WHAT TOMORROW **LOOKS LIKE**

Annual Report 2018

SAN MIGUEL CORPORATION

Over the next decade, many of our major projects will be completed, bringing to reality ideas that were once so far-fetched for many Filipinos. Among them: an expressway bridging southern and northern Metro Manila; a mass rail system connecting Quezon City to Bulacan, and a new international airport that can hold its own against the best in the world. As one of the Philippines' leading companies, San Miguel looks at economic and social issues material to its success and reimagines the way it can build industries and new markets, and contribute to the greater good.

SAN MIGUEL CORPORATION

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Annual Report 2018

MESSAGE
TO STOCKHOLDERS

In 2018, we achieved one of our most significant goals yet, realizing trillion-peso level revenues a full two years ahead of our target.

We achieved this in a year when record inflation, volatile world oil prices, and foreign currency movements had a dampening effect on companies and consumers alike.

While each of our businesses had different ways of addressing these challenges, it's a tribute to our people that despite difficulties, our businesses performed exceedingly well.

Consolidated revenues reached P1.02 trillion, 24% higher than the previous year. Our food, beverage, packaging, fuels, power, and infrastructure businesses continued to experience robust volume growth, giving our current and planned capacity expansions greater impetus.

Operating income rose by 5% to P117.1 billion, due to sustained strong volumes and higher revenues. Growth was, however, partly held back by higher raw material costs for the Food Group, and inventory losses for Petron Corporation of about P10 billion.

Consolidated recurring net income reached P55.2 billion, a slight improvement from the previous year. Petron bore the brunt of sharp declines in world crude prices in the last quarter of 2018. Overall, this, together with foreign exchange translation losses, tempered income growth. Consolidated EBITDA rose 7% to P157.9 billion.

What we'd like to emphasize is that despite the unique challenges that weighed down some of our major businesses, San Miguel as a whole, continued to deliver strong growth, leveraging on the strength of our diversified portfolio. More importantly, our consistently growing revenues and the continuing expansion of our operations point to even greater growth in the years to come.

Everything we've done is focused on ensuring the sustainability of our business and our country's growth: our diversification, our investments in future-ready infrastructure, the ongoing expansion of our businesses, and our deliberate efforts to address social and environmental issues.

We continue to pursue long-term programs that will enable us to diversify and add new revenue streams, narrow the gap between supply and consistently higher demand, and further scale our impact on important social, economic, and environmental issues.

Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Ramon S. Ang
President and Chief Operating Officer

Bringing growth to the regions

Vital to our vision of the future is the creation of new economic centers throughout the country, away from the big cities and into rural Philippines.

In areas where we've opened new manufacturing facilities and provided jobs, small businesses and micro economies have taken root. By establishing regional manufacturing hubs with access to affordable, reliable power and efficient infrastructure, we fulfill our commitment to help our nation achieve its development goals.

Our consistently growing revenues and the investments we've made to expand our operations point to even greater growth in the years to come.

In its first full year of operations as a consolidated company, San Miguel Food and Beverage, Inc. (SMFB) benefited from investments to put up new facilities. This is reflected in the company's results and on the positive performance of its share price.

Yet again, San Miguel Brewery Inc. (SMB), recorded strong volume growth for the year. With production reaching maximum capacity, SMB's ongoing expansion program is well-timed.

Work is in full swing on the Tagoloan Brewery in Misamis Oriental in Mindanao. This facility, with an initial capacity of one million hectoliters, is the first of several planned breweries to be built in strategic regional centers nationwide. We are also converting the Sta. Rosa, Laguna bottling facility into a full-scale brewery with a similar initial capacity of one million hectoliters. Over the long term, these new facilities will allow us to address growing demand and maximize efficiencies throughout the supply chain.

For the Food Group, the coming onstream of new facilities—which include a new hotdog plant in Cavite and two feed mills in Bataan and Bulacan—will address strong demand and partially offset the effects of inflation and higher raw material prices.

These new plants, part of the Food Group's expansion program, will do more than just enhance our capability to produce food for a greater number of Filipinos. This strategy will give us greater control over the manufacturing process. It will help us ensure product quality and encourage innovation and more sustainable practices throughout the company.

It was a banner year for the spirits business, Ginebra San Miguel, Inc. (GSMI). Recording the highest volumes in years, the company returned to billion-level profitability resulting from a strong marketing campaign, improvements to its distribution system, better manufacturing efficiencies, and share and volume gains from other key brands.

The San Miguel Packaging Group had an equally strong year, with increased demand across all business segments and significant growth in its Australia operations. The Packaging Group completed two major acquisitions. In June, it acquired JMP Holdings Pty. Ltd., a supplier of packaging products for various industries, and in January 2019, it completed the acquisition of INSA Alliance Sdn Bhd, a Malaysian manufacturer of high-quality bulk bags.

Making power reliable, affordable, sustainable

SMC Global Power Holdings Corp made steady progress across many areas of its business. Our mission to provide stable and affordable power to more consumers nationwide received a significant boost, with the coming onstream of new capacities in our Malita, Davao and Limay, Bataan power plants, which now have a combined capacity of 750 MW. Together with the acquisition of the Masinloc Power Plant in Zambales in March 2018, our total capacity as of end-2018 reached 4,197 MW.

As one of the leading power producers in the Philippines, we have a responsibility to contribute to government's effort to meet the country's power requirement by 2030. We have identified strategic areas where we plan to build power plants that use new technologies to round out our portfolio of renewable and traditional energy sources, using cleaner, more sustainable methods.

We've already gained significant experience in this area. By utilizing circulating fluidized bed (CFB) technology in our greenfield plants, we've consistently brought down emission levels to significantly lower than those prescribed by government and the World Bank. The Masinloc power plant uses technology that allows it to produce energy using less coal.

We also continue to pursue innovation that makes us a more sustainable business. One of these is the possible conversion of our coal-powered plants to multi-fuel plants. We are looking at using rice husks, food waste, and plastic wastes as feedstock.

Separately, the Masinloc plant has deployed the latest battery storage technology to help stabilize the power grid. All in all, these initiatives reflect our philosophy when it comes to power—and that is to keep moving the needle towards greater sustainability, however and wherever we can.

**Department of Energy, Power Development Plan 2016-2040*

Petron substantially reduced its use of water by substituting it with non-scarce water. For 2018, its total water reduction reached 15.3 million cubic meters, a 26% improvement over the previous year.

Reaching targets, leading in sustainability

Despite a challenging operating environment, Petron Corporation focused on expanding its reach, broadening its offerings, and increasing efficiencies. It is the fastest-growing fuel company in the country with 2,400 stations nationwide—more than the total number of stations managed by three of its closest competitors combined. In Malaysia, its network has expanded to 640 stations.

Petron reached most of its targets for 2018: improving its product line and achieving its highest annual crude run equivalent to a 95% utilization rate, well beyond the global average of 85%. It added 370,000 barrels of new storage capacity in key locations ahead of future demand, as part of a larger logistics master plan. The company is also close to completing its polypropylene facility, which will provide the business higher margins.

Petron also led in many of our environmental initiatives, including our water sustainability initiative. Utilizing a combination of desalination technology and rainwater harvesting, Petron substantially reduced its use of surface water. For 2018, its total water reduction reached 15.3 million cubic meters, a 26% improvement over the previous year.

Building momentum for Philippine growth

For SMC Infrastructure, work continued throughout 2018 to complete ongoing projects, even as we realized higher returns from operating infrastructure investments. We made significant progress on right-of-way issues concerning various sections of Skyway Stage 3, which will connect our toll roads in the south to northernmost Metro Manila and beyond. Before the end of 2018, we opened to the public a segment of the stretch from Gil Puyat in Makati heading towards Quirino Ave.

A new section of the Tarlac-Pangasinan-La Union Expressway (TPLEX) up to the Pozzorubio exit is now operational. The last section to Rosario, La Union is scheduled for completion by end of 2019. Even then, we're already gearing up for the TPLEX extension project, which the government has allowed us to undertake. This will extend TPLEX from Rosario to San Juan in La Union.

The MRT-7 project, a major component of our larger infrastructure master plan, is progressing well. The latest major rail project in the Philippines since LRT-2, MRT-7 is crucial to opening up the province of Bulacan as a major growth center, much like Laguna and Cavite in the south.

Before the end of 2018, we completed construction on Phase 1 of the Bulacan Bulk Water Supply Project. Since the start of the year, it has begun supplying potable water to six out of the 24 water districts under its concession agreement.

Our proposal to build a new, world-class international gateway—the New Manila International Airport (NMIA)—has undergone extensive review by various government agencies. From the beginning, we were fully aware of the difficulties of a project such as this; nothing of this magnitude has ever been completed. But we know that to truly solve our decades-long problem of land and air congestion and to fully tap our economic potential, our country needs a future-proof solution.

The past year strengthened our resolve to push for this long-overdue game-changer, particularly as the Swiss Challenge phase for our proposal is, as of this writing, well underway.

This airport will be our biggest contribution to the Philippine economy, one that will generate millions of direct and indirect jobs; revive local industries and give rise to new ones; accelerate our exports; attract foreign investment; revitalize tourism, and boost national pride.

Very recently, we signed a share purchase agreement with LafargeHolcim Ltd., Europe's largest cement company, to acquire for US$2.15 billion its entire 85.7% shareholding in Holcim Philippines, the leading cement manufacturing company in the country.

This acquisition will increase our foothold in the cement business and provide us the opportunity to expand our cement business nationwide.

Cement is a highly strategic business for us, given our major infrastructure projects and a growing construction industry.

Our transformation continues

We continue to evolve in the way we approach issues that impact not just our business but society as a whole. More and more, the lines that once separated our business concerns with our social and environmental commitments are becoming less distinct, giving way to clearer sustainability goals.

By investing in manufacturing facilities, we create more jobs and give rise to new economies. By making power reliable and available to more people, we help make our regions attractive to investors and improve daily lives. By expanding our network of gas stations, we make the entire archipelago accessible to commerce and tourism. By building roads, mass transport systems, seaports, and airports, we bridge infrastructure gaps and increase our competitiveness as a country.

But our version of the future does not stop at building the foundations of our nation's growth. Our needs do not outweigh the needs of millions of ordinary Filipinos. There is a lot more at stake for us if resources vital to our operations—and the daily lives of our consumers—are not protected. As such, we have a bigger responsibility to ensure that these resources will still be there for future generations.

Our sustainability goals are clearer

In this regard, we are glad to report significant wins in the area of environmental sustainability. Our water initiative, "Project 20x2025: Water for All"—which will see us cut operational water use by 50% by year 2025—achieved a landmark 25.3% reduction in 2018. What makes this milestone truly special is that we've exceeded our target of 20% reduction by 2020 a full two years ahead of schedule.

Also in 2018, we rolled out the next leg of our sustainability program—addressing solid waste pollution. With the help of various stakeholders, we aim to make a difference across three important fronts.

Our first project will have us partnering with a host community to build a local recycling and sorting

We continue to evolve in the way we approach issues that impact not just our business but society as a whole. More and more, the lines that once separated our business concerns with our social and environmental commitments are becoming less distinct.

facility. Plastics will be broken down to become either feedstock or input to other materials that can be used in construction.

Our second initiative is the construction of the Philippines' first-ever recycled plastics roads. Hard-to-recycle plastics will be converted into raw material for asphalt which can then be used for road construction. The project will help take plastic wastes out of our environment. We will be working with materials science firm Dow Chemicals to pilot-test this technology in select areas.

Our third major initiative is an investment of P1 billion for five years to dredge and revive the 59.24-kilometer Tullahan River, which starts at the La Mesa Reservoir, spans Valenzuela and Malabon cities, and drains into the Manila Bay.

For decades now, we have been helping the local government clean up this major tributary, considered biologically dead because of pollution.

With the full backing of the Department of Environment and Natural Resources (DENR), we are determined to clean up Tullahan River in support of government's project to rehabilitate the Manila Bay.

We're aligning our many ongoing projects to the United Nations Sustainable Development Goals (UN SDGs) and we're proud to say that much of what we've done has always been embedded in our operations.

Thank you for supporting us this past year. We hope that with greater understanding of your company, you will continue to support our initiatives, patronize our products, and contribute, in your own way, to the goal of making the Philippines a better, stronger, more prosperous nation.

THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS **HOW WE'VE MADE THEM OUR OWN**

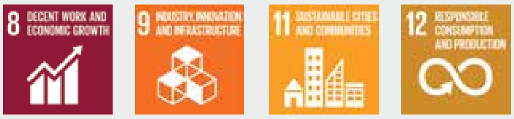
At San Miguel Corporation, we're working to advance both sustainability and profitability hand-in-hand. We believe that in a world beset by climate change and issues of inequality and social cohesion, it's the conscionable thing to do.

The shared challenges we face require concerted action from corporates like San Miguel. A big part of our sustainability thinking revolves around tackling society's big problems and how our businesses might play a part in solving them. At the same time, we recognize that sustainability initiatives can improve business performance and shareholder value.

The United Nations Sustainable Development Goals (UN SDGs) provide an important guide and roadmap to our sustainability journey and our vision of nation building.

We do business responsibly

Creating platforms for economic growth



We are a good neighbor

Building self-reliant and resilient communities

We are stewards for future generations

Protecting natural resources is part of the way we do business

We've aligned our own sustainability approach to the UN SDGs. But to truly focus on things that matter to us and the stakeholders we serve, we've re-organized them into three main principles that have always been part of who we are as a company: To do business and create growth in a responsible manner, adhering to good governance and setting the standard for best practices; to be a good neighbor to our communities, stakeholders, customers and to the larger nation we serve; and lastly, to take steps to act as stewards for future generations.

Over the next few pages, we share some examples of how the SDGs have informed our operations. While the following section by no means constitutes a sustainability report, it reflects how we hope to impact society and address environmental issues and social inequalities. Future generations deserve the same, if not better opportunities than we have today. By embracing sustainability, we hold out to them that hope and at the same time, help build a San Miguel that is even more durable, valuable, and better able to contribute to the vision of a better Philippines.

Trees at the Angat Dam watershed in Bulacan. SMC Global Power operates the 218 MW Angat Dam hydroelectric power plant.

HOW WE CREATE IMPACT: **SUSTAINABILITY STORIES**

San Miguel's positive impact should always exceed its size

Companies generally take baby steps when it comes to something as complex as sustainability. In the case of San Miguel however, it was giant strides from the outset.

As one of the Philippines' largest corporates, we recognize we have a responsibility to make a positive difference in making sure future generations have the same, if not better, opportunities than we do today. In this regard, we made two major decisions to reduce our environmental impact in 2017.

The first was to cut by 50% utility and domestic water use across the entire San Miguel group by 2025. In the two years since, we've managed to save some 8.8 billion liters of water, representing a 25.3% reduction in our overall use. We're well ahead of our goal to reduce consumption by 20% in 2020, and are confident we will be able to reach our target.

Our second decision was to discontinue our plastic bottled water business, effectively removing some 32 million plastic bottles a year, which would have ended up in landfills or bodies of water, had we continued the business.

For us then, the key to sustainability and addressing climate change is looking after our water resources and reducing our carbon footprint. Both are relevant to our business operations and have the potential to drive competitive advantage and innovation for our company.

Beyond this, addressing societal challenges is a natural extension of what we do, and we're working at better aligning the way we do business with larger societal needs. In terms of our supply chains, we are partnering with farmers and backyard livestock operators to transfer technology and help raise rural incomes. Our work in this area continues to evolve, and our Food Group has deployed supplier engagement teams to provide training and further develop skills around building sustainable and resilient supply chains.

Like many other companies, our previous efforts in corporate social responsibility have included promoting employee volunteerism, providing donations in kind, and providing grants to, or partnering with charitable organizations. We're moving away from that model. Today, our social development and corporate giving arm, San Miguel Foundation, functions as an ideas incubator for the kind of social innovation we can adopt to tackle problems like income disparity, hunger, and poverty.

We invest in our communities not only because it makes good business sense, but also because we believe that the private sector needs to do its part in solving the most pressing economic, social, and environmental challenges of our times.

Our Better World Communities will be vehicles for community engagement, providing the social scaffolding to enhance the civic life of ordinary Filipinos.

Our partnership with learning organizations like the School of Experiential and Entrepreneurship Development (SEED) and AHA! Learning Center, is based on the belief that everyone should have a fair shot at opportunity, and that San Miguel can contribute to a growing economy that can work for everyone, especially those who need help the most.

In San Miguel's new vision-mission statement of 2017, sustainability emerged as an entirely new value among seven identified core values.

To make sure that this commitment to sustainability is embedded at every level of our company, San Miguel has a clear set of social, economic, and environmental goals across our operating businesses. We look forward to reporting to you on our progress.

Water for All

We are stewards for future generations

Just two years into our goal of cutting group-wide water use by 50% by 2025, ripples of change are becoming waves of success

"Water is a basic human resource and a basic right. But it's also an essential ingredient to our products and businesses. Our responsibility therefore is far greater than most," says SMC president and COO Ramon S. Ang.

In 2017, we announced our commitment to halve our non-scarce, non-product water use by 2025. Even as our water management efficiency levels are already among the highest in the Philippines, and while water conservation has always been a key component of our operations, we've challenged ourselves to do more.

Two years in and we've made significant headway in what is perhaps the most ambitious sustainability goal ever set by a Philippine company.

We had trained our sights on a mid-term goal of 20% reduction by 2020, and we're proud to report that we have surpassed this milestone a full two years ahead of schedule.

In 2018, the company posted an aggregate of 25.3% reduction in water consumption, a staggering 8,841,000 cubic meters (m^3) equivalent to the consumption of roughly 295,000 households. This was achieved through an integrated

OUR WATER **MANAGEMENT FRAMEWORK**

Eliminate wastage of water across our operations. We will adopt new and stricter measures to improve the efficiency of our water use, as well as utilize water-saving technology and implement conservation programs.

Reuse and recycle more water. We will optimize our wastewater treatment facilities to further lessen our water footprint. We will make greater use of treated greywater for non-essential purposes.

Reduce our use of ground and surface water, and protect vital water sources. We will continue to reduce our use of ground and surface water, protect these water sources, and empower our communities to do the same.

Members of SMC's Water Council tasked with implementing group-wide water sustainability programs.

water management strategy that combines conservation with process water reuse, recycling, and technology.

Over 14% or about 5.1 million m³ is represented by the use of non-scarce resources such as sea water, rainwater, and other recycled water. Petron remains the biggest user of non-scarce water. Today, more than 29% of water used in Petron's operations derive from alternate sources. This includes desalinated sea water at its Bataan Refinery, and rainwater harvested in most of its terminals.

Efforts by San Miguel Brewery Inc. to reuse treated wastewater effluent for gardening and utilities and its closer monitoring and fixing of leaks in all facilities have further improved SMB's water efficiency levels.

And while many facilities have made good progress in reducing their water use, Petron made the biggest contribution with a 37.55% cut in use; SMC Global Power Holdings Corp, reported a 37.31% reduction; and Northern Cement, cited 32.28% less usage over 2016 baseline figures.

In terms of volume of water saved, Petron leads the way with 6.6 million m³ saved. SMC Global Power saved 1,008,000 m³, while SMB saved 496,000 m³.

"Water for All" was a pivotal moment for San Miguel's sustainability aspirations. It provided us the inspiration to take on other environmental issues, such as waste management.

Work progresses on this MRT-7 section on Commonwealth Ave. coming from San Jose Del Monte, Bulacan.

A New Day for San Jose del Monte

We do business responsibly
We are a good neighbor

Bulacan is set to be the next major economic growth center outside Metro Manila. San Jose del Monte is where it all begins.

On a good day in the early 1990s you could get to San Jose del Monte, Bulacan from Quezon Circle in thirty minutes, tops. Assuming you knew it even existed.

Back then, for most Metro Manila dwellers, civilization ended at Fairview subdivision.

In truth, just a few minutes away, via the then two-lane, often-potholed Quirino Highway, San Jose del Monte or SJDM was already slowly beginning its ascent. Families were resettled here from other urban areas. Low-cost housing also attracted many others. By the early 2000s, San Jose del Monte's population was steadily increasing, making it a sizeable market: an emerging local economy.

Today, no one will say that San Jose del Monte is at the end of nowhere. It is a bustling metropolis poised to become a major growth center north of Metro Manila. Its prospects can only be made better by the MRT-7 project.

Directly connecting to the LRT-1 and MRT-3 in Metro Manila, the 22-kilometer MRT-7 will have 108 modern rail cars that can ferry up to 850,000 passengers per day through 14 major stations.

With it, residents of SJDM and other parts of Bulacan no longer need to spend hours in traffic every day commuting to Metro Manila for work. Many of them may not even need to leave home. With Bulacan real estate values still relatively affordable, it's the business owners, investors, and locators looking for growth areas for their businesses, who will come to town and bring with them job opportunities.

Residential developments—including those from the country's largest property developers—have also gone up. Commercial developments, including malls and food chains, have also set up shop.

With fast, direct access by rail—something even high-growth cities and provinces south of Metro Manila are still without—SJDM is looking more and more like a better alternative for those looking for a place to work and live.

And yet, rail is just one part of the equation. On the San Jose del Monte station of MRT-7 will also rise an inter-modal transportation terminal. This will connect directly to the North Luzon Expressway via the 22-km. road component of the MRT-7.

SJDM also plays host to another major infrastructure asset, SMC's Bulacan Bulk Water Supply Project (BBWSP). For the longest time, the entire Bulacan province has grappled with the lack of a reliable source of water—ironic, given that Metro Manila's major water source, Angat Dam, is located in the province.

Bulakeños have long relied on extracting water from the ground. Because of this, many deep wells have run dry and subsidence is a real threat.

BBWSP which was made operational in January, will deliver treated, potable water from Angat to Bulacan's 24 water districts at P8.50 per cubic meter—the lowest bulk water rate in the country.

SJDM may be where many major infrastructure projects converge, but Bulacan province as a whole stands to benefit from San Miguel's projects.

The economy of Bulacan is about to get an even bigger boost with our most ambitious infrastructure investment: the US$14-billion New Manila International Airport, the country's next and biggest international aviation hub, to be built in the province.

This massive airport development will include a seaport and industrial and residential zones that will make Bulacan a gateway to the Philippines and a jump-off point to the world. It's a game-changer that will help drive our country's economic future.

Photo above
One of the actual trains to be used for MRT-7, to be shipped from Korea.

Photo opposite page
With the construction of major infrastructure projects, San Jose del Monte is poised for growth.

Change from Within

We are a good neighbor

Recognizing that true empowerment lies not in giving handouts, the San Miguel Better World Community aims to help people help themselves

The Better World Community in Tondo, Manila aims to help lift more families out of poverty.

Transformation often begins on a local scale and with a single project. In trying to make a difference, San Miguel understands that positive change begins with the most basic of units—the family. We also know that before change can take hold, we first have to address their most basic need—food.

Alongside its multimillion infrastructure projects, San Miguel is also investing in communities, creating centers that will feed and teach and hopefully, remove the barriers that keep people from thriving.

San Miguel's first Better World Community is at the epicenter of a landscape marred by hunger and grinding poverty.

In Tondo, Manila, some 3,000 families—roughly 15,000 people—live in Aromaland, a housing relocation site. Beside it is Happyland, where over 12,000 people live. The residents of Happyland and Aromaland are among the growing ranks of the "ultra poor"—those who live on less than P25 a day.

None of them have anything remotely resembling adequate shelter, clean water and sanitation, electricity, education, or healthcare.

San Miguel's Better World Community hopes to redress and address some of these inequalities. Located in Barangay 101, But even a trillion-peso company like San Miguel can't always know how best to help people at the bottommost rung of the ladder. The hope is that through the Better World Community, San Miguel will better learn how to create a more supportive ecosystem that can lift more families out of poverty.

barely 500 meters away from Aromaland, what was once an idle, 1,000-squre meter former beer warehouse and distribution center will become a staging ground for San Miguel's social agenda: creating an environment that will allow the poor to grow their own impact.

But even a trillion-peso company like San Miguel can't always know how best to help people at the bottommost rung of the ladder. The hope is that through the Better World Community, San Miguel can create a more supportive ecosystem that can lift more families out of poverty.

The first order of the day is to address the issue of hunger. In this regard, San Miguel, through San Miguel Foundation, has partnered with the Philippine chapter of Rise Against Hunger, an international hunger relief organization that distributes food to society's most vulnerable.

The Better World community would prioritize children, the elderly, the disabled, and single mothers. To keep kids in school, neighboring public schools will also receive daily rations. San Miguel's target is to provide at least three million meals annually, consisting of pre-packed nutritious meals and donations of unused, surplus food from restaurants, fastfood chains and convenience stores. Through this effort, issues of food waste and hunger are both addressed.

But stopping hunger in its tracks is just a start. What San Miguel and its prospective partners hope to do is to capacitate the people of Tondo through bottom-up participatory involvement. Those who will benefit from the community will be asked to serve it—by volunteering to cook, wash plates, or keep the grounds clean. For the mothers and fathers who will be asked to pitch in, it's not a form of payment as much as it is an opportunity to have a direct hand in providing food for their own kids.

Further down the road, we hope to address other major determinants of poverty, such as lack of livelihood skills, illiteracy, little or no health care, and social exclusion.

Once operations are up and running, more partners will be asked to sign up. AHA! Learning, an after-school learning start-up is among the many NGOs being tapped to teach adults and children basic literacy and numeracy.

But the chief actors in solving the problem of poverty in Barangay 101, Happyland and Aromaland will be the poor themselves. As a company, we believe in people's power to change their own lives. They have the understanding to create solutions for their own communities and to control their own futures; we only need to give them the capability and opportunity to do so.

Not Forgotten

We do business responsibly
We are a good neighbor

SMC honors Marawi's fallen by ensuring their families have a shot at a better future through entrepreneurship

In Purok Seppina, Barangay Dela Paz, Antipolo, there is a small, two-storey house with a sari-sari store and a tiny grotto of Our Lady of Lourdes. A plain white sign reads "Marawi Hero Store."

This is the home of Leopoldo Lolo, father of Jan Michael Lolo, who at 26 years old died a hero during the Marawi siege.

According to Leopoldo, his son joined the Marines in 2016 at age 25. He enlisted for all the unsurprising reasons: his father was a soldier too, serving in the Philippine Army for 16 years; he wanted a stable income; his maternal grandfather was also an army man. To Jan Michael, joining the military was a calling.

Before enlisting, he worked for a time in construction, but felt he wasn't making enough money to give to his parents.

In Marawi, while holed up in different abandoned homes, he would call his parents on Facetime and tell them what he'd been up to that day, and that he was fine.

On July, 29, 2017, he was hit by sniper fire during a brief firefight.

Leopoldo Lolo, father of Jan Michael Lolo, one of the 166 fallen heroes of Marawi.

Photo right
The Lolo family with representatives from San Miguel Mills at the opening of their Kambal Pandesal outlet last July 2018.

Photo below
Joven Lolo, Jan Michael's brother helps run the bakery.

