                | (5,160)        |           | 66,890  |                           | 143,381 |   | (67,093)     |   | (42,408) |   | 300,343 |   | 170,824 |   | 471,167 |
| Net income                                                                           |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | 12,780  |                           | -       |   | -            |   | -        |   | 12,780  |   | 14,805  |   | 27,585  |
| Other comprehensive income (loss)                                                    |           | -                          |   | -                           |   | -                  |   | 7                   |   | (166)                |   | 2,677             |                | -              |           | -       |                           | -       |   | -            |   | -        |   | 2,518   |   | 2,003   |   | 4,521   |
| Total comprehensive income (loss)                                                    |           | -                          |   | -                           |   | -                  |   | 7                   |   | (166)                |   | 2,677             |                | -              |           | -       |                           | 12,780  |   | -            |   | -        |   | 15,298  |   | 16,808  |   | 32,106  |
| Issuance of common shares                                                            |           | 1                          |   | -                           |   | 32                 |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | -       |   | -            |   | -        |   | 33      |   | -       |   | 33      |
| Net addition to non-controlling interests and others (Note 2)                        |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | 28                |                | (2,469)        |           | (72)    |                           | (1,021) |   | -            |   | -        |   | (3,534) |   | 6,313   |   | 2,779   |
| Appropriations - net                                                                 |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | 2,245   |                           | (2,245) |   | -            |   | -        |   | -       |   | -       |   | -       |
| Cash dividends and distributions (Note 8):                                           |           |                            |   |                             |   |                    |   |                     |   |                      |   |                   |                |                |           |         |                           |         |   |              |   |          |   |         |   |         |   |         |
| Common                                                                               |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | (1,668) |   | -            |   | -        |   | (1,668) |   | (5,835) |   | (7,503) |
| Preferred                                                                            |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | (3,658) |   | -            |   | -        |   | (3,658) |   | (751)   |   | (4,409) |
| Undated subordinated capital securities                                              |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | -       |   | -            |   | -        |   | -       |   | (3,549) |   | (3,549) |
| As of June 30, 2018 (Unaudited)                                                      | P         | 16,436                     | P | 10,187                      | P | 177,782            | P | (2,657)             | P | 111                  | P | 5,453             | P              | (7,629)        | P         | 69,063  | P                         | 147,569 | P | (67,093)     | P | (42,408) | P | 306,814 | P | 183,810 | P | 490,624 |
| As of January 1, 2017 (Audited)                                                      | P         | 16,425                     | P | 10,187                      | P | 177,641            | P | (1,756)             | P | 214                  | P | (180)             | P              | (5,978)        | P         | 56,906  | P                         | 135,984 | P | (67,093)     | P | (42,408) | P | 279,942 | P | 156,839 | P | 436,781 |
| Net income                                                                           |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | 12,967  |   | -            |   | -        |   | 12,967  |   | 13,126  |   | 26,093  |
| Other comprehensive income                                                           |           | -                          |   | -                           |   | -                  |   | 3                   |   | 160                  |   | 1,344             |                | -              |           | -       |                           | -       |   | -            |   | -        |   | 1,507   |   | 1,067   |   | 2,574   |
| Total comprehensive income                                                           |           | -                          |   | -                           |   | -                  |   | 3                   |   | 160                  |   | 1,344             |                | -              |           | -       |                           | 12,967  |   | -            |   | -        |   | 14,474  |   | 14,193  |   | 28,667  |
| Issuance of common shares                                                            |           | 10                         |   | -                           |   | 109                |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | -       |   | -            |   | -        |   | 119     |   | -       |   | 119     |
| Net addition to non-controlling interests and others                                 |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | -       |   | -            |   | -        |   | -       |   | 1       |   | 1       |
| Reversal of appropriations - net                                                     |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | (1,444) |                           | 1,444   |   | -            |   | -        |   | -       |   | -       |   | -       |
| Cash dividends and distributions (Note 8):                                           |           |                            |   |                             |   |                    |   |                     |   |                      |   |                   |                |                |           |         |                           |         |   |              |   |          |   |         |   |         |   |         |
| Common                                                                               |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | (1,667) |   | -            |   | -        |   | (1,667) |   | (3,837) |   | (5,504) |
| Preferred                                                                            |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | (3,658) |   | -            |   | -        |   | (3,658) |   | (747)   |   | (4,405) |
| Undated subordinated capital securities                                              |           | -                          |   | -                           |   | -                  |   | -                   |   | -                    |   | -                 |                | -              |           | -       |                           | -       |   | -            |   | -        |   | -       |   | (3,520) |   | (3,520) |
| As of June 30, 2017 (Unaudited)                                                      | P         | 16,435                     | P | 10,187                      | P | 177,750            | P | (1,753)             | P | 374                  | P | 1,164             | P              | (5,978)        | P         | 55,462  | P                         | 145,070 | P | (67,093)     | P | (42,408) | P | 289,210 | P | 162,929 | P | 452,139 |

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

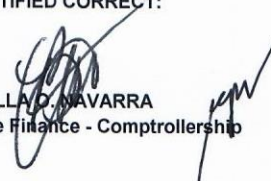
CERTIFIED CORRECT:  
  
BELINDA O. NAVARRA  
VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIODS ENDED JUNE 30, 2018 AND 2017**  
*(In Millions)*

|                                                                                                 | 2018<br>Unaudited | 2017<br>Unaudited |
|-------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                     |                   |                   |
| Income before income tax                                                                        | P 39,257          | P 37,244          |
| Adjustments for:                                                                                |                   |                   |
| Depreciation, amortization and others - net                                                     | 34,327            | 16,995            |
| Interest expense and other financing charges                                                    | 20,162            | 18,207            |
| Interest income                                                                                 | (3,072)           | (2,048)           |
| Equity in net earnings (losses) of associates and joint ventures                                | 90                | (164)             |
| Gain on sale of investments and property and equipment                                          | (337)             | (396)             |
| Operating income before working capital changes                                                 | 90,427            | 69,838            |
| Changes in noncash current assets, certain current liabilities and others                       | (41,518)          | (58)              |
| Cash generated from operations                                                                  | 48,909            | 69,780            |
| Interest and other financing charges paid                                                       | (16,187)          | (12,014)          |
| Income taxes paid                                                                               | (10,865)          | (9,040)           |
| Net cash flows provided by operating activities                                                 | 21,857            | 48,726            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                     |                   |                   |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired                          | (97,985)          | (1,203)           |
| Additions to investments and advances and financial assets at fair value                        |                   |                   |
| through other comprehensive income                                                              | (17,758)          | (996)             |
| Additions to property, plant and equipment                                                      | (17,174)          | (18,405)          |
| Increase in other noncurrent assets and others                                                  | (11,024)          | (10,470)          |
| Interest received                                                                               | 2,933             | 1,894             |
| Proceeds from sale of investments and property and equipment                                    | 1,005             | 645               |
| Dividend received from an associate and financial assets at fair value                          |                   |                   |
| through other comprehensive income                                                              | 568               | 9                 |
| Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of | -                 | 13,020            |
| Net cash flows used in investing activities                                                     | (139,435)         | (15,506)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                     |                   |                   |
| Proceeds from:                                                                                  |                   |                   |
| Short-term borrowings                                                                           | 490,204           | 395,609           |
| Long-term borrowings                                                                            | 140,969           | 115,481           |
| Payments of:                                                                                    |                   |                   |
| Short-term borrowings                                                                           | (465,048)         | (401,382)         |
| Long-term borrowings                                                                            | (8,464)           | (81,649)          |
| Redemption of undated subordinated capital securities of a subsidiary                           | (21,309)          | -                 |
| Payments of finance lease liabilities                                                           | (12,685)          | (12,363)          |
| Cash dividends and distributions paid to non-controlling shareholders                           | (9,136)           | (8,659)           |
| Cash dividends paid                                                                             | (5,298)           | (5,401)           |
| Proceeds from issuance of capital stock                                                         | 33                | 119               |
| Net proceeds from issuance of senior perpetual capital securities of a subsidiary and others    | 23,815            | -                 |
| Net cash flows provided by financing activities                                                 | 133,081           | 1,755             |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                             | 962               | 915               |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                | 16,465            | 35,890            |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                           | 206,073           | 203,153           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                               | P 222,538         | P 239,043         |

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

  
**BELLA D. NAVARRA**  
 VP, Corporate Finance - Comptrollership

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**TRADE AND OTHER RECEIVABLES**  
**June 30, 2018**  
**(In Millions)**

|                                      |           |   |         |   | Past Due    |              |              |
|--------------------------------------|-----------|---|---------|---|-------------|--------------|--------------|
|                                      | Total     |   | Current |   | 1 - 30 Days | 31 - 60 Days | Over 60 Days |
| Trade                                | P 76,200  | P | 57,221  | P | 5,480       | P 1,955      | P 11,544     |
| Non-trade                            | 46,297    |   | 21,803  |   | 3,209       | 1,609        | 19,676       |
| Others                               | 19,215    |   | 18,332  |   | 64          | 42           | 777          |
| Total                                | 141,712   | P | 97,356  | P | 8,753       | P 3,606      | P 31,997     |
| Less allowance for impairment losses | 13,031    |   |         |   |             |              |              |
| Net                                  | P 128,681 |   |         |   |             |              |              |

## **SAN MIGUEL CORPORATION AND SUBSIDIARIES**

### **SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** **(Amounts in Millions, Except Per Share Data)**

---

#### **1. Summary of Significant Accounting and Financial Reporting Policies**

The Group prepared its interim consolidated financial statements as of and for the period ended June 30, 2018 and comparative financial statements for the same period in 2017 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New and Amended Standards and Interpretation

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards and interpretations as part of PFRS.

#### *New and Amended Standards and Interpretation Adopted in 2018*

The Group has adopted the following PFRS effective January 1, 2018 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the *Amendments to PAS 28, Investments in Associates*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss (FVPL). This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.
- PFRS 9 (2014), *Financial Instruments* replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the expected credit loss model in estimating impairment which resulted to the decrease in the allowance for impairment of receivables amounting to P179 and increase in retained earnings and non-controlling interests as of January 1, 2018 by P65 and P59, respectively.

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018. The effect of adopting PFRS 9 on the carrying amounts of financial assets as of January 1, 2018 relates solely to the new impairment requirements.

|                                                                | Classification under<br>PAS 39 | Classification under<br>PFRS 9     | Carrying<br>Amount under<br>PAS 39 | Carrying<br>Amount under<br>PFRS 9 |
|----------------------------------------------------------------|--------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Cash and cash equivalents                                      | Loans and receivables          | Financial assets at amortized cost | P206,073                           | P206,073                           |
| Trade and other receivables - net                              | Loans and receivables          | Financial assets at amortized cost | 116,040                            | 116,219                            |
| Derivative assets                                              | Financial assets at FVPL       | Financial assets at FVPL           | 333                                | 333                                |
| Investments in equity instruments                              | Financial assets at FVPL       | Financial assets at FVPL           | 170                                | 170                                |
| Investments in equity instruments                              | AFS financial assets           | Financial assets at FVOCI          | 41,737                             | 41,737                             |
| Investments in debt instruments                                | AFS financial assets           | Financial assets at FVOCI          | 531                                | 531                                |
| Noncurrent receivables and deposits, and restricted cash - net | Loans and receivables          | Financial assets at amortized cost | 23,177                             | 23,177                             |

- Applying PFRS 9, with PFRS 4, *Insurance Contracts (Amendments to PFRS 4)*. The amendments permit an entity to defer application of PFRS 9 in 2018 and continue to apply PAS 39, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is held for an activity that is connected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if the entity restates comparative information when applying PFRS 9.
- Classification and Measurement of Share-based Payment Transactions (*Amendments to PFRS 2, Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards: The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e. the modified grant date method;

(b) Classification of awards settled net of withholding tax: The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory tax withholding requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment; and (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in profit or loss.

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

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The impact of the adoption decreased retained earnings as of January 1, 2018 by P19.

The following tables summarize the impact of adopting PFRS 15 on the interim consolidated financial statements as of and for the period ended June 30, 2018.