For his service, Jan Michael received a posthumous Kalasag Medal under the Order of Lapu-Lapu, awarded to government troops who were killed-in-action during the Battle of Marawi. His parents, Leopoldo and Alma, went to Malacañang to receive the honor. Along with a title to a house and lot, they were given a lump sum death pension that allowed them to open the sari-sari store and make improvements to their home.

The Lolos are just one of the 166 families with loved ones who were killed-in-action (KIA) in Marawi. In October 2017, after the conflict ended, San Miguel president and chief operating officer Ramon S. Ang visited Camp Aguinaldo to meet with the families of the fallen and to sign a memorandum of agreement creating a P330 million fund awarding each KIA family a business startup package.

Under this package, families can select any franchised business from SMC, including Kambal Pandesal, BMEG Feeds, TJ Hotdog, and San Miguel Food Avenue.

San Miguel president and chief operating officer Ramon S. Ang visited Camp Aguinaldo to meet with the families of the fallen and to sign a memorandum of agreement creating a P330 million fund awarding each KIA family a business startup package.

Kambal Pandesal, the franchised bakery business under San Miguel Mills (SMMI), is proving very popular among the families. Bob Labrador, SMMI retail business manager, says the business is often the right scale that families can manage.

"Every barangay has at least one bakery. Going to the corner bakery in the early morning or on your way home from work in the evening is something everyone can relate to."

Some 66 KIA families have signed up for a Kambal Pandesal business and at present, 10 are already up and operational. The Lolo franchise was the third, and in the six months that the store has been up, it's been turning a steady profit. At least eight of the first 10 KIA stores are doing better than the national average.

The Lolo family usually earns anywhere between P20,000 to P25,000 a month.

The Kambal Pandesal franchise package includes ten days training on the basics of managing the business, accounting, and baking. Families are also taught how to be customer- and service-oriented.

SMMI staff help with all the paperwork and permits, and an operations officer is assigned to the families to help balance the books each month.

Of the total 166 KIA families, over 120 have already been matched with a business. The BMEG franchises are also popular among beneficiaries. Others have opened small food stalls selling TJ Hotdogs or Magnolia ice cream. None of the beneficiaries have run into any major problems.

The most successful beneficiary is Aileen Oraliza who runs a Kambal Pandesal franchise in Siargao, earning sales of around P14,400 a day.

For some though, it's been a steep learning curve; not everyone is a natural entrepreneur. But with support from San Miguel, the hope is that each family will make the most of this gift honoring their loved ones.

First Mover

We do business responsibly
We are stewards for future generations

Before sustainability was even a buzzword, our Packaging business was already championing a circular economy—minimizing waste through recycling.

A recent global survey on consumer habits found that a third of consumers vote with their wallets, choosing brands they believe are doing social or environmental good.

For many, a good part of that brand image involves the use of packaging. Sustainable packaging is probably one of the most influential purchasing drivers among millenial consumers. Having swapped plastic bottles for reusable glass and metal, and having ditched disposable straws, consumers are turning to more sustainable alternatives like biodegrable packaging formats, or visiting refilling stations with used containers rather than buying brand new packaged products.

Today, more people are holding manufacturers accountable for managing post-consumer waste. The packaging industry along with the FMCGs—whose plastic packaging often wash up on beaches and coastlines—are under pressure.

Glass is highly recyclable and can be reused endlessly. SMB's returnable bottle system is a prime example of a closed loop packaging sytem.

For the past 80 years, the Philippines' largest packaging company, San Miguel Yamamura Packaging Group (SMYPG), has taken a sustainable, circular approach to business, long before the terms sustainability and circular economy became the buzzwords they are today.

For starters, SMYPG's portfolio is predominantly glass, constituting over 44% of the company's product mix. Plastics comprise 21% of the portfolio, corrugated cartons makes up 10% and cans make up 7%. All these products are recycled by the company. Flexibles and laminates, the material that goes into sachets and retort pouches, comprise less than 5% of the total portfolio.

"Glass can be reused and recycled endlessly without compromising on quality or functional safety. That's why it's a key aspect of our business sustainability strategy," says Ferdinand Tumpalan, President of San Miguel Yamamura Packaging Group.

"Our packaging business has always brought a solutions approach to our customers' needs. The customer has always been at the center of SMYPG's thinking. Today, the environment is too," says Ramon S. Ang, President and Chief Operating Officer of San Miguel Corporation, SMYPG's parent.

Recovery and recycling play a huge part in the company's sustainability model. It works with local waste aggregators and garbage sorters to collect aluminum cans, plastic and metal caps, and other packaging wastes that can be repurposed and recycled into new products.

In a number of provinces where the local governments control landfills, SMYPG is an active partner in materials recovery. The company has set up cullet collection hubs to raise efficiencies in the recovery of used glass bottles.

San Miguel Yamamura Asia Corporation (SMYAC), the country's largest glass plant, historically uses up to 65% recycled glass.

Likewise, SMYPC's Cebu Glass Plant scores an even higher historical record of using up to 97% recycled glass in its manufacture of glass products.

Other packaging formats are also recycled. Pallets and crates that have outlived their usefulness are retrieved from customers, crushed and cut into tiny pieces, and returned to SMYPG's plastics plant where they are recycled into new pallets and crates.

Tumpalan says, "We have a great record of recycling our plastic products. At the end of its lifespan, each crate or pallet we produce becomes part of a new crate or pallet. We manufacture plastics that can last five or ten years, but durability is just one of the product attributes we strive for. Recyclability is another."

Can Asia, Inc. (CAI), SMYPG's aluminum can facility, recycles aluminum scraps and trimmings. This scrap is sold to the company's aluminum coil suppliers and converted back to coils with a minimum 90% recycled aluminum content. Producing aluminum uses a lot of energy. By using recycled aluminum, SMYPG contributes to minimizing the energy required in primary aluminum production and reduces volume of emissions by 90%. Adds Tumpalan: "We want to be resource efficient and at the same time, we try to close the loop."

Even in its flexibles business, SMYPG manages its waste as efficiently as possible. Plastic trimmings are shredded and used as fuel feedstock in Northern Cement, a former subsidiary. "A majority of plastics have an end-of-life use and we want to turn waste into something that can be useful beyond its primary purpose," Tumpalan says.

"SMYPG will be leading the way in innovative solutions to cut back on packaging waste. If, some 80 years ago, the challenge to SMYPG was to provide convenience and choice to our customers, today the challenge is how we can keep to these same goals and— at the same time—have a positive impact on the planet," Ang says.

Thirsting for Change

We do business responsibly
We are a good neighbor
We are stewards for future generations

Clean and adequate supply of water has always been a problem for Bulacan. With the Bulacan Bulk Water Supply Project, hope finally springs.

The United Nations estimates that half of the world could be living in water-stressed areas in less than ten years, unless proper actions are taken to protect water sources. The importance of water conservation cannot be overemphasized.

Photo top left
Lola Hening Gumafelix, 80, looks forward to the day when water from BBWSP finally reaches her hometown of Malolos.

Photo left
Resureccion Agapito, 52, has lived in SJDM—and experienced its water problems—her whole life.

At San Miguel, we’ve always advocated for responsible water use. We encourage our businesses to use only what is necessary and to continuously seek ways to reduce water consumption. In fact, just recently, we reported significant gains in our efforts to reduce operational water use. By 2025, our target is to cut in half our total operational water use. In 2018, we successfully reduced by 25.3% our water use, equivalent to 8.8 billion cubic meters (m^3).

But beyond saving water, we're also conscious of the bigger role we can play in addressing access to water and water scarcity. Our Bulacan Bulk Water Supply Project is a landmark effort that will provide a reliable and clean supply of water to 24 water districts in Bulacan.

This year marks the start of commercial operations of BBWSP. Currently, it serves six water districts through Stage 1 and Stage 2, with the rest to follow once Stage 3 is up and running. Through BBWSP, raw water from the Angat Dam is treated and supplied to water districts at P8.50 per cubic meter, the lowest rate for bulk water in the country.

The facility can produce up to 388 million liters per day (MLD) of water, more than enough to meet future demand. The plant uses state-of-the-art equipment and employs experts to ensure that the quality of water is well above the Philippine National Standard for Drinking Water.

The facility is designed to be resilient; output will be reliable even under poor weather conditions.

Despite its water dilemma, Bulacan holds great potential for growth. The greater aspiration for the Bulacan Bulk Water Supply Project is that it will bring not just clean water to Bulacan, but also a better quality of life for everyone.

Everybody deserves clean water

In the Philippines, more than half of our total population still has no residential piped-in water, and close to 16 million don't have access to improved water sources.

The lack of clean water has significant implications on a community's development. For one, economic growth can be stifled if the demand is unserved. And as communities grow, the need for water increases. If there is no reliable source of water, people will look to unsafe water sources. This can have negative effects on their health, and adversely impact the environment.

The most populated province in Central Luzon, Bulacan, has struggled to supply water to its 3.2 million residents. The water districts assigned per town are responsible for supplying water to each house, but due to their limited capacity, supply often falls short. The situation varies per area—some would have water but this would be of poor quality; others would have it, but only at certain times. And then there are those who would have no water at all.

Because of this, residents turn to groundwater, or water sourced from deep wells. Groundwater is an attractive option because for a long time, it was readily available and cheap. The downside to deep wells is is that they are prone to contamination by saltwater, coliform, and other harmful substances.

But a far larger problem caused by deep wells is land subsidence, making communities vulnerable to flooding.

Resureccion Agapito, who has lived in SJDM her entire life, says their water situation has improved over the years, with the installation of water pipes directly to their homes. But steady supply is still a problem.

During the dry season, pressure is low and rationing is a common occurence. In the rainy season, the local water district takes longer to treat the water as their raw water becomes heavily silted because of soil erosion and sedimentation.

With the beginning of commercial operations of the Bulacan Bulk Water Supply Project, a steady supply of water will no longer be a pipe dream for Agapito and all it will serve.

The family of Lola Hening Gumafelix, 80, is among those eagerly waiting for a steady supply of water. Today, they still rely on the deep well or *poso* in their backyard for their daily water needs. Before they had their own deep well, her husband had to fetch water from a shared deep well, or draw water from a nearby creek. Nowadays, residents have taken to building their own system so they can have water. Their drinking water comes from a nearby water refilling station and costs them about P25 per gallon.

Things are looking up with the BBWSP. It's a state-of-the-art facility that has enough capacity to meet even future demands for water in the province.

Despite its water dilemma, Bulacan holds great potential for growth. The greater aspiration for the Bulacan Bulk Water Supply Project is that it will bring not just clean water to Bulacan, but also a better quality of life for everyone.

Rising to the Challenge

We do business responsibly
We are a good neighbor

The New Manila International Airport will be our biggest contribution to the Philippine economy. It will usher a new era of growth for the country.

Between the time this report is written and released to stockholders in early June 2019, the Swiss Challenge period for San Miguel Corporation's proposed New Manila International Airport (NMIA) in Bulacan would be well underway. If no other company puts forth a comparable offer to build one of the most ambitious infrastructure projects in our country's history, Filipinos could be enjoying more than just a world-class airport some five years after its groundbreaking.

Filipino travelers will have a greater sense of pride when they fly in from other countries. Facilities will be more than adequate, service levels will be consistently high, there will be zero delays caused by air, runway or taxiway congestion.

Because in truth, the NMIA project, for San Miguel, goes beyond just building a structure.

For sure, the sheer scale of the development can't be downplayed. With an investment totaling some US$14 billion, NMIA will feature four parallel runways, with more than four times the constrained capacity of the existing intersecting runways of NAIA.

There is ample space to construct a high-capacity runway system and airport complex that will ensure the efficient handling of 100 million passengers per year. The entire development, consisting of world-class terminals and airport facilities, will be built on a 2,500-hectare property in Bulakan, Bulacan, adjacent to the Manila Bay.

Dubbed an "aerotropolis", it will have its own seaport, industrial, residential, commercial, and institutional zones. Also included in its design is the development of a new government center making vital government services more accessible to fast-growing areas in Central Luzon.

All this will be accessible from Metro Manila in less than thirty minutes, via interconnected expressways and rail—including a shoreline expressway that will traverse Manila Bay and head straight to NMIA.

NMIA will mean many things for the Philippines. It will be a showcase of what Filipinos can do. It is a long overdue and much-needed solution to problems rooted in our aging and inefficient airports—where flight delays and congestion are the norm.

Filipino travelers will have a greater sense of pride when they fly in from other countries. Facilities will be more than adequate, service levels will be consistently high, there will be zero delays caused by air, runway or taxiway congestion.

Airport congestion is a serious problem that both airlines and passengers have to contend with. In the present NAIA, annual losses of airlines brought about by air traffic congestion are estimated to reach more than P10 billion per year. This will continue to grow if no new airport capacities are built.

On the other hand, productivity losses of passengers are estimated to amount to more than P15 billion per year.

Moving the country's main gateway out of Metro Manila will also help alleviate the nightmarish traffic situation on major and secondary roads in cities around the present airport—Paranaque, Pasay, Las Piñas, Manila, Makati—and beyond.

The NMIA will signal to the world that the Philippines is finally ready to take its place among the ranks of Asia's rising economies. It will boost tourism, raise our profile as an investment destination, and increase the competitiveness of our industries—including manufacturing and exports. It can even help bring about the development of new, technology-based industries.

Overall, it is seen to add an estimated P400 billion to the country's Gross Domestic Product (GDP) and generate at least one million jobs.

In 2018, the Philippines recorded some 7.1 million tourist arrivals. We are well behind our ASEAN neighbors such as Thailand (38.27 million tourists), Malaysia (33.1 million tourists), Singapore (18.5 million), Indonesia (15.8 million), and Vietnam (15.5 million).

If the Philippines can reach 20 million tourists, then that will equate to an estimated 40 million new tourism industry-related jobs.

The government's Build Build Build program promises to fix our country's infrastructure gaps. Boracay's successful rehabilitation has made headlines all over the world, sparking renewed interest in our islands. It also serves as a model for our other tourist destinations.

Once complete, the NMIA is envisioned to be among the best airports in the region: the game-changer the Philippines has needed all this time.

We do business responsibly

Creating platforms for economic growth

US$14billion

TO BE INVESTED IN NEW AIRPORT

SMC's proposed New Manila International Airport (NMIA) will be one of the largest and most ambitious infrastructure projects in the country. It will raise the Philippines' competitiveness as an investment and tourism destination, boost both local and the national economies, and greatly improve air travel for Filipinos. It is seen to help generate some 40 million indirect tourism-related jobs when fully operational.

P300+billion

INVESTED ON INFRASTRUCTURE

Since 2008, SMC has invested more than P300 billion on major infrastructure projects that have helped drive Philippine economic growth. To date, the company operates a total of 190 kilometers of toll roads, an airport, and a bulk water supply project. It has proposed to build a new international airport that will address congestion issues and boost economic growth.

212,500

CARS PER DAY
TAKEN OFF THE ROADS
At four passengers per car

The MRT-7 project will help decongest Metro Manila and transform San Jose del Monte into a major growth center. For Bulacan residents, it will mean better, safer, faster commutes to Quezon City and the rest of the metro. For investors and business locators, it will mean a viable alternative location to do business—which will result to even more job opportunities for locals. With 14 stations and 108 rail cars, it will serve an estimated 850,000 passengers per day.

In early 2019, San Miguel announced an initiative to develop the country's first recycled plastics roads. Partnering with materials science company Dow Chemical, it aims to use hard-to-recycle plastics as an alternative raw material to asphalt for road building. Among the benefits of recycled plastic roads: improved stability and durability of road surface; greater skid resistance, which improves road safety; longer lifespan; lower asphalt costs, and less wastes destined for landfills.

Magnolia Chicken is committed to keeping its products free of antibiotic residue. Magnolia chickens are raised in Climate-Controlled System Broiler Farms to ensure they are comfortable and stress-free. Meanwhile free range chickens are given adequate feeds and ample room to grow. Magnolia poultry products are free of artificial chemicals, antibiotics, hormones, and steroids.

San Miguel Brewery Hong Kong Limited (SMBHK) advocates against drunk driving. It educates consumers through a program called the Forum for Responsible Drinking (FRed). SMBHK conducts university tours and has partnered with an educational theatre company to increase awareness on the effects of under-age drinking.

4,000+

FRANCHISED
OUTLETS & STORES

San Miguel Pure Foods provides livelihood and business opportunities for small entrepreneurs through franchised businesses using its most-trusted brands, such as TJ Hotdogs, Kambal Pandesal, and Monterey. It also offers various distributorships around the country.

During the six-month rehabilitation of Boracay, SMC partnered with the Department of Environment and Natural Resources (DENR) to adopt and restore Wetland 3 in Barangay Balabag, Boracay in Malay, Aklan. In a span of two months, we were able to clear the drainage and sewage system of Wetland 3. The company also collaborated with the Technical Education and Skills Development Authority (TESDA) and the local government of Aklan to conduct a skills training program for 250 residents and displaced workers.

P332M BUSINESS STARTUP PACKAGE

For the families of Marawi's fallen heroes

SMC provided business startup packages worth P2 million each to the 166 families of soldiers and policemen killed in active duty during the Marawi conflict. The families were allowed to select franchised businesses from among its established brands: Kambal Pandesal, BMEG Feeds, and TJ Hotdogs. To date, 120 families have already been matched to a business.

Petron's 140-MW Refinery Solid Fuel-Fired Boiler (RSFFB) generates electrical and steam energy sufficient to sustain the full operations of the Bataan Refinery without tapping into the Luzon grid. The plant also produces surplus energy—approximately 10 MW—which it contributes to the grid. The RSFFB uses a by-product of RMP-2 as feedstock. The power plant is also one of the first in the Philippines to use circulating fluidized bed (CFB) technology which reduces emissions by roughly 95% compared to other coal plants.

SMC Infrastructure regularly holds road safety fora among its stakeholders and implements a program called Project TASK ("Tamang Asal Sa Kalsada"), the only tollroad program in the country that engages various sectors of the community in promoting road safety. Seminars are designed for drivers, transport operators, students, traffic operators, and tollway patrollers, for them to better understand road safety as well as laws and regulations.

B-MEG Fiestahan is a nationwide series of hog-raising seminars for backyard growers. It had 11 runs in 2018 and reached a total of 16,489 growers. The seminars provide practical knowledge on hog-farming so growers can maximize their profits and raise good-quality livestock.

150,000+ bottles RETRIEVED IN ONE BARANGAY

Ginebra San Miguel Inc.'s (GSMI) "Boteful Project" helps close the loop in handling waste through the retrieval and reuse of bottles, with the help of local communities. Initially launched in Aparri as a partnership with Barangay Maura, the program resulted to the retrieval of some 150,000 bottles. In exchange, GSMI provided the barangay with CCTV cameras to help local officials maintain peace and order. GSMI is set to implement the project nationwide.

28,598 DIRECT JOBS

San Miguel directly employs 28,598 regular employees. For every job created within the San Miguel system, many other jobs are created through suppliers, distributors, retailers, and other business partners.

To boost domestic tourism, SMC Infrastructure has partnered with the Department of Tourism (DoT) and local governments to promote historical, cultural, and religious destinations. These efforts have helped transform rural communities into higher-class municipalities and connected once remote provinces in North and South Luzon to the National Capital Region and other urban centers.

Bank of Commerce partnered with World Vision for the Community-Managed Savings and Credit Association (CoMSCA) project, a program designed to create a local pool of capital in Molinete, Laurel, Batangas. As a complementary program, BOC also launched CoMSCA Children, a financial literacy program.

To properly dispose of waste by-products, SMC Global Power's Limay Power Plant redirects its fly and bottom ash to partners Northern Cement and Petron. The waste by-product is hauled and used as an alternative for silica sand, which serves as bed material for its CFB boilers. Northern Cement uses fly ash as a lightweight aggregate.

500% CLEANER FUEL

Compared to Euro 4 standard

Petron's Blaze 100 Euro 6 is the first and only premium gasoline with 100 octane in the Philippine market. It is more than 500% cleaner compared to the Philippines' current Euro 4 standard based on sulfur content. Blaze 100 Euro 6 contains less than 3 ppm (parts per million) sulfur while Euro 4 contains up to 50 ppm. Due to its low sulfur content, it prolongs the life of vehicle emission control devices and catalytic converters, thus allowing vehicles to have much cleaner emissions over its operating lifetime

SMC Global Power's LEAP (Local Economy Accelaration & Progress) program helps fund processing facilities that local entrepreneurs can use to develop prototypes and scale their local products. LEAP helps with distribution, access to micro-financing, and skills training. Among LEAP's beneficiaries are farmers, fishermen, and cultural minorities.

The San Miguel Yamamura Packaging Group's Laguna Caps Plant is taking concrete steps towards making better use of their raw materials. Apart from recycling metal caps, LCP has developed PET products using PET regrinds.

We are a good neighbor

Building self-reliant and resilient communities

3 million

MEALS PER YEAR

SMC's first Better World Communities aim to serve at least three million meals a year to the poorest of the poor. San Miguel Food and Beverage, Inc.'s Food Group, together with San Miguel Properties, Inc., are working closely with Rise Against Hunger and AHA! Learning to develop a community center in Tondo, Manila. This center will be a staging ground for various initiatives aimed at providing the less fortunate with knowledge, skills, and capability to lift themselves out of poverty.

Petron's scholarship programs provide a path out of poverty for deserving students from low-income families. Around 187 Petron scholars are now part of the Petron workforce. The Automotive Care Education (ACE) program, in partnership with Petron's National Sales Division and TESDA, trains out-of-school youth on automotive servicing. The first batch of 15 graduates now work as mechanics in Petron Car Care Centers.

163 CONTRACTED FARMERS

49,000 hectares

Through its Cassava Assemblers Program (CAP), San Miguel Pure Foods engages some 163 farmers to plant cassava on 49,000 hectares of land, with an annual yield of roughly 148,000 metric tons. The company guarantees offtake that provides them security of income. B-MEG, its feeds business, also works with farmers to provide them raw materials, training, and technology that can increase productivity.

San Miguel Brewery Inc. continues to be active in disaster response and relief efforts. It donated an amphibious vehicle and five rubber boats to the Armed Forces of the Philippines (AFP); a fire truck for the municipality of Sta. Cruz in Davao del Sur, and, in response to the eruption of Mayon Volcano, it sent 250 SMB employee volunteers to repack and distribute relief goods to victims.

San Miguel Foundation spearheads Water, Sanitation and Hygiene (WaSH), a program committed to providing potable water and sanitation facilities to partner communities. SMF partnered with PBSP to deliver water systems to communities in Quezon and Sarangani. To date, SMF has set up WaSH facilities in Cavite, Davao del Sur, Davao Occidental, and Marawi.

San Miguel Pure Foods' flagship program "Handog Kalusugan", provided one meal per day for 120 days to children in day care centers and public elementary schools in seven areas in Luzon. Since 2012, a total of 16,700 children benefited from this program.

Through "Malusog na Katawan, Matalas na Isipan", a supplemental feeding program, 150 children aged four to eight were given one full meal a day for five days a week for a period of four to six months.

124,000

PATIENTS SERVED

SMC maintains a network of community clinics located in Valenzuela, Pampanga, Cebu, Bacolod, Davao del Sur, Batangas, Tarlac, and Bukidnon. These clinics provide free consultation, diagnostic services, and medicines to indigent patients. A number of these clinics are fully-equipped with X-Ray, ECG, and ultrasound machines. Over 14,000 patients have benefited from the clinics in 2018.

San Miguel Foundation has worked with Gawad Kalinga and Habitat for Humanity to build houses for underprivileged families. It also works with the Philippine chapter of the US-based food bank agency Rise Against Hunger to launch a food rescue and feeding program. SMF has also partnered with the School for Experiential and Entrepreneurial Development Philippines (SEED PHILS) to implement an entrepreneurship program for young people.

P254 million

FOR CLASSROOMS AND LIBRARIES

To help public school students in its host communities, the company spent P254 million to build 254 classrooms and libraries in various locations nationwide.

Over the years, SMC has given scholarships to 3,883 students in college and in technical vocational courses.

The San Miguel Foundation has pioneered "Happy si Mommy, Malusog si Baby," a maternal health program where mothers receive health and nutrition support for 1,000 days from conception to the child's second year. The first 1,000 days program was rolled out in communities in Pampanga, Bacolod, Davao del Sur, and Davao Occidental.

1,000

PETRON STATIONS WITH POLICE OUTPOSTS

Petron's road safety programs support efforts to halve the number of global deaths and injuries from road traffic accidents by 2020. Petron's 33-year old Lakbay Alalay is the Philippines' longest-running road assistance project. Petron's Lakbay Ligtas program, a partnership with the Philippine National Police, turns some 1,000 Petron service stations throughout the country into strategic safety points with police outposts.

"Helping People Help People" is a new volunteer program that allows SMC employees to donate a portion of their salaries to send underprivileged youth either to universities or TESDA. To date, the project has raised over P1 million.

500 HOSPITAL BEDS

Plus other medical donations in conflict areas

The company allocated P21 million for the construction of a transient facility for AFP personnel and donated an additional P2 million for the renovation of a hospital trauma center in Jolo, Sulu. The company also donated P41 million worth of hospital equipment to Camp Teodulfo Bautista in Jolo, Sulu, and 500 hospital beds to the V. Luna hospital.

San Miguel Food and Beverage, Inc.'s (SMFB) "Handog Komunidad" is a program that helps communities address various social issues. Through its partnership with International Justice Mission (IJM) Philippines—an NGO that advocates against online sexual exploitation of children—the company helped in the rehabilitation of 10 rescued children, who were also given scholarships. They are under the care of shelter Lost Coin Philippines.

San Miguel allocated P5 million for a literacy program for five schools in Malita, Davao Occidental. The project includes the donation of reading centers and speech and computer laboratories to the schools. To date, around 5,000 learners, 50 teachers, and 50 parents have benefited from the project.

Ginebra San Miguel Inc. (GSMI) has partnered with TESDA to provide entrepreneurship training for deserving students. Graduates are given a mobile bar business package to get them started. For almost two decades now, GSMI-Distileria Bago, Inc. has supported two day care centers in Bago City.

2,000 **TEAM MALASAKIT EMPLOYEE VOLUNTEERS**

In support of the Department of Education's Adopt-a-School project, over 2,000 employee volunteers helped rehabilitate a total of 69 schools nationwide. The company also donated 110 laptops to adopted schools.

To help government in its anti-smuggling and anti-crime efforts, SMC donated P126 million worth of Rapiscan mobile X-Ray units to the Bureau of Customs (BoC). It also donated 50 BMW motorcycles to the Philippine National Police.

60,436 **FAMILIES ASSISTED**

AFFECTED BY CALAMITIES AND ARMED CONFLICT, HELPED

Since 2016, the SMF has provided assistance to some 60,436 families affected by calamities and armed conflict. Total donations have amounted to P349,173,500.

P2.1 billion *for* **7,936 HOUSES**

To date, SMC has built a total of 7,936 new houses for calamity victims and underprivileged families. Through the San Miguel Foundation, the company has built communities in Leyte, Misamis Oriental, Iligan, Cagayan de Oro, Bohol, Davao, and Laguna. SMC has spent some P2.1 billion for these projects, considered the largest corporate social responsibility grant in the Philippines.

We are stewards for future generations

Protecting natural resources is part of the way we do business

8.84 billion liters OF WATER SAVED

Two years after launching our group-wide water initiative, SMC has already posted an aggregate 25.3% reduction in water consumption. Thus far, San Miguel has saved 8.84 billion liters of water under its “Water For All” program, which aims to reduce the company’s water footprint by 50% by year 2025. In 2018, San Miguel and its subsidiaries beat by two years its 2020 interim target of 20% reduction.

32 million PLASTIC BOTTLES ELIMINATED

By exiting the bottled water business, the company has effectively stopped an estimated 32 million plastic bottles a year from being produced and ending up in landfills or bodies of water.

In 2018, SMC announced that it was banning single-use plastics in its facilities, a follow-up effort to its discontinuation of its bottled water business.

SMC Global Power’s Biochar Community Enterprise Development Project aims to preserve and protect the environment and help mitigate climate change through carbon sequestration. Indigenous peoples groups such as the Aeta Tribes in Palauig (ATIP) and Pinagrealan/Lauis Upland Farmers Inc. (PILUFA) and members of the Panaliwan Livelihood Center IP, underwent Biochar Production and By-Products and Derivatives Training. Participants gained a working knowledge of how to produce and activate biochar and harvest liquid smoke.

1.5 million people NOW HAVE ACCESS TO CLEAN WATER

The Bulacan Bulk Water Supply Project (BBWSP) currently services six water districts in Bulacan, with an estimated population of 1.5 million people. It will provide stable and potable water supply to a total of 24 water districts in the province. Bulacan, the third most populated province in the Philippines, has long-struggled with access to water.

SMC Global Power Holdings Corp operates two greenfield power facilities: the Limay, Bataan plant and the Malita, Davao plant. Both utilize Circulating Fluidized Bed (CFB) clean coal technology that drastically reduces emission levels. These power plants undergo daily emission testing. Average results show that nitrogen dioxide, sulfur dioxide, carbon monoxide, and particulate matter emissions are consistently below Department of Environment and Natural Resources (DENR) and World Bank limits.

GSMI's Distileria Bago, Inc. received certification from the Fertilizer and Pesticide Authority for their treated wastewater which qualifies as liquid fertilizer. Now a spinoff business, the treated wastewater is sold under the name “Farm booster” for use in sugar cane farming.

Together with Reef Check Philippines, a non-profit organization dedicated to marine conservation, the Food Group held Handog Kalikasan: Coral Care, an educational workshop on the importance of corals and how to protect marine life. This is in preparation for a holistic coral propagation project in Mabini, Batangas.

To treat wastewater, SMB breweries in Mandaue, Davao, and Polo, as well as GSMI’s Distileria Bago, Inc. (DBI) use a process that effectively reduces organic pollutants by as much as 65%. After this, wastewater goes through another process to further clean it to meet DENR discharge standards.

The process also generates biogas (methane) which is used to fuel boilers that generate steam, resulting to fuel savings.

At Mandaue Brewery and Polo Brewery, part of the treated wastewater is used as gardening and cleaning water.

15,349,827 cubic meters

OF WATER SAVED

To reduce freshwater and groundwater extraction and minimize the environmental impact of its refinery in Limay, Bataan, Petron invested in a state-of-the art desalination facility which processes seawater to cool the power plant and provide treated water for RMP-2. Together with rainwater harvesting at most of its depots, Petron was able to cut surface water use by 15,349,827 cubic meters in 2018, a 26% improvement over the previous year.

Petron actively participates in the National Greening Program. As of 2016, volunteers from the Petron Bataan Refinery and Petron Operations collectively planted a total of 45,785 mangrove and tree seedlings in various locations throughout the country. The company also sponsored students under the Professional Masters in Tropical Marine Ecosystems Management (PM-TMEM) program of the University of the Philippines Marine Science Institute (UP MSI). Petron also works with the Bantay Pawikan Organization and the Pawikan Conservation Center to raise awareness on the protection of marine turtles which nest in the town of Morong, Bataan.

1 million TREES PLANTED AND GROWN

Now on its ninth year, San Miguel Brewery Inc.'s Trees Brew Life program has planted and grown nearly one million assorted fruit-bearing, forest, and mangrove tree species in Pampanga, Laguna, Negros, Cebu, and Davao del Sur, as well as in Quezon City and Makati. SMB also maintains a tree nursery in San Fernando, Pampanga. The program supports the Department of Environment and Natural Resources' (DENR) goal to rehabilitate and reforest unproductive, denuded, and degraded areas.

SMB maintains programs to protect and preserve vital waterways. An average of 10,000 cubic meters of garbage is collected annually from the Tullahan River. In Mandaue, SMB supports the Tipolo Creek clean-up program of DENR. The company also supports Bacolod's Adopt-an-Estero program by helping clean up the Cabacauan Creek. Breweries in Pampanga and Davao maintain waterways near their facilities. SMB is also involved in estero clean-up projects initiated by the city governments of Makati and Las Piñas, and of the Metro Manila Development Authority.

Since 2000, Petron has been a prime mover of the Bataan Integrated Coastal Management (ICM) Program, together with the UNDP Partnerships in Environmental Management for the Seas of East Asia (PEMSEA) and the provincial government of Bataan. This comprehensive and long-term initiative helps manage the coastal and marine resources of the province and by extension, Manila Bay, by promoting sustainable development throughout Bataan.

7 million

NEW TREES TO BE PLANTED

SMC Global Power's “Ridge to Reef” conservation program aims to plant seven million trees on 4,000 hectares of land over seven years, starting this year.

1:1 SUCCESS RATIO

FOR RECYCLING PLASTIC PRODUCTS

The San Miguel Yamamura Packaging Group runs a cullet collection program that has proven efficient in recovering glass bottles used to create brand new bottles. SMYPG partners with LGUs in the provinces and sets up cullet collection hubs to further increase recovery. Meanwhile, its Logistics Services unit's internal pallet crushing project recovers damaged pallets and makes them into new plastic products at the Manila Plastics Plant. The plant recovers, crushes, and produces brand new products with a success ratio of 1:1.

63,000 tons

OF CARBON TO BE CAPTURED

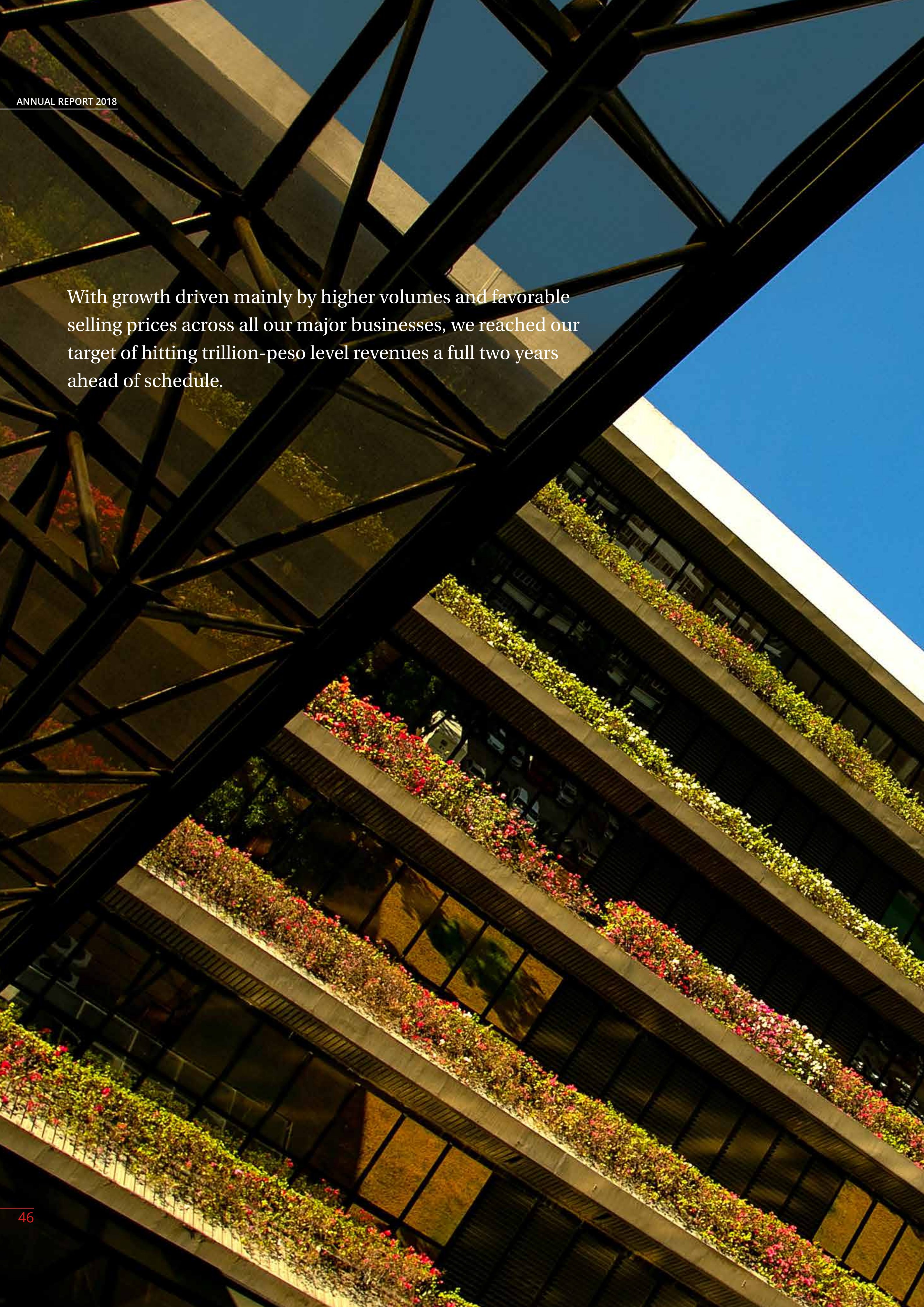
P1 billion

TO CLEAN UP TULLAHAN RIVER

San Miguel and the DENR formalized a joint commitment to undertake an extensive cleanup of the Tullahan river system—a crucial step to rehabilitating the Manila Bay. The P1 billion project involves dredging the 59.24-kilometer tributary that starts from the La Mesa Reservoir and spans the cities of Valenzuela and Malabon, and drains into the Manila Bay in Navotas City.

SMC Infrastructure has long been rehabilitating creeks that run perpendicular to its expressways through its Adopt-an-Estero program. In partnership with the DENR, Skyway O&M Corporation has worked to improve four waterways: Maricaban Creek in Pasay and Pasong Diablo, Pasong Capre, and Pasong Pari creeks in Muntinlupa. In addition, the NAIA Expressway team dredged and cleaned up the Parañaque River. It also took care of relocating informal settlers along the river. Skyway Stage 3 construction also includes cleaning up the San Juan River.

Since 2000, Petron volunteers have planted over one million mangrove and tree seedlings all over the country. Its “Puno ng Buhay” program adopts areas for reforestation to protect critical watersheds and minimize carbon footprint. Petron adopted a total of 85 hectares to plant mangroves and bamboo. Thus far, it has captured some 387 tons of carbon from its reforestation sites in Leyte and Roxas. In the next three years, the program will see Petron plant 200,000 new trees and mangroves nationwide. This will result to at least 63,000 tons of carbon captured annually.



With growth driven mainly by higher volumes and favorable selling prices across all our major businesses, we reached our target of hitting trillion-peso level revenues a full two years ahead of schedule.

MANAGEMENT REPORT

San Miguel Corporation's consolidated revenues from its food, beverage and spirits, packaging, fuels and petrochemicals, power, and infrastructure businesses, reached P1.02 trillion in 2018, 24% higher than the previous year. With growth driven mainly by higher volumes and favorable selling prices across all our major businesses, we reached our target of hitting trillion-peso level revenues a full two years ahead of schedule.

Consolidated operating income was also up 5% at P117.1 billion. This growth was partly softened by higher raw material costs that impacted Petron and the Food businesses.

Consolidated recurring net income excluding the effect of foreign exchange translation amounted to P55.2 billion, 1% higher than the P54.7 billion recorded in the previous year. Growth was tempered by the sharp decline in crude oil prices which affected Petron during the fourth quarter of 2018. Reported consolidated net income, as a result, amounted to P48.6 billion.

Consolidated EBITDA amounted to P157.9 billion, 7% higher than 2017.

FOOD AND BEVERAGE

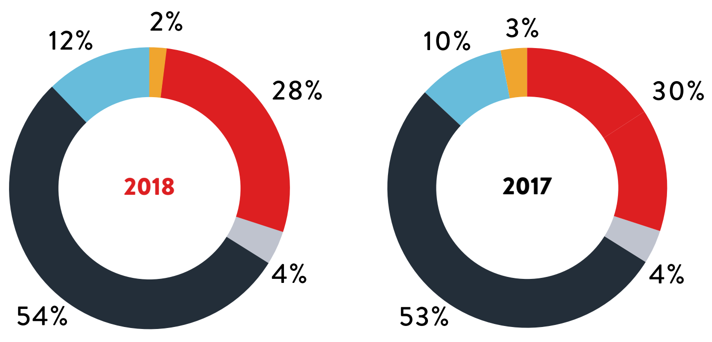
In 2018, SMC completed the consolidation of its Beer, Spirits, and Food businesses, establishing the largest consumer company in the Philippines—San Miguel Food and Beverage, Inc. (SMFB). A follow-on shares offering was completed in November 2018. With proceeds amounting to P35 billion, it was named as among the biggest Philippine equity transactions for the year.

SMFB will work to further strengthen the Beer, Food, and Spirits businesses by expanding its product offerings and by increasing its presence and scale through synergies, in order to deliver better value for shareholders.

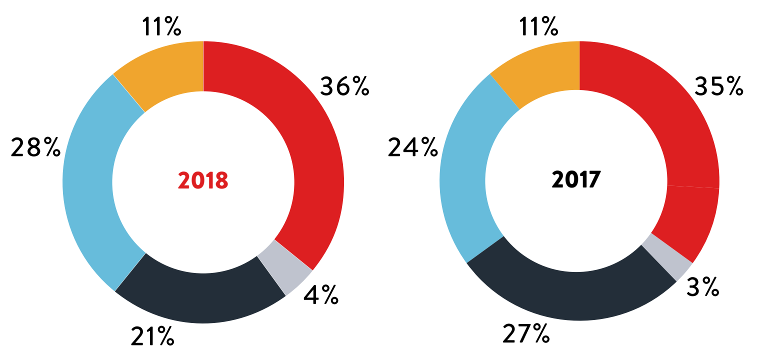
SMFB delivered a strong performance in 2018, posting consolidated revenues of P286.4 billion, 14% higher than the P251.6 billion recorded in 2017. This strong performance was driven by higher volumes and revenues across the Beer, Spirits, and Food segments.

Consolidated operating income and net income both increased 8%, to P46.0 billion and P30.5 billion, respectively.

CONTRIBUTION BY REVENUE



CONTRIBUTION BY EBITDA



SMFB will work to further strengthen the Beer, Food, and Spirits businesses by expanding its product offerings and by increasing its presence and scale through synergies.

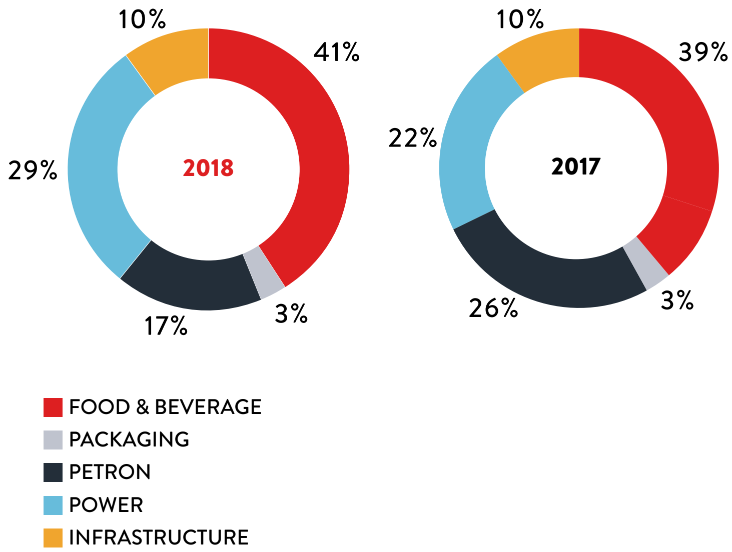
Beer

San Miguel Brewery, Inc. (SMB) reported revenues amounting to P129.2 billion, 14% higher than 2017, as volumes increased 10% to 284.6 million cases. Consolidated operating income rose 13% to P35.3 billion while net income grew 15% to P23.8 billion.

Domestic Operations

SMB's domestic operations continued to be robust, with volumes growing 11% year-on-year as consumption across the country remained strong. Red Horse Beer and San Miguel Pale Pilsen maintained their position as the company's top-selling brands. SMB's performance was boosted by consumption-generating initiatives and defense programs which further strengthened the equity of SMB brands.

CONTRIBUTION BY OPERATING INCOME



With facilities nearing full utilization, SMB is currently building a new brewery in Tagoloan, Misamis Oriental in Mindanao and converting its Sta. Rosa Bottling plant into a full brewery. This will add four million hectoliters to its total current capacity and help strengthen its distribution networks in Mindanao and Southern Luzon, which will result to savings on logistics.

International Operations

SMB's International Operations benefited from volume growth in South China, Indonesia, and its Exports business. A better sales mix also helped improve performance. As such, despite continuing challenges in the business environment in North China, Hong Kong, Vietnam, and Thailand, SMB International registered double-digit growth in operating income.

Key programs have been put in place to improve volumes of San Miguel brands and strengthen trade support, promotions, and channel programs.

Spirits

It was a banner year for Ginebra San Miguel Inc. (GSMI), which sustained strong sales volumes in 2018. Volumes reached 31.4 million cases, 13% better than last year. Flagship brand Ginebra San Miguel continued to drive growth, driven by its nationwide "Ginebra Ako" campaign, various on-ground activities, and trade promotions. Vino Kulafu, its Chinese wine brand, also continued to post strong growth. The brand got a boost from its "Dosenang Lakas, May Instant Pa-Buenas" under-the-cap promo and tactical consumer activities in Visayas and Mindanao regions.

All these translated to revenues of P24.8 billion for GSMI, 19% higher than the previous year. Operating income surged 40% to P1.8 billion, due to strong volumes and lower operating costs. Net income jumped 75% to breach the billion profitability level at P1.05 billion.

Food

San Miguel Pure Foods posted consolidated revenues of P132.3 billion, 13% higher than 2017, on account of the strong performance of the Animal Nutrition & Health, Protein, and Prepared & Packaged Food segments. Most of the food business segments registered double-digit revenue growth as a result of increased sales volumes and better selling prices.

Revenues from the Animal Nutrition & Health segment, comprised of our feeds and vetmed businesses, posted a growth of 14%. The Protein segment, which includes our poultry and fresh meats businesses, grew by 11%. Prepared and Packaged Food expanded by 15%.

Rising costs of major raw materials, intense competition, and peso depreciation, however, pulled the Food Group's operating income down 7% to P9.2 billion compared to the same period last year.

Similarly, net income fell 15% to P5.9 billion, due to the weaker peso, pre-operating expenses for new facilities, and higher interest expenses related to expansion projects.

The Food Group completed a number of new facilities. These include feedmills in Bulacan and Bataan and a hotdog plant in Cavite. Ongoing projects include additional feedmill facilities in Davao, Cebu, and Cagayan de Oro; a flour mill in Mabini, Batangas, and its first ready-to-eat facility which will address growing demand for convenient, pre-prepared, and pre-cooked meals.

PACKAGING

The San Miguel Packaging Group completed two acquisitions. In June 2018, it acquired, through San Miguel Yamamura Packaging International Ltd., JMP Holdings Pty. Ltd., a supplier of packaging products for various industries such as retail packaging, cargo protection, and materials handling. In December 2018, through San Miguel Yamamura Woven Products Ltd., it signed a definitive agreement to acquire INSA Alliance Sdn Bhd, a Malaysian manufacturer of high-quality bulk bags. The transaction was completed on January 17, 2019. This acquisition complements the Packaging Group's existing woven bags plant in Malaysia.

Sales revenues for the year amounted to P37.3 billion, 16% higher than 2017, as all business segments delivered solid results. Glass set record deliveries to SMB and GSMI; Metals benefited from a favorable sales mix for crowns, and Plastics sustained deliveries of crates and pallets. Logistics operations also delivered significant growth with increased demand for rented pallets and trucking services.

Similary, the Packaging Group's Australian operations continued to contribute significantly to overall growth, registering strong sales across its various operations.

With the implementation of stringent fixed cost management measures and further improvements in productivity, operating income grew 11% to P3.3 billion.

POWER

SMC Global Power Holdings Corp's consolidated off-take volume for 2018 reached 23,864 GWh, 39% higher than the previous year. Much of this growth was attributed to the start of commercial operations of Units 2 and 3 of the Malita and Limay Greenfield plants in February and March, respectively. Together, these new units have brought online 300 MW of fresh capacity. With the acquisition of the Masinloc power plant in March 2018, which added a combined capacity of 684 MW, total installed capacity reached 4,197 MW by the end of 2018.

With higher off-take volumes and average realization prices, consolidated revenues rose 45% to P120.1 billion from P82.8 billion in the previous year. This was mainly driven by additional revenues from the greenfield power plants, the Masinloc power plant, and higher average prices from the Sual and Ilijan bilateral and spot offtake volumes. Operating income reached P33.2 billion, 37% higher than the previous year. Net income amounted to P8.3 billion, 1% higher than last year, offset by the effects of currency movements.

Phase 1 of the Bulacan Bulk Water Supply Project was completed at the end of last year and started operations in January. It currently supplies potable water to six municipalities, namely Meycauayan, Marilao, Obando, Bocaue, Balagtas, and San Jose Del Monte.

PETRON

Petron Corporation reported consolidated revenues of P557.4 billion for 2018, 28% higher than the P434.6 billion it reported in 2017. Revenue growth was mainly driven by strong domestic sales of high-margin products such as gasoline, Jet-A1, and LPG, on account of higher prices of crude oil and finished products.

Petron's consolidated volume reached 108.5 million barrels, boosted by strong retail sales in Malaysia. This is slightly higher than the 107.8 million barrels it sold in 2017.

In the fourth quarter, the oil industry saw an increase in global oil production supply, which resulted to a sharp drop in crude prices starting in the second half of October until December. Benchmark Dubai crude averaged US$79.4 per barrel in October and fell to US$57.3 per barrel in December, a US$22.1 per barrel drop. This situation was exacerbated by substantially weak gasoline refining margins on the supply side.

Consolidated operating income and net income stood at P18.9 billion and P7.1 billion, a 32% and 50% decline respectively, as a result of inventory losses incurred in November and December.

Petron's Bataan refinery utilization in 2018 hit 95%, an all-time high for the refinery, allowing it to produce even more high-value fuels and petrochemicals. Petrochemical and polypropylene sales grew by 3% and 28% respectively, driving export volumes growth by 7%.

The number of Petron stations continued to grow. In the Philippines, there are now over 2,400 stations, while in Malaysia, there are now 640 stations.

INFRASTRUCTURE

SMC Infrastructure reported a 9% increase in revenues to P24.5 billion, driven by continued growth in volume at all operating tollroads. As a result, operating income reached P11.8 billion, a 13% growth from 2017.

Construction of ongoing projects are on track. The 17.22-kilometer Skyway Stage 3 project is in the advanced stages of construction. Meanwhile, the 88.95-kilometer Tarlac-Pangasinan-La Union Expressway (TPLEX) is now operational up to the Pozzorubio exit. Completion of the last phase from Bued to Rosario, La Union is scheduled by the end of 2019.

Construction of the 22-kilometer MRT-7 project is likewise progressing well. Work on the stretch from Quezon Memorial Circle to Quirino Highway, traversing Commonwealth Ave. and Regalado Ave. in Quezon City, is partially complete.

Phase 1 of the Bulacan Bulk Water Supply Project was completed at the end of last year and started operations in January. It currently supplies potable water to six municipalities, namely Meycauayan, Marilao, Obando, Bocaue, Balagtas, and San Jose Del Monte.

Meanwhile, the company broke ground for SLEX–TR4 in March this year.

FINANCIAL **POSITION**

San Miguel Corporation's financial position remained healthy in 2018. Even as the company actively pursued different funding sources for its various expansion projects, it closely monitored funding requirements and stayed well within its covenants with banks.

It completed several financing activities. On October 19, Petron Corporation completed and listed in the Philippine Dealing and Exchange Corporation its P20 billion Series C and Series D bonds, under its shelf registration. Tenors were at 5.5 years and 7 years, respectively. SMC Global Power also raised loans to acquire the Masinloc Power plant in March 2018 and to finance the construction of its Malita Power plant in Davao. The parent company continued to redenominate its US Dollar loans into peso-denominated instruments, to lower its exposure to the effects of forex movements.

On the equity side, it completed the consolidation of its food and beverage businesses into San Miguel Food and Beverage, Inc., changing its ownership from 95.9% to 88.76% after a follow-on shares offering that generated around P35.1 billion in proceeds.

As of December 31, 2018, SMC's consolidated total assets stood at P1.68 trillion. Consolidated cash balance was up by P37.1 billion, ending at P243.2 billion in 2018. Non-current assets increased to P1.08 billion, mainly from increase in property, plant and equipment, investments and advances, and goodwill.

Total liabilities reached P1.16 trillion at the end of the year with interest-bearing debt amounting to P801.6 billion from P549.4 billion in 2017. This translated to net debt level of P558.5 billion in 2018.

Current ratio as of December 31, 2018 was at 1.37x, against 1.40x as of December 31, 2017. Total-liabilities-to-equity was at 2.28x while interest bearing debt-to-equity was 1.57x against 1.17x as of December 31, 2017.

SMC's covenant with banks is measured on net-debt-EBITDA of up to 5.5x. As of December 31, 2018, this was at 3.02x from 1.83x as of December 31, 2017. The increase was mainly due to the funds raised to acquire the Masinloc power plant, which amounted to US$2.0 billion.

Stockholders' equity amounted to P511.9 billion as of end of 2018 from P471.1 billion end of 2017.

2018
MILESTONES

January

San Miguel Corporation launches new vision, mission and values statement.

SMC Infrastructure breaks ground for the Southeast Metro Manila Expressway (C6) Project.

February

The Malita power plant begins commercial operations.

The Mandaue Brewery turns 50

March

SMC reports water savings of about 14% in line with the company's water sustainability initiative "Project 50x2025"

SMC lists P30 billion fixed-rate peso bonds Series E, F and G on PDEx.