**Consolidated Statement of Financial Position**

|                                                                    | As reported       | Adjustments | Amounts without adoption of PFRS 15 |
|--------------------------------------------------------------------|-------------------|-------------|-------------------------------------|
| <b>Assets</b>                                                      |                   |             |                                     |
| Trade and other receivables-net                                    | P128,681          | (P122)      | P128,559                            |
| Inventories                                                        | 127,020           | 71          | 127,091                             |
| Prepaid expenses and other current assets                          | 82,677            | 92          | 82,769                              |
| <b>Current assets</b>                                              | <b>564,738</b>    | <b>41</b>   | <b>564,779</b>                      |
| Deferred tax assets                                                | 19,417            | (9)         | 19,408                              |
| <b>Noncurrent assets</b>                                           | <b>1,046,447</b>  | <b>(9)</b>  | <b>1,046,438</b>                    |
| <b>Total Assets</b>                                                | <b>P1,611,185</b> | <b>P32</b>  | <b>P1,611,217</b>                   |
| <b>Liabilities</b>                                                 |                   |             |                                     |
| Accounts payable and accrued expenses                              | P142,603          | P36         | P142,639                            |
| <b>Current liabilities</b>                                         | <b>437,601</b>    | <b>36</b>   | <b>437,637</b>                      |
| Deferred tax liabilities                                           | 21,085            | 16          | 21,101                              |
| <b>Noncurrent liabilities</b>                                      | <b>682,960</b>    | <b>16</b>   | <b>682,976</b>                      |
| <b>Total Liabilities</b>                                           | <b>1,120,561</b>  | <b>52</b>   | <b>1,120,613</b>                    |
| <b>Equity</b>                                                      |                   |             |                                     |
| Retained earnings                                                  | 216,632           | (20)        | 216,612                             |
| <b>Equity Attributable to Equity Holders of the Parent Company</b> | <b>306,814</b>    | <b>(20)</b> | <b>306,794</b>                      |
| <b>Non-controlling interests</b>                                   | <b>183,810</b>    | <b>-</b>    | <b>183,810</b>                      |
| <b>Total Equity</b>                                                | <b>490,624</b>    | <b>(20)</b> | <b>490,604</b>                      |
| <b>Total Liabilities and Equity</b>                                | <b>P1,611,185</b> | <b>P32</b>  | <b>P1,611,217</b>                   |

**Consolidated Statement of Comprehensive Income**

|                                                | As reported     | Adjustments   | Amounts without adoption of PFRS 15 |
|------------------------------------------------|-----------------|---------------|-------------------------------------|
| <b>Sales</b>                                   | <b>P499,000</b> | <b>(P149)</b> | <b>P498,851</b>                     |
| <b>Cost of Sales</b>                           | <b>392,855</b>  | <b>(78)</b>   | <b>392,777</b>                      |
| <b>Gross Profit</b>                            | <b>106,145</b>  | <b>(71)</b>   | <b>106,074</b>                      |
| <b>Income before Income Tax</b>                | <b>39,257</b>   | <b>(71)</b>   | <b>39,186</b>                       |
| <b>Income Tax Expense</b>                      | <b>11,672</b>   | <b>25</b>     | <b>11,697</b>                       |
| <b>Net Income</b>                              | <b>27,585</b>   | <b>(96)</b>   | <b>27,489</b>                       |
| <b>Total Comprehensive Income - Net of tax</b> | <b>P32,106</b>  | <b>(P96)</b>  | <b>P32,010</b>                      |

The adjustments are due to the effect of variable consideration in the determination of transaction price and the change in the recognition of revenue from real estate. Revenue from real estate include sale of developed land and house and lot on which the Group's performance is to transfer the ownership over the developed properties. The Group begins selling the real properties prior to the completion of the development. The Group's performance obligation on the sale of real properties under development is satisfied over time considering that, under existing laws and regulations, the Group does not have an alternative use on the assets being developed and that it has rights to payment over the development completed to date. When the Group sells developed properties, its performance obligation is satisfied at a point in time when the customer has accepted the property.

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

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

Except as otherwise indicated, the adoption of these foregoing new and amended standards and interpretation did not have a material effect on the interim consolidated financial statements.

#### *New and Amended Standards and Interpretation Not Yet Adopted*

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following new and amended standards and interpretations on the respective effective dates:

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

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. The Group is currently assessing the potential impact of the new standard.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the consolidated financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is not probable that the tax authority will accept the Group's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution

of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted.

The interpretation was approved by the FRSC on July 12, 2017 but is still subject to the approval by the Board of Accountancy (BOA).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (*Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28*). The amendments address an inconsistency in the requirements in PFRS 10 and PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However on January 13, 2016, the FRSC decided to postpone the effective date until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

- Prepayment Features with Negative Compensation (*Amendments to PFRS 9*). The amendments cover the following areas: (a) Prepayment features with negative compensation. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs; and (b) Modification of financial liabilities. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss. If the initial application of PFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to relevant transition reliefs.
- Long-term Interests (LTI) in Associates and Joint Ventures (*Amendments to PAS 28*). The amendment requires the application of PFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not

applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture. The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI. The amendment is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Plan Amendment, Curtailment or Settlement (*Amendments to PAS 19, Employee Benefits*). The amendments clarify that: (a) current service cost and net interest for the period are determined using the actuarial assumptions when amendment, curtailment or settlement occurs; and (b) the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which the amendments are first applied, with earlier application permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to three standards:
  - Previously Held Interest in a Joint Operation (*Amendments to PFRS 3, Business Combinations and PFRS 11, Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Income Tax Consequences of Payments on Financial Instrument Classified as Equity (*Amendments to PAS 12*). The amendments clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

- Borrowing Costs Eligible for Capitalization (*Amendments to PAS 23, Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance

qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The amendments were approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

- *Amendments to References to the Conceptual Framework in IFRS Standards.* The amendments introduce the following main improvements: (a) concept on measurement, including factors to be considered when selecting a measurement basis; (b) concept on presentation and disclosure, including when to classify income and expenses in other comprehensive income; (c) guidance on the recognition and derecognition of assets and liabilities in the consolidated financial statements; (d) improved definitions of an asset and a liability; and (e) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- *PFRS 17, Insurance Contracts.* PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for entities that apply PFRS 9 and PFRS 15.

The new standard was approved by the FRSC on March 14, 2018 but is still subject to the approval by the BOA.

---

## 2. Business Combination

- San Miguel Food and Beverage, Inc. (SMFB)

On April 5, 2018, San Miguel Corporation (the "Parent Company") and SMFB (formerly San Miguel Pure Foods Company, Inc.) signed the Deed of Exchange of Shares pursuant to which the Parent Company will transfer to SMFB, the Parent Company's 7,859,319,270 common shares of the capital stock of San Miguel Brewery Inc. (SMB) and 216,972,000 common shares of the capital stock of Ginebra San Miguel Inc. (GSMI) (collectively, the "Exchange Shares") at the total transfer value of P336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of the Parent Company 4,242,549,130 common shares of the capital stock of SMFB (the "New SMFB Shares") out of the increase in the authorized capital stock of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation. In view of the approval of the increase in the authorized capital stock, SMFB issued the New SMFB Shares in favor of the Parent Company.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of the Parent Company's ownership in SMFB from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination.

As a result of the consolidation, SMFB now operates its business through major operating food subsidiaries as well as the major operating beverage subsidiaries of SMB and GSML.

With the consolidation of SMB and GSML to SMFB, the Group's reportable segments are now food and beverage, packaging, energy, fuel and oil, and infrastructure (see note 3).

- SMC Global Power Holdings Corp. (SMC Global)

On March 20, 2018, SMC Global completed the acquisition of (a) 51% and 49% equity interests of AES Phil Investment Pte. Ltd. and Gen Plus B. V., respectively, in Masin-AES Pte. Ltd. (MAPL); (b) 100% equity interest of The AES Corporation in AES Transpower Private Ltd. (ATPL); and (c) 100% equity interest of AES Phil in AES Philippines Inc. (API), ("the Masinloc Group") for a total consideration of US\$1,900 or P98,990, subject to a post-closing purchase price adjustment.

The Masinloc Group are consolidated by SMC Global effective March 20, 2018.

MAPL, through its subsidiaries [including Masinloc Power Partners Co. Ltd. (MPPCL)], owns and/or operates (i) the 2 x 315 Megawatt (MW) coal-fired power plant (Units 1 and 2); (ii) the under construction project expansion of the 335 MW unit known as Unit 3; (iii) the 10 MW battery energy storage project, all located in the Province of Zambales, Philippines; and (iv) the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental, which is still at the pre-development stage. ATPL has a Philippine Regional Office and Headquarters which provides the corporate support services to MPPCL, while API provides energy marketing services to MPPCL.

With the acquisition by SMC Global of the Masinloc Group, SMC Global aims to improve its existing baseload capacity to further ensure its ability to provide affordable and reliable supply of power to its customers. The additional power assets provide an opportunity for SMC Global to increase its footprint in clean coal technology that provides reliable and affordable power, particularly in Luzon. The transaction will result in the production of electricity in an environmentally responsible way.

SMC Global has elected to measure non-controlling interest at proportionate interest in identifiable net assets.

The following summarizes the recognized amount of assets acquired and liabilities assumed at the acquisition date:

|                                                       | <b>2018</b>     |
|-------------------------------------------------------|-----------------|
| <b>Assets</b>                                         |                 |
| Cash and cash equivalents                             | <b>P1,656</b>   |
| Trade and other receivables - net                     | <b>2,439</b>    |
| Inventories                                           | <b>2,378</b>    |
| Prepaid expenses and other current assets             | <b>1,692</b>    |
| Property, plant and equipment - net                   | <b>62,275</b>   |
| Other intangible assets - net                         | <b>80</b>       |
| Other noncurrent assets - net                         | <b>3,040</b>    |
| <b>Liabilities</b>                                    |                 |
| Loans payable                                         | <b>(2,344)</b>  |
| Accounts payable and accrued expenses                 | <b>(9,497)</b>  |
| Income and other taxes payable                        | <b>(234)</b>    |
| Finance lease liabilities (including current portion) | <b>(31)</b>     |
| Long-term debt - net (including current maturities)   | <b>(31,952)</b> |
| Deferred tax liabilities                              | <b>(54)</b>     |
| Other noncurrent liabilities                          | <b>(204)</b>    |
| <b>Total Identifiable Net Assets at Fair Value</b>    | <b>P29,244</b>  |

Goodwill recognized as a result of the acquisition follows:

|                                                                                        | <b>2018</b>     |
|----------------------------------------------------------------------------------------|-----------------|
| Total consideration transferred                                                        | <b>P98,990</b>  |
| Non-controlling interest measured at proportionate interest in identifiable net assets | <b>198</b>      |
| Total identifiable net assets at fair value                                            | <b>(29,244)</b> |
| <b>Goodwill</b>                                                                        | <b>P69,944</b>  |

The recognized goodwill amounting to P69,944 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

Goodwill arising from the acquisition of Masinloc Group is attributable to the benefit of expected synergies with the Group's energy business, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

The Group is currently completing the purchase price allocation exercise on the acquisition of Masinloc Group. The identifiable assets and liabilities are based on provisional amounts as at the acquisition date, which is allowed under PFRS 3, within 12 months from the acquisition date.

API changed its name to SMCGP Philippines Inc. on May 22, 2018.

On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. and SMCGP Transpower Pte. Ltd., respectively.

---

### 3. Segment Information

#### Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, fuel and oil, energy, and infrastructure.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products, (ii) the production and sale of feeds, (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats, and (iv) milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based, and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is engaged in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

Financial information about reportable segments follows:

|                     | Food and Beverage |          | Packaging      |         | Energy         |         | Fuel and Oil    |          | Infrastructure |         | Others         |         | Eliminations     |           | Consolidated    |          |
|---------------------|-------------------|----------|----------------|---------|----------------|---------|-----------------|----------|----------------|---------|----------------|---------|------------------|-----------|-----------------|----------|
|                     | 2018              | 2017     | 2018           | 2017    | 2018           | 2017    | 2018            | 2017     | 2018           | 2017    | 2018           | 2017    | 2018             | 2017      | 2018            | 2017     |
| <b>Sales</b>        |                   |          |                |         |                |         |                 |          |                |         |                |         |                  |           |                 |          |
| External sales      | <b>P137,394</b>   | P119,106 | <b>P11,410</b> | P10,928 | <b>P55,889</b> | P39,620 | <b>P271,374</b> | P205,354 | <b>P12,145</b> | P10,895 | <b>P10,788</b> | P7,502  | <b>P -</b>       | P -       | <b>P499,000</b> | P393,405 |
| Inter-segment sales | <b>47</b>         | 24       | <b>6,146</b>   | 3,100   | <b>1,541</b>   | 1,077   | <b>2,124</b>    | 1,604    | <b>-</b>       | -       | <b>7,538</b>   | 9,587   | <b>(17,396)</b>  | (15,392)  | <b>-</b>        | -        |
| Total sales         | <b>P137,441</b>   | P119,130 | <b>P17,556</b> | P14,028 | <b>P57,430</b> | P40,697 | <b>P273,498</b> | P206,958 | <b>P12,145</b> | P10,895 | <b>P18,326</b> | P17,089 | <b>(P17,396)</b> | (P15,392) | <b>P499,000</b> | P393,405 |
| <b>Results</b>      |                   |          |                |         |                |         |                 |          |                |         |                |         |                  |           |                 |          |
| Segment results     | <b>P22,889</b>    | P19,055  | <b>P1,647</b>  | P1,404  | <b>P17,043</b> | P13,315 | <b>P18,695</b>  | P13,821  | <b>P6,223</b>  | P5,245  | <b>P1,709</b>  | P667    | <b>(P1,200)</b>  | (P64)     | <b>P67,006</b>  | P53,443  |

## Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

|                                      | Food and Beverage |          | Packaging      |         | Energy         |         | Fuel and Oil    |          | Infrastructure |         | Others         |        | Consolidated    |          |
|--------------------------------------|-------------------|----------|----------------|---------|----------------|---------|-----------------|----------|----------------|---------|----------------|--------|-----------------|----------|
|                                      | 2018              | 2017     | 2018           | 2017    | 2018           | 2017    | 2018            | 2017     | 2018           | 2017    | 2018           | 2017   | 2018            | 2017     |
| <b>Timing of revenue recognition</b> |                   |          |                |         |                |         |                 |          |                |         |                |        |                 |          |
| Sales recognized at point in time    | <b>P137,331</b>   | P119,058 | <b>P11,078</b> | P10,644 | <b>P -</b>     | P -     | <b>P271,374</b> | P205,354 | <b>P -</b>     | P -     | <b>P8,913</b>  | P5,807 | <b>P428,696</b> | P340,863 |
| Sales recognized over time           | <b>63</b>         | 48       | <b>332</b>     | 284     | <b>55,889</b>  | 39,620  | <b>-</b>        | -        | <b>12,145</b>  | 10,895  | <b>1,875</b>   | 1,695  | <b>70,304</b>   | 52,542   |
| Total external sales                 | <b>P137,394</b>   | P119,106 | <b>P11,410</b> | P10,928 | <b>P55,889</b> | P39,620 | <b>P271,374</b> | P205,354 | <b>P12,145</b> | P10,895 | <b>P10,788</b> | P7,502 | <b>P499,000</b> | P393,405 |

#### 4. Other Charges

Other income (charges) consists of:

|                                | <b>June 30</b>   |             |
|--------------------------------|------------------|-------------|
|                                | <b>2018</b>      | <b>2017</b> |
| Construction revenue           | <b>P5,984</b>    | P4,443      |
| Gain on derivatives - net      | <b>748</b>       | 1,411       |
| Construction costs             | <b>(5,984)</b>   | (4,443)     |
| Loss on foreign exchange - net | <b>(12,070)</b>  | (2,084)     |
| Others                         | <b>416</b>       | 73          |
|                                | <b>(P10,906)</b> | (P600)      |

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs pass through the profit or loss before it is capitalized as toll road, airport, port and water concession rights.