The Food Group inaugurates a new B-Meg feed mill plant in Bataan.

SMC Global Power completes Masinloc power plant acquisition.

Limay power plant Unit 3 becomes operational.

The Securities and Exchange Commission approves the change in corporate name and amendment in the Articles of Incorporation of San Miguel Pure Foods Company, Inc. to San Miguel Food and Beverage, Inc.

April

SMC's unsolicited proposal to build the New Manila International Airport (NMIA) gets National Economic and Development Authority (NEDA) approval.

June

San Miguel Yamamura Packaging Group acquires, through San Miguel Yamamura Australasia Pty Ltd, JMP Holdings Pty. Ltd., a packaging products supplier in Australia.

SMC, through Purefoods-Hormel Company, becomes the exclusive importer and distributor of SPAM in the Philippines.

SMYPG subsidiaries Wine Brothers and Wine Brothers Australasia Pty Ltd become organized and incorporated to distribute wines in the Philippines.

August

SMC Global Power lists its P15 billion Series G fixed-rate bonds on PDEx.

The rehabilitation of Angat Dam is completed.

September

San Miguel Yamamura Packaging Corporation celebrates its 80th anniversary with project 8,000—a program that generated 8,000 employee-volunteer hours

Petron Corporation celebrates 85th anniversary and its 10th year with the San Miguel Group.

October

Petron lists its P20 billion fixed-rate peso retail bonds Series C and Series D at the PDEx.

November

San Miguel Food and Beverage, Inc. completes its follow-on shares offering.

SMC signs NMIA cooperative partnership agreement with Incheon International Airport.

SMYPC commences operations of San Miguel Yamamura Asia Corporation's third furnace.

December

NEDA board approves concession agreement for NMIA.

SMYPG signs a definitive agreement to acquire SMYPC, Insa Alliance Sdn Bhd, a manufacturer of high-quality bulk bags in Malaysia.

BOARD OF **DIRECTORS**

Eduardo M. Cojuangco, Jr.
Chairman and CEO
Chairman, Executive Committee

Ramon S. Ang
Vice Chairman, President and COO
Member, Executive Committee

Leo S. Alvez
Member, Audit and Risk Oversight Committee

Aurora T. Calderon
Member, Corporate Governance Committee

Joselito D. Campos, Jr.
Member, Related Party Transactions Committee

Jose C. de Venecia, Jr.

Menardo R. Jimenez
Member, Executive Committee
Member, Corporate Governance Committee

Estelito P. Mendoza
Member, Executive Committee
Member, Audit and Risk Oversight Committee

Alexander J. Poblador
Member, Related Party Transactions Committee

Thomas A. Tan

Iñigo Zobel
Member, Executive Committee

Ramon F. Villavicencio

Reynaldo G. David
Independent Director
Chairman, Related Party Transactions Committee
Member, Audit and Risk Oversight Committee
Member, Corporate Governance Committee

Reynato S. Puno
Independent Director
Chairman, Corporate Governance Committee
Member, Audit and Risk Oversight Committee
Member, Related Party Transactions Committee

Margarito B. Teves
Independent Director
Chairman, Audit and Risk Oversight Committee
Member, Corporate Governance Committee
Member, Related Party Transactions Committee

KEY **EXECUTIVES**

Eduardo M. Cojuangco, Jr.
Chairman and Chief Executive Officer

Ramon S. Ang
Vice Chairman, President and Chief Operating Officer

Ferdinand K. Constantino
Chief Finance Officer and Treasurer

Virgilio S. Jacinto
Corporate Secretary and General Counsel

SAN MIGUEL FOOD AND BEVERAGE, INC.
Roberto N. Huang
Chief Operating Officer – Beer
President, SAN MIGUEL BREWERY INC.

Carlos Antonio M. Berba
Managing Director
SAN MIGUEL BREWING INTERNATIONAL LIMITED

Francisco S. Alejo III
Chief Operating Officer – Food
President, SAN MIGUEL PURE FOODS

Emmanuel B. Macalalag
Chief Operating Officer – Spirits
General Manager, GINEBRA SAN MIGUEL INC.

SAN MIGUEL YAMAMURA PACKAGING CORPORATION
Ferdinand A. Tumpalan
President

PETRON CORPORATION
Lubin B. Nepomuceno
General Manager

SMC GLOBAL POWER HOLDINGS CORP
Elenita D. Go
Senior Vice President and General Manager

SAN MIGUEL HOLDINGS CORP.
SMC INFRASTRUCTURE BUSINESS
Lorenzo G. Formoso III
Senior Vice President and Head

SAN MIGUEL PROPERTIES, INC.
Karen V. Ramos
Vice President and General Manager

CORPORATE GOVERNANCE

San Miguel Corporation is committed to the highest standards of corporate governance. Good governance is key in effective decision making and in delivering on corporate strategies that generate shareholder value and safeguard the long-term interests of shareholders.

As a responsible corporate citizen, the Company has in place efficient policies and programs to ensure that we always do what is right when it comes to conducting the everyday business of the Company.

Our Board of Directors, led by our Chairman, Mr. Eduardo M. Cojuangco, Jr., believes in conducting our business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the business dealings of the Company.

SHAREHOLDERS' RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Voting rights
Each common share in the name of the shareholder entitles such shareholder to one vote, which may be exercised in person or by proxy at shareholders' meetings, including the Annual General Stockholders' Meeting (AGSM). Common shareholders have the right to elect, remove, and replace directors, as well as vote on certain corporate acts specified in the Corporation Code.

Preferred Shareholders have the right to vote on matters involving certain corporate acts specified in the Corporation Code. They enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

Pre-emptive rights
Under the Company's amended articles of incorporation, as approved by the shareholders in a meeting held on May 17, 2009, and as approved by the Securities and Exchange Commission (SEC), shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt, or shares in exchange for property needed for corporate purposes. This is to give the Company greater flexibility in raising additional capital, managing its financial alternatives, and issuing financing instruments.

On May 31, 2010, the shareholders of the Company approved to amend the articles of incorporation to deny pre-emptive rights to any issuance of common shares. Such amendment of the articles of incorporation was approved by the SEC on August 10, 2010.

Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

Right to Information
Shareholders are provided, through the Investor Relations Group headed by Ms. Reyna-Beth De Guzman, disclosures, announcements, and, upon request, periodic reports filed with the SEC. All disclosures of the Company are likewise immediately available and downloadable at the Company's website upon disclosure to the Philippine Stock Exchange (PSE).

Dividends
Shareholders are entitled to receive dividends as the Board, in its discretion, may declare from time to time. However, the Company is required, subject to certain exceptions under the law, to declare dividends when the retained earnings equal to or exceed its paid-up capital stock.

Cash dividends paid by the Board of Directors of the Parent Company amounted to P1.40 per common share both in 2017 and 2018.

Cash dividends paid by the Board of Directors of the Parent Company to the preferred shareholders in 2017 and 2018 are as follows:

	2017	2018
SSeries "1"	P4.22625000	P4.22625000
Series "2-A"	N/A	N/A
Series "2-B"	P5.71875000	P5.71875000
Series C"	P6.00000000	P6.00000000
Series "2-D"	P4.45732500	P4.45732500
Series "2-E"	P4.74412500	P4.74412500
Series "2-F"	P5.10540000	P5.10540000
Series "2-G"	P4.93447500	P4.93447500
Series "2-H"	P4.74165000	P4.74165000
Series "2-I"	P4.75162500	P4.75162500

STAKEHOLDER RELATIONS

San Miguel Corporation exercises transparency when dealing with shareholders, customers, employees, trade partners, creditors, and all other stakeholders. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually-beneficial relationships.

Shareholder Meeting and Voting Procedures
Stockholders are informed at least 15 business days before the scheduled meeting of the date, time, and place of the validation of proxies. In 2018, Notices of the 2018 AGSM were sent to the stockholders on May 15, 2018, one month prior to the AGSM. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement distributed to all shareholders of the Company.

Shareholder and Investor Relations
San Miguel Corporation responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the PSE and the SEC and through regular quarterly briefings, AGSMs, investor briefings and conferences, the Company's website, and responses to email and telephone queries. The Company's disclosures and other filings with the SEC and PSE are available for viewing and download at the Company's website.

The Company, through the Investor Relations group under Corporate Finance, regularly holds briefings and meetings with investment and financial analysts.

DISCLOSURE AND TRANSPARENCY

San Miguel Corporation adheres to a high level of standard in its corporate disclosure and adopts transparency with respect to the Company's financial condition and state of corporate governance.

Ownership Structure
The top 20 shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting
San Miguel Corporation provides the investing community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE.

Consolidated audited financial statements are submitted to the SEC and the PSE on or before the prescribed period and are available to the shareholders prior to the AGSM.

San Miguel Corporation's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting standards, which are all in compliance with International Accounting Standards.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules. The results are also presented to financial and investment analysts through a quarterly analysts' briefing. These disclosures are likewise posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company discloses in a timely manner market-sensitive information such as dividend declarations, joint ventures and acquisitions, and the sale and divestment of significant assets that materially affect the share price performance of the Company.

Securities Dealing

The Company has adopted a policy which regulates the acquisition and disposal of Company shares by its directors, officers, and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers, and employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the Company's securities prior to disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports—during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information—is not allowed.

ACCOUNTABILITY AND AUDIT

The Audit and Risk Oversight Committee has oversight functions with respect to the external and internal auditors. The role and responsibilities of the Audit and Risk Oversight Committee are clearly defined in the Company's Manual on Corporate Governance and the Audit and Risk Oversight Committee Charter.

External Auditor

The accounting firm of R.G. Manabat & Co., accredited by the SEC, served as the Company's external auditors for the fiscal years 2017 and 2018.

The external auditor is selected and appointed by the shareholders upon the recommendation of the Board and subject to rotation every five years or earlier, in accordance with SEC regulations. The external auditor's main function is to facilitate the environment of good corporate governance, as reflected in the Company's financial records and reports, through the conduct of an independent annual audit on the Company's business, and rendition of an objective opinion on the reasonableness of such records and reports.

The external auditors attend the AGSM of the Company and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The Company paid the external auditor Audit Fees amounting to P32 million and P11 million, respectively, in 2018 and 2017.

Internal Audit

Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. SMGA directly reports to the Audit and Risk Oversight Committee.

SMGA is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations, and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

The Board approved and adopted an Internal Audit Charter of the Company on March 16, 2017, in compliance with the requirements of the Securities and Exchange Commission.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors. The Board is responsible for oversight of the business affairs and integrity of the Company; determination of the Company's mission, long-term strategy, and objectives; the management of the Company's risks through evaluation, and ensuring the adequacy of the Company's internal controls and procedures.

It is the responsibility of the Board to foster and engender the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the Company, its shareholders, and other stakeholders.

Composition

The Board consists of 15 members, each elected by the common stockholders during the AGSM. The Board members hold office for one year until their successors are duly elected and qualified in accordance with the amended by-laws of the Company.

The broad range of skills, expertise, and experience of the directors in the fields of management, economics, business, finance, accounting, and law, ensure comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. The names, profiles, and shareholdings of each director are found in the Definitive Information Statement, distributed prior to the AGSM.

The Board of Directors and the senior management of the Company have all undergone the requisite training on corporate governance.

Independent and Non-Executive Directors

San Miguel Corporation has three (3) independent directors. Currently, of the 15 directors, Messrs. Reynaldo G. David, Chief Justice Reynato S. Puno and Margarito B. Teves sit as independent and non-executive directors of the Company.

The Company defines an independent director as a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. An Independent Director submits to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an Independent Director at the time of his election and/or re-election as an Independent Director.

The Company strictly complies with SEC Memorandum Circular No. 4, Series of 2017 on the term limits of independent directors.

A majority of the members of the Board of Directors of the Company are non-executive directors.

Chairman/CEO and President/COO

The Chairman of the Board and Chief Executive Officer is Mr. Eduardo M. Cojuangco, Jr. while Mr. Ramon S. Ang holds the position of Vice Chairman, President, and Chief Operating Officer. These positions are held by separate individuals with their respective roles clearly defined to ensure independence, accountability, and responsibility in the discharge of their duties. The Chairman/CEO and the President/COO attended the AGSM for 2018.

Board Performance

The Board holds regular meetings. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the board of directors and at the same time communicate with the Board, management, the Company's shareholders, and the investing public.

In 2018, the Board held eight meetings. Set out below is the record of attendance of the directors at these meetings and at the AGSM.

Name of Directors	25 Jan	15 Mar	10 May	14 Jun*	9 Aug	13 Sep	13 Nov	6 Dec
Eduardo M. Cojuangco, Jr.	●	●	●	●	●	◙	●	●
Ramon S. Ang	●	●	●	●	●	●	●	●
Leo S. Alvez	●	●	●	●	●	●	●	●
Aurora T. Calderon	●	●	●	●	●	◙	●	●
Joselito D. Campos, Jr.	●	●	●	●	●	●	●	●
Menardo R. Jimenez	●	●	●	●	●	●	●	-
Estelito P. Mendoza	●	-	●	●	-	●	●	●
Alexander J. Poblador	●	●	●	●	●	●	●	●
Reynato S. Puno	●	●	●	●	●	-	●	●
Thomas A. Tan	●	●	●	●	●	●	●	●
Margarito B. Teves	●	●	●	●	●	●	●	●
Iñigo Zobel	●	●	-	●	◙	●	◙	●
Reynaldo G. David	●	●	●	●	●	●	●	●
Jose C. De Venecia, Jr.	●	●	-	●	●	●	-	-
Ramon F. Villavicencio[1]	N/A	N/A	●	●	●	●	●	●
Ferdinand K. Constantino[2]	●	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* Annual General Stockholders Meeting and Organizational Board Meeting
● Present
◙ via teleconference

[1]Mr. Ramon F. Villavicencio was elected as member of the Board of Directors on March 15, 2018.
[2]Mr. Ferdinand K. Constantino resigned as member of the Board of Directors effective February 28, 2018.

Board Remuneration

The amended by-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture, and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. In 2010, the Board of Directors approved the increase in the per diems for each Board meeting attended by the members of the Board from P10,000 to P50,000, and from P10,000 to P20,000 for each committee meeting attended.

Directors who are executive officers of the Company are likewise granted stock options under the Company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

Board Committees
To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee. The Executive Committee is currently composed of six directors, which includes the Chairman of the Board and CEO, Vice-Chairman of the Board, President and COO. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company—with the exception of the power to appoint any entity as general managers or management or technical consultants; to guarantee obligations of other corporations in which the Company has lawful interest; to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests; and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee did not hold any meeting in 2018.

Corporate Governance Committee. The Corporate Governance Committee is currently composed of six voting directors—three of whom are independent. Mr. Reynato S. Puno, an independent director, is the Chairman of the Committee.

The Corporate Governance Committee was constituted to aid the Board in the performance of its oversight responsibilities in the development and implementation of the corporate governance principles, policies, structures, and systems of the Corporation, and assist the Board in the performance of its corporate governance responsibilities.

In 2018, the Corporate Governance Committee held three meetings.

Audit and Risk Oversight Committee. The Audit Committee is currently composed of five members with three independent directors as members. Mr. Margarito B. Teves sits as Committee Chairman.

The Audit and Risk Oversight Committee performs oversight functions over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations, as well as oversight over the company's enterprise risk management system to ensure its functionality and effectiveness.

The Audit and Risk Oversight Committee held four meetings in 2018, wherein the Committee reviewed and approved, among others, the Company's 2017 Consolidated Audited Financial Statements as reviewed by the external auditors, and the Company's unaudited financial statements for the first to the third quarters of the year.

The Audit and Risk Oversight Committee has adopted an Audit and Risk Oversight Committee Charter in accordance with the prescribed audit committee charter of the Securities and Exchange Commission.

Related Party Transactions Committee. The Related Party Transactions Committee is composed of six members, two of whom are independent directors, including the Chairman, Mr. Reynaldo G. David.

The Related Party Transactions Committee reviews all material related party transactions of the Company. The Committee held one meeting in 2018.

Board Committee Members

The members of each Board Committee and their attendance at the Board Committee meetings in 2018 are set out in the table below. The Chairmen of each of the Board Committees attended the 2018 AGSM.

Audit and Risk Oversight Committee	Date of Meeting			
	15 Mar	10 May	9 Aug	8 Nov
Margarito B. Teves (Chairman)	●	●	●	●
Estelito P. Mendoza	-	●	-	-
Ferdinand K. Constantino[3]	●	●	-	-
Reynaldo G. David	●	●	●	●
Reynato S. Puno	●	●	●	●
Leo S. Alvez[4]	-	-	●	●

[3]Mr. Ferdinand K. Constantino was a member of the Audit and Risk Oversight Committee until June 14, 2018.
[4]Mr. Leo S. Alvez became a member of the Audit and Risk Oversight Committee on June 14, 2018.

Corporate Governance Committee	Date of Meeting		
	25 Jan	15 Mar	14 Jun
Reynato S. Puno (Chairman)	●	●	●
Aurora T. Calderon	●	●	●
Ferdinand K. Constantino	●	●	●
Reynaldo G. David	●	●	●
Menardo R. Jimenez	●	●	●
Margarito B. Teves	●	●	●

Related Party Transactions Committee	Date of Meeting
	15 Mar
Reynaldo G. David (Chairman)	●
Leo S. Alvez	●
Joselito D. Campos, Jr.	●
Ferdinand K. Constantino	●
Alexander J. Poblador	●
Margarito B. Teves	●

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the Chairman/CEO and the top senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

EMPLOYEE RELATIONS

Employees are provided an Employee Handbook and Code of Ethics which contain the policies and guidelines for the duties and responsibilities of an employee of San Miguel Corporation.

Through internal newsletters and company e-mails all facilitated by the Human Resources Department and the Corporate Affairs Office, employees are updated on material developments within the organization.

Career advancement and developments are also provided by the Company through numerous training programs and seminars. The Company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook.

CODE OF ETHICS

The Company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers, and employees of the company. The principles and standards prescribed in the Code of Ethics apply to all directors, senior managers, and employees of the Company.

Procedures are well established for the communication and investigation of concerns regarding the company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit and Risk Oversight Committee to uphold the Code of Ethics.

Whistle-blowing policy
The Company has an established whistle-blowing policy aimed at encouraging employees to speak out and call the attention of Management to any suspected wrongdoing which is contrary to the principles of the Code of Ethics and violations of the Company's rules and regulations.

The policy aims to protect the whistle-blower from retribution or retaliation, and provides a disincentive to passively allowing the commission of wrongful conduct.

These policies are available at the Company's website.

COMPLIANCE MONITORING

The Compliance Officer, Atty. Virgilio S. Jacinto, is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance.

On April 14, 2010, the Board Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission, under its Memorandum Circular No. 6, Series of 2009. On March 27, 2014, the Board of Directors approved further amendments to the Manual to reflect the requirements of the SEC on the annual training requirement of directors and key officers of the Company, and the requirements on the reporting of compliance with the Manual.

On May 10, 2017, the Board of Directors of the Company approved the adoption of a new Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016.

WEBSITE

Up-to-date information on the Company's corporate structure, products and services, results of business operations, financial statements, career opportunities, and other relevant information on the Company may be found at its website www.sanmiguel.com.ph.

The Board of Directors
San Miguel Corporation

REPORT OF THE AUDIT AND RISK OVERSIGHT COMMITTEE

For the year ended December 31, 2018

The Audit and Risk Oversight Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit and Risk Oversight Committee performed the following in 2018:

- endorsed for approval by the stockholders, and the stockholders approved the appointment of R.G. Manabat & Co. CPAs (formerly Manabat Sanagustin & Co. CPAs) as the Company's independent external auditors for 2018.

- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- reviewed and approved the scope of the audit and audit programs of the external auditor as well as the internal audit group of the Company, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission; and

- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

- reported compliance to the Securities and Exchange Commission on the results of the accomplishment by the members of the Audit and Risk Oversight Committee of the Audit and Risk Oversight Committee Self-Rating Form in accordance with the Audit and Risk Oversight Committee Charter and in compliance with the requirements of the SEC Memorandum Circular No. 4, Series of 2012.

All the five members of the Audit and Risk Oversight Committee, three of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2018.

Margarito B. Teves
Chairman - Independent Director

Estelito P. Mendoza
Member

Reynaldo G. David
Member - Independent Director

Reynato S. Puno
Member - Independent Director

Leo S. Alvez
Member

FINANCIAL **STATEMENTS**

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SELECTED FINANCIAL DATA
DECEMBER 31, 2018, 2017 AND 2016
(In Millions, Except Per Share and Statistical Data)

	2018	2017	2016
For the Year			
Sales	**P1,024,943**	P826,086	P685,314
Net Income	**P48,648**	P54,814	P52,240
Net Income Excluding Losses on Foreign Exchange	**P55,175**	P54,654	P61,168
Net Income Attributable to Equity Holders of the Parent Company	**P23,077**	P28,225	P29,289
Basic Earnings Per Common Share from Continuing Operations			
Attributable to Equity Holders of the Parent Company [A]	**P6.61**	P8.78	P4.49
Taxes	**P200,096**	P151,813	P137,929
Cash Dividends	**P10,653**	P10,651	P10,171
Cash Dividends Per Common Share [B]	**P1.40**	P1.40	P1.40
Cash Dividends Per Preferred Share [B]			
SMCP1	**P4.22625**	P4.22625	P4.22625
SMC2B	**P5.71875**	P5.71875	P5.71875
SMC2C	**P6.00**	P6.00	P6.00
SMC2D	**P4.457325**	P4.457325	P4.457325
SMC2E	**P4.744125**	P4.744125	P4.744125
SMC2F	**P5.1054**	P5.1054	P5.1054
SMC2G	**P4.93447500**	P4.93447500	P3.70085625
SMC2H	**P4.7416500**	P4.7416500	P3.5562375
SMC2I	**P4.75162500**	P4.75162500	P3.56371875
At Year-End			
Working Capital	**P161,343**	P144,567	P99,819
Total Assets	**P1,676,642**	P1,379,643	P1,306,824
Property, Plant and Equipment-net	**P594,372**	P523,586	P504,711
Equity Attributable to Equity Holders of the Parent Company	**P337,745**	P300,297	P279,942
Equity Per Share Attributable to Equity Holders of the Parent Company			
Common	**P95.36**	P79.71	P71.23
Preferred	**P75.00**	P75.00	P75.00
Number of Common Shares Outstanding - Net of Treasury Shares	**2,383,896,588**	2,382,265,715	2,380,208,250
Number of Preferred Shares Outstanding	**1,472,061,267**	1,472,061,267	1,472,061,267
Number of Common Stockholders	**34,768**	35,541	36,426
Number of Preferred Stockholders	**1,131**	1,145	1,337
Number of Employees	**28,598**	24,539	22,396
Financial Statistics			
% Return on Average Equity Attributable to Equity Holders of the Parent Company	**7.23%**	9.73%	11.31%
Current Ratio	**1.37**	1.40	1.26
Debt to Equity Ratio [C]	**2.28**	1.93	1.99
Market Price			
Common Shares			
High	**P180.10**	P124.50	P101.60
Low	**P111.60**	P92.30	P47.50
Series "2" Preferred Shares			
Subseries 2-B			
High	**P91.00**	P78.30	P81.00
Low	**P75.00**	P74.00	P75.00
Subseries 2-C			
High	**P81.50**	P83.50	P83.00
Low	**P75.00**	P79.40	P75.00
Subseries 2-D			
High	**P77.00**	P78.50	P80.00
Low	**P70.00**	P75.10	P75.10
Subseries 2-E			
High	**P79.00**	P81.60	P80.50
Low	**P71.95**	P76.25	P75.00
Subseries 2-F			
High	**P81.50**	P82.70	P81.00
Low	**P70.05**	P78.10	P75.80
Subseries 2-G			
High	**P78.60**	P79.95	P80.05
Low	**P70.30**	P76.50	P75.00
Subseries 2-H			
High	**P79.60**	P79.70	P79.00
Low	**P71.85**	P76.15	P74.95
Subseries 2-I			
High	**P79.80**	P81.70	P79.15
Low	**P70.05**	P76.55	P71.50

[A] *Based on the weighted average number of shares outstanding during the year*
[B] *Based on the number of shares outstanding at the date of each declaration*
[C] *Total debt to equity, where total debt represents total liabilities*

SAN MIGUEL CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of San Miguel Corporation (the "Company"), is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2018, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

EDUARDO M. COJUANGCO, JR.
Chairman and Chief Executive Officer

RAMON S. ANG
President and Chief Operating Officer

FERDINAND K. CONSTANTINO
Senior Vice President and
Chief Finance Officer/Treasurer

Signed this 14th day of March 2019

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

Opinion

We have audited the consolidated financial statements of San Miguel Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition (P1,024,943 million).
Refer to Notes 7, 25 and 33 of the consolidated financial statements.

The risk
Revenue is an important measure used to evaluate the performance of the Group and is generated from various sources. It is accounted for when control of the goods or services is transferred to the customer over time or at a point in time, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. While revenue recognition and measurement are not complex for the Group, revenues may be inappropriately recognized in order to improve business results and achieve revenue growth in line with the objectives of the Group, thus increasing the risk of material misstatement.

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

- We evaluated and assessed the revenue recognition policies in accordance with PFRS 15, *Revenue from Contracts with Customers*.

- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.

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- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.

- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents to ascertain that the revenue recognition criteria is met.

- We tested, on a sampling basis, sales transactions for the last month of the financial year and also the first month of the following financial year to supporting documentation such as sales invoices and delivery documents to assess whether these transactions are recorded in the appropriate financial year.

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

- We tested, on a sampling basis, credit notes issued after the financial year, to identify and assess any credit notes that relate to sales transactions recognized during the financial year.

Valuation of Goodwill (P130,852 million).
Refer to Notes 4, 5, 17 and 38 of the consolidated financial statements.

The risk
The Group has embarked on a diversification strategy and has expanded into new businesses through a number of acquisitions and investments resulting in the recognition of a significant amount of goodwill. The goodwill of the acquired businesses are reviewed annually to evaluate whether events or changes in circumstances affect the recoverability of the Group's investments.

The methods used in the annual impairment test of goodwill are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response
We performed the following audit procedures, among others, on the valuation of goodwill:

- We assessed management's determination of the recoverable amounts based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.

- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.

- We performed our own sensitivity analyses on the key assumptions used in the models.

Valuation of Other Intangible Assets (P146,608 million).
Refer to Notes 4, 5 and 17 of the consolidated financial statements.

The risk
The methods used in the annual impairment test for other intangible assets with indefinite useful lives and tests of impairment indicators for other intangible assets with finite useful lives are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. These assumptions include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response
We performed the following audit procedures, among others, on the valuation of other intangible assets:

- We evaluated and assessed management's methodology in identifying any potential indicators of impairment.

- We assessed management's determination of the recoverable amounts based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.

- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.

- We performed our own sensitivity analyses on the key assumptions used in the models.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Wilfredo Z. Palad.

R.G. MANABAT & CO.

WILFREDO Z. PALAD
Partner
CPA License No. 0045177
SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021
Tax Identification No. 106-197-186
BIR Accreditation No. 08-001987-006-2018
Issued November 29, 2018; valid until November 28, 2021
PTR No. MKT 7333629
Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(In Millions)

	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 8, 40, 41	P243,150	P206,073
Trade and other receivables - net	4, 5, 9, 33, 35, 40, 41	129,893	116,040
Inventories	4, 5, 10	125,139	102,575
Current portion of biological assets - net	4, 16	4,245	3,422
Prepaid expenses and other current assets	4, 5, 11, 13, 33, 34, 40, 41	92,043	78,228
Total Current Assets		594,470	506,338
Noncurrent Assets			
Investments and advances - net	4, 12	50,519	35,537
Investments in equity and debt instruments	4, 13, 40, 41	42,126	42,069
Property, plant and equipment - net	4, 5, 14, 34	594,372	523,586
Investment property - net	4, 15	31,829	7,162
Biological assets - net of current portion	4, 16	2,844	2,695
Goodwill - net	4, 5, 17, 38	130,852	60,124
Other intangible assets - net	4, 5, 17	146,608	134,438
Deferred tax assets	4, 5, 23	19,249	18,412
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 40, 41	63,773	49,282
Total Noncurrent Assets		1,082,172	873,305
		P1,676,642	P1,379,643
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 19, 30, 33, 38, 40, 41	P184,024	P149,863
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 40, 41	149,764	136,993
Finance lease liabilities - current portion	4, 5, 30, 34, 38, 40, 41	19,699	16,889
Income and other taxes payable	5	19,901	16,653
Dividends payable	33, 36, 38	4,042	4,429
Current maturities of long-term debt - net of debt issue costs	5, 21, 30, 33, 38, 40, 41	55,697	36,944
Total Current Liabilities		433,127	361,771
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 21, 30, 33, 38, 40, 41	561,918	362,548
Deferred tax liabilities	5, 23	22,899	20,674
Finance lease liabilities - net of current portion	4, 5, 30, 34, 38, 40, 41	122,367	138,008
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 40, 41	24,384	25,580
Total Noncurrent Liabilities		731,568	546,810
Equity	24, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		16,443	16,435
Capital stock - preferred		10,187	10,187
Additional paid-in capital		177,938	177,750
Equity reserves	5	21,513	(4,799)
Retained earnings:			
Appropriated		72,820	66,890
Unappropriated		148,345	143,335
Treasury stock		(109,501)	(109,501)
		337,745	300,297
Non-controlling Interests	2, 5	174,202	170,765
Total Equity		511,947	471,062
		P1,676,642	P1,379,643

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In Millions, Except Per Share Data)

	Note	**2018**	2017	2016
SALES	*7, 25, 33*	**P1,024,943**	P826,086	P685,314
COST OF SALES	*26, 34*	**825,748**	644,221	514,021
GROSS PROFIT		**199,195**	181,865	171,293
SELLING AND ADMINISTRATIVE EXPENSES	*27, 34*	**(82,110)**	(70,823)	(71,639)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*19, 21, 30, 33, 34*	**(45,496)**	(35,714)	(34,803)
INTEREST INCOME	*31, 33, 35*	**7,192**	4,525	3,693
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*5, 6, 12, 13, 14, 15, 18*	**252**	879	154
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*12*	**(289)**	297	203
OTHER INCOME (CHARGES) - Net	*32, 40, 41*	**(5,628)**	154	(11,426)
INCOME BEFORE INCOME TAX		**73,116**	81,183	57,475
INCOME TAX EXPENSE	*23, 42*	**24,468**	26,369	17,053
INCOME FROM CONTINUING OPERATIONS		**48,648**	54,814	40,422
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*6*	**-**	-	11,818
NET INCOME		**P48,648**	P54,814	P52,240
Attributable to:				
Equity holders of the Parent Company		**P23,077**	P28,225	P29,289
Non-controlling interests	*5*	**25,571**	26,589	22,951
		P48,648	P54,814	P52,240
Earnings Per Common Share from Continuing Operations Attributable to Equity Holders of the Parent Company	*37*			
Basic		**P6.61**	P8.78	P4.49
Diluted		**6.61**	8.77	4.49

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In Millions)

	Note	**2018**	2017	2016
NET INCOME		**P48,648**	P54,814	P52,240
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*35*	**(540)**	(1,720)	3,642
Income tax benefit (expense)		**170**	510	(1,066)
Net gain on financial assets at fair value through other comprehensive income	*13*	**46**	-	-
Income tax expense		**(6)**	-	-
Share in other comprehensive income (loss) of associates and joint ventures - net	*12*	**2**	44	(18)
		(328)	(1,166)	2,558
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**1,459**	4,518	(105)
Net loss on financial assets at fair value through other comprehensive income	*13*	**(9)**	-	-
Net gain on available-for-sale financial assets	*13*	**-**	91	502
Income tax expense		**-**	(3)	(5)
Net loss on cash flow hedges	*41*	**(280)**	-	-
Income tax benefit		**84**	-	-
		1,254	4,606	392
OTHER COMPREHENSIVE INCOME - Net of tax		**926**	3,440	2,950
TOTAL COMPREHENSIVE INCOME - Net of tax		**P49,574**	P58,254	P55,190
Attributable to:				
Equity holders of the Parent Company		**P22,948**	P30,308	P30,388
Non-controlling interests	*5*	**26,626**	27,946	24,802
		P49,574	P58,254	P55,190

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In Millions)

		Equity Attributable to Equity Holders of the Parent Company														
					Equity Reserves											
		Capital Stock		Additional Paid-in	Reserve for Retirement	Hedging	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As of January 1, 2018, as previously reported (Audited)		P16,435	P10,187	P177,750	(P2,664)	P -	P277	P2,748	(P5,160)	P66,890	P143,335	(P67,093)	(P42,408)	P300,297	P170,765	P471,062
Adjustments due to Philippine Financial Reporting Standards 9 and 15	3	-	-	-	-	-	256	-	-	-	(321)	-	-	(65)	71	6
As of January 1, 2018, as adjusted		16,435	10,187	177,750	(2,664)	-	533	2,748	(5,160)	66,890	143,014	(67,093)	(42,408)	300,232	170,836	471,068
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	501	-	-	-	-	-	501	958	1,459
Share in other comprehensive income (loss) of associates and joint ventures - net	12	-	-	-	9	-	(53)	22	-	-	-	-	-	(22)	24	2
Net loss on cash flow hedges, net of tax	41	-	-	-	-	(173)	-	-	-	-	-	-	-	(173)	(23)	(196)
Net gain (loss) on financial assets at fair value through other comprehensive income	13	-	-	-	-	-	34	-	-	-	-	-	-	34	(3)	31
Equity reserve for retirement plan	35	-	-	-	(469)	-	-	-	-	-	-	-	-	(469)	99	(370)
Other comprehensive income (loss)		-	-	-	(460)	(173)	(19)	523	-	-	-	-	-	(129)	1,055	926
Net income		-	-	-	-	-	-	-	-	-	23,077	-	-	23,077	25,571	48,648
Total comprehensive income (loss)		-	-	-	(460)	(173)	(19)	523	-	-	23,077	-	-	22,948	26,626	49,574
Issuance of common shares	24	8	-	188	-	-	-	-	-	-	-	-	-	196	-	196
Net addition (reduction) to non-controlling interests and others	5, 12	-	-	-	134	-	-	(32)	26,083	(1,308)	145	-	-	25,022	(4,592)	20,430
Appropriations - net	24	-	-	-	-	-	-	-	-	7,238	(7,238)	-	-	-	-	-
Cash dividends and distributions:	36															
Common		-	-	-	-	-	-	-	-	-	(3,336)	-	-	(3,336)	(10,118)	(13,454)
Preferred		-	-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(6,177)	(6,177)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(878)	(878)
As of December 31, 2018	24	P16,443	P10,187	P177,938	(P2,990)	(P173)	P514	P3,239	P20,923	P72,820	P148,345	(P67,093)	(P42,408)	P337,745	P174,202	P511,947

Forward

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves										
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	Common	Preferred						Appro-priated	Unappro-priated	Common	Preferred	Total		
As of January 1, 2017		P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	2,872	-	-	-	-	-	2,872	1,646	4,518
Share in other comprehensive income (loss) of associates and joint ventures - net	*12*	-	-	-	(3)	(25)	56	-	-	-	-	-	28	16	44
Net gain on available-for-sale financial assets	*13*	-	-	-	-	88	-	-	-	-	-	-	88	-	88
Equity reserve for retirement plan	*35*	-	-	-	(905)	-	-	-	-	-	-	-	(905)	(305)	(1,210)
Other comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	-	-	-	2,083	1,357	3,440
Net income		-	-	-	-	-	-	-	-	28,225	-	-	28,225	26,589	54,814
Total comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	28,225	-	-	30,308	27,946	58,254
Issuance of common shares	*24*	10	-	109	-	-	-	-	-	-	-	-	119	-	119
Net addition (reduction) to non-controlling interests and others	*5, 12*	-	-	-	-	-	-	818	-	(239)	-	-	579	2,789	3,368
Appropriations - net	*24*	-	-	-	-	-	-	-	9,984	(9,984)	-	-	-	-	-
Cash dividends and distributions:	*36*														
Common		-	-	-	-	-	-	-	-	(3,334)	-	-	(3,334)	(8,216)	(11,550)
Preferred		-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
As of December 31, 2017	*24*	P16,435	P10,187	P177,750	(P2,664)	P277	P2,748	(P5,160)	P66,890	P143,335	(P67,093)	(P42,408)	P300,297	P170,765	P471,062

Forward

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves										
		Capital Stock		Additional Paid-in	Reserve for Retirement	Fair Value	Translation	Other Equity	Retained Earnings		Treasury Stock			Non-controlling	Total
	Note	Common	Preferred	Capital	Plan	Reserve	Reserve	Reserve	Appro-priated	Unappro-priated	Common	Preferred	Total	Interests	Equity
As of January 1, 2016		P16,417	P10,187	P177,871	(P3,546)	(P222)	P947	(P798)	P48,927	P127,855	(P67,093)	(P72,408)	P238,137	P146,740	P384,877
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	(1,157)	-	-	-	-	-	(1,157)	1,052	(105)
Share in other comprehensive income (loss) of associates and joint ventures - net	12	-	-	-	22	(74)	30	-	-	-	-	-	(22)	4	(18)
Net gain (loss) on available-for-sale financial assets	13	-	-	-	-	510	-	-	-	-	-	-	510	(13)	497
Equity reserve for retirement plan	35	-	-	-	1,768	-	-	-	-	-	-	-	1,768	808	2,576
Other comprehensive income (loss)		-	-	-	1,790	436	(1,127)	-	-	-	-	-	1,099	1,851	2,950
Net income		-	-	-	-	-	-	-	-	29,289	-	-	29,289	22,951	52,240
Total comprehensive income (loss)		-	-	-	1,790	436	(1,127)	-	-	29,289	-	-	30,388	24,802	55,190
Issuance of common shares	24	8	-	63	-	-	-	-	-	-	-	-	71	-	71
Reissuance of treasury shares		-	-	(293)	-	-	-	-	-	-	-	30,000	29,707	-	29,707
Net addition (reduction) to non-controlling interests and others	5, 12	-	-	-	-	-	-	(5,180)	-	(3,010)	-	-	(8,190)	1,460	(6,730)
Appropriations - net	24	-	-	-	-	-	-	-	7,979	(7,979)	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,332)	-	-	(3,332)	(7,956)	(11,288)
Preferred		-	-	-	-	-	-	-	-	(6,839)	-	-	(6,839)	(1,495)	(8,334)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(6,712)	(6,712)
As of December 31, 2016	24	P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(In Millions)

	Note	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		**P73,116**	P81,183	P57,475
Income before income tax from discontinued operations	*6*	**-**	-	12,765
Income before income tax		**73,116**	81,183	70,240
Adjustments for:				
Depreciation, amortization and others - net	*6, 28*	**50,670**	33,991	50,549
Interest expense and other financing charges	*6, 30*	**45,496**	35,714	34,809
Equity in net losses (earnings) of associates and joint ventures	*6, 12*	**289**	(297)	(203)
Interest income	*6, 31*	**(7,192)**	(4,525)	(3,707)
Gain on sale of investments and property and equipment	*6, 12, 13, 14, 15, 18*	**(252)**	(879)	(154)
Gain from disposal of discontinued operations	*6*	**-**	-	(13,572)
Operating income before working capital changes		**162,127**	145,187	137,962
Changes in noncash current assets, certain current liabilities and others	*38*	**(42,625)**	(19,541)	(14,661)
Cash generated from operations		**119,502**	125,646	123,301
Interest and other financing charges paid		**(38,299)**	(26,319)	(24,647)
Income taxes paid		**(22,979)**	(20,099)	(19,461)
Net cash flows provided by operating activities		**58,224**	79,228	79,193
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	*38*	**(98,057)**	(2,568)	(1,905)
Additions to property, plant and equipment	*14*	**(47,323)**	(38,693)	(40,649)
Increase in other noncurrent assets and others		**(38,946)**	(30,023)	(15,515)
Additions to investments and advances and investment in debt instruments	*12, 13*	**(20,021)**	(2,908)	(8,038)
Interest received		**6,537**	4,263	3,480
Dividends received	*12, 13*	**1,906**	1,355	1,081
Proceeds from sale of investments and property and equipment	*5, 12, 13, 14, 15, 18*	**1,139**	1,930	1,114
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	*6*	**-**	13,020	37,175
Net cash flows used in investing activities		**(194,765)**	(53,624)	(23,257)

Forward

	Note	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P996,769**	P848,320	P667,802
Long-term borrowings		**242,405**	203,715	98,130
Payments of:				
Short-term borrowings		**(964,464)**	(888,378)	(625,642)
Long-term borrowings		**(65,591)**	(135,975)	(150,455)
Proceeds from follow-on offering of common shares of a subsidiary	5	**35,083**	-	-
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	5	**24,881**	-	-
Proceeds from issuance of capital stock	24	**196**	119	71
Redemption of undated subordinated capital securities of a subsidiary	5	**(39,769)**	-	-
Cash dividends and distributions paid to non-controlling shareholders		**(19,104)**	(16,728)	(16,060)
Cash dividends paid	36	**(10,602)**	(10,295)	(8,278)
Payments of finance lease liabilities		**(25,698)**	(24,924)	(23,907)
Increase (decrease) in non-controlling interests and others		**(91)**	1,760	(5,515)
Proceeds from reissuance of treasury shares	24	**-**	-	29,707
Net cash flows provided by (used in) financing activities		**174,015**	(22,386)	(34,147)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(397)**	(298)	606
NET INCREASE IN CASH AND CASH EQUIVALENTS		**37,077**	2,920	22,395
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8	**206,073**	203,153	180,758
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**P243,150**	P206,073	P203,153

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

San Miguel Corporation (SMC or the Parent Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company), was incorporated on August 21, 1913. On March 16, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term for another fifty (50) years from August 21, 2013, as approved on the March 14, 2011 and June 7, 2011 meetings of the Parent Company's Board of Directors (BOD) and stockholders, respectively.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed on The Philippine Stock Exchange, Inc. (PSE).

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in associates and joint ventures.

The Group is engaged in various businesses, including food and beverage, packaging, energy, fuel and oil, infrastructure and real estate property management and development.

The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 14, 2019.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis except for the following items which are measured on an alternative basis on each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI) - 2018; Available-for-sale (AFS) financial assets - 2017	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	Percentage of Ownership 2018	2017	Country of Incorporation
Food and Beverage Business:			
San Miguel Food and Beverage, Inc. (SMFB) [(b)] (formerly San Miguel Pure Foods Company Inc. (SMPFC)) and subsidiaries [including San Miguel Foods, Inc. (SMFI) and subsidiaries, San Miguel Mills, Inc. (SMMI) and subsidiaries {including Golden Bay Grain Terminal Corporation (GBGTC)}, The Purefoods-Hormel Company, Inc. (PF-Hormel), Magnolia, Inc. and subsidiaries {including Golden Food Management, Inc., formerly Golden Food & Dairy Creamery Corporation}, San Miguel Super Coffeemix Co., Inc., PT San Miguel Pure Foods Indonesia and San Miguel Pure Foods International, Limited and subsidiary, San Miguel Pure Foods Investment (BVI) Limited and subsidiary, San Miguel Pure Foods (VN) Co., Ltd.]	**88.76**	85.37	Philippines
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, San Miguel Brewing International Ltd. and subsidiaries {including San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, PT Delta Djakarta Tbk [(a)] and subsidiary, San Miguel (Baoding) Brewery Company, Limited (SMBB) [(a)], San Miguel Brewery Vietnam Company Limited [(a)], San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited}]			
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc. (EPSBPI), Ginebra San Miguel International Ltd., GSM International Holdings Limited, Global Beverages Holdings Limited and Siam Holdings Limited]			
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation, Can Asia, Inc. (CAI) and Wine Brothers Philippines Corporation (WBPC) [(c)]	**65.00**	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited[(a)], Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd (SMYB)[(d)], SMYP Pty Ltd (SMYP)[(e)], Cospak Ltd (New Zealand), SMYBB Pty Ltd (SMYBB)[(f)], SMYJ Pty Ltd (SMYJ) [(g)] and Wine Brothers Australian Pty Ltd}, and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	**65.00**	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	**100.00**	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**	60.00	Philippines
Energy Business:			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp., PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), Limay Premiere Power Corp. (LPPC), Prime Electric Generation Corporation (PEGC), SMCGP Masin Pte. Ltd. (SMCGP Masin; formerly Masin-AES Pte. Ltd. {MAPL}) and subsidiaries[(h)] including Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Alpha Water and Realty Services Corp. (Alpha Water), SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. {ATPL}) and subsidiary[(h)], and SMCGP Philippines Inc. (formerly AES Philippines, Inc. {API})[(h)]]	**100.00**	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2018	2017	
Fuel and Oil Business:			
SEA Refinery Corporation and subsidiary; Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor)[(a)], Limay Energen Corporation, New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited, Petron Oil & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (PMRMB) (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited [(a)] and subsidiaries]	**100.00**	100.00	Philippines
Infrastructure Business:			
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC)[(i)] and subsidiaries[(a)] [including Rapid Thoroughfares Inc. and subsidiary, Private Infra Dev Corporation (PIDC), Trans Aire Development Holdings Corp. (TADHC), Optimal Infrastructure Development, Inc., Vertex Tollways Devt. Inc. (Vertex), Universal LRT Corporation (BVI) Limited (ULC BVI), SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc., Terramino Holdings, Inc. and subsidiary, Manila North Harbour Port, Inc. (MNHPI), Luzon Clean Water Development Corporation (LCWDC) and Sleep International (Netherlands) Cooperatief U.A. and Wiselink Investment Holdings, Inc. {collectively own Cypress Tree Capital Investments, Inc. and subsidiaries including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}, Atlantic Aurum Investments B.V. (AAIBV) and subsidiaries {including Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, Citra Central Expressway Corp. (CCEC) and Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corporation (SOMCO), MTD Manila Expressways Inc. (MTDME) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC)}]	**100.00**	100.00	Philippines
Real Estate Business:			
San Miguel Properties, Inc. (SMPI) and subsidiaries[(a)] [including Excel Unified Land Resources Corporation, SMPI Makati Flagship Realty Corp., Bright Ventures Realty, Inc. and Carnell Realty, Inc.]	**99.94**	99.94	Philippines
Davana Heights Development Corporation (DHDC) and subsidiaries	**100.00**	100.00	Philippines
Others:			
San Miguel International Limited and subsidiaries [including San Miguel Holdings Limited (SMHL) and subsidiaries {including SMYPIL}]	**100.00**	100.00	Bermuda
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries[(a)] [including SL Harbor Bulk Terminal Corporation (SLHBTC), Molave Tanker Corporation (MTC), Balyena Tanker Corporation (BTC) and Narra Tanker Corporation (NTC)]	**70.00**	70.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries[(a)] [including San Miguel Northern Cement, Inc. (SMNCI)[(j)]]	**100.00**	100.00	Philippines
SMC Stock Transfer Service Corporation[(a)]	**100.00**	100.00	Philippines
ArchEn Technologies Inc. [(a)]	**100.00**	100.00	Philippines
SMITS, Inc. and subsidiaries[(a)]	**100.00**	100.00	Philippines
SMC Equivest Corporation (SMC Equivest)	**100.00**	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC) [(a)]	**58.33**	58.33	Philippines
SMC Asia Car Distributors Corp. (SMCACDC) [(k,a)]	**65.00**	65.00	Philippines

(a) The financial statements of these subsidiaries were audited by other auditors.
(b) SMB and GSMI were consolidated to SMFB effective June 29, 2018 (Note 5).
(c) Incorporated on July 12, 2018 (Note 5).
(d) Consolidated to SMYPIL effective June 30, 2017 (Note 5).
(e) Consolidated to SMYPIL effective February 1, 2017 (Note 5).
(f) Consolidated to SMYPIL effective November 1, 2017 (Note 5).
(g) Consolidated to SMYPIL effective June 1, 2018 (Note 5).
(h) Consolidated to SMC Global effective March 20, 2018 (Note 5).
(i) On August 31, 2017, the SEC approved the change in company name to San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (formerly: San Miguel Holdings Corp.).
(j) Incorporated on October 2, 2017 (Note 5).
(k) Incorporated on July 17, 2017 (Note 5).

A subsidiary is an entity controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

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

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

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: SMFB, SMYPC, SMYPIL, SMYAC, Petron, PIDC, TADHC, AMTEX, MNHPI, AAIBV, SMPI, SMCSLC, AIBC, SMNCI and SMCACDC in 2018 and 2017 and SMCGP Masin in 2018 (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

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

- 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 classification 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 that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. 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 adopted PFRS 9 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 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 ECL model in estimating impairment which resulted to the decrease in the allowance for the impairment losses on receivables by P179 and increase in retained earnings and non-controlling interests by P61 and P63, respectively, as of January 1, 2018 (Note 9). Also, the adoption of PFRS 9 resulted to the decrease in the Group's share in equity in net earnings of an associate amounting to P147, with corresponding decrease in retained earnings by P403 and increase in fair value reserve by P256 as of January 1, 2018 (Note 12).

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.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under 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	330	330
Investments in debt instruments	AFS financial assets	Financial assets at amortized cost	201	201
Noncurrent receivables and deposits, and restricted cash - net	Loans and receivables	Financial assets at amortized cost	23,177	23,177

Financial Assets. The Group continued to measure at fair value, all financial assets previously held at fair value under PAS 39. The following are the changes in the classification of the Group's financial assets:

- Cash and cash equivalents and receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.

- Investments in equity instruments that were designated as at FVPL under PAS 39 have been classified as mandatorily measured at FVPL under PFRS 9, as these financial assets were managed on a fair value basis and the performance was monitored on this basis.

- Investments in equity and debt instruments previously classified as AFS financial assets are designated as financial assets at FVOCI at the date of initial application. These equity instruments represent investments that the Group intends to hold for strategic purposes.

- Certain investments in debt instruments with carrying amount of P201 as of January 1, 2018 were reclassified from AFS financial assets to financial assets at amortized cost. The Group intends to hold the assets to maturity to collect contractual cash flows, and the cash flows consist solely of payments of principal and interest on the principal amount outstanding. The fair value of P201 as of January 1, 2018 was equivalent to the amortized cost for these financial assets. There was no impact on retained earnings as of January 1, 2018.

Financial Liabilities. There are no changes in the classification and measurement of the Group's financial liabilities.

- 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 withholding tax 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 the consolidated statements of income.

- 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 and more comprehensive 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. PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer.

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

  The Group has 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 adoption increased retained earnings and non-controlling interests by P21 and P8, respectively, as of January 1, 2018. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

  The following tables summarize the impact of adopting PFRS 15 on the Group's consolidated financial statements as of and for the year ended December 31, 2018.

	Consolidated Statement of Financial Position		
	As Reported	**Adjustments**	**Amounts Without Adoption of PFRS 15**
Assets			
Trade and other receivables - net	P129,893	P56	P129,949
Inventories	125,139	(4,979)	120,160
Prepaid expenses and other current assets	92,043	(88)	91,955
Deferred tax assets	19,249	(5)	19,244
	366,324	(5,016)	361,308
Current Assets	594,470	(5,011)	589,459
Noncurrent Assets	1,082,172	(5)	1,082,167
Total Assets	P1,676,642	(P5,016)	P1,671,626
Liabilities			
Accounts payable and accrued expenses	P149,764	(P4,894)	P144,870
Deferred tax liabilities	22,899	(28)	22,871
	172,663	(4,922)	167,741
Current Liabilities	433,127	(4,894)	428,233
Noncurrent Liabilities	731,568	(28)	731,540
Total Liabilities	1,164,695	(4,922)	1,159,773
Equity			
Retained earnings	221,165	(86)	221,079
Equity Attributable to Equity Holders of the Parent Company	337,745	(86)	337,659
Non-controlling Interests	174,202	(8)	174,194
Total Equity	511,947	(94)	511,853
Total Liabilities and Equity	P1,676,642	(P5,016)	P1,671,626

	Consolidated Statement of Comprehensive Income		
	As Reported	**Adjustments**	**Amounts Without Adoption of PFRS 15**
Sales	P1,024,943	(P219)	P1,024,724
Cost of Sales	825,748	(150)	825,598
Gross Profit	199,195	(69)	199,126
Selling and Administrative Expenses	(82,110)	3	(82,107)
Other Charges - net	(5,628)	(4)	(5,632)
Income Before Income Tax	73,116	(70)	73,046
Income Tax Expense	24,468	(5)	24,463
Net Income	P48,648	(P65)	P48,583
Total Comprehensive Income - net of tax	P49,574	(P65)	P49,509

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.

The adoption also resulted to the change of the classification of containers deposit from a contra-asset under "Inventories" account to current liabilities under "Accounts payable and accrued expenses" account amounting to P4,951 as of December 31, 2018 (Note 20). In the course of performing its obligation to sell alcoholic and non-alcoholic contents, the Group is also obliged to deliver returnable containers, as the fulfillment of their former obligation is dependent on the use of these returnable containers. Upon delivery, the customers have the exclusive use of these returnable containers, thus, allowing them to direct the use and obtain all of the economic benefits under IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Accordingly, the refundable containers deposit received from customers is classified as a financial liability (Note 4). The allocation of consideration to the use of the returnable containers is not significant for the year ended December 31, 2018.

Relative to the adoption of PFRS 15, the SEC has issued Memorandum Circular No. 14, series of 2018, *Philippine Interpretations Committee Questions and Answers (PIC Q&A) No. 2018-12, Implementation Issues Affecting the Real Estate Industry*, which provides relief to the real estate industry by deferring for a period of three years, the application of the provisions of PIC Q&A No. 2018-12 with respect to the accounting for the significant financing component in a contract to sell, treatment of land and uninstalled materials in the determination of the percentage of completion. The Group opted to defer the accounting for the significant financing component in a contract to sell.