#### 5. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as of June 30, 2018 and December 31, 2017:

|                              | <b>Year</b>          | <b>Revenue from Related Parties</b> | <b>Purchases from Related Parties</b> | <b>Amounts Owed by Related Parties</b> | <b>Amounts Owed to Related Parties</b> | <b>Terms</b>                                                           | <b>Conditions</b>        |
|------------------------------|----------------------|-------------------------------------|---------------------------------------|----------------------------------------|----------------------------------------|------------------------------------------------------------------------|--------------------------|
| Ultimate Parent Company      | <b>June 30, 2018</b> | <b>P2</b>                           | <b>P -</b>                            | <b>P 6,857</b>                         | <b>P 551</b>                           | On demand or less than 2 to 5 years; interest and non-interest bearing | Unsecured; no impairment |
|                              | December 31, 2017    | 5                                   | -                                     | 6,613                                  | 551                                    |                                                                        |                          |
| Retirement Plans             | <b>June 30, 2018</b> | <b>198</b>                          | <b>-</b>                              | <b>12,322</b>                          | <b>-</b>                               | On demand; interest bearing                                            | Unsecured; no impairment |
|                              | December 31, 2017    | 400                                 | -                                     | 12,131                                 | -                                      |                                                                        |                          |
| Associates                   | <b>June 30, 2018</b> | <b>1,364</b>                        | <b>15</b>                             | <b>1,424</b>                           | <b>496</b>                             | On demand; interest and non-interest bearing                           | Unsecured; no impairment |
|                              | December 31, 2017    | 2,466                               | 598                                   | 1,462                                  | 521                                    |                                                                        |                          |
|                              | <b>June 30, 2018</b> | <b>-</b>                            | <b>-</b>                              | <b>-</b>                               | <b>18,845</b>                          | Less than 1 to 10 years; interest bearing                              | Unsecured and secured    |
|                              | December 31, 2017    | -                                   | -                                     | -                                      | 22,552                                 |                                                                        |                          |
| Joint Ventures               | <b>June 30, 2018</b> | <b>33</b>                           | <b>114</b>                            | <b>975</b>                             | <b>65</b>                              | On demand; non-interest bearing                                        | Unsecured; no impairment |
|                              | December 31, 2017    | 116                                 | 466                                   | 1,245                                  | 118                                    |                                                                        |                          |
| Shareholders in Subsidiaries | <b>June 30, 2018</b> | <b>90</b>                           | <b>34</b>                             | <b>65</b>                              | <b>2,742</b>                           | On demand; non-interest bearing                                        | Unsecured; no impairment |
|                              | December 31, 2017    | 391                                 | 79                                    | 95                                     | 2,644                                  |                                                                        |                          |
| Others                       | <b>June 30, 2018</b> | <b>739</b>                          | <b>259</b>                            | <b>447</b>                             | <b>7,643</b>                           | On demand; non-interest bearing                                        | Unsecured; no impairment |
|                              | December 31, 2017    | 236                                 | 493                                   | 300                                    | 7,012                                  |                                                                        |                          |
| <b>Total</b>                 | <b>June 30, 2018</b> | <b>P 2,426</b>                      | <b>P 422</b>                          | <b>P 22,090</b>                        | <b>P 30,342</b>                        |                                                                        |                          |
| <b>Total</b>                 | December 31, 2017    | P3,614                              | P1,636                                | P21,846                                | P33,398                                |                                                                        |                          |

- a. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- b. Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.
- c. The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

## 6. Property, Plant and Equipment

Property, plant and equipment consist of:

### June 30, 2018 and December 31, 2017

|                                                      | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations and<br>Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total          |
|------------------------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------------|
| <b>Cost</b>                                          |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2017 (Audited)                            | P32,585                          | P47,042                       | P242,054        | P145,069                           | P16,172                                       | P127,779                                | P2,958                    | P93,340                         | P706,999       |
| Additions                                            | 1,722                            | 243                           | 112             | 1,307                              | 405                                           | 2,813                                   | 9                         | 32,082                          | 38,693         |
| Disposals/retirement                                 | (390)                            | (472)                         | -               | (5)                                | (1,106)                                       | (2,736)                                 | (18)                      | (7)                             | (4,734)        |
| Reclassifications                                    | 820                              | 2,563                         | 26,152          | 19,940                             | 1,269                                         | 4,842                                   | 669                       | (56,456)                        | (201)          |
| Acquisition of subsidiaries                          | 371                              | -                             | -               | -                                  | -                                             | 814                                     | 1                         | -                               | 1,186          |
| Currency translation adjustments                     | 827                              | 1,259                         | -               | 1,106                              | 700                                           | 2,648                                   | 58                        | 143                             | 6,741          |
| December 31, 2017 (Audited)                          | 35,935                           | 50,635                        | 268,318         | 167,417                            | 17,440                                        | 136,160                                 | 3,677                     | 69,102                          | 748,684        |
| Additions                                            | 983                              | 62                            | 69              | 152                                | 107                                           | 732                                     | 55                        | 15,014                          | 17,174         |
| Disposals/retirement                                 | -                                | (177)                         | (31)            | (2)                                | (242)                                         | (412)                                   | (38)                      | (2)                             | (904)          |
| Reclassifications                                    | 245                              | 1,489                         | 28,001          | 84                                 | (163)                                         | 2,952                                   | 1,086                     | (32,860)                        | 834            |
| Acquisition of subsidiaries                          | 873                              | 974                           | 53,382          | -                                  | -                                             | 2,382                                   | 38                        | 23,483                          | 81,132         |
| Currency translation adjustments                     | 621                              | 1,267                         | 1,129           | 893                                | 590                                           | 1,989                                   | 6                         | 686                             | 7,181          |
| <b>June 30, 2018 (Unaudited)</b>                     | <b>38,657</b>                    | <b>54,250</b>                 | <b>350,868</b>  | <b>168,544</b>                     | <b>17,732</b>                                 | <b>143,803</b>                          | <b>4,824</b>              | <b>75,423</b>                   | <b>854,101</b> |
| <b>Accumulated Depreciation and<br/>Amortization</b> |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2017 (Audited)                            | 3,741                            | 20,765                        | 36,567          | 38,251                             | 11,987                                        | 78,554                                  | 1,055                     | -                               | 190,920        |
| Depreciation and amortization                        | 242                              | 1,632                         | 7,012           | 5,994                              | 869                                           | 6,773                                   | 219                       | -                               | 22,741         |
| Disposals/retirement                                 | (147)                            | (383)                         | -               | (4)                                | (1,058)                                       | (2,258)                                 | (18)                      | -                               | (3,868)        |
| Reclassifications                                    | (212)                            | 171                           | -               | 29                                 | (6)                                           | (879)                                   | -                         | -                               | (897)          |
| Currency translation adjustments                     | 39                               | 658                           | -               | 820                                | 416                                           | 1,841                                   | 13                        | -                               | 3,787          |
| December 31, 2017 (Audited)                          | 3,663                            | 22,843                        | 43,579          | 45,090                             | 12,208                                        | 84,031                                  | 1,269                     | -                               | 212,683        |
| Depreciation and amortization                        | 115                              | 874                           | 4,733           | 3,105                              | 487                                           | 3,550                                   | 129                       | -                               | 12,993         |
| Disposals/retirement                                 | -                                | (173)                         | (7)             | (2)                                | (234)                                         | (362)                                   | (33)                      | -                               | (811)          |
| Reclassifications                                    | 25                               | 254                           | (1)             | -                                  | (269)                                         | 38                                      | (10)                      | -                               | 37             |
| Acquisition of subsidiaries                          | -                                | 75                            | 18,004          | -                                  | -                                             | 724                                     | 32                        | -                               | 18,835         |
| Currency translation adjustments                     | 36                               | 626                           | 415             | 639                                | 326                                           | 1,040                                   | 4                         | -                               | 3,086          |
| <b>June 30, 2018 (Unaudited)</b>                     | <b>3,839</b>                     | <b>24,499</b>                 | <b>66,723</b>   | <b>48,832</b>                      | <b>12,518</b>                                 | <b>89,021</b>                           | <b>1,391</b>              | <b>-</b>                        | <b>246,823</b> |

Forward

|                                      | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total           |
|--------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|-----------------|
| <b>Accumulated Impairment Losses</b> |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                 |
| January 1, 2017 (Audited)            | P266                             | P2,412                        | P-              | P-                                 | P-                                            | P8,665                                  | P25                       | P-                              | P11,368         |
| Impairment                           | -                                | 127                           | -               | -                                  | -                                             | 407                                     | -                         | -                               | 534             |
| Disposals/retirement                 | -                                | -                             | -               | -                                  | -                                             | (22)                                    | -                         | -                               | (22)            |
| Currency translation adjustments     | -                                | 164                           | -               | -                                  | -                                             | 368                                     | 3                         | -                               | 535             |
| December 31, 2017 (Audited)          | 266                              | 2,703                         | -               | -                                  | -                                             | 9,418                                   | 28                        | -                               | 12,415          |
| Reclassifications                    | -                                | (17)                          | -               | -                                  | -                                             | 25                                      | -                         | -                               | 8               |
| Currency translation adjustments     | -                                | 148                           | -               | -                                  | -                                             | 523                                     | -                         | -                               | 671             |
| <b>June 30, 2018 (Unaudited)</b>     | <b>266</b>                       | <b>2,834</b>                  | <b>-</b>        | <b>-</b>                           | <b>-</b>                                      | <b>9,966</b>                            | <b>28</b>                 | <b>-</b>                        | <b>13,094</b>   |
| <b>Carrying Amount</b>               |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                 |
| December 31, 2017 (Audited)          | P32,006                          | P25,089                       | P224,739        | P122,327                           | P5,232                                        | P42,711                                 | P2,380                    | P69,102                         | P523,586        |
| <b>June 30, 2018 (Unaudited)</b>     | <b>P34,552</b>                   | <b>P26,917</b>                | <b>P284,145</b> | <b>P119,712</b>                    | <b>P5,214</b>                                 | <b>P44,816</b>                          | <b>P3,405</b>             | <b>P75,423</b>                  | <b>P594,184</b> |

### June 30, 2017

|                                                             | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations and<br>Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects in<br>Progress | Total          |
|-------------------------------------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------------|
| <b>Cost</b>                                                 |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2017 (Audited)                                   | P32,585                          | P47,042                       | P242,054        | P145,069                           | P16,172                                       | P127,779                                | P2,958                    | P93,340                         | P706,999       |
| Additions                                                   | 690                              | 274                           | 285             | 57                                 | 91                                            | 1,686                                   | 19                        | 15,303                          | 18,405         |
| Disposals/reclassifications/<br>acquisition of subsidiaries | 272                              | 1,161                         | 15,651          | 18,229                             | 256                                           | (347)                                   | 1                         | (35,695)                        | (472)          |
| Currency translation adjustments                            | 481                              | 789                           | -               | 625                                | 402                                           | 1,161                                   | 11                        | 81                              | 3,550          |
| <b>June 30, 2017 (Unaudited)</b>                            | <b>34,028</b>                    | <b>49,266</b>                 | <b>257,990</b>  | <b>163,980</b>                     | <b>16,921</b>                                 | <b>130,279</b>                          | <b>2,989</b>              | <b>73,029</b>                   | <b>728,482</b> |
| <b>Accumulated Depreciation and<br/>Amortization</b>        |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |                |
| January 1, 2017 (Audited)                                   | 3,741                            | 20,765                        | 36,567          | 38,251                             | 11,987                                        | 78,554                                  | 1,055                     | -                               | 190,920        |
| Depreciation and amortization                               | 103                              | 764                           | 3,227           | 2,865                              | 414                                           | 3,066                                   | 71                        | -                               | 10,510         |
| Disposals/reclassifications/<br>acquisition of subsidiaries | (1)                              | (121)                         | -               | 29                                 | (36)                                          | (795)                                   | (6)                       | -                               | (930)          |
| Currency translation adjustments                            | 30                               | 398                           | -               | 455                                | 231                                           | 671                                     | 7                         | -                               | 1,792          |
| <b>June 30, 2017 (Unaudited)</b>                            | <b>3,873</b>                     | <b>21,806</b>                 | <b>39,794</b>   | <b>41,600</b>                      | <b>12,596</b>                                 | <b>81,496</b>                           | <b>1,127</b>              | <b>-</b>                        | <b>202,292</b> |

Forward

|                                  | Land<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service<br>Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects in<br>Progress | Total    |
|----------------------------------|----------------------------------|-------------------------------|-----------------|------------------------------------|-----------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|----------|
| Accumulated Impairment Losses    |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| January 1, 2017 (Audited)        | P266                             | P2,412                        | P-              | P-                                 | P-                                            | P8,665                                  | P25                       | P-                              | P11,368  |
| Currency translation adjustments | -                                | 97                            | -               | -                                  | -                                             | 249                                     | 3                         | -                               | 349      |
| June 30, 2017 (Unaudited)        | 266                              | 2,509                         | -               | -                                  | -                                             | 8,914                                   | 28                        | -                               | 11,717   |
| Carrying Amount                  |                                  |                               |                 |                                    |                                               |                                         |                           |                                 |          |
| June 30, 2017 (Unaudited)        | P29,889                          | P24,951                       | P218,196        | P122,380                           | P4,325                                        | P39,869                                 | P1,834                    | P73,029                         | P514,473 |

Depreciation and amortization charged to operations amounted to P12,993 and P10,510 for the periods ended June 30, 2018 and 2017, respectively.