- 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 interpretation clarifies 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.

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the Amendments to PAS 28, *Investments in Associates and Joint Ventures*, 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 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.

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

<u>New and Amended Standards and Interpretation Not Yet Adopted</u>
A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and interpretation 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 also introduced.

  PFRS 16 is effective for annual periods beginning on or after January 1, 2019 with several transition approaches and individual options and practical expedients that can be elected independently of each other. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Group plans to apply the new standard on the effective date using the modified retrospective approach. The cumulative effect of adopting PFRS 16 will be recognized as an adjustment to the opening balance of retained earnings as of January 1, 2019, with no restatement of comparative information.

  The Group is currently performing detailed assessment of the potential effect of the new standard and has yet to reasonably estimate the impact. The actual impact of applying PFRS 16 on the consolidated financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate as of January 1, 2019, the composition of the lease portfolio at that date, the latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation 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 chosen tax treatment. If it is not probable that the tax authority will accept the 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 early application permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

- Long-term Interests (LTI) in Associates and Joint Ventures *(*Amendments to PAS 28*)*. The amendments require 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 amendments are effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or 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 the 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.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19*, Employee Benefits)*. The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. 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 the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four 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.

  - 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.

  - 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 application permitted.

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

PFRS 17 is effective for annual periods beginning on or after January 1, 2021. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15 on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to PFRS 10 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 IASB 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.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

A liability is current when: (a) it is expected to be settled in the normal operating cycle; (b) it is held primarily for trading; (c) it is due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Instruments
Recognition and Initial Measurement. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

Classification and Subsequent Measurement - Policy Applicable from January 1, 2018

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

Subsequent to initial recognition, financial assets are not reclassified unless the Group changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

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 with the objective of holding 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.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the consolidated statements of income when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 8, 9, 11, 13, 18, 40 and 41).

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.

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 the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statement of changes in equity are transferred to and recognized in the consolidated statements of income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's investments in equity and debt instruments at FVOCI are classified under this category (Notes 11, 13, 40 and 41).

Financial Assets at FVPL. All financial assets not classified as measured at amortized cost or FVOCI are measured at FVPL. This includes derivative financial assets that are not designated as cash flow hedge. 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, the Group may irrevocably designate a financial asset 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 the consolidated statements of income as incurred. Changes in fair value 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. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category (Notes 11, 18, 40 and 41).

Classification and Subsequent Measurement - Policy Applicable before January 1, 2018

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, 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.

The Group has no financial asset classified as HTM investments as of December 31, 2017.

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) with positive fair values, 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 consolidated 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 (Notes 11, 18, 40 and 41).

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 (Notes 8, 9, 11, 18, 40 and 41).

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 consolidated 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 instruments are classified under this category (Notes 11, 13, 40 and 41).

<u>Financial Liabilities</u>
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. 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 the consolidated statements of income. 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 that are not designated as cash flow hedge are classified under this category (Notes 20, 22, 40 and 41).

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

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 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.

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 (Notes 19, 20, 21, 22, 34, 40 and 41).

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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.

Impairment of Financial Assets

Policy Applicable from January 1, 2018

The Group recognizes allowance for ECL on financial assets at amortized cost and investments in debt instruments at FVOCI.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive), discounted at the effective interest rate of the financial asset, and reflects reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The Group recognizes an allowance for impairment based on either 12-month or lifetime ECLs, 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 ECLs, 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 ECLs 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.

At each reporting date, the Group assesses whether these financial assets at amortized cost and investments in debt instruments at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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.

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income. The ECLs on investments in debt instruments at FVOCI are recognized as accumulated impairment losses in other comprehensive income, with the resulting impairment losses (or reversals) recognized in the consolidated statements of income.

Policy Applicable before January 1, 2018

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.

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.

Derivative Financial Instruments and Hedge Accounting
The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives
The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

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 Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in fair value or cash flows of the hedging instrument are expected to offset the changes in fair value or cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivatives accounted for as cash flow hedge as of December 31, 2018 (Note 41).

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

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.

However, in the policy applicable from January 1, 2018, an embedded derivative is not separated if the host contract is a financial asset.

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.

The Group has embedded derivatives as of December 31, 2018 and 2017 (Note 41).

Inventories
Finished goods, goods in process, materials and supplies, raw land inventory and real estate projects are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	-	at cost, which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases) and crude oil	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, blending components and polypropylene	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Raw land inventory	-	at cost, which includes acquisition costs of raw land intended for sale or development and other costs and expenses incurred to effect the transfer of title of the property; costs are determined using the specific identification of individual costs.
Real estate projects	-	at cost, which includes acquisition costs of property and other costs and expenses incurred to develop the property; costs are determined using the specific identification of individual costs.
Materials, supplies and others	-	at cost, using the specific identification method, first-in, first-out method or moving-average method.
Coal	-	at cost, using the specific identification method and moving-average method.

Finished Goods. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Goods in Process. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Petroleum Products, Crude Oil, Lubes and Greases, and Aftermarket Specialties. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

Materials and Supplies, including Coal. Net realizable value is the current replacement cost.

Any write-down of inventories to net realizable value and all losses of inventories are recognized as expense in the year of write-down or loss occurrence. The amount of reversals, if any, of write-down of inventories arising from an increase in net realizable value are recognized as reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Containers (i.e., Returnable Bottles, Shells and Pallets). These are stated at deposit values less any impairment in value. The excess of the acquisition cost of the containers over their deposit value is presented as "Deferred containers - net" under "Other noncurrent assets - net" account in the consolidated statements of financial position and is amortized over the estimated useful lives of two to ten years. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

Refundable containers deposits are collected from customers based on deposit value and refundable when the containers are returned to the Group in good condition. These deposits are presented as "Customers' deposit" under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Real Estate Projects. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Raw Land Inventory. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Prepaid Expenses and Other Current Assets

Prepaid expenses represent expenses not yet incurred but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in the separate statements of income as they are consumed or expire with the passage of time.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding stocks, growing hogs, cattle and poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	38 - 42 weeks

Contract Assets

A contract asset is the right to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than the passage of time. The contract asset is transferred to receivable when the right becomes unconditional.

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

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

- *Goodwill in a Business Combination*

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

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

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control
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. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures
An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in the shares of stock of an associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint venture and then recognizes the loss as part of "Equity in net earnings (losses) of associates and joint ventures" account in the consolidated statements of income.

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

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

Property, Plant and Equipment
Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value, if any.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO), if any. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	10 - 43
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Equipment, furniture and fixtures	2 - 50
Leasehold improvements	2 - 50 or term of the lease, whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the consolidated statements of income in the period of retirement and disposal.

Investment Property
Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land and leasehold improvements	5 - 50 or term of the lease, whichever is shorter
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	26 - 36 or unit of usage
Airport concession right	25
Power concession right	25
Port concession right	25
Water concession right	30
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

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

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

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12*, Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entities in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

The following are the concession rights covered by the service concession arrangements entered into by the Group:

- *Airport Concession Right*. The Group's airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (i) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (ii) to design and finance the Airport Project; and (iii) to operate and maintain the Boracay Airport during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

  The airport concession right is carried at cost less accumulated amortization and any impairment in value. Amortization is computed using the straight-line method over the remaining concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

  The airport concession right is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss from derecognition of the airport concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:

  - South Luzon Expressway (SLEX);
  - Ninoy Aquino International Airport (NAIA) Expressway;
  - Metro Manila Skyway (Skyway);
  - Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
  - Southern Tagalog Arterial Road (STAR); and
  - North Luzon Expressway (NLEX) - SLEX Link (Skyway Stage 3).

  In exchange for the fulfillment of the Group's obligations under the Concession Agreement, the Group is given the right to operate the toll road facilities over the concession period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of parts of it are normally recognized in the consolidated statements of income as these are incurred to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as an intangible asset.

  The toll road concession rights are amortized using the straight-line method over the term of the Concession Agreement. The toll road concession rights are assessed for impairment whenever there is an indication that the toll road concession rights may be impaired.

The toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of the toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

- *Port Concession Right*. The Group's port concession right pertains to the right granted by the Philippine Ports Authority (PPA) to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. This includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the PPA over 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by MNHPI as the project progresses. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

  The port concession right is amortized using the capacity-based amortization over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

  The port concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the port concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *Water Concession Right*. The Group's water concession right pertains to the right granted by the Metropolitan Waterworks and Sewerage System (MWSS) to LCWDC as the concessionaire of the supply of treated bulk water, planning, financing, development, design, engineering, and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the Province of Bulacan. The Concession Agreement is for a period of 30 years and may be extended for up to 50 years. The Group's water concession right represents the upfront fee, cost of design, construction and development of the Bulacan Bulk Water Supply Project. The service concession right is not yet amortized until the construction is completed.

  The carrying amount of the water concession right is reviewed for impairment annually, or more frequently when an indication of impairment arises during the reporting year.

  The water concession right will be derecognized upon turnover to MWSS. There will be no gain or loss upon derecognition of the water concession right, as this is expected to be fully amortized upon turnover to MWSS.

- *Power Concession Right*. The Group's power concession right pertains to the right granted by the ROP to SMC Global, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). On January 24, 2014, SMC Global and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations under the Concession Agreement effective January 2, 2014. The power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

  The power concession right is amortized using the straight-line method over the concession period which is 25 years and assessed for impairment whenever there is an indication that the asset may be impaired.

  The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *MRT 7 Project*. The Group's capitalized project costs incurred for the MRT 7 Project is recognized as a financial asset as it does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

  The Group can finance, design, test, commission, construct and operate and maintain the MRT 7 Project on behalf of the ROP in accordance with the terms specified in the Concession Agreement.

  As payment, the ROP shall pay fixed amortization payment on a semi-annual basis in accordance with the scheduled payment described in the Concession Agreement (Note 34).

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the Concession Agreement or the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

Mineral Rights and Evaluation Assets
The Group's mineral rights and evaluation assets have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mineral rights and evaluation assets is recognized in the consolidated statements of income based on the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The amortization of mining rights will commence upon commercial operations.

Gain or loss from derecognition of mineral rights and evaluation assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs
Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets
The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. An impairment loss with respect to goodwill is not reversed.

Cylinder Deposits
The Group purchases liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under "Other noncurrent liabilities" account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the consolidated statements of income.

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

Fair Value Measurements
The Group measures 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.

Provisions
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Capital Stock and Additional Paid-in Capital
Common Shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares
Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the option of the Parent Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Parent Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Additional Paid-in Capital
When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained Earnings
Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

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

Revenue
The Group recognizes revenue from contracts with customers when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Group performs its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it acts as a principal as it controls the goods or services before transferring to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Food and Beverage, Packaging, and Petroleum Products
Revenue is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. Trade discounts and volume rebate do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each period. Payment is generally due within 30 to 45 days from delivery.

Revenue from sale of petroleum products is allocated between the consumer loyalty program and the other component of the sale. The allocation is based on the relative stand-alone selling price of the points. The amount allocated to the consumer loyalty program is deducted from revenue at the time points are awarded to the consumer. A deferred liability included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed.

Revenue from Power Generation and Trading
Revenue from power generation and trading is recognized over time when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Revenues from retail and other power-related services are recognized over time upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable, and (h) interclass and life subsidies. Feed-in tariffs allowance, Value-added Tax (VAT) and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Revenue from Sale of Real Estate (Upon Adoption of PFRS 15)
Revenue from sale of real estate projects under pre-completion stage is recognized over time based on percentage of completion since the Group does not have an alternative use of the specific real estate property sold as the Group is precluded by the contract from redirecting the use of the property for a different purpose. Further, the Group has rights to payment for the development completed to date as the Group can choose to complete the development and enforce its rights to full payment under the contract even if the customer defaults on amortization payments. The Group determines the stage of completion based on surveys done by the Group's engineers and total costs to be incurred on a per unit basis. Revenue is recognized when 10% of the total contract price has already been collected.

Revenue from sale of completed real estate projects, and undeveloped land or raw land is recognized at a point in time. The Group recognizes in full the revenue and cost from sale of completed real estate projects and undeveloped land when 10% or more of the contract price is received.

If the transaction does not qualify for revenue recognition, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue, payments received from customers are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Cancellation of real estate sales is accounted for on the year of forfeiture. The repossessed real estate projects are recognized at fair value less cost to repossess. Any gain or loss on cancellation is recognized as part of "Other income (charges) - net" account in the consolidated statements of income.

Revenue from Sale of Real Estate (Prior to the Adoption of PFRS 15)
Revenue from sale of real estate projects is recognized under the full accrual method. Under this method, revenue and cost is recognized in full when 10% or more of the contract price is received and development of the real estate property (i.e., lot, house and lot or townhouse) has reached 100% completion at which point the buyer may already occupy and use the property.

Payments received from buyers which do not meet the revenue recognition criteria are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Revenue and cost relative to forfeited or back-out sales are reversed in the current year as they occur. The resulting gain or loss from the back-out sales are presented as part of "Other income (charges) - net" account in the consolidated statements of income.

Revenue from Service Concession Arrangements
Revenue from toll operations is recognized upon the use by the road users of the toll road and is paid by way of cash or charge against Radio Frequency Identification account. Toll fees are set and regulated by the Toll Regulatory Board (TRB).

Landing, take-off and parking fees are recognized as the services are rendered over time which is the period from landing up to take-off of aircrafts.

Terminal fees are recognized upon receipt of fees charged to passengers for the use of airport and port terminals.

Revenue from port cargo handling and ancillary services is recognized as the services are rendered over time based on the quantity of items handled during the period multiplied by a predetermined rate.

Revenue from construction contracts is recognized over time based on the percentage of completion, measured by reference to the proportion of costs incurred to date to estimated total costs for each contract.

Revenue from Sale of Other Services
Revenue from port services and terminal handling is recognized as the services are rendered over time based on the actual quantity of items handled during the period multiplied by a predetermined rate.

Revenue from freight services is recognized as the services are rendered over time based on every voyage contracted with customers during the period multiplied by a predetermined rate.

Revenue from Other Sources
Revenue from Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Interest Income. Interest income is recognized using the effective interest method. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset.

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

Rent Income. Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any. Gain or loss for financial assets at FVOCI are recognized in OCI.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Share-based Payment Transactions
Under the Parent Company's Long-term Incentive Plan for Stock Options (LTIP) and the Group's Employee Stock Purchase Plan (ESPP), executives and employees of the Parent Company and certain subsidiaries receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Group. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the employees of the Parent Company and certain subsidiaries are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

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

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- Remeasurements of defined benefit retirement liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes

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

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

Non-cash Distribution to Equity Holders of the Parent Company and Assets Held for Sale

The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision on distribution or sale will be withdrawn. Management must be committed to the sale or distribution within one year from date of classification.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in the consolidated statements of income.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued Operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "Income after income tax from discontinued operations" in the consolidated statements of income.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common 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.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

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

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

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

Measurement of Biological Assets. Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

Determining whether an Arrangement Contains a Lease. The Group uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MNHPI and MPPCL also entered into leases of equipment and land, respectively, needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants, land and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 14 and 34).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P142,066 and P154,897 as of December 31, 2018 and 2017, respectively (Note 34).

The combined carrying amounts of power plants, land and equipment under finance lease amounted to P168,404 and P172,739 as of December 31, 2018 and 2017, respectively (Notes 14 and 34).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P785, P1,307 and P1,378 in 2018, 2017 and 2016, respectively (Note 34).

Rent expense recognized in the consolidated statements of income amounted to P5,244, P4,992 and P2,895 in 2018, 2017 and 2016, respectively (Notes 26, 27 and 34).

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide, at what prices these services will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 34).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, may either be an intangible asset in the form of a right (license) to charge fees to users or financial asset in the form of an unconditional right to receive cash or another financial asset. Judgment was further exercised by management in determining the cost components of acquiring the right. Further reference to the terms of the Concession Agreement (Note 34) was made to determine such costs.

a. *Airport Concession Right*. The Group's airport concession right consists of: (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.

    (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.

    (ii) The present value of the IRO is recorded under construction in progress (CIP) - airport concession arrangements and transferred to the related intangible assets upon completion of the Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time will significant maintenance of the Boracay Airport would commence.

    (iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

b. *Toll Road Concession Rights*. The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway; (iii) Skyway; (iv) TPLEX; (v) STAR; and (vi) Skyway Stage 3.

    Pursuant to the Concession Agreements, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

c. *Port Concession Right*. The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor.

d. *Water Concession Right*. The Group's water concession right represents the right to collect charges from water service providers and third party purchasers availing of a public service, grant control or regulate the price and transfer significant residual interest of the water treatment facilities at the end of the Concession Agreement.

e. *Power Concession Right*. The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

f. *MRT 7 Project*. The Concession Agreement related to the MRT 7 Project does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the obligation under the Concession Agreement, is a financial asset in the form of an unconditional right to receive cash or another financial asset.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares of TADHC, particularly mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI and MNHPI in 2018 and 2017 and NVRC in 2017 (Note 5), management has determined that the Group controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Group receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

The Group has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Group controls NVRC since it is exposed and has rights to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Group assessed that it still controls MNHPI, even after the sale of Petron's 34.83% equity interest in 2017 (Note 5), because it has the power to govern the financial and operating policies, appoint or remove the majority members of the BOD and cast majority votes at BOD meetings given that it is the single largest stockholder at 43.33% equity interest. Also, the Group established that it has: (i) power over MNHPI; (ii) it is exposed and has rights to variable returns from its involvement with MNHPI; and (iii) it has ability to use its power over MNHPI to affect the amount of MNHPI's returns. Accordingly, MNHPI remained to be a subsidiary of the Group and still consolidated as of December 31, 2018 and 2017.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP) as joint ventures (Note 12).

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

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

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 41.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 43).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment of ECL on Trade Receivables (Upon Adoption of PFRS 9). The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables for at least two years. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade receivables is not material because substantial amount of trade receivables are normally collected within one year. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Trade receivables written off amounted to P56 in 2018 (Note 9). The allowance for impairment losses on trade receivables amounted to P4,610 as of December 31, 2018. The carrying amount of trade receivables amounted to P72,849 as of December 31, 2018 (Note 9).

Assessment of ECL on Other Financial Assets at Amortized Cost (Upon Adoption of PFRS 9). The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2018**
Other Financial Assets at Amortized Cost		
Cash and cash equivalents (excluding cash on hand)	*8*	P239,619
Other current receivables - net (included under "Trade and other receivables - net" account)	*9*	57,044
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	*18*	21,158

The allowance for impairment losses on other current receivables, included as part of "Trade and other receivables - net" account and noncurrent receivables and deposits included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position, amounted to P8,586 and P493, respectively, as of December 31, 2018 (Notes 9 and 18).

Allowance for Impairment Losses on Trade and Other Receivables and Noncurrent Receivables and Deposits (Prior to the Adoption of PFRS 9). Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded costs and expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position, amounted to P13,987 as of December 31, 2017 (Notes 9 and 18).

The carrying amount of trade and other receivables and noncurrent receivables and deposits amounted to P130,583 as of December 31, 2017 (Notes 9, 18, 40 and 41).

Impairment of AFS Financial Assets (Prior to the Adoption of PFRS 9). AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2017.

The carrying amount of AFS financial assets amounted to P42,268 as of December 31, 2017 (Notes 11, 13, 40 and 41).

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 10, 11, 12, 13, 15, 16, 17, 18, 20, 35 and 41.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P2,747 and P2,069 as of December 31, 2018 and 2017, respectively (Note 10).

The carrying amount of inventories amounted to P125,139 and P102,575 as of December 31, 2018 and 2017, respectively (Note 10).

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

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

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P607,277 and P536,001 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P247,352 and P212,683 as of December 31, 2018 and 2017, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P31,837 and P7,170 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of investment property amounted to P10,996 and P1,110 as of December 31, 2018 and 2017, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P11,414 and P7,949 as of December 31, 2018 and 2017, respectively. Accumulated amortization of deferred containers amounted to P17,624 and P15,720 as of December 31, 2018 and 2017, respectively (Note 18).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P143,765 and P131,721 as of December 31, 2018 and 2017, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P37,532 and P31,958 as of December 31, 2018 and 2017, respectively (Note 17).

Estimated Useful Lives of Intangible Assets - Concession Rights. The Group estimates the useful lives of airport, toll road, port, power and water concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power, port and water concession rights amounted to P138,794 and P127,132 as of December 31, 2018 and 2017, respectively (Note 17).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P130,852 and P60,124 as of December 31, 2018 and 2017, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,843 and P2,717 as of December 31, 2018 and 2017, respectively (Note 17).

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

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

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P70,384 and P1,162 in 2018 and 2017, respectively (Notes 5, 17 and 38).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”.

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group’s assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities are all in the exploratory stages as of December 31, 2018. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2018 and 2017.

Deferred exploration and development costs included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position amounted to P705 and P699 as of December 31, 2018 and 2017, respectively (Notes 18 and 34).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P19,249 and P18,412 as of December 31, 2018 and 2017, respectively (Note 23).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment and investment property amounted to P12,913 and P12,423 as of December 31, 2018 and 2017, respectively (Notes 14 and 15).

The combined carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P836,605 and P710,597 as of December 31, 2018 and 2017, respectively (Notes 12, 14, 15, 16, 17 and 18).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 35 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P32,779 and P32,209 as of December 31, 2018 and 2017, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from refinery, power plants, leased service stations, terminals, blending plant and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.659% to 9.055% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,879 and P2,838 as of December 31, 2018 and 2017, respectively (Note 22).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2018 and 2017 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P138 and P132 as of December 31, 2018 and 2017, respectively (Note 17).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P5 and P74 in 2018 and P2 and P74 in 2017, respectively (Notes 20 and 22).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period. Construction revenue and construction costs, reported as part of "Other income (charges) - net" account in the consolidated statements of income, amounted to P23,062, P18,089 and P12,623 as of December 31, 2018, 2017 and 2016, respectively (Notes 17 and 32).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P814 and P732 as of December 31, 2018 and 2017, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P207 and P188 as of December 31, 2018 and 2017, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments:

Food and Beverage

- SMFB

On November 3, 2017, the BOD of the Parent Company approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to: (a) result in synergies in the food and beverage business units of the Group; (b) unlock greater shareholder value by providing a sizeable consumer vertical market under SMC; and (c) provide investors direct access to the consumer business of the Group through SMFB. On the same day, the BOD of the Parent Company approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

On March 23, 2018, the SEC approved the amendment to the Articles of Incorporation of SMPFC consisting of (a) change of 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 SMB and 216,972,000 common shares of the capital stock of 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"). The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 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 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 BOD 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 Certification 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 common shares 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, the investment value of SMFB in SMB and GSMI.

As a result, the Group's non-controlling interests decreased by P2,336 with a corresponding increase in other equity reserve.

On October 12, 2018, the Bureau of Internal Revenue (BIR) issued BIR Certification No. SN: 010-2018 which confirmed the tax-free transfer by the Parent Company of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

In 2018, the Parent Company completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083.

With the completion of the follow-on offering, the total number of common shares held by the Parent Company in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

As a result, the Group's non-controlling interests increased by P4,761 equivalent to the carrying amount of the share in the net assets sold. The difference between the carrying amount of the share in the net assets sold and the consideration received was recognized in other equity reserve.

Energy

- SMC Global

a) Acquisition of MAPL, ATPL and API (the "Masinloc Group")

On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US$1,900 (P98,990). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd.) ("SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 megawatts (MW) and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 640 MW capacity to the existing portfolio of SMC Global.

As part of the acquisition, SMC Global also acquired ATPL and API. ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

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

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.

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

	Note	2018
Assets		
Cash and cash equivalents		**P1,656**
Trade and other receivables		**2,439**
Inventories		**2,378**
Prepaid expenses and other current assets		**1,692**
Property, plant and equipment	*14*	**62,275**
Other intangible assets		**80**
Other noncurrent assets		**3,040**
Liabilities		
Loans payable		**(2,344)**
Accounts payable and accrued expenses		**(9,591)**
Income and other taxes payable		**(139)**
Finance lease liabilities (including current portion)		**(31)**
Long-term debt - net (including current maturities)		**(31,952)**
Deferred tax liabilities		**(55)**
Other noncurrent liabilities		**(204)**
Total Identifiable Net Assets at Fair Value	*38*	**P29,244**

Provisional goodwill recognized as a result of the acquisition follows:

	Note	2018
Total consideration transferred (cash)		**P98,990**
Non-controlling interest measured at proportionate interest in identifiable net assets		**198**
Total identifiable net assets at fair value		**(29,244)**
Provisional Goodwill	*17, 38*	**P69,944**

SMC Global incurred acquisition-related costs of P286 and P195 for the years ended December 31, 2018 and 2017, respectively, which have been included in the "Selling and administrative expenses" account in the consolidated statements of income.

The fair value of trade and other receivables amounted to P2,439. The gross amount of the receivables is P2,503, of which P64 is expected to be uncollectible as at 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.

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

From the date of acquisition, the Masinloc Group has contributed P19,459 and P2,781 of revenues and net income to the Group's results.

If the foregoing acquisitions have occurred on January 1, 2018, management estimates that it would have increased consolidated revenue and consolidated net income by P4,847 and P209, respectively. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2018.

b) Acquisition of Alpha Water

On July 13, 2018, PEGC, a wholly-owned subsidiary of SMC Global, acquired the remaining equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total amount of US$10 (P532). Alpha Water is the owner of the land where the current site of the Masinloc Power Plant Complex in Zambales Province is located.

Fuel and Oil

- Petron

a) Redemption of Undated Subordinated Capital Securities (USCS)

On January 8, 2018, Petron announced a tender offer to holders of its US$750 USCS with expiration deadline on January 16, 2018. Tenders amounting to US$402 (P21,309) were accepted by Petron and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. On August 6, 2018, Petron redeemed the remaining US$348 (P18,460) of the US$750 USCS. The difference in the settlement amount and the carrying amount of USCS in 2018 amounting to P6,296 was recognized as part of other equity reserves account in the consolidated statements of financial position.

b) Issuance of Senior Perpetual Capital Securities (SPCS)

On January 19, 2018, Petron issued US$500 SPCS with an issue price of 100% for the partial repurchase and redemption of its existing US$750 USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. (SGX-ST) on January 22, 2018.

The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the SRC was required to be filed with the SEC.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. Petron has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at Petron's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

c) Additional Investment in NVRC

On December 17, 2018, Petron acquired additional 2,840,000 common shares of NVRC at P1,000.00 per share for a total consideration of P2,840 which was effected through debt to equity conversion of NVRC's advances from Petron. As a result, the ownership interest of Petron in NVRC increased from 40.00% to 85.55% (Note 4).