## 7. Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

|                                                                                  | <b>June 30</b> |             |
|----------------------------------------------------------------------------------|----------------|-------------|
|                                                                                  | <b>2018</b>    | <b>2017</b> |
| Income attributable to equity holders of the Parent Company                      | <b>P12,780</b> | P12,967     |
| Less dividends on preferred shares for the period                                | <b>3,658</b>   | 3,658       |
| Net income attributable to common shareholders of the Parent Company (a)         | <b>P9,122</b>  | P9,309      |
| Weighted average number of common shares outstanding (in millions) - basic (b)   | <b>2,382</b>   | 2,381       |
| Effect of dilution - common                                                      | <b>2</b>       | 4           |
| Weighted average number of common shares outstanding (in millions) - diluted (c) | <b>2,384</b>   | 2,385       |
| Earnings per common share attributable to equity holders of the Parent Company   |                |             |
| Basic (a/b)                                                                      | <b>P3.83</b>   | P3.91       |
| Diluted (a/c)                                                                    | <b>P3.83</b>   | P3.90       |

## 8. Dividends

The Board of Directors (BOD) of the Parent Company approved the declaration and payment of the following cash dividends to common and preferred stockholders as follows:

### **2018**

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| <b>Common</b>          |                            |                       |                        |                           |
|                        | March 15, 2018             | April 6, 2018         | May 4, 2018            | <b>P0.35</b>              |
|                        | June 14, 2018              | July 2, 2018          | July 25, 2018          | <b>0.35</b>               |
| <b>Preferred</b>       |                            |                       |                        |                           |
| SMCP1                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.0565625</b>          |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.0565625</b>          |
| SMC2B                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.4296875</b>          |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.4296875</b>          |
| SMC2C                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.50</b>               |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.50</b>               |
| SMC2D                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.11433125</b>         |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.11433125</b>         |

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| SMC2E                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>P1.18603125</b>        |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.18603125</b>         |
| SMC2F                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.27635</b>            |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.27635</b>            |
| SMC2G                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.23361875</b>         |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.23361875</b>         |
| SMC2H                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.1854125</b>          |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.1854125</b>          |
| SMC2I                  | January 25, 2018           | March 8, 2018         | April 5, 2018          | <b>1.18790625</b>         |
|                        | May 10, 2018               | June 21, 2018         | July 6, 2018           | <b>1.18790625</b>         |

## **2017**

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| <b>Common</b>          |                            |                       |                        |                           |
|                        | March 16, 2017             | April 7, 2017         | May 4, 2017            | P0.35                     |
|                        | June 13, 2017              | June 30, 2017         | July 25, 2017          | 0.35                      |
| <b>Preferred</b>       |                            |                       |                        |                           |
| SMCP1                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.0565625                 |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.0565625                 |
| SMC2B                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.4296875                 |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.4296875                 |
| SMC2C                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.50                      |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.50                      |
| SMC2D                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.11433125                |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.11433125                |
| SMC2E                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.18603125                |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.18603125                |
| SMC2F                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.27635                   |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.27635                   |
| SMC2G                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.23361875                |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.23361875                |
| SMC2H                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.1854125                 |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.1854125                 |
| SMC2I                  | January 12, 2017           | March 21, 2017        | April 5, 2017          | 1.18790625                |
|                        | May 10, 2017               | June 21, 2017         | July 6, 2017           | 1.18790625                |

On August 9, 2018, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of September 21, 2018 on the following shares to be paid on October 5, 2018, as follows:

| <b>Class of Shares</b> | <b>Dividends Per Share</b> |
|------------------------|----------------------------|
| SMCP1                  | P1.0565625                 |
| SMC2B                  | 1.4296875                  |
| SMC2C                  | 1.50                       |
| SMC2D                  | 1.11433125                 |
| SMC2E                  | 1.18603125                 |
| SMC2F                  | 1.27635                    |
| SMC2G                  | 1.23361875                 |
| SMC2H                  | 1.1854125                  |
| SMC2I                  | 1.18790625                 |

---

## 9. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

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

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at FVOCI, investments in equity instruments at FVPL, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except investments in equity instruments at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, finance lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

The accounting policies in relation to derivatives are set out in Note 10 to the selected notes to the consolidated financial statements.

#### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,192 and P1,037 for the period ended June 30, 2018 and for the year ended December 31, 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

## Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

| June 30, 2018                                                  | <1 Year                                                              | 1-2 Years                                                         | >2-3 Years                                           | >3-4 Years        | >4-5 Years        | >5 Years          | Total    |
|----------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------|-------------------|-------------------|-------------------|----------|
| <b>Fixed Rate</b>                                              |                                                                      |                                                                   |                                                      |                   |                   |                   |          |
| Philippine peso-denominated                                    | P26,945                                                              | P25,521                                                           | P30,506                                              | P62,938           | P35,512           | P129,756          | P311,178 |
| Interest rate                                                  | 5.4583% - 10.50%                                                     | 5.25% - 9.4679%                                                   | 4.9925% - 9.4679%                                    | 4.0032% - 9.4679% | 5.375% - 9.4679%  | 4.5219% - 9.4679% |          |
| Foreign currency-denominated<br>(expressed in Philippine peso) | 1,578                                                                | 2,189                                                             | 2,332                                                | 2,462             | 34,155            | 9,083             | 51,799   |
| Interest rate                                                  | 4.7776% - 5.5959%                                                    | 4.7776% - 5.5959%                                                 | 4.7776% - 5.5959%                                    | 4.7776% - 5.5959% | 4.7776% - 5.5959% | 5.5959%           |          |
| <b>Floating Rate</b>                                           |                                                                      |                                                                   |                                                      |                   |                   |                   |          |
| Philippine peso-denominated                                    | 1,254                                                                | 733                                                               | 545                                                  | 526               | 1,116             | -                 | 4,174    |
| Interest rate                                                  | PDST-R2 + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R2 + margin or<br>BSP overnight rate,<br>whichever is higher | PDST-R2 + margin or<br>5.75%, whichever<br>is higher | PDST-R2 + margin  | PDST-R2 + margin  | -                 |          |
| Foreign currency-denominated<br>(expressed in Philippine peso) | 44,417                                                               | 15,967                                                            | 30,950                                               | 16,058            | 99,813            | 7,793             | 214,998  |
| Interest rate                                                  | LIBOR + margin                                                       | LIBOR + margin                                                    | LIBOR + margin                                       | LIBOR + margin    | LIBOR + margin    | LIBOR + margin    |          |
|                                                                | P74,194                                                              | P44,410                                                           | P64,333                                              | P81,984           | P170,596          | P146,632          | P582,149 |

| December 31, 2017                                              | <1 Year                                                              | 1-2 Years                                                         | >2-3 Years                                           | >3-4 Years                                           | >4-5 Years        | >5 Years          | Total    |
|----------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|-------------------|-------------------|----------|
| <b>Fixed Rate</b>                                              |                                                                      |                                                                   |                                                      |                                                      |                   |                   |          |
| Philippine peso-denominated                                    | P11,996                                                              | P28,165                                                           | P17,858                                              | P50,526                                              | P48,193           | P117,266          | P274,004 |
| Interest rate                                                  | 5.4583% - 8.6615%                                                    | 5.4583% - 10.50%                                                  | 4.9925% - 8.6615%                                    | 4.0032% - 8.0589%                                    | 4.8243% - 8.0589% | 4.5219% - 8.0589% |          |
| Foreign currency-denominated<br>(expressed in Philippine peso) | -                                                                    | -                                                                 | -                                                    | -                                                    | -                 | 25,783            | 25,783   |
| Interest rate                                                  | -                                                                    | -                                                                 | -                                                    | -                                                    | -                 | 4.875%            |          |
| <b>Floating Rate</b>                                           |                                                                      |                                                                   |                                                      |                                                      |                   |                   |          |
| Philippine peso-denominated                                    | 1,304                                                                | 1,059                                                             | 545                                                  | 534                                                  | 1,379             | -                 | 4,821    |
| Interest rate                                                  | PDST-R2 + margin<br>or BSP overnight<br>rate, whichever is<br>higher | PDST-R2 + margin or<br>BSP overnight rate,<br>whichever is higher | PDST-R2 + margin or<br>5.75%, whichever<br>is higher | PDST-R2 + margin or<br>5.75%, whichever<br>is higher | PDST-R2 + margin  | -                 |          |
| Foreign currency-denominated<br>(expressed in Philippine peso) | 23,966                                                               | 24,252                                                            | 18,260                                               | 14,266                                               | 13,623            | 4,494             | 98,861   |
| Interest rate                                                  | LIBOR + margin                                                       | LIBOR + margin                                                    | LIBOR + margin                                       | LIBOR + margin                                       | LIBOR + margin    | LIBOR + margin    |          |
|                                                                | P37,266                                                              | P53,476                                                           | P36,663                                              | P65,326                                              | P63,195           | P147,543          | P403,469 |

### Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

|                                                       | <b>June 30, 2018</b> |                        | <b>December 31, 2017</b> |                        |
|-------------------------------------------------------|----------------------|------------------------|--------------------------|------------------------|
|                                                       | <b>US Dollar</b>     | <b>Peso Equivalent</b> | <b>US Dollar</b>         | <b>Peso Equivalent</b> |
| <b>Assets</b>                                         |                      |                        |                          |                        |
| Cash and cash equivalents                             | <b>US\$1,919</b>     | <b>P102,430</b>        | US\$1,507                | P75,302                |
| Trade and other receivables                           | <b>782</b>           | <b>41,696</b>          | 411                      | 20,495                 |
| Prepaid expenses and other current assets             | <b>14</b>            | <b>713</b>             | 3                        | 124                    |
| Noncurrent receivables                                | <b>177</b>           | <b>9,426</b>           | -                        | 16                     |
|                                                       | <b>2,892</b>         | <b>154,265</b>         | 1,921                    | 95,937                 |
| <b>Liabilities</b>                                    |                      |                        |                          |                        |
| Loans payable                                         | <b>297</b>           | <b>15,857</b>          | 173                      | 8,630                  |
| Accounts payable and accrued expenses                 | <b>1,216</b>         | <b>64,835</b>          | 872                      | 43,569                 |
| Long-term debt (including current maturities)         | <b>5,001</b>         | <b>266,797</b>         | 2,496                    | 124,645                |
| Finance lease liabilities (including current portion) | <b>1,598</b>         | <b>85,256</b>          | 1,694                    | 84,563                 |
| Other noncurrent liabilities                          | <b>407</b>           | <b>21,712</b>          | 158                      | 7,891                  |
|                                                       | <b>8,519</b>         | <b>454,457</b>         | 5,393                    | 269,298                |
| Net foreign currency-denominated monetary liabilities | <b>(US\$5,627)</b>   | <b>(P300,192)</b>      | (US\$3,472)              | (P173,361)             |

The Group reported net losses on foreign exchange amounting to P12,070 and P2,084 for the period ended June 30, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine peso against the United States (US) dollar as shown in the following table:

|                      | <b>US Dollar<br/>to Philippine Peso</b> |
|----------------------|-----------------------------------------|
| <b>June 30, 2018</b> | <b>53.34</b>                            |
| December 31, 2017    | 49.93                                   |
| June 30, 2017        | 50.47                                   |
| December 31, 2016    | 49.72                                   |