Although the Group owned less than half of the ownership interest in NVRC prior to the acquisition of the additional equity interest in 2018, management has assessed, in accordance with PFRS 10, that the Group has control over NVRC on a de facto basis (Note 4).

d) Sale of 34.83% Equity Interest in MNHPI

On September 21, 2017, Petron signed the Share Purchase Agreement with International Container Terminal Services, Inc. for the sale of 10,449,000 shares of stocks or 34.83% equity interest in MNHPI for a total consideration of P1,750.

On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price had been paid.

The Group retained the 43.33% ownership and control through SMHC's stake in MNHPI (Note 4).

As a result, the Group's non-controlling interests increased by P1,093 equivalent to the carrying amount of the share in the net assets sold. The difference between the carrying amount of the share in the net assets sold and the consideration received was recognized in other equity reserve.

- SRC

On December 12, 2018, SRC and the Parent Company executed a Subscription Agreement to subscribe to additional 10,000,000 common shares for a total subscription price of P1,510 or P151.00 per common share. The subscription price was fully paid on December 12, 2018.

Infrastructure

- SMHC

The application of the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMHC was filed with the SEC on December 29, 2016 and was approved on July 10, 2017. The advances amounting to P13,231 as of December 31, 2016 was reclassified to investment in shares of stock of subsidiaries upon approval by SEC on the increase in authorized capital stock. The balance of the subscription price amounting to P457 was paid by the Parent Company in 2017.

On July 27, 2017, SMHC and the Parent Company executed a Subscription Agreement for the subscription by the Parent Company to an additional 10,875,000 common shares of SMHC for a total subscription price of P16,312 or P1,500.00 per common share. The subscription price was paid in full in 2017.

On December 27, 2018, the Parent Company, in a Deed of Subscription executed on the same date, subscribed to an additional 4,635,367 common shares of SMHC for a total subscription price of P6,953 or P1,500.00 per common share. The subscription price was paid in full in 2018.

- TADHC

On various dates in 2017, SMHC subscribed to a total of 19,800,000 common shares of TADHC at P150.00 per share for a total consideration of P2,970.

Packaging

- SMYJ

On June 1, 2018, the Parent Company through SMYA acquired 100% ownership interest in SMYJ Pty Ltd (SMYJ), formerly JMP Holdings Pty Ltd., for a total consideration of P590. SMYJ is a company engaged in retail packaging products, transport packaging solutions and other products and services based in Victoria, Australia.

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

	Note	2018
Assets		
Cash		**P32**
Trade and other receivables		**165**
Inventories		**199**
Prepaid expenses and other current assets		**2**
Property, plant and equipment	*14*	**15**
Deferred tax assets		**4**
Liabilities		
Accounts payable and accrued expenses		**(261)**
Other noncurrent liabilities		**(6)**
Total Identifiable Net Assets at Fair Value	*38*	**P150**

The fair value of trade and other receivables amounted to P165. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P440 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

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

If the foregoing acquisition have occurred on January 1, 2018, management estimates that it would have increased consolidated revenue and consolidated net income by P421 and P24, respectively. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2018.

- SMYBB

On November 1, 2017, the Parent Company through SMYA acquired 100% ownership in Best Bottlers Pty. Ltd. (Best Bottlers) for a total consideration of P658. Best Bottlers is an Australian wine bottling and packaging facility specializing in various formats of contract filing. On November 30, 2017, Best Bottlers changed its name to SMYBB Pty Ltd.

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

	Note	2017
Assets		
Cash		P8
Trade and other receivables - net		252
Inventories		50
Prepaid expenses and other current assets		7
Property, plant and equipment - net	*14*	321
Liabilities		
Accounts payable and accrued expenses		(275)
Income and other taxes payable		(2)
Deferred tax liabilities		(43)
Total Identifiable Net Assets at Fair Value	*38*	P318

The fair value of trade and other receivables amounted to P252. The gross amount of the receivables is P266, of which P14 is expected to be uncollectible as at the acquisition date.

The recognized goodwill amounting to P340 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

- SMYB

On June 30, 2017, the Parent Company through SMYA acquired 100% ownership interest in Barossa Bottling Services Pty Ltd (Barossa) for a total consideration of P442. Barossa is a specialist contract wine bottling and packaging facility servicing artisan wineries in Australia. On February 27, 2018, Barossa changed its name to SMYB Pty Ltd.

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

	Note	2017
Assets		
Cash		P5
Trade and other receivables		72
Inventories		15
Property, plant and equipment - net	*14*	41
Liabilities		
Accounts payable and accrued expenses		(45)
Income and other taxes payable		(5)
Total Identifiable Net Assets at Fair Value	*38*	P83

The fair value of trade and other receivables amounted to P72. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P359 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

- SMYP

On February 1, 2017, the Parent Company through SMYA acquired 100% ownership interest in Portavin Holdings Pty Ltd and its subsidiaries (Portavin) for a total consideration of P762. Portavin operates as the leading wine services supplier in Australia. On September 22, 2017, Portavin changed its name to SMYP Pty Ltd.

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

	Note	2017
Assets		
Cash		P13
Trade and other receivables - net		573
Inventories		107
Prepaid expenses and other current assets		19
Property, plant and equipment - net	*14*	452
Deferred tax assets		47
Liabilities		
Accounts payable and accrued expenses		(856)
Income and other taxes payable		(56)
Total Identifiable Net Assets at Fair Value	*38*	P299

The fair value of trade and other receivables amounted to P573. The gross amount of the receivables is P615, of which P42 is expected to be uncollectible as at the acquisition date.

The recognized goodwill amounting to P463 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 Portavin, Barossa, Best Bottlers and SMYJ is attributable to the benefit of expected synergies with the Group's packaging business, revenue growth and future development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

- WBPC

On July 12, 2018, the Parent Company through SMYPC incorporated WBPC, a wholly-owned subsidiary, with an authorized capital stock of P10 divided into 100,000 shares with a par value of P100.00 per share. The Parent Company, through SMYPC, subscribed to the initial authorized capital stock of WBPC for a total subscription price of P10 or P100.00 per share.

WBPC was incorporated primarily to carry on an enterprise, business, trade or operation as manufacturer, buyer, importer, exporter, contractor, dealer, broker, commission, merchant, agent or representative of wine products; to engage in the hauling services and transporting said wines for its clients and customers including picking up, unpacking, unloading, carrying, consolidating, packing, crating, hauling, loading, transporting, delivering the wines of its clients and customers and operating a warehouse facility engaged in handling, distribution and maintenance of wines and other operation services; and to engage in any and all business activities incidental or related to carrying out this objective.

Real Estate

- SMPI

On June 29, 2017, the Parent Company and SMPI executed a Subscription Agreement to subscribe to an additional 27,985,000 common shares of SMPI for a total subscription price of P560 or P20.00 per common share. The subscription price was fully paid in 2017.

On February 19, 2018, SMPI and the Parent Company executed a Subscription Agreement to subscribe to an additional 62,500,000 common shares of SMPI for a total subscription price of P1,250 or P20.00 per common share. The subscription price was fully paid in 2018.

- DHDC

On May 22, 2017, the Parent Company incorporated DHDC, a wholly-owned subsidiary, with an authorized capital stock of P100 divided into 100,000,000 shares with a par value of P1.00 per share. The Parent Company subscribed and paid in full the initial authorized capital stock of DHDC for a total subscription price of P100 or P1.00 per share.

DHDC was incorporated primarily to purchase, acquire, own, lease, hold, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

On September 12, 2017, the BOD and stockholders of DHDC resolved and approved the increase in authorized capital stock from P100 divided into 100,000,000 common shares to P2,100 divided into 2,100,000,000 common shares, both with a par value of P1.00 per share.

On September 18, 2017, the Parent Company and DHDC executed a Subscription Agreement to subscribe to an additional 500,000,000 common shares from the increase in authorized capital stock, for a total subscription price of P750 or P1.50 per common share. The Parent Company has paid P625 of the subscription price as of December 31, 2018 and 2017.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of DHDC was filed with the SEC on November 2, 2017 and was approved on November 22, 2017.

Others

- SMHL

On July 30, 2018, the BOD and stockholders of SMHL resolved and approved to increase its authorized capital stock from US$150 divided into 5,000,000 common shares of par value US$10.00 per share and 10,000,000 preferred shares of par value US$10.00 per share to US$700 divided into 5,000,000 common shares of par value US$10.00 per share and 65,000,000 preferred shares of par value US$10.00 per share. The application of the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMHL was filed with the BVI Company Registry on December 14, 2018 and was approved on December 17, 2018.

On December 14, 2018, SMHL issued to the Parent Company an additional 17,800,000 preferred shares from the increase in authorized capital stock, for a total subscription price of US$178 (P9,413) or US$10.00 per preferred share. In 2018, the Parent Company paid US$175 (P9,243) of the subscription price.

- SMCSLC

On July 20, 2018, the BOD and stockholders of SMCSLC resolved and approved to increase its authorized capital stock from P150 divided into 15,000,000 common shares to P5,650 consisting of 565,000,000 common shares, both with a par value of P10.00 per share. The Parent Company, in a Subscription Agreement executed on July 23, 2018, subscribed to 245,000,000 common shares for a total subscription price of P3,675 or P15.00 per common share. The subscription price was paid in full in 2018. The application for Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on August 8, 2018 and was approved on December 19, 2018.

- SMNCI

On October 2, 2017, SMNCI was incorporated with an authorized capital stock of P10,000 divided into 10,000,000,000 shares, with a par value of P1.00 per share. As of December 31, 2017, the Parent Company through SMEII has investments in SMNCI representing 70% equity interest.

SMNCI is engaged in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

On November 28, 2018, SMEII acquired 104,500,000 common shares of NCC, which has 30% equity interest in SMNCI, for a total consideration of P5,000 (Note 12). With the acquisition, effective ownership interest of SMEII in SMNCI increased from 70% to 80.5%.

On January 3 and February 6, 2019, SMEII subscribed to a total additional 1,720,000,000 common shares out of unissued capital stock of SMNCI for a total subscription price of P2,580 or P1.50 per share, increasing effective ownership interest in SMNCI from 80.5% to 88.45%.

- SMCACDC

On July 17, 2017, SMCACDC was incorporated with an authorized capital stock of P1,000 divided into 10,000,000 shares with a par value of P100.00 per share. As of December 31, 2017, the investment of the Parent Company in SMCACDC amounted to P325, representing 65% equity interest.

SMCACDC was organized primarily to import, buy, sell, distribute, deal in and conduct a general sales agency in all kinds of automobiles and all other kinds of motor vehicles and means of transportation, including spare parts, accessories, tires, tubes, batteries and other supplies, materials and appliances used in motor vehicles.

On August 7, 2017, the BOD and stockholders of SMCACDC resolved and approved to increase its authorized capital stock from P1,000 divided into 10,000,000 common shares with a par value of P100.00 per share to P6,000 divided into 10,000,000 common shares with a par value of P100.00 per common share and 5,000,000 preferred shares with a par value of P1,000.00 per preferred share. Out of the increase in authorized capital stock, the Parent Company shall subscribe to 3,500,000 preferred shares at the subscription price of P1,000.00 per preferred share or a total subscription amount of P3,500.

SMCACDC commenced operations as the sole importer and distributor of BMW vehicles, spare parts and accessories in the Philippines on December 1, 2017.

- South Western Cement Corporation (SWCC)

On December 23, 2016, SMEII and Eagle Cement Corporation (ECC) entered into a Deed of Absolute Sale of Shares whereby ECC acquired the entire ownership interest of SMEII in SWCC. On the same date, SMEII and ECC executed the Deed of Assignment of Receivables covering the receivables of SMEII from SWCC amounting to P209.

The Group recognized a gain amounting to P56 from the sale of SMEII's 100% ownership interest in SWCC to ECC.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2018		December 31, 2017	
	Petron	**SMFB**	Petron	SMFB
Percentage of non-controlling interests	**31.74%**	**11.24%**	31.74%	14.63%
Carrying amount of non-controlling interests	**P55,600**	**P62,191**	P63,207	P52,612
Net income attributable to non-controlling interests	**P5,902**	**P14,011**	P8,619	P12,549
Other comprehensive income attributable to non-controlling interests	**P256**	**P695**	P1,117	P200
Dividends paid to non-controlling interests	**P5,169**	**P7,636**	P5,153	P6,634

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

	December 31, 2018		December 31, 2017	
	Petron	**SMFB**	Petron	SMFB
Current assets	**P162,022**	**P107,034**	P145,490	P90,429
Noncurrent assets	**196,132**	**131,470**	192,540	114,674
Current liabilities	**(156,018)**	**(83,905)**	(124,495)	(53,426)
Noncurrent liabilities	**(115,950)**	**(24,484)**	(113,916)	(37,056)
Net Assets	**P86,186**	**P130,115**	P99,619	P114,621
Sales	**P557,386**	**P286,378**	P434,624	P251,589
Net income	**P7,069**	**P30,533**	P14,087	P28,226
Other comprehensive income	**494**	**1,412**	2,506	417
Total Comprehensive Income	**P7,563**	**P31,945**	P16,593	P28,643
Cash flows provided by operating activities	**P5,047**	**P36,827**	P15,753	P40,898
Cash flows used in investing activities	**(11,141)**	**(26,013)**	(11,211)	(20,410)
Cash flows provided by (used in) financing activities	**5,949**	**(7,378)**	(4,715)	(15,307)
Effect of exchange rate changes on cash and cash equivalents	**536**	**449**	(145)	27
Net Increase (Decrease) in Cash and Cash Equivalents	**P391**	**P3,885**	(P318)	P5,208

6. Discontinued Operations

On May 30, 2016, the Parent Company entered into agreements with Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe) for the sale of 100% ownership interest in Vega for a total amount of P30,004. Vega Telecoms, Inc. (Vega), through its subsidiaries holds the telecommunications assets of the Parent Company. In addition, advances by the Parent Company to Vega amounting to P22,077 was also assigned to PLDT and Globe. In 2016, the Parent Company received P39,061 or 75% of the proceeds from the sale of shares and assignment of advances. The remaining balance of P13,020 was paid on May 30, 2017.

On May 30, 2016, the Parent Company, PLDT and Globe filed a notice with the Philippine Competition Commission (PCC) to inform them of the execution of the agreement among the parties (the Notice). The Notice was filed pursuant to memorandum circulars issued by the PCC that transactions of which the PCC is notified during the period prior to the adoption of the implementing rules and regulations of the Philippine Competition Act shall be deemed approved. On June 7, 2016, the PCC required the Parent Company, PLDT and Globe to provide additional information regarding the transaction and advised them that the notice which they filed are insufficient and thus have to be re-filed with the PCC. Consequently, the PCC advised the Parent Company, PLDT and Globe that the transaction is not deemed approved by the PCC.

Both PLDT and Globe filed their respective petitions for certiorari and prohibition with the Court of Appeals to enjoin the PCC from proceeding with the evaluation of the transaction and not considering the transaction to be deemed approved.

An application for a Temporary Restraining Order (TRO) against the PCC made by Globe was denied by the 6th Division of the appellate court. The two petitions have since been consolidated.

On August 26, 2016, the Court of Appeals 12th Division issued a writ of preliminary injunction barring the PCC and its agents from conducting the review. After the PCC filed its Comment to the petitions on October 4, 2016, the Court of Appeals, in its Order dated October 19, 2016, directed all parties to submit their respective memoranda within a non-extendible 15-day period from notice. Thereafter, the petitions shall be deemed submitted for resolution.

On April 21, 2017, PCC filed a Petition for Certiorari with prayer for a TRO and/or writ of preliminary injunction against the Court of Appeals 12th Division and PLDT. The petition asks the Supreme Court to: (a) issue a TRO or writ of preliminary injunction to (i) restrain the Court of Appeals from consolidating the case in the Court of Appeals 12th Division with the case filed by Globe, (ii) restrain the Court of Appeals from enforcing the preliminary injunction issued against the PCC which prevents it from proceeding with the pre-acquisition review of the acquisition by PLDT and Globe of the telecommunications business of the Parent Company, and (iii) restrain PLDT from consummating and implementing the acquisition; (b) dissolve the writ of preliminary injunction issued by the Court of Appeals against PCC; and (c) make permanent the writ of preliminary injunction restraining PLDT from further proceeding with the final payment or performing any action of consummation of the acquisition while the case before the Court of Appeals and the pre-acquisition review and investigation by PCC of the acquisition are pending.

The Parent Company is not a party nor is it impleaded in the case filed by the PCC before the Supreme Court, and neither is it a party in the case pending before the Court of Appeals.

On October 23, 2017, the Court of Appeals denied the petition for certiorari and application for the issuance of an injunction filed by the PCC, upholding the acquisition by PLDT and Globe of the telecommunications business of the Parent Company.

As of December 31, 2018, the Supreme Court has not issued a TRO or a writ of preliminary injunction in relation to the case.

As required by PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, the financial performance of Vega and its subsidiaries for the period January 1 to May 30, 2016 were presented as a separate item under "Income after income tax from discontinued operations" account in the consolidated statements of income.

The result of discontinued operations is presented below:

	Note	2016
Net sales		P818
Cost of sales		389
Gross profit		429
Selling and administrative expenses		(1,380)
Interest expense and other financing charges	*30*	(6)
Interest income	*31*	14
Other income - net		136
Loss before income tax		(807)
Income tax expense		175
Loss from discontinued operations		(982)
Gain on sale of investment - net of tax of P772		12,800
Net income from discontinued operations		P11,818
Attributable to:		
Equity holders of the Parent Company	*37*	P11,756
Non-controlling interests		62
		P11,818

Basic and diluted earnings per common share from discontinued operations, attributable to shareholders of the Parent Company, are presented in Note 37.

Cash flows provided by (used in) discontinued operations are presented below:

	2016
Net cash flows used in operating activities	(P419)
Net cash flows provided by investing activities	33,512
Net cash flows used in financing activities	(1,220)
Net cash flows provided by discontinued operations	P31,873

The effect of disposal on the statement of cash flows follows:

	2016
Cash consideration received	P39,061
Transaction cost	(9)
Cash and cash equivalents disposed of	(1,877)
Net cash flows	P37,175

7. 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, energy, fuel and oil, 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) the 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 involved 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.

The telecommunications business was previously presented as one of the reportable segments of the Group. As a result of the completion of the sale of Vega and its subsidiaries on May 30, 2016, the line by line consolidation of the results of operations of Vega and its subsidiaries were excluded in the consolidated statements of income for the year ended December 31, 2016 and presented under "Income after income tax from discontinued operations" account (Note 6).

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

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.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Sales																								
External sales	**P286,205**	P251,487	P227,109	**P24,674**	P23,192	P19,990	**P116,933**	P80,256	P67,980	**P551,285**	P431,720	P337,660	**P24,530**	P22,497	P19,866	**P21,316**	P16,934	P12,709	**P -**	P -	P -	**P1,024,943**	P826,086	P685,314
Inter-segment sales	**173**	102	170	**12,651**	8,907	7,396	**3,170**	2,535	9,992	**6,101**	2,904	6,180	**-**	-	-	**17,252**	20,055	10,552	**(39,347)**	(34,503)	(34,290)	**-**	-	-
Total sales	**286,378**	P251,589	P227,279	**P37,325**	P32,099	P27,386	**P120,103**	P82,791	P77,972	**P557,386**	P434,624	P343,840	**P24,530**	P22,497	P19,866	**P38,568**	P36,989	P23,261	**(P39,347)**	(P34,503)	(P34,290)	**P1,024,943**	P826,086	P685,314
Result																								
Segment result	**P45,950**	P42,401	P37,043	**P3,311**	P2,994	P2,584	**P33,174**	P24,276	P26,730	**P22,434**	P29,463	P24,591	**P11,828**	P10,440	P9,849	**P2,078**	P2,042	(P419)	**(P1,690)**	(P574)	(P724)	**P117,085**	P111,042	P99,654
Interest expense and other financing charges																						**(45,496)**	(35,714)	(34,803)
Interest income																						**7,192**	4,525	3,693
Equity in net earnings (losses) of associates and joint ventures																						**(289)**	297	203
Gain on sale of investments and property and equipment																						**252**	879	154
Other income (charges) - net																						**(5,628)**	154	(11,426)
Income tax expense																						**(24,468)**	(26,369)	(17,053)
Net income from continuing operations																						**48,648**	54,814	40,422
Income after income tax from discontinued operations																						**-**	-	11,818
Net income																						**P48,648**	P54,814	P52,240
Attributable to:																								
Equity holders of the Parent Company																						**P23,077**	P28,225	P29,289
Non-controlling interests																						**25,571**	26,589	22,951
Net income																						**P48,648**	P54,814	P52,240
Other Information																								
Segment assets	**P197,133**	P163,679	P142,559	**P51,119**	P39,934	P35,421	**P410,755**	P332,344	P314,738	**P348,996**	P329,170	P308,913	**P213,096**	P190,186	P175,345	**P308,442**	P260,613	P284,747	**(P97,177)**	(P93,487)	(P108,957)	**P1,432,364**	P1,222,439	P1,152,766
Investments in and advances to associates and joint ventures	**280**	346	465	**-**	4,418	4,221	**12,148**	16,621	16,245	**10**	11	6	**745**	745	-	**37,336**	13,396	11,575	**-**	-	-	**50,519**	35,537	32,512
Goodwill and trademarks and brand names																						**131,560**	60,829	58,791

Forward

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Other assets																						**P42,947**	P42,426	P42,304
Assets held for sale																						**3**	-	184
Deferred tax assets																						**19,249**	18,412	20,267
Consolidated Total Assets																						**P1,676,642**	P1,379,643	P1,306,824
Segment liabilities	**P44,373**	P35,992	P29,131	**P11,207**	P10,107	P6,921	**P23,700**	P25,633	P31,896	**P57,989**	P56,790	P50,219	**P47,349**	P45,377	P43,153	**P72,473**	P74,667	P90,767	**(P86,435)**	(P88,765)	(P111,116)	**P170,656**	P159,801	P140,971
Loans payable																						**184,024**	149,863	189,277
Long-term debt																						**617,615**	399,492	328,600
Finance lease liabilities																						**142,066**	154,897	170,240
Income and other taxes payable																						**19,901**	16,653	16,967
Dividends payable and others																						**7,534**	7,201	6,759
Deferred tax liabilities																						**22,899**	20,674	17,229
Consolidated Total Liabilities																						**P1,164,695**	P908,581	P870,043
Capital expenditures (Note 14)	**P13,999**	P12,614	P7,911	**P6,303**	P1,974	P1,723	**P6,056**	P9,065	P14,840	**P10,416**	P9,699	P5,342	**P601**	P445	P295	**P9,948**	P4,896	P10,538	**P -**	P -	P -	**P47,323**	P38,693	P40,649
Depreciation and amortization of property, plant and equipment (Note 28)	**3,037**	2,758	2,888	**1,816**	1,661	1,694	**9,189**	5,949	6,573	**9,893**	9,961	8,246	**265**	205	208	**2,373**	2,207	1,672	**-**	-	-	**26,573**	22,741	21,281
Noncash items other than depreciation and amortization of property, plant and equipment	**6,662**	4,894	5,520	**(806)**	226	145	**6,011**	547	9,265	**4,279**	381	3,708	**4,706**	5,001	3,376	**2,740**	(409)	6,461	**-**	-	-	**23,592**	10,640	28,475
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**655**	534	109	**37**	19	67	**70**	-	272	**-**	-	333	**-**	-	-	**(257)**	57	12	**-**	-	-	**505**	610	793

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	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Timing of Revenue Recognition																					
Sales recognized at point in time	**P286,094**	P251,394	P227,028	**P23,972**	P22,489	P19,462	**P -**	P -	P -	**P551,285**	P431,720	P337,660	**P -**	P -	P -	**P16,720**	P13,578	P10,341	**P878,071**	P719,181	P594,491
Sales recognized over time	**111**	93	81	**702**	703	528	**116,933**	80,256	67,980	**-**	-	-	**24,530**	22,497	19,866	**4,596**	3,356	2,368	**146,872**	106,905	90,823
Total External Sales	**P286,205**	P251,487	P227,109	**P24,674**	P23,192	P19,990	**P116,933**	P80,256	P67,980	**P551,285**	P431,720	P337,660	**P24,530**	P22,497	P19,866	**P21,316**	P16,934	P12,709	**P1,024,943**	P826,086	P685,314

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2018	2017
Cash in banks and on hand		**P38,716**	P33,021
Short-term investments		**204,434**	173,052
	4, 40, 41	**P243,150**	P206,073

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	2018	2017
Trade		**P76,494**	P67,996
Non-trade		**50,257**	41,317
Amounts owed by related parties	*33, 35*	**16,338**	19,693
		143,089	129,006
Less allowance for impairment losses	*4, 5*	**13,196**	12,966
	4, 40, 41	**P129,893**	P116,040

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables consist primarily of claims from the Government, interest receivable, claims receivable, contracts receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims, subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism and due from PSALM pertaining to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015 (Note 43).

The movements in the allowance for impairment losses are as follows:

	Note	2018	2017
Balance at beginning of year		**P12,966**	P13,656
Adjustment due to adoption of PFRS 9	*3*	**(179)**	-
Balance at beginning of year, as adjusted		**12,787**	13,656
Charges (reversals) for the year	*27, 32*	**353**	(63)
Amounts written off	*4*	**(474)**	(226)
Translation adjustments and others		**530**	(401)
Balance at end of year		**P13,196**	P12,966

10. Inventories

Inventories consist of:

	2018	2017
At net realizable value:		
Finished goods and goods in process (including petroleum products)	**P77,231**	P66,301
Materials and supplies (including coal)	**37,568**	30,506
Containers	**6,260**	1,552
At cost:		
Raw land inventory and real estate projects	**4,080**	4,216
	P125,139	P102,575

The cost of finished goods and goods in process amounted to P78,371 and P66,684 as of December 31, 2018 and 2017, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have decreased by P942 and increased by P61 as of December 31, 2018 and 2017, respectively.

The cost of materials and supplies amounted to P38,596 and P31,780 as of December 31, 2018 and 2017, respectively.

Containers at cost amounted to P6,839 and P1,964 as of December 31, 2018 and 2017, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P128 and P442 as of December 31, 2018 and 2017, respectively, with corresponding costs at point of harvest amounting to P135 and P405, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to (P7), P37 and (P2) in 2018, 2017 and 2016, respectively (Note 16).

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2018 and 2017, based on management's assessment.