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

|                                                          | <b>P1 Decrease in the<br/>US Dollar Exchange Rate</b> |                             | <b>P1 Increase in the<br/>US Dollar Exchange Rate</b> |                             |
|----------------------------------------------------------|-------------------------------------------------------|-----------------------------|-------------------------------------------------------|-----------------------------|
|                                                          | <b>Effect on<br/>Income before<br/>Income Tax</b>     | <b>Effect on<br/>Equity</b> | <b>Effect on<br/>Income before<br/>Income Tax</b>     | <b>Effect on<br/>Equity</b> |
| <b>June 30, 2018</b>                                     |                                                       |                             |                                                       |                             |
| Cash and cash equivalents                                | (P1,503)                                              | (P1,471)                    | P1,503                                                | P1,471                      |
| Trade and other receivables                              | (492)                                                 | (648)                       | 492                                                   | 648                         |
| Prepaid expenses and other<br>current assets             | (10)                                                  | (11)                        | 10                                                    | 11                          |
| Noncurrent receivables                                   | (121)                                                 | (140)                       | 121                                                   | 140                         |
|                                                          | (2,126)                                               | (2,270)                     | 2,126                                                 | 2,270                       |
| Loans payable                                            | 120                                                   | 249                         | (120)                                                 | (249)                       |
| Accounts payable and accrued<br>expenses                 | 736                                                   | 1,097                       | (736)                                                 | (1,097)                     |
| Long-term debt (including<br>current maturities)         | 4,396                                                 | 3,501                       | (4,396)                                               | (3,501)                     |
| Finance lease liabilities<br>(including current portion) | 1,596                                                 | 1,119                       | (1,596)                                               | (1,119)                     |
| Other noncurrent liabilities                             | 259                                                   | 330                         | (259)                                                 | (330)                       |
|                                                          | 7,107                                                 | 6,296                       | (7,107)                                               | (6,296)                     |
|                                                          | P4,981                                                | P4,026                      | (P4,981)                                              | (P4,026)                    |

| December 31, 2017                                        | P1 Decrease in the<br>US Dollar Exchange Rate |                     | P1 Increase in the<br>US Dollar Exchange Rate |                     |
|----------------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                          | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity |
| Cash and cash equivalents                                | (P1,269)                                      | (P1,249)            | P1,269                                        | P1,249              |
| Trade and other receivables                              | (261)                                         | (501)               | 261                                           | 501                 |
| Prepaid expenses and other<br>current assets             | (3)                                           | (6)                 | 3                                             | 6                   |
| Noncurrent receivables                                   | -                                             | (6)                 | -                                             | 6                   |
|                                                          | (1,533)                                       | (1,762)             | 1,533                                         | 1,762               |
| Loans payable                                            | 121                                           | 137                 | (121)                                         | (137)               |
| Accounts payable and accrued<br>expenses                 | 526                                           | 1,194               | (526)                                         | (1,194)             |
| Long-term debt (including<br>current maturities)         | 2,496                                         | 1,747               | (2,496)                                       | (1,747)             |
| Finance lease liabilities<br>(including current portion) | 1,694                                         | 1,185               | (1,694)                                       | (1,185)             |
| Other noncurrent liabilities                             | 2                                             | 9                   | (2)                                           | (9)                 |
|                                                          | 4,839                                         | 4,272               | (4,839)                                       | (4,272)             |
|                                                          | P3,306                                        | P2,510              | (P3,306)                                      | (P2,510)            |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

#### Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

The Parent Company enters into commodity derivative transactions on behalf of its subsidiaries and affiliates to reduce cost by optimizing purchasing synergies within the Group and managing inventory levels of common materials.

*Commodity Swaps, Futures and Options.* Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

*Commodity Forwards.* The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

### Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

| June 30, 2018                                                                                                                                                                                                      | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------|----------------|--------------------|---------------------|--------------|
| <b>Financial Assets</b>                                                                                                                                                                                            |                 |                       |                |                    |                     |              |
| Cash and cash equivalents                                                                                                                                                                                          | P222,538        | P222,538              | P222,538       | P -                | P -                 | P -          |
| Trade and other receivables - net                                                                                                                                                                                  | 128,681         | 128,681               | 128,681        | -                  | -                   | -            |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" account)                                                                                               | 805             | 805                   | 805            | -                  | -                   | -            |
| Investments in equity instruments at FVPL (included under "Prepaid expenses and other current assets" account)                                                                                                     | 203             | 203                   | 203            | -                  | -                   | -            |
| Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)                                                                                          | 42,123          | 42,169                | 107            | 41,727             | 259                 | 76           |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                                                                                                                       | 18,471          | 18,654                | -              | 2,766              | 13,533              | 2,355        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)                                                                                                | 12,233          | 12,233                | 6,747          | 5,486              | -                   | -            |
| <b>Financial Liabilities</b>                                                                                                                                                                                       |                 |                       |                |                    |                     |              |
| Loans payable                                                                                                                                                                                                      | 177,853         | 178,368               | 178,368        | -                  | -                   | -            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO), deferred income and other current non-financial liabilities) | 137,874         | 137,874               | 137,874        | -                  | -                   | -            |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                                                                                                                            | 2,373           | 2,373                 | 2,373          | -                  | -                   | -            |
| Long-term debt (including current maturities)                                                                                                                                                                      | 575,888         | 716,939               | 102,289        | 69,747             | 373,098             | 171,805      |
| Finance lease liabilities (including current portion)                                                                                                                                                              | 152,142         | 183,403               | 26,589         | 28,562             | 81,248              | 47,004       |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO) and other noncurrent non-financial liabilities)                                                  | 13,524          | 16,609                | -              | 1,905              | 9,680               | 5,024        |

| December 31, 2017                                                                                                                                                          | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------|----------------|--------------------|---------------------|--------------|
| Financial Assets                                                                                                                                                           |                 |                       |                |                    |                     |              |
| Cash and cash equivalents                                                                                                                                                  | P206,073        | P206,073              | P206,073       | P -                | P -                 | P -          |
| Trade and other receivables - net                                                                                                                                          | 116,040         | 116,040               | 116,040        | -                  | -                   | -            |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" account)                                                       | 333             | 333                   | 333            | -                  | -                   | -            |
| Investments in equity instruments at FVPL (included under "Prepaid expenses and other current assets" account)                                                             | 170             | 170                   | 170            | -                  | -                   | -            |
| AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" account)                                                       | 42,268          | 42,314                | 246            | 41,731             | 309                 | 28           |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                                                                               | 14,543          | 14,582                | -              | 2,248              | 9,731               | 2,603        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)                                                        | 8,634           | 8,634                 | 2,878          | 5,756              | -                   | -            |
| Financial Liabilities                                                                                                                                                      |                 |                       |                |                    |                     |              |
| Loans payable                                                                                                                                                              | 149,863         | 150,333               | 150,333        | -                  | -                   | -            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities) | 131,320         | 131,320               | 131,320        | -                  | -                   | -            |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                                                                                    | 3,487           | 3,487                 | 3,487          | -                  | -                   | -            |
| Long-term debt (including current maturities)                                                                                                                              | 399,492         | 504,499               | 57,728         | 71,619             | 206,266             | 168,886      |
| Finance lease liabilities (including current portion)                                                                                                                      | 154,897         | 189,698               | 25,072         | 26,263             | 82,814              | 55,549       |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and other noncurrent non-financial liabilities )                                       | 12,930          | 15,740                | -              | 2,531              | 8,302               | 4,907        |

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

### Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty.

The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

### Investments

The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

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

|                                                          | June 30, 2018   | December 31, 2017 |
|----------------------------------------------------------|-----------------|-------------------|
| Cash and cash equivalents (excluding cash on hand)       | <b>P218,856</b> | P203,180          |
| Trade and other receivables - net                        | <b>128,681</b>  | 116,040           |
| Derivative assets                                        | <b>805</b>      | 333               |
| Financial assets at FVOCI (excluding equity instruments) | <b>404</b>      | 531               |
| Noncurrent receivables and deposits - net                | <b>18,471</b>   | 14,543            |
| Restricted cash                                          | <b>12,233</b>   | 8,634             |
|                                                          | <b>P379,450</b> | P343,261          |

The credit risk for cash and cash equivalents, derivative assets, financial assets at FVOCI and restricted cash is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

### Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is

regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

#### Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (investments in equity instruments at FVPL and financial assets at FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

#### Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

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

The Group, except for BOC which is subject to certain capitalization requirements by the Bangko Sentral ng Pilipinas, is not subject to externally imposed capital requirements.

---

## 10. Financial Assets and Financial Liabilities

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

*Initial Recognition of Financial Instruments.* Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

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

*Accounting Policies for the Classification and Measurement of Financial Assets Applicable from January 1, 2018*

### Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at amortized cost, financial assets at FVOCI and financial assets at FVPL. The classification depends on the business model of the Group for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, the financial assets are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are reclassified to FVPL, impaired or derecognized, as well as through the amortization process.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash are included under this category.

*Financial Assets at FVOCI.* Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

After initial measurement, financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in profit or loss. When investment in debt instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are transferred to and recognized in profit or loss.

Dividends earned on holding an investment in equity instrument are recognized as dividend income when the right to receive the payment has been established. When investment in equity instruments at FVOCI is derecognized the related accumulated gains or losses previously reported in the statement of changes in equity are never reclassified to profit or loss.

The Group's investments in debt instruments and investments in equity instruments at FVOCI are classified under this category.

*Financial Assets at FVPL.* All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes all derivative financial assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVPL.

At initial recognition, a financial asset may be irrevocably designated as at FVPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different bases.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument is recognized in profit or loss. Any dividend income from investment in equity instrument is recognized in profit or loss when the right to receive payment has been established.

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

*Accounting Policies for the Classification and Measurement of Financial Assets  
Applicable before January 1, 2018*

*Financial Assets*

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

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

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

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Fair value changes and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the statements of changes in equity. Any interest earned is recognized as part of "Interest income" account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in the consolidated statements of income when the right to receive payment has been established.

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category.

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

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of "Interest income" account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash are included under this category.

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

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in equity and debt securities are classified under this category.

#### Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities are classified under this category.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, finance lease liabilities and other noncurrent liabilities are included under this category.

#### Derecognition of Financial Assets and Financial Liabilities

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group is required to repay.

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

*Accounting Policies for the Impairment of Financial Assets Applicable from January 1, 2018*

Impairment of Financial Assets

The Group recognizes allowance for impairment losses on receivables, other financial assets at amortized cost and investments in debt instruments at FVOCI.

The Group recognizes an allowance for impairment based on either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group recognizes lifetime expected credit losses for receivables that do not contain significant financing component. The Group uses provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the borrowers and the economic environment.

The Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants.

*Accounting Policies for the Impairment of Financial Assets Applicable before January 1, 2018*

Impairment of Financial Assets

The Group assesses, at the reporting date, whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in the collective impairment assessment.

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

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

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

*AFS Financial Assets.* For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the acquisition cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of changes in equity, is transferred from other comprehensive income and recognized in the consolidated statements of income. Impairment losses in respect of equity instruments classified as AFS financial assets are not reversed through the consolidated statements of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

For debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. If, in subsequent period, the fair value of the debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity

instrument has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

#### Classification of Financial Instruments between Liability and Equity

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

A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole or in part, the amount separately determined as the fair value of the liability component on the date of issue.

#### Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments:

|                                                                                                                                                                            | June 30, 2018   |            | December 31, 2017 |            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------|-------------------|------------|
|                                                                                                                                                                            | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| <b>Financial Assets</b>                                                                                                                                                    |                 |            |                   |            |
| Cash and cash equivalents                                                                                                                                                  | P222,538        | P222,538   | P206,073          | P206,073   |
| Trade and other receivables - net                                                                                                                                          | 128,681         | 128,681    | 116,040           | 116,040    |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" account)                                                       | 805             | 805        | 333               | 333        |
| Investments in equity instruments at FVPL (included under "Prepaid expenses and other current assets" account)                                                             | 203             | 203        | 170               | 170        |
| Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)                                                  | 42,123          | 42,123     | 42,268            | 42,268     |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)                                                                               | 18,471          | 18,471     | 14,543            | 14,543     |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)                                                        | 12,233          | 12,233     | 8,634             | 8,634      |
| <b>Financial Liabilities</b>                                                                                                                                               |                 |            |                   |            |
| Loans payable                                                                                                                                                              | 177,853         | 177,853    | 149,863           | 149,863    |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities) | 137,874         | 137,874    | 131,320           | 131,320    |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account)                                                                                    | 2,373           | 2,373      | 3,487             | 3,487      |
| Long-term debt (including current maturities)                                                                                                                              | 575,888         | 589,044    | 399,492           | 419,198    |
| Finance lease liabilities (including current portion)                                                                                                                      | 152,142         | 152,142    | 154,897           | 154,897    |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and other noncurrent non-financial liabilities)                                        | 13,524          | 13,524     | 12,930            | 12,930     |

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

*Cash and Cash Equivalents, Trade and Other Receivables, Noncurrent Receivables and Deposits and Restricted Cash.* The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, the fair value is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

*Investments in Equity Instruments at FVPL and Financial Assets at FVOCI.* The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

*Loans Payable and Accounts Payable and Accrued Expenses.* The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 3.8% to 6.6% and 2.4% to 5.7% as of June 30, 2018 and December 31, 2017, respectively. The discount rates used for foreign currency-denominated loans range from 2.3% to 2.9% and 1.7% to 2.2% as of June 30, 2018 and December 31, 2017, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments and Hedging

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group enters into various currency and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risk. The portfolio is a mixture of instruments including forwards, swaps and options.

#### *Freestanding Derivatives*

For the purpose of hedge accounting, hedges are classified as either:

- (a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk);
- (b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- (c) hedges of a net investment in foreign operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

*Fair Value Hedge.* Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in the consolidated statements of income. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if:

- (a) the hedging instrument expires, is sold, is terminated or is exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as a fair value hedge as of June 30 and March 31, 2018 and December 31, 2017.

*Cash Flow Hedge.* Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in the consolidated statements of income.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in the consolidated statements of changes in equity are transferred and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in the consolidated statements of changes in equity are transferred to the consolidated statements of income in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects the consolidated statements of income.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in the consolidated statements of changes in equity is retained until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in the consolidated statements of changes in equity is recognized in the consolidated statements of income.

The Group has no outstanding derivatives accounted for as a cash flow hedge as of June 30 and March 31, 2018 and December 31, 2017.

*Net Investment Hedge.* Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated statements of income. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in the consolidated statements of changes in equity is transferred to and recognized in the consolidated statements of income.

The Group has no hedge of a net investment in a foreign operation as of June 30 and March 31, 2018 and December 31, 2017.

Changes in fair values of derivatives that do not qualify for hedge accounting are recognized directly in the consolidated statements of income.

### *Embedded Derivatives*

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

### Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

#### *Freestanding Derivatives*

Freestanding derivatives consist of interest rate, currency and commodity derivatives entered into by the Group.

#### *Interest Rate Swap*

As of June 30 and March 31, 2018 and December 31, 2017, the Group has outstanding interest rate swap with notional amount of US\$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P876, P731 and P1,563 as of June 30 and March 31, 2018 and December 31, 2017, respectively.

#### *Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$1,257, US\$1,219 and US\$1,283 as of June 30 and March 31, 2018 and December 31, 2017, respectively, and with various maturities in 2018. The net positive (negative) fair value of these currency forwards amounted to P248, P4 and (P445) as of June 30 and March 31, 2018 and December 31, 2017, respectively.

#### *Currency Options*

As of June 30 and March 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US\$424 and US\$362, respectively and with various maturities in 2018. The negative fair value of these currency options amounted to P650 and P98 as of June 30 and March 31, 2018. The Group has no outstanding currency options as of December 31, 2017.

#### *Commodity Swaps*

The Group has outstanding swap agreements covering its aluminum requirements, with maturities in 2018. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 500 and 400 metric tons as of June 30 and March 31, 2018. The negative fair value of these swaps amounted to P2 and P4 as of June 30 and March 31, 2018. The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2017.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2018. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 21.8 million barrels, 12.1 million barrels and 42.6 million barrels as of June 30 and March 31, 2018 and December 31, 2017, respectively. The net negative fair value of these swaps amounted to P119, P735 and P1,177 as of June 30 and March 31, 2018 and December 31, 2017, respectively.

The Group has outstanding fixed swap agreements covering the coal requirements of a subsidiary, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 60,000 metric tons as of June 30 and March 31, 2018 and December 31, 2017. The positive fair value of these swaps amounted to P98, P50 and P62 as of June 30 and March 31, 2018 and December 31, 2017, respectively.

#### *Commodity Options*

As of June 30 and March 31, 2018 and December 31, 2017, the Group has no outstanding bought and sold options covering the wheat and soybean meal requirements.

The Group has no outstanding three-way options designated as hedge of forecasted purchases of crude oil as of June 30 and March 31, 2018 and December 31, 2017.

#### *Embedded Derivatives*

The Group's embedded derivatives include currency derivatives (forwards and options) embedded in non-financial contracts.

#### *Embedded Currency Forwards*

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$147, US\$171 and US\$169 as of June 30 and March 31, 2018 and December 31, 2017, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to (P267), (P338) and P93 as of June 30 and March 31, 2018 and December 31, 2017, respectively.

### *Embedded Currency Options*

As of June 30 and March 31, 2018 and December 31, 2017, the Group has no outstanding currency options embedded in non-financial contracts.

The Group recognized marked-to-market gains from freestanding and embedded derivatives amounting to P748, P1,411, P1,254 and P468 for the periods ended June 30, 2018 and 2017, and March 31, 2018 and 2017, respectively.

### Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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

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

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

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

### Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value by valuation method:

|                                           | June 30, 2018 |         |        | December 31, 2017 |         |        |
|-------------------------------------------|---------------|---------|--------|-------------------|---------|--------|
|                                           | Level 1       | Level 2 | Total  | Level 1           | Level 2 | Total  |
| <b>Financial Assets</b>                   |               |         |        |                   |         |        |
| Derivative assets                         | P -           | P805    | P805   | P -               | P333    | P333   |
| Investments in equity instruments at FVPL | -             | 203     | 203    | -                 | 170     | 170    |
| Financial assets at FVOCI                 | 982           | 41,141  | 42,123 | 1,002             | 41,266  | 42,268 |
| <b>Financial Liabilities</b>              |               |         |        |                   |         |        |
| Derivative liabilities                    | -             | 2,373   | 2,373  | -                 | 3,487   | 3,487  |

The Group has no financial instruments valued based on Level 3 as of June 30, 2018 and December 31, 2017. For the period ended June 30, 2018 and for the year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## 11. Other Matters

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- There were no material changes in estimates of amounts reported in prior financial years.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 6 (i), Note 24 (c) and Note 44 (a) of the 2017 Audited Consolidated Financial Statements, that remain outstanding as of June 30, 2018. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses of SMFB, which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2018.

- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of June 30, 2018. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

## SAN MIGUEL CORPORATION AND SUBSIDIARIES

### FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2018 and December 31, 2017 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2018 and 2017 for operating efficiency ratios.

|                                                                               | June 30, 2018               | December 2017 |
|-------------------------------------------------------------------------------|-----------------------------|---------------|
| <u>Liquidity:</u>                                                             |                             |               |
| Current Ratio                                                                 | 1.29                        | 1.40          |
| <u>Solvency:</u>                                                              |                             |               |
| Debt to Equity Ratio                                                          | 2.28                        | 1.93          |
| Asset to Equity Ratio                                                         | 3.28                        | 2.93          |
| <u>Profitability:</u>                                                         |                             |               |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | 9.24%                       | 9.73%         |
| Interest Rate Coverage Ratio                                                  | 2.95                        | 3.27          |
|                                                                               | <b>Period Ended June 30</b> |               |
|                                                                               | <b>2018</b>                 | <b>2017</b>   |
| <u>Operating Efficiency:</u>                                                  |                             |               |
| Volume Growth                                                                 | 10%                         | 2%            |
| Revenue Growth                                                                | 27%                         | 20%           |
| Operating Margin                                                              | 13%                         | 14%           |

The manner by which the Group calculates the key performance indicators is as follows:

| KPI                          | Formula                                                                                                                                                      |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current Ratio                | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$                                                                                                   |
| Debt to Equity Ratio         | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$                                                                                      |
| Asset to Equity Ratio        | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$                                                                                           |
| Return on Average Equity     | $\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$ |
| Interest Rate Coverage Ratio | $\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$                                                     |
| Volume Growth                | $\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$                                      |
| Revenue Growth               | $\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$                                                                   |
| Operating Margin             | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$                                                                                           |

\* Annualized for quarterly reporting



## SAN MIGUEL CORPORATION

### MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

#### INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation (“SMC” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended June 30, 2018 (with comparative figures as of December 31, 2017 and for the period ended June 30, 2017). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2018, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

#### **I. 2018 SIGNIFICANT TRANSACTIONS**

##### **INVESTMENTS**

- *Approval of the Amendment to the Articles of Incorporation of San Miguel Pure Foods Company Inc. (SMPFC) and the Increase in Authorized Capital Stock of San Miguel Food and Beverage, Inc. (SMFB)*

On March 23, 2018, the Philippine Securities and Exchange Commission (SEC) approved the amendment to the Articles of Incorporation of SMPFC consisting of (a) change of the corporate name from SMPFC to SMFB, (b) change in the primary purpose to include engaging in the beverage business, (c) change in the par value of the common shares of SMFB from P10.00 per share to P1.00 per share, and (d) denial of pre-emptive rights to issuances or dispositions of any and all common shares.

On April 5, 2018, the Parent Company and SMFB signed the Deed of Exchange of Shares pursuant to which the Parent Company will transfer to SMFB, the Parent Company’s 7,859,319,270 common shares of the capital stock of San Miguel Brewery Inc. (SMB) and 216,972,000 common shares of the capital stock of Ginebra San Miguel Inc. (GSMI) (collectively, the “Exchange Shares”) at the total transfer value of P336,349 million. As consideration for its acquisition of the Exchange Shares, SMFB shall issue unto the Parent Company 4,242,549,130 common shares of the capital stock of SMFB (the “New SMFB Shares”). The New SMFB Shares will be taken out of the increase in the authorized capital stock of SMFB from P2,460 million divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share, to P12,000 million divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the Board of Directors and shareholders of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of the Parent Company's ownership in SMFB from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

With the approval of the increase in the authorized capital stock of SMFB, the SEC consequently accepted and approved the transfer value of the Exchange Shares amounting to P336,349 million, the investment value of SMFB in SMB and GSML.

As the issuance of the New Shares resulted in SMFB's public ownership level falling below the minimum ten percent (10%) requirement under the PSE's Amended Rule on Minimum Public Ownership ("MPO Rule"), the PSE suspended the trading of SMFB's common and preferred shares (collectively, the "SMFB Shares") commencing July 6, 2018 and until SMFB is able to secure a favorable ruling/opinion from the Bureau of Internal Revenue (BIR) on the appropriate taxes to be imposed on the trades of SMFB Shares through the PSE during the period not exceeding six months (the "MPO Exemption Period").

On July 20, 2018, SMFB received BIR Ruling No. 1092-2018, granting temporary exemption from the MPO Rule and states that the Share Swap and the follow-on offer of common shares and all trades of SMFB Shares through the PSE during the period not exceeding six months are not subject to capital gains tax of 15% under Revenue Regulations (RR) No. 16-2012 as amended by RR No. 11-2018 (TRAIN Law), and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) shall be imposed on all trades through the PSE of SMFB Shares during the same period. The temporary exemption is effective until December 31, 2018.

On July 23, 2018, the PSE lifted the trading suspension of SMFB Shares.

▪ *Acquisition of Masinloc Group*

On March 20, 2018, SMC Global Power Holdings Corp. (SMC Global) completed the acquisition of 100% equity interest in Masin-AES Pte. Ltd. (MAPL), AES Transpower Private Ltd. (corporate support services) and AES Philippines Inc. (energy marketing services) ("the Masinloc Group") for a total consideration of US\$1,900 million, subject to a post-closing purchase price adjustment. The transaction involves the acquisition of the Masinloc Power Plant, a coal-fired power plant with an operating capacity of 2 x 315 Megawatt (MW), the on-going power project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in the Province of Zambales.

The transaction was financed through the following:

- a) Availment by SMC Global of a US\$700 million floating interest rate term loan and a US\$500 million fixed interest rate term loan.

The US\$700 million loan is divided into Facility A Loan amounting to US\$200 million maturing on March 12, 2021 and Facility B Loan amounting to US\$500 million maturing on March 13, 2023. The loans are subject to repricing based on LIBOR plus spread.

- b) Availment by SMC of a total of US\$400 million short-term bridge financing loans and US\$400 million floating interest rate term loan maturing on March 13, 2023. The bridge financing loans were fully paid in April 2018.

SMC subscribed to US\$650 million Redeemable Perpetual Securities (RPS) issued by SMC Global and made a US\$150 million advance to SMC Global.

## **REFINANCING OF LOANS**

### **▪ Issuance of P20,000 Million Fixed Rate Peso-denominated Bonds by the Parent Company**

On March 19, 2018, the Parent Company issued and listed in the Philippine Dealing & Exchange Corp. (PDEX) P20,000 million peso denominated fixed rate bonds out of the P60,000 million shelf registered Peso bonds of the Parent Company.

The bonds are comprised of the five-year Series E Bonds due 2023, seven-year Series F Bonds due 2025 and ten-year Series G Bonds due 2028.

The Series E, F and G Bonds have fixed interest rate equivalent to 6.2500% per annum, 6.6250% per annum and 7.1250% per annum, respectively.

The proceeds from the issuance were partially used for the payment of the US\$120 million short-term loan of SMC in July 2018.

### **▪ Issuance of US\$500 million Senior Perpetual Capital Securities (SPCS) and partial redemption of US\$750 million Undated Subordinated Capital Securities (USCS) by Petron Corporation (Petron)**

On January 8, 2018, Petron announced a tender offer to holders of its US\$750 million USCS with expiration deadline on January 16, 2018. Tenders amounted to US\$402 million and were settled by Petron on January 22, 2018. The USCS redeemed by Petron pursuant to the Tender Offer were cancelled.

On January 19, 2018, Petron issued US\$500 million SPCS with an issue price of 100% to partially refinance the redemption of its existing US\$750 million USCS, for the repayment of indebtedness and for general corporate purposes, including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

## **REDENOMINATION OF FOREIGN CURRENCY DEBT**

### **▪ Issuance of P10,000 Million Fixed Rate Peso-denominated Notes by the Parent Company**

On May 25, 2018, the Parent Company issued and enrolled with the PDEX peso-denominated fixed-rate notes ("Notes") amounting to P10,000 million. The Notes have interest rate equivalent to 5.25% per annum due 2020.

The proceeds from the issuance will be used to partially fund the payment of the US\$580 million long-term debt maturing in November 2018.

## **AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS**

### **SMC**

On June 26, 2018, the Parent Company availed of a US\$300 million five-year Facility Agreement to fund general corporate requirements and/or additional investments.

### **SMC Consolidated Power Corporation (SCPC)**

On January 31, 2018, SCPC drew P2,000 million from the P44,000 million Omnibus Loan and Security Agreement (OLSA) with various local banks dated June 22, 2017 to finance the ongoing construction of the 2x150 MW Limay Coal-fired Power Plant.

### **Citra Central Expressway Corp. (CCEC)**

On March 28, 2018 and June 29, 2018, CCEC drew P4,300 million and P4,400 million, respectively, from the P31,000 million OLSA with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

### **Luzon Clean Water Development Corporation (LCWDC)**

On March 15, 2018 and June 18, 2018, LCWDC drew P2,103 million and P1,172 million from the P5,400 million OLSA with various local banks dated September 16, 2016.

Proceeds of the loan will be used for the Bulacan Bulk Water Supply Project.

## **PAYMENT OF MATURING OBLIGATIONS**

### **Infrastructure Group**

The Infrastructure Group paid a total of P4,749 million of its maturing long-term debt in the first semester of 2018.

### **Other Subsidiaries**

In the first semester of 2018, Masinloc Power Partners Co. Ltd. (MPPCL), Petron, SCPC, San Miguel Yamamura Packaging Corporation (SMYPC), SMC Global, East Pacific Star Bottlers Phils Inc. and Can Asia, Inc. paid their maturing long-term debt amounting to P3,715 million.

## II. FINANCIAL PERFORMANCE

### 2018 vs. 2017

San Miguel Corporation's consolidated sales revenue for the first semester of 2018 amounted to P499,000 million, 27% higher than 2017 mainly driven by higher volumes of SMB, the Food Group and GSMI and favorable selling prices of Petron. Most businesses increased their revenues with Petron, Energy and the core beverage and food businesses posting double-digit growth.

Cost of sales increased by 29% to P392,855 million mainly due to the increase in crude prices and effect of excise tax of Petron; higher sales volume of Petron, SMB, the Food group and GSMI; higher excise tax of the domestic operations of SMB, operations of MPPCL and the coal-fired power plant in Davao, higher cost of coal and fuel consumed by Sual Power Plant, and increase in cost of major raw materials of the Food Group, particularly in feeds, dairy and processed meats, as well as the impact of Philippine Peso depreciation.

Selling and administrative expenses increased mainly due to higher personnel expenses of SMB, GSMI and the Food Group, freight, trucking and handling costs, distribution costs, contracted services costs and advertising and promotions of SMB, expenses of MPPCL, higher Liquefied Petroleum Gas (LPG) cylinder purchases, repairs and maintenance and increase in terminalling fees and rent expense of Petron, and logistics costs of the Food Group.

The Group's consolidated operating income reached P67,006 million, 25% higher than last year, as a result of better margins.

The increase in interest expense and financing charges was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017 from the issuance by the Parent Company of the P50,000 million (Series A, B, C, D, E, F and G) bonds in 2017 and 2018, and availment of US\$400 million and US\$400 million long-term debt in 2017 and March 2018, respectively, issuance by SMC Global of P20,000 million Bonds in December 2017 and additional loan availed in 2018 by SMC Global to finance the acquisition of the Masinloc Group.

The higher interest income was primarily due to higher average balance of cash and money market placements of the Parent Company, the domestic and international operations of SMB, SMC Global and Petron.

The decrease in equity in net earnings primarily represents the share of SMC Global on the net loss of Angat Hydropower Corporation (Angat Hydro).

The gain on sale of investments and property and equipment in 2018 pertains to the sale by SMPI of its investment in Legacy Homes, Inc. while the gain in 2017 pertains to the sale of service stations by Petron Malaysia to the government. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for government projects.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt and finance lease liabilities with the peso depreciating from P49.93 in December 2017 to P53.34 in June 2018.

The higher income tax expense was mainly due to the increase in taxable net income of SMB.

Consolidated net income of P27,585 million was 6% higher than 2017.

Consolidated recurring net income, excluding the effect of foreign exchange translation amounted to P35,536 million, 29% higher than last year.

Share of non-controlling interests (NCI) on the group's net income increased in 2018 mainly due to the higher net income of SMB and Petron. This was partially offset by the decrease in the NCI of the Food Group due to the effect of the Share Swap transaction which resulted to the increase in ownership of SMC in SMFB from 85.37% to 95.87%.

### **2017 vs. 2016**

The consolidated sales revenue of the Group for the first semester of 2017 amounted to P393,405 million, 20% higher than 2016. This was due to sustained double digit revenue growth of Petron, the Infrastructure and Beverage businesses. Petron, helped by higher crude oil prices, had a 28% increase in revenue compared to 2016. The sales performance of the Beverage business, on the other hand, improved further with domestic beer volume delivering 10% growth.

Consolidated operating income reached P53,443 million, 10% higher than 2016. In addition to the higher sales sustained by most of the businesses which resulted to improved margins, fixed costs were also better managed throughout the Group.

The higher interest expense was mainly due to the outright recognition of expense for the unamortized debt issue costs of the pre-terminated foreign currency denominated long-term debt of SCPC and Petron in June 2017 and higher average borrowing level and rate of Petron.

The increase in interest income was primarily due to higher average cash balance of the Parent Company in 2017, particularly the US dollar-denominated placements. The increase in cash balance came from the proceeds on the sale of investment in shares of stock of Vega Telecom, Inc. (Vega).

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global in the lower net loss of Angat Hydro.

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to Mass Rapid Transit Corporation Sdn Bhd. Certain service stations of Petron Malaysia were closed since the lot they are occupying will be used for government projects.

The increase in other charges was primarily due to the recognition of foreign exchange loss in 2017 as a result of the depreciation of the Philippine peso against the US dollar by P0.75 in June 2017. This pertains mainly to the loss on the revaluation of foreign currency denominated: (a) loans payable and long-term debt of the Parent Company, SMC Global and Petron; and (b) finance lease liabilities of SMC Global. The loss was partially offset by the foreign exchange gain on the foreign currency-denominated cash and cash equivalents of the Parent Company and SMC Global.

The foreign exchange loss in June 2017 was also partly offset by the gain on derivatives which primarily pertains to the gain on commodity hedging of Petron.

The higher income tax expense was mainly due to increase in taxable net income of SMB and SMYPC and the cessation of the income tax holiday of South Luzon Tollway Corporation (SLTC) in December 2016.

Consolidated net income amounted to P26,093 million in 2017.

Excluding the effect of foreign exchange translation and the income from discontinued operations in 2016, recurring net income for the period ended June 30, 2017 at P27,603 million was 21% higher than the comparable 2016 recurring net income of P22,836 million.

Share of NCI on the Group's net income increased in 2017 mainly due to the higher net income of Petron, SMB and SMYPC.

The following are the highlights of the performance of the individual business segments:

## **1. FOOD AND BEVERAGE**

### **2018 vs. 2017**

The combined sales revenues of SMFB for the first half of the year amounted to P137,393 million, 15% higher than P119,108 million in 2017. Similarly, operating income of P22,885 million grew 20% from same period last year.

#### **a. San Miguel Brewery Inc.**

SMB continued its solid performance with consolidated volumes reaching 138 million cases, 11% higher than last year. Strong volumes were mainly driven by increased consumption of its beer products nationwide and boosted by the implementation of new campaigns and consumer and trade programs that continued to further strengthen the equity of SMB brands. These generated consolidated revenues of P62,510 million, 18% higher vs. last year.

Together with the contribution from its international operations, SMB's operating income of P17,311 million grew 23% from last year.

#### **b. Ginebra San Miguel Inc.**

GSMI likewise recorded a strong first semester performance. Sales volumes grew 15% to 15.6 million cases. The core brands Ginebra San Miguel and Vino Kulafu continued to drive growth momentum, benefitting from new thematic campaigns launched early this year and ongoing consumer promotions.

Revenues rose 19% to P12,046 million while operating income reached P862 million, 57% higher than previous year.

#### **c. Food Group**

Food Group's consolidated revenues for the first half of the year, reached P62,886 million, 12% higher than last year mainly driven by the strong performance of the Feeds, Poultry and Meats, and Processed Meats businesses.

Income from operations, on the other hand, grew 6% to P4,712 million, on the back of the business segments' overall higher revenues and improved operational efficiencies. This was tempered, however, by increasing cost of raw materials particularly in feeds, dairy and processed meats, as well as the impact of Philippine Peso depreciation.

Revenues from the combined Feeds, Poultry and Fresh Meats businesses grew 12.6% to P44,466 million, driven by better sales mix, higher sales volume and favorable selling prices of chicken and fresh meats products.

Meanwhile, revenues of the Milling business increased by 6.5% boosted by higher volume, a good recovery from a sluggish first quarter.

Revenues of the Branded Value-Added Business, comprised of Processed Meats, Dairy, Spread and Biscuits, and Coffee, grew 14.6% higher to P14,494 million. Volume growth, as well as higher selling prices of dairy products, cushioned the significant increases in processed meats and dairy raw material prices.

The Food Service business under Great Foods Solutions, continued to grow, posting double digit revenue growth.

### **2017 vs. 2016**

The combined sales revenues of SMFB for the first semester of 2017 grew 9% to P119,108 from P108,831 million in 2016. Operating income reached P19,094 million in 2017, an increase of 15% from the same period in 2016.

#### **a. San Miguel Brewery Inc.**

SMB grew both revenues and operating income by 12% to P53,060 million and P14,040 million, respectively, in the first semester of 2017.

The Domestic operations posted P47,148 million in revenues, 13% higher than 2016. This was driven by a 10% increase in beer volumes.

The International operations contributed 12.8 million cases, a 5% decline from 2016, as threat for total alcohol ban in Indonesia has depressed sales. Despite lower volumes, San Miguel Brewing International Ltd. managed to register operating income growth, with most units providing profitability improvements.

#### **b. Ginebra San Miguel Inc.**

GSMI sold 13.6 million cases in the first six months of 2017, a 19% growth compared to 2016. Flagship Ginebra San Miguel sustained growth momentum posting 21% increase versus 2016.

The strong volume performance helped by the price increase implementation in April 2017, resulted to June 30, 2017 sales revenue of P10,124 million, 20% higher than 2016. Likewise, operating income at P551 million was 43% better than 2016.

#### **c. Food Group**

Consolidated revenue of the Food Group rose 5% to P55,947 million due to higher volumes and favorable selling prices of Poultry, Fresh Meats, and Processed Meats businesses.

Agro-industrial cluster revenue grew by 6%, led by a 9% increase in Poultry and Fresh Meats business. This came mostly from the 6% growth in chicken volume during the second quarter. Also, the first quarter favorable prices improved further during the second quarter.

Milling business, on the other hand, remained challenged by the softening of global wheat prices and industry competition.

Branded Value-Added cluster delivered a 4% increase in revenue. This was mainly driven by sustained growth in volume of processed meats. Dairy, Spreads and Biscuits segment posted a modest revenue increase of 1%, despite lower volume, due to price increases implemented to partly cover the rising raw materials' costs.

The Food Group's consolidated operating income for the first semester of 2017 amounted to P4,460 million, 24% higher compared to 2016. The strong result was attributable to the income performance of Agro-industrial cluster, particularly with Poultry and Meat's favorable selling prices and lower cost of some major raw materials. Processed Meats business also contributed to the improved income performance.

## **2. PACKAGING**

### **2018 vs. 2017**

San Miguel Yamamura Packaging Group's (SMYPG) total sales revenues reached P17,556 million, 25% higher from 2017. Strong sales from the glass, plastics, metal and Australian operations continues to drive growth.

Operating income amounted to P1,647 million, 17% higher than 2017.

### **2017 vs. 2016**

The SMYPG registered revenues of P14,028 million and operating income of P1,404 million for the first semester of 2017. These were higher from the same period in 2016 by 4% and 6%, respectively. The improved performance was attributed to improved sales from the Plastics and Metal businesses and higher contribution of the Australian operations.

## **3. ENERGY**

### **2018 vs. 2017**

SMC Global posted consolidated off-take volume of 11,406 gigawatt hours (Gwh) during the first half, 36% higher than last year mainly from the higher contribution of the Limay, Malita and Masinloc power plants. This was partly offset by the decline in Sual, Ilijan and San Roque power plants' net generation due to longer outages and low water level during the period.

Consolidated revenues grew 41% to P57,430 million on account of the additional revenues from Masinloc, Limay and Malita power plants; higher off-take volume of SMELC-RES from the additional external customers and increase in electricity requirements; higher average realization prices for Sual's bilateral and spot sales; and higher spot sales from Ilijan power plant.

As a result, operating income reached P17,043 million, 28% higher than the previous year at P13,315 million.

### **2017 vs. 2016**

SMC Global's off take volume for the first semester of 2017 was 8,405 Gwh, 9% lower than 2016, mainly due to lower bilateral volumes caused by the maintenance shutdown of Ilijan Power Plant and Malampaya gas facility during the first quarter, coupled with the shutdown

of Sual Unit 2 due to transformer failure on June 14, 2017 and shutdown of Ilijan Block 2 from April 9 to 17, 2017 after a series of earthquakes in Batangas.

As a result, consolidated net revenue slightly decreased to P40,697 million. The drop in volumes was partly offset by higher average bilateral realization prices. Rate adjustments due to changes in pass-through fuel costs, particularly of coal, contributed to the increase in the average bilateral price.

Corresponding consolidated operating income reached P13,315 million.

#### **4. FUEL AND OIL**

##### **2018 vs. 2017**

Petron sustained its strong performance in the first half of 2018. Consolidated revenues grew 32% to P273,498 million, compared to last year's P206,958 million, mainly driven by sustained sales volumes of its Philippine and Malaysian operations and higher prices of crude oil and finished products. Benchmark Dubai crude oil price averaged USD68 per barrel in the first six months this year, 32% higher over the same period last year. Volumes grew to 54.4 million barrels, 3% higher than last year. Philippine operations continued to focus on other high-margin products resulting in petrochemicals generating strong sales, surpassing last year's volumes by 14%. Gasoline and aviation fuels sales likewise grew 8% and 4%, respectively. In Malaysia, sales volumes were boosted by stronger retail sales.

Consolidated operating income amounted to P15,562 million, higher by 7% than last year. Robust growth in revenues of 32% was mitigated by increase in cost of crude outpacing the increase in prices of finished goods.

Petron continues its network expansion. Philippines now has over 2,400 gasoline stations while Malaysia has over 620 service stations.

##### **2017 vs. 2016**

Petron posted a 56% improvement in net income at P8,214 million for the first semester of 2017, the result of Petron's deliberate focus on more profitable segments and improved refinery production yields.

Consolidated volumes during the period reached almost 53 million barrels, slightly higher than 2016 level due to the growth in Malaysian volume. In the Philippines, the focus to sell more profitable products was exhibited by higher gasoline, petrochemicals, kero/jet and lubes sales, offset by the reduction in diesel and industrial fuel oil. Meanwhile, the 7% growth in Malaysian volume primarily came from gasoline, kero/jet and diesel sales contributed by Industrial and Retail trades.

Revenues at P206,958 million was 28% ahead of 2016. This was a result of higher selling prices as benchmark crude averaged at US\$51 per barrel, compared to the 2016 average of US\$37 per barrel. Operating income also improved compared to 2016, increasing by 27% to P14,555 million.

## **5. INFRASTRUCTURE**

### **2018 vs. 2017**

The Infrastructure business posted consolidated revenue of P12,145 million, 11% higher than last year on the back of continuous growth in traffic volume at all operating tollroads. Operating income grew 19% to P6,223 million.

### **2017 vs. 2016**

The Infrastructure group continued to grow as the revenues for the first half of 2017 reached P10,895 million, 11% higher than 2016. This was the result of higher traffic volumes from most of the toll ways with Metro Manila Skyway (Skyway) and South Luzon Expressway increasing by 6% and 7%, respectively. Tarlac-Pangasinan-La Union Toll Expressway (TPLEX) and Ninoy Aquino International Airport Expressway (NAIA Expressway) also contributed incremental volumes from the full year operations of the recently opened segments.

Consequently, operating income rose to P5,245 million.

## **III. FINANCIAL POSITION**

### **2018 vs. 2017**

Consolidated total assets as of June 30, 2018 amounted to about P1,611,185 million, P231,542 million higher than December 31, 2017. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents was mainly due to the proceeds from the issuance of P10,000 million fixed - rate corporate notes by the Parent Company on May 25, 2018; net proceeds from short-term loans of Petron; and net cash generated from operations of SMB. This was partially offset by the decrease in cash and cash equivalents by the Food Group primarily due to payments made for raw materials importation and capital expenditures.

The increase in trade and other receivables is mainly attributable to the higher bilateral sales of San Miguel Energy Corporation (SMEC), South Premiere Power Corp. (SPPC), and the consolidation of the balance of MPPCL, increase in trade customer balances of Petron, offset by the decrease in receivable balances of the Food Group due to higher collection and lower credit sales in June 2018 as compared to December 2017.

Inventories increased by P24,445 million due to higher prices of crude oil and finished products including excise taxes of Petron, consolidation of the materials and supplies of MPPCL, combined impact of higher prices of raw materials and higher level of inventory of San Miguel Foods, Inc. (SMFI) to support expected volume growth and higher inventory levels of finished goods and raw materials and purchase of containers in preparation for higher product demand of SMB.

The purposive increase in volume of live broiler grown and poultry breeding stock of SMFI to support expected higher demand for chicken resulted in the increase in current portion of biological assets.

The increase in prepaid expenses and other current assets was primarily due to the consolidation and increase in MPPCL's prepaid expenses, higher prepaid taxes on car inventory of SMC Asia Car Distributors Corp., higher deposit for excise tax of SMB, and advance payments of San Miguel Northern Cement, Inc. to foreign suppliers.

The increase in investments and advances-net represents mainly the additional investment of San Miguel Holdings Limited.

Property, plant and equipment increased due to the consolidation of the power plant and properties of Masinloc Group and the costs of the expansion projects of the Food Group and Petron.

The increase in investment property represents mainly the acquisition by San Miguel Properties, Inc. of properties located in Mariveles, Bataan and Makati City.

The increase in goodwill by P71,255 million mainly represents the goodwill recognized as a result of the consolidation of Masinloc Group.

Deferred tax assets increased by P1,005 million mainly due to the effect of recognition by the Parent Company of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated - long-term debt and loans payable as a result of the depreciation of the Peso against the US Dollar in June 2018 compared to December 2017.

Other noncurrent assets increased by P8,510 million mainly due to the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited, project costs incurred for the TPLEX Project and capitalized expenditures on the construction of the Metro Rail Transit Line 7 (MRT 7) Project; and purchase of new bottles and shells by SMB.

Loans payable increased by P27,990 million mainly due to net availment of working capital loans by Petron and net availment of peso loans for general corporate purposes by the Parent Company, SMHC and MPPCL.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of South Premiere Power Corp., SMEC, and Strategic Power Devt. Corp. (SPDC) which are payable up to June 30, 2019 and the assumed finance lease liability of MPPCL.

Income and other taxes payable increased by P2,653 million mainly due to higher Value-added Tax (VAT) payable of SMC Global and SL Harbour Bulk Terminal Corporation (SLHBTC), and the contributed income tax payable of MPPCL and higher income tax payable of SMEC, and SLHBTC.

Dividends payable increased primarily due to the dividends declared by SMC Shipping and Lighterage Corporation (SMCSL) to non-controlling shareholder, net of dividend payments made by Citra Metro Manila Tollways Corp. (CMMTC) and San Miguel Yamamura Asia Corp. (SMYAC).

The higher amount of long-term debt by P176,396 million resulted from the availments made by SMC Global Power of US\$1,200 million and SMC's availment of US\$400 million loan, to finance the acquisition of Masinloc Power; consolidation of the long-term debt of MPPCL; SMC's issuance of Series E, F and G Bonds, availment of US\$300 million loan for investment and general corporate purposes, and issuance of P10,000 million fixed-rate corporate notes; and forex adjustment on the US dollar denominated loans.

Equity reserves increased primarily due to foreign exchange impact on redemption of USCS by Petron, net of the effect of the Share Swap transaction which resulted to the increase in ownership of SMC in SMFB from 85.37% to 95.87%.

NCI increased by P13,045 million mainly due to issuance of SPCS net of partial redemption of USCS by Petron, share of non-controlling stockholders in the higher net income of SMB, Petron, SMC Global and Infrastructure Group, and translation adjustments, net of dividends declared to the non-controlling stockholders of SMB, Petron, SMCSL and distribution of USCS of SMC Global and the effect of the Share Swap transaction which resulted to the increase in ownership of SMC in SMFB from 85.37% to 95.87%.

### **2017 vs. 2016**

Consolidated total assets as of June 30, 2017 amounted to P1,349,785 million, P42,961 million higher than December 31, 2016. The increase was primarily due to the increase in cash and cash equivalents, property, plant and equipment and other noncurrent assets. The increase in property, plant and equipment was due to the capital expenditures incurred in 2017 by SMC Global for the on-going construction of the new power plants in Davao and Bataan, and the Food Group for their expansion projects.

The increase in cash and cash equivalents by P35,890 million was mainly due to the: (a) proceeds from the 12-year term loan availed by SCPC on June 28, 2017 which was partly used to pay the US\$360 million bridge loan availed in May 2017; and (b) receipt on May 30, 2017 of the remaining 25% balance of the proceeds from the sale of the investment in shares of stock of Vega to Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe).

The decrease in trade and other receivables by P11,864 million was mainly due to the collection of receivable from PLDT and Globe related to the sale of the investment in shares of stock of Vega.

The increase in biological assets by P448 million was mainly due to higher volume of live broilers grown and poultry breeder stocks to support the anticipated demand requirements in 2017.

The increase in other noncurrent assets by P5,672 million was mainly due to the: (a) capitalized project costs incurred for the MRT 7 Project and increase in noncurrent portion of the subsidy receivable from the Department of Public Works and Highways for the construction costs incurred in the TPLEX Project; and (b) additional noncurrent prepaid input VAT on the sale of the 300 Megawatt Coal-Fired Power Plant in Limay, Bataan to SCPC from Limay Premiere Power Corp.

Dividends payable decreased by P631 million mainly due to the payment in 2017 of the cash dividends payable to non-controlling stockholders of CMMTC and SMYAC outstanding as of December 31, 2016.

The increase in long-term debt was mainly due to the issuance by the Parent Company of fixed rate peso-denominated bonds on March 1 and April 7, 2017 and the availment of the 12-year term loan by SCPC on June 28, 2017, net of payments made by SMC Global, the Infrastructure Group, and Petron of their maturing long-term debt and the redemption by SMB of its Series D Bonds.

Deferred tax liabilities increased by P2,100 million mainly due to the: (1) temporary differences arising from the: (a) different method of depreciation used for tax reporting and financial accounting for power plant acquired by Petron in December 2016 and RMP-2, and (b) actual monthly payments to Power Sector Assets and Liabilities Management Corporation over the finance lease liability-related expenses for the period by SPPC and SPDC and; (2) the decrease in deferred tax assets caused by the realized foreign exchange loss of Petron from the pre-termination of its foreign currency-denominated long-term debt.

The increase in other noncurrent liabilities was mainly due to the retention payable to the contractors of MRT 7 and Bulacan Bulk Water Projects and additional provision for toll road repairs and maintenance; and the increase in LPG cylinder deposits, accrual of retirement cost and accretion of interest on asset retirement obligation of Petron.

Equity reserves increased by P1,507 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

Non-controlling interests increased by P6,090 million mainly due to the share of non-controlling stockholders in the net income of SMB, Petron, and the Food Group, net of dividends declared to the non-controlling stockholders.

#### Equity

The increase (decrease) in equity is due to:

| <i>(In millions)</i>                             | <b>June 30</b>  |          |
|--------------------------------------------------|-----------------|----------|
|                                                  | <b>2018</b>     | 2017     |
| Income during the period                         | <b>P27,585</b>  | P26,093  |
| Other comprehensive income                       | <b>4,521</b>    | 2,574    |
| Addition to non-controlling interests and others | <b>2,779</b>    | 1        |
| Issuance of common shares                        | <b>33</b>       | 119      |
| Adjustments due to PFRS 9 and 15                 | <b>105</b>      | -        |
| Cash dividends and distributions                 | <b>(15,461)</b> | (13,429) |
|                                                  | <b>P19,562</b>  | P15,358  |

#### IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| <i>(In millions)</i>                            | <b>June 30</b>   |          |
|-------------------------------------------------|------------------|----------|
|                                                 | <b>2018</b>      | 2017     |
| Net cash flows provided by operating activities | <b>P21,857</b>   | P48,726  |
| Net cash flows used in investing activities     | <b>(139,435)</b> | (15,506) |
| Net cash flows provided by financing activities | <b>133,081</b>   | 1,755    |

Net cash flows provided by operating activities for the period basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities included the following:

| <i>(In millions)</i>                                                                                        | <b>June 30</b>   |             |
|-------------------------------------------------------------------------------------------------------------|------------------|-------------|
|                                                                                                             | <b>2018</b>      | <b>2017</b> |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired                                      | <b>(P97,985)</b> | (P1,203)    |
| Additions to investments and advances and financial assets at fair value through other comprehensive income | <b>(17,758)</b>  | (996)       |
| Additions to property, plant and equipment                                                                  | <b>(17,174)</b>  | (18,405)    |
| Increase in other noncurrent assets and others                                                              | <b>(11,024)</b>  | (10,470)    |
| Interest received                                                                                           | <b>2,933</b>     | 1,894       |
| Proceeds from sale of investments and property and equipment                                                | <b>1,005</b>     | 645         |
| Dividend received from an associate and financial assets at fair value through other comprehensive income   | <b>568</b>       | 9           |
| Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of             | -                | 13,020      |

Net cash flows provided by (used in) financing activities included the following:

| <i>(In millions)</i>                                                                 | <b>June 30</b>  |             |
|--------------------------------------------------------------------------------------|-----------------|-------------|
|                                                                                      | <b>2018</b>     | <b>2017</b> |
| Proceeds from long-term debt - net                                                   | <b>P132,505</b> | P33,832     |
| Proceeds from (payments of) short-term loans - net                                   | <b>25,156</b>   | (5,773)     |
| Net proceeds from issuance of senior perpetual securities of a subsidiary and others | <b>23,815</b>   | -           |
| Redemption of undated subordinated capital securities of a subsidiary                | <b>(21,309)</b> | -           |
| Payment of cash dividends and distributions                                          | <b>(14,434)</b> | (14,060)    |
| Payment of finance lease liabilities                                                 | <b>(12,685)</b> | (12,363)    |

The effect of exchange rate changes on cash and cash equivalents amounted to P962 million and P915 million for the periods ended June 30, 2018 and 2017, respectively.

## V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

|                                                                               | June 2018 | December 2017 |
|-------------------------------------------------------------------------------|-----------|---------------|
| <u>Liquidity:</u>                                                             |           |               |
| Current Ratio                                                                 | 1.29      | 1.40          |
| <u>Solvency:</u>                                                              |           |               |
| Debt to Equity Ratio                                                          | 2.28      | 1.93          |
| Asset to Equity Ratio                                                         | 3.28      | 2.93          |
| <u>Profitability:</u>                                                         |           |               |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | 9.24%     | 9.73%         |
| Interest Rate Coverage Ratio                                                  | 2.95      | 3.27          |

|                              | Period Ended June 30 |      |
|------------------------------|----------------------|------|
|                              | 2018                 | 2017 |
| <u>Operating Efficiency:</u> |                      |      |
| Volume Growth                | 10%                  | 2%   |
| Revenue Growth               | 27%                  | 20%  |
| Operating Margin             | 13%                  | 14%  |

The manner by which the Group calculates the key performance indicators is as follows:

| KPI                          | Formula                                                                                                                                                      |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Current Ratio                | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$                                                                                                   |
| Debt to Equity Ratio         | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$                                                                                      |
| Asset to Equity Ratio        | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$                                                                                           |
| Return on Average Equity     | $\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$ |
| Interest Rate Coverage Ratio | $\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$                                                     |
| Volume Growth                | $\left( \frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$                                      |
| Revenue Growth               | $\left( \frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$                                                                   |
| Operating Margin             | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$                                                                                           |

\* Annualized for quarterly reporting