The fair value of raw land inventory amounted to P10,218 and P10,221 as of December 31, 2018 and 2017, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2018**	2017
Prepaid taxes and licenses		**P74,414**	P65,309
Restricted cash - current	*40, 41*	**9,038**	2,878
Advances to contractors and suppliers	*33*	**1,700**	5,365
Derivative assets	*40, 41*	**1,174**	271
Prepaid rent		**719**	530
Prepaid insurance		**664**	489
Financial assets at FVPL	*40, 41*	**254**	170
Catalyst		**159**	438
Financial assets at FVOCI - current portion	*4, 13, 40, 41*	**54**	-
Financial assets at amortized cost - current portion	*4, 13, 40, 41*	**40**	-
AFS financial assets - current portion	*4, 13, 40, 41*	**-**	199
Others	*34*	**3,827**	2,579
		P92,043	P78,228

Restricted cash - current represents: (i) cash in banks maintained by Vertex, PIDC, MTDME, SIDC, CCEC and AAIPC in 2018 and 2017 and by LCWDC in 2018 in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts; and (ii) Cash Flow Waterfall accounts of SCPC and SMCPC in 2018, maintained with a local Trust Company as required in their respective Omnibus Loan and Security Agreements (OLSA).

"Others" consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM (Note 34) and contract assets pertaining to the Group's right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

"Advances to contractors and suppliers" include amounts owed by related parties amounting to P15 as of December 31, 2017 (Note 33).

The methods and assumptions used to estimate the fair values of restricted cash, financial assets at FVPL, derivative assets and financial assets at FVOCI are discussed in Note 41.

12. Investments and Advances

Investments and advances consist of:

	Note	2018	2017
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P21,242**	P21,242
Additions		**1,077**	-
Balance at end of year		**22,319**	21,242
Accumulated Equity in Net Earnings			
Balance at beginning of year		**1,013**	678
Adjustment as a result of PFRS 9	3	**(147)**	-
Balance at beginning of year, as adjusted		**866**	678
Equity in net earnings (losses)		**(289)**	297
Share in other comprehensive income		**2**	44
Dividends		**(16)**	(6)
Balance at end of year		**563**	1,013
		22,882	22,255
Advances		**27,637**	13,282
	4	**P50,519**	P35,537

<u>**Investments in Shares of Stock of Associates**</u>

a. NCC

In 2017, SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in NCC comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 5).

NCC is primarily engaged in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling, or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

b. Bank of Commerce (BOC)

SMC through SMPI has 39.93% equity ownership interest in BOC representing 44,817,164 common shares. BOC is engaged in commercial banking services.

On December 17, 2018, SMC through SMC Equivest, in a Deed of Absolute Sale of Shares, acquired 5,258,956 common shares of BOC representing 4.69% ownership interest for a total consideration of P1,077.

c. Mariveles Power Generation Corporation (MPGC)

The Group, through SMC Global, has an existing 49% ownership interest in MPGC. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

<u>**Investments in Shares of Stock of Joint Ventures**</u>

Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global has an existing joint venture with Korea Water Resources Corporation (K-Water), covering the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

PVEI holds 30,541,470 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

In January 2017, PVEI granted shareholder advances amounting to US$32 to Angat Hydro. The advances bear annual interest rate of 4.5% and were due initially on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, Angat Hydro made partial payments of the foregoing advances plus interest totaling US$20 to PVEI. Payment date of the remaining balance of the advances amounting to US$12 was extended to March 29, 2018.

On March 1 and October 16, 2018, PVEI collected partial payouts totaling US$10 from Angat Hydro. Payment date of the remaining balance of the advances amounting to US$2 was extended to March 31, 2019.

Advances

a. SMPI made cash advances to future investees amounting to P870 and P875 as of December 31, 2018 and 2017, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies. In 2017, certain future investees repaid the full amount of its cash advances from the Group amounting to P112.

b. SMC Global and SMEC made deposits to certain landholding companies and power-related expansion projects for future stock subscriptions amounting to P4,963 and P8,965 as of December 31, 2018 and 2017, respectively. During 2018, SMC bought ownership interests in certain landholding companies. As a result, these landholding companies were consolidated and deposits amounting to P4,473 were reclassified by SMC Global to amounts owed by related parties and subsequently eliminated in the consolidated statements of financial position as of December 31, 2018.

c. On June 29, 2016, SMHL entered into an Investment Agreement (the Agreement) with Bryce Canyon Investments Limited for the sale and purchase of assets, as defined in the Agreement, upon the satisfaction of certain conditions set out in the Agreement. As of December 31, 2018 and 2017, outstanding investment advances amounted to P19,784 and P2,479, respectively.

d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2018						December 31, 2017					
	Angat Hydro and KWPP	**NCC**	**BOC**	**MPGC**	**Others**	**Total**	Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Total
Country of incorporation	**Philippines**	**Philippines**	**Philippines**	**Philippines**			Philippines	Philippines	Philippines	Philippines		
Percentage of ownership	**60.00%**	**35.00%**	**44.62%**	**49.00%**			60.00%	35.00%	39.93%	49.00%		
Share in net income (loss)	**(P481)**	**P203**	**P20**	**P -**	**(P31)**	**(P289)**	(P16)	P192	P292	(P5)	(P166)	P297
Share in other comprehensive income (loss)	**-**	**(4)**	**(12)**	**-**	**18**	**2**	-	5	(28)	-	67	44
Share in total comprehensive income (loss)	**(P481)**	**P199**	**P8**	**P -**	**(P13)**	**(P287)**	(P16)	P197	P264	(P5)	(P99)	P341
Dividends received	**P -**	**P -**	**P -**	**P -**	**P16**	**P16**	P -	P -	P -	P -	P6	P6
Carrying amount of investments in shares of stock of associates and joint ventures	**P6,044**	**P4,617**	**P10,397**	**P954**	**P870**	**P22,882**	P6,525	P4,418	P9,460	P954	P898	P22,255

The following are the audited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2018					December 31, 2017				
	Angat Hydro and KWPP	**NCC**	**BOC**	**MPGC**	**Others**	Angat Hydro and KWPP	NCC	BOC	MPGC	Others
Current assets	**P2,886**	**P2,597**	**P76,946**	**P18**	**P4,775**	P2,879	P2,462	P63,559	P122	P3,667
Noncurrent assets	**18,075**	**8,654**	**76,997**	**1,961**	**2,514**	18,799	8,355	76,897	1,847	2,741
Current liabilities	**(1,061)**	**(1,876)**	**(133,577)**	**(32)**	**(4,130)**	(1,699)	(2,228)	(121,513)	(22)	(2,393)
Noncurrent liabilities	**(11,996)**	**(925)**	**(2,386)**	**-**	**(734)**	(11,273)	(889)	(1,141)	-	(1,728)
Net assets	**P7,904**	**P8,450**	**P17,980**	**P1,947**	**P2,425**	P8,706	P7,700	P17,802	P1,947	P2,287
Sales	**P1,575**	**P8,455**	**P5,218**	**P -**	**P4,227**	P2,185	P7,224	P4,270	P -	P4,215
Net income (loss)	**(P751)**	**P761**	**P50**	**P1**	**P209**	(P28)	P749	P731	(P10)	(P663)
Other comprehensive income (loss)	**-**	**(11)**	**(30)**	**-**	**43**	-	7	(70)	-	149
Total comprehensive income (loss)	**(P751)**	**P750**	**P20**	**P1**	**P252**	(P28)	P756	P661	(P10)	(P514)

13. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	Note	**2018**	2017
Equity securities		**P41,407**	P41,464
Government and other debt securities		**432**	531
Proprietary membership shares and others		**381**	273
	4, 40, 41	**42,220**	42,268
Less current portion	*11*	**94**	199
		P42,126	P42,069

Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P36,057 and P36,147 as of December 31, 2018 and 2017, respectively.

Government Securities

a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 3.88% to 7.02% in 2018 and 2.13% to 5.30% in 2017 (Note 31).

b) Ovincor's outstanding corporate bond is maintained at the Bank of N.T. Butterfield and carried at fair value with fixed annual interest rate at 6.75% (Note 31).

The movements in investments in equity and debt instruments are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P42,268**	P42,139
Additions		**54**	131
Disposals		**(203)**	(73)
Amortization of premium		**(2)**	(6)
Fair value gain		**37**	91
Acquisition of Subsidiaries		**55**	-
Currency translation adjustments and others		**11**	(14)
Balance at end of year	*4, 11, 40, 41*	**P42,220**	P42,268

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Note 41.

The investments in equity and debt instruments previously presented and classified as financial assets under PAS 39 are now presented and classified as follows:

	2018
Noncurrent	
Financial assets at FVOCI	**P41,940**
Financial assets at amortized cost	**186**
	42,126
Current	
Financial assets at FVOCI	**54**
Financial assets at amortized cost	**40**
	94
	P42,220

14. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2017		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	*38*	371	-	-	-	-	814	1	-	1,186
Currency translation adjustments		827	1,259	-	1,106	700	2,648	58	143	6,741
December 31, 2017		35,935	50,635	268,318	167,417	17,440	136,160	3,677	69,102	748,684
Additions		1,699	481	67	426	424	5,193	71	38,962	47,323
Disposals/retirement		(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	(2)	(2,728)
Reclassifications		(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	(46,469)	(22,571)
Acquisition of subsidiaries	*38*	906	975	53,226	-	156	2,382	37	23,484	81,166
Currency translation adjustments		302	534	408	370	246	683	(9)	221	2,755
December 31, 2018		**29,580**	**42,916**	**350,924**	**169,973**	**17,968**	**152,469**	**5,501**	**85,298**	**854,629**
Accumulated Depreciation and Amortization										
January 1, 2017		3,741	20,765	36,567	38,251	11,987	78,554	1,055	-	190,920
Depreciation and amortization	*7, 28*	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		3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	*7, 28*	176	1,214	9,995	6,308	1,141	7,465	274	-	26,573
Disposals/retirement		(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	-	(2,390)
Reclassifications		(1,034)	(7,828)	-	-	(246)	(349)	(12)	-	(9,469)
Acquisition of subsidiaries	*38*	-	75	17,973	-	31	732	32	-	18,843
Currency translation adjustments		13	234	126	257	126	358	(2)	-	1,112
December 31, 2018		**2,760**	**16,116**	**71,665**	**51,639**	**12,602**	**91,042**	**1,528**	**-**	**247,352**

Forward

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses										
January 1, 2017		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		266	2,703	-	-	-	9,418	28	-	12,415
Impairment	*32*	-	454	-	-	-	163	-	-	617
Disposals/retirement		-	-	-	-	-	(13)	-	-	(13)
Reclassifications		(266)	(16)	-	-	-	26	-	-	(256)
Currency translation adjustments		-	(2)	-	-	-	145	(1)	-	142
December 31, 2018		**-**	**3,139**	**-**	**-**	**-**	**9,739**	**27**	**-**	**12,905**
Carrying Amount										
December 31, 2017		P32,006	P25,089	P224,739	P122,327	P5,232	P42,711	P2,380	P69,102	P523,586
December 31, 2018		**P26,820**	**P23,661**	**P279,259**	**P118,334**	**P5,366**	**P51,688**	**P3,946**	**P85,298**	**P594,372**

"Equipment, furniture and fixtures" includes machinery, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P27,190, P23,275, and P21,281 in 2018, 2017 and 2016, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P542, P492, and P488 in 2018, 2017 and 2016, respectively.

The Group has interest amounting to P2,003 and P1,425 which was capitalized in 2018 and 2017, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.29% to 7.99% and 2.75% to 6.54% in 2018 and 2017, respectively. The unamortized capitalized borrowing costs amounted to P14,159 and P12,698 as of December 31, 2018 and 2017, respectively.

The combined carrying amounts of power plants, land and equipment under finance lease amounted to P168,404 and P172,739 as of December 31, 2018 and 2017, respectively (Notes 4 and 34).

15. Investment Property

The movements in investment property are as follows:

	Note	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost						
January 1, 2017		P6,747	P1,210	P421	P203	P8,581
Additions		278	16	1	58	353
Reclassifications		(645)	-	-	-	(645)
Acquisition of subsidiary	*38*	707	-	-	-	707
Disposals		(586)	(123)	-	(1)	(710)
Currency translation adjustments		(3)	(3)	-	-	(6)
December 31, 2017		6,498	1,100	422	260	8,280
Additions		6,969	332	-	155	7,456
Reclassifications		11,717	15,369	15	(127)	26,974
Acquisition of subsidiary	*38*	90	-	-	-	90
Disposals		(3)	-	-	-	(3)
Currency translation adjustments		-	36	-	-	36
December 31, 2018		**25,271**	**16,837**	**437**	**288**	**42,833**
Accumulated Depreciation and Amortization						
January 1, 2017		212	645	421	-	1,278
Depreciation and amortization		2	20	1	-	23
Reclassifications		(183)	-	-	-	(183)
Disposals		-	(5)	-	-	(5)
Currency translation adjustments		(2)	(1)	-	-	(3)
December 31, 2017		29	659	422	-	1,110
Depreciation and amortization		60	664	1	-	725
Reclassifications		1,060	8,085	1	-	9,146
Currency translation adjustments		-	15	-	-	15
December 31, 2018		**1,149**	**9,423**	**424**	**-**	**10,996**
Accumulated Impairment Losses						
December 31, 2017 and 2018		**8**	**-**	**-**	**-**	**8**
Carrying Amount						
December 31, 2017		P6,461	P441	P -	P260	P7,162
December 31, 2018		**P24,114**	**P7,414**	**P13**	**P288**	**P31,829**

The Group's investment property includes land, land and leasehold improvements, buildings and related improvements and facilities leased out for its service stations which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 14). The carrying amount and fair value of these assets as of December 31, 2017 amounted to P16,308 and P30,104, respectively.

No impairment loss was recognized in 2018, 2017 and 2016.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2018, 2017 and 2016.

The fair value of investment property amounting to P49,093 and P11,255 as of December 31, 2018 and 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

16. Biological Assets

Biological assets consist of:

	Note	2018	2017
Current:			
Growing stocks		**P3,572**	P2,848
Goods in process		**673**	574
		4,245	3,422
Noncurrent:			
Breeding stocks - net		**2,844**	2,695
	4	**P7,089**	P6,117

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P2,801, P2,161 and P1,947 in 2018, 2017 and 2016, respectively (Note 28).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	2018	2017
Cost			
Balance at beginning of year		**P7,549**	P6,654
Increase (decrease) due to:			
Production		**47,501**	41,012
Purchases		**901**	1,106
Mortality		**(613)**	(677)
Harvest		**(43,947)**	(38,476)
Retirement		**(2,755)**	(2,070)
Balance at end of year		**8,636**	7,549
Accumulated Amortization			
Balance at beginning of year		**1,432**	1,269
Additions	*28*	**2,801**	2,161
Retirement		**(2,686)**	(1,998)
Balance at end of year		**1,547**	1,432
Carrying Amount		**P7,089**	P6,117

The Group harvested approximately 582.5 million and 523.6 million kilograms of grown broilers in 2018 and 2017, respectively, and 0.40 million and 0.59 million heads of marketable hogs and cattle in 2018 and 2017, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P42,116 and P42,971 in 2018 and 2017, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2018	2017
Goodwill	**P130,852**	P60,124
Other intangible assets	**146,608**	134,438
	P277,460	P194,562

The movements in goodwill are as follows:

	Note	2018	2017
Balance at beginning of year		**P60,124**	P58,113
Additions	*4, 5, 38*	**70,384**	1,162
Cumulative translation adjustments and others		**344**	849
Balance at end of year	*4*	**P130,852**	P60,124

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2017	P1,829	P909	P2,738
Additions	-	27	27
Currency translation adjustments	183	-	183
December 31, 2017	2,012	936	2,948
Currency translation adjustments	123	26	149
December 31, 2018	**2,135**	**962**	**3,097**
Accumulated Impairment Losses			
January 1 and December 31, 2017	-	231	231
Currency translation adjustments	-	23	23
December 31, 2018	**-**	**254**	**254**
Carrying Amount			
December 31, 2017	P2,012	P705	P2,717
December 31, 2018	**P2,135**	**P708**	**P2,843**

The movements in other intangible assets with finite useful lives are as follows:

		Concession Rights								
	Note	Toll Road	Airport	Power	Port	Water	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
Cost										
January 1, 2017		P123,418	P5,574	P770	P12,061	P824	P1,828	P1,734	P2,807	P149,016
Additions		8,528	663	122	1,700	2,114	-	-	519	13,646
Disposals and reclassifications		(47)	(1)	2	-	-	650	-	300	904
Currency translation adjustments		-	-	-	-	-	55	-	58	113
December 31, 2017		131,899	6,236	894	13,761	2,938	2,533	1,734	3,684	163,679
Additions		10,145	504	140	98	3,581	51	-	650	15,169
Acquisition of subsidiaries	*38*	-	-	-	-	-	-	-	89	89
Disposals and reclassifications		2,005	296	-	(21)	-	-	-	(5)	2,275
Currency translation adjustments		-	-	-	-	-	64	-	21	85
December 31, 2018		**144,049**	**7,036**	**1,034**	**13,838**	**6,519**	**2,648**	**1,734**	**4,439**	**181,297**
Accumulated Amortization										
January 1, 2017		22,459	85	81	971	-	622	-	2,140	26,358
Amortization	*28*	3,939	287	30	745	-	62	-	301	5,364
Disposals and reclassifications		(2)	-	1	-	-	183	-	(26)	156
Currency translation adjustments		-	-	-	-	-	24	-	56	80
December 31, 2017		26,396	372	112	1,716	-	891	-	2,471	31,958
Amortization	*28*	3,976	325	41	742	-	65	-	331	5,480
Acquisition of subsidiaries	*38*	-	-	-	-	-	-	-	9	9
Disposals and reclassifications		-	-	-	2	-	-	-	43	45
Currency translation adjustments		-	-	-	-	-	21	-	19	40
December 31, 2018		**30,372**	**697**	**153**	**2,460**	**-**	**977**	**-**	**2,873**	**37,532**
Carrying Amount										
December 31, 2017		P105,503	P5,864	P782	P12,045	P2,938	P1,642	P1,734	P1,213	P131,721
December 31, 2018		**P113,677**	**P6,339**	**P881**	**P11,378**	**P6,519**	**P1,671**	**P1,734**	**P1,566**	**P143,765**

Goodwill, licenses and trademarks and brand names with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2018		2017	
	Goodwill	**Licenses, Trademarks and Brand Names**	Goodwill	Licenses, Trademarks and Brand Names
Energy	**P69,944**	**P -**	P -	P -
Fuel and oil	**30,882**	**-**	30,627	-
Infrastructure	**21,950**	**-**	21,950	-
Packaging	**4,376**	**-**	3,757	-
Food and Beverage	**3,639**	**2,843**	3,729	2,717
Others	**61**	**-**	61	-
Total	**P130,852**	**P2,843**	P60,124	P2,717

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 0.3% to 5% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 13% in 2018 and 2017. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for goodwill in 2018 and 2017. Impairment loss recognized in 2016 amounted to P298 (Note 32).

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 15.1% and 6.4% to 18.8% in 2018 and 2017, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for licenses, trademarks and brand names in 2018, 2017 and 2016.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

- *Raw Material Price Inflation*. Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2018	2017
Noncurrent receivables and deposits - net	4, 34, 40, 41	**P21,158**	P14,543
Deferred containers - net	4	**11,414**	7,949
Advances to contractors and suppliers		**8,820**	3,696
Restricted cash	40, 41	**4,967**	5,756
Noncurrent prepaid input tax		**3,894**	4,825
Noncurrent prepaid rent		**3,122**	2,607
Retirement assets	35	**2,838**	3,316
Deposits on land for future development		**2,134**	2,089
Idle assets	4	**1,157**	1,248
Deferred exploration and development costs	4	**705**	699
Catalyst		**437**	503
Derivative assets - noncurrent	3, 40, 41	**371**	62
Others		**2,756**	1,989
		P63,773	P49,282

The movements in the deferred containers are as follows:

	Note	2018	2017
Gross Carrying Amount			
Balance at beginning of year		**P23,669**	P21,077
Additions		**5,442**	3,322
Disposals/reclassifications		**(74)**	(763)
Currency translation adjustments		**1**	33
Balance at end of year		**29,038**	23,669
Accumulated Amortization and Impairment			
Balance at beginning of year		**15,720**	13,936
Amortization	28	**2,077**	1,992
Disposals/reclassifications		**(179)**	(230)
Currency translation adjustments		**6**	22
Balance at end of year		**17,624**	15,720
		P11,414	P7,949

Noncurrent receivables and deposits include amounts owed by related parties amounting to P2,858 and P2,138 as of December 31, 2018 and 2017, respectively (Note 33) and the costs related to the development of the MRT 7 Project amounting to P14,723 and P9,374 as of December 31, 2018 and 2017, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P493 and P1,021 as of December 31, 2018 and 2017, respectively.

Restricted cash represents:

i. SCPC's Cash Flow Waterfall accounts (Trust Fund) with a local Trust Company, as required in its OLSA, amounting to P1,448 and P4,805 as of December 31, 2018 and 2017, respectively.

ii. The amount received from the Philippine Electricity Market Corporation (PEMC), totaling P491 as of December 31, 2018 and 2017, representing the proceeds of sale to WESM of the electricity generated from the excess capacity of the Sual Power Plant for a specific period in 2016, which SMEC consigned with the Regional Trial Court of Pasig City (RTC Pasig);

iii. APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for membership fees and bill deposits which are refundable amounting to P255 and P282 as of December 31, 2018 and 2017, respectively.

iv. MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its Omnibus Expansion Financing Agreement (OEFA) and Omnibus Refinancing Agreement (ORA), totaling to P2,249 as of December 31, 2018;

v. Cash in bank maintained by CCEC and TADHC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P5,745 and P177 as of December 31, 2018 and 2017, respectively.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	Note	**2018**	2017
Parent Company			
Peso-denominated		**P24,800**	P20,950
Foreign currency-denominated		**9,464**	5,992
Subsidiaries			
Peso-denominated		**122,650**	120,283
Foreign currency-denominated		**27,110**	2,638
	38, 40, 41	**P184,024**	P149,863

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans ranged from 2.50% to 7.75% and 2.25% to 5.75% in 2018 and 2017, respectively. Interest rates for foreign currency-denominated loans ranged from 2.85% to 9.90% and 2.30% to 9.20% in 2018 and 2017, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P8,568 and P12,486 as of December 31, 2018 and 2017, respectively (Note 33).

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2018**	2017
Trade	*34*	**P70,070**	P75,191
Non-trade		**55,249**	42,088
Customers' deposit	*3*	**7,086**	1,974
Accrued payroll		**4,970**	4,613
Accrued interest payable		**4,042**	2,772
Amounts owed to related parties	*33*	**2,777**	3,320
Derivative liabilities	*40, 41*	**1,929**	3,487
Deferred liability on consumer loyalty program		**1,183**	1,024
Retention payable		**1,117**	1,953
Deferred rent income		**839**	61
Current portion of IRO	*4*	**212**	190
Retirement liabilities	*35*	**128**	182
Others		**162**	138
	40, 41	**P149,764**	P136,993

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 41.

21. Long-term Debt

Long-term debt consists of:

	2018	2017
Parent Company		
Peso-denominated Bonds:		
Fixed interest rate of 4.8243% and 5.1923%, 6.25%, 5.2840%, 6.625%, 5.7613%, and 7.125%, maturing in 2022, 2023, 2024, 2025, 2027 and 2028, respectively (a)	**P49,525**	P29,693
Peso-denominated Term Notes:		
Fixed interest rate of 5.25% maturing in 2020 (b)	**9,916**	-
Foreign currency-denominated Term Notes:		
Fixed interest rate of 4.875% maturing in 2023 (c)	**26,989**	25,588
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2023 (d)	**20,632**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (e)	**15,603**	14,760
Floating interest rate based on LIBOR plus margin, maturing in 2023 (f)	**15,520**	-
Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)	**15,502**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 (h)	**10,336**	-
Floating interest rate based on LIBOR plus margin, maturing in 2019 (i)	**5,258**	4,969
Floating interest rate based on LIBOR plus margin, maturing in 2019 (j)	**5,252**	28,851
	174,533	103,861
Subsidiaries		
Peso-denominated Bonds:		
Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (k)	**39,638**	19,835
Fixed interest rate of 5.375%, 6.75%, 6.25% and 6.625% maturing in 2022, 2023, 2024 and 2027, respectively (l)	**34,636**	19,785
Fixed interest rate of 5.93% and 6.60% maturing in 2019 and 2022, respectively (m)	**16,967**	16,942
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (n)	**14,939**	14,919
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (o)	**14,889**	14,865
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (p)	**7,242**	7,232
Fixed interest rate of 10.50% maturing in 2019 (q)	**2,809**	2,804
Peso-denominated Term Notes:		
Fixed interest rate of 6.2836% to 7.3889% with maturities up to 2029 (r)	**42,247**	41,222
Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (s)	**29,642**	11,761
Fixed interest rate of 7.75210% maturing up to 2030 (t)	**20,060**	-
Fixed interest rate of 6.9265% maturing up to 2024 (u)	**14,726**	14,857
Fixed interest rate of 5.5276% maturing up to 2024 (v)	**12,259**	14,380
Fixed interest rate of 6.52% and 6.7394% maturing up to 2019 and 2025, respectively (w)	**11,245**	16,332
Fixed interest rate of 6.50% with maturities up to 2021 (x)	**10,368**	12,612
Fixed interest rate of 5.7584% with maturities up to 2022 (y)	**9,965**	9,950
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (z)	**6,465**	7,017
Fixed interest rate of 8.4211% to 9.885% maturing up to 2030 (aa)	**4,159**	-
Fixed interest rate of 5.4583% with maturities up to 2022 (bb)	**3,991**	4,986
Fixed interest rate of 6.3212% due in 2018 and 7.1827% due until 2021 (cc)	**2,696**	3,369
Fixed interest rate of 8.66150% with maturities up to 2020 (dd)	**2,307**	3,554
Fixed interest rate of 6.6583% with maturities up to 2023 (ee)	**2,264**	2,667
Fixed interest rate of 5.00% with maturities up to 2021 (ff)	**1,496**	1,495
Fixed interest rate of 8.348% with maturities up to 2023 (gg)	**993**	-
Fixed interest rate of 5.65% with maturities up to 2019 (hh)	**450**	1,050
Floating interest rate based on Bloomberg Valuation (BVAL) plus margin, or Bangko Sentral ng Pilipinas (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2023 (ii)	**3,259**	-
Floating interest rate based on BVAL plus margin, with maturities up to 2022 (jj)	**2,721**	2,966
Floating interest rate based on BVAL plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (kk)	**625**	1,499

Forward

	Note	2018	2017
Floating interest rate based on BVAL plus margin, or 5.75%, whichever is higher with maturities up to 2021 (ll)		**P166**	P233
Floating interest rate based on BVAL plus margin or BSP overnight rate, whichever is higher (mm)		**-**	114
Foreign currency-denominated Term Notes:			
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (nn)		**49,451**	49,185
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 (oo)		**43,800**	-
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (pp/qq)		**27,504**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (pp/qq)		**9,103**	-
		443,082	295,631
	40, 41	**617,615**	399,492
Less current maturities		**55,697**	36,944
		P561,918	P362,548

a. The amount represents the first, second and third tranche of the P60,000 shelf registered fixed rate bonds issued by the Parent Company amounting to P20,000, P10,000 and P20,000, respectively.

The first tranche of the fixed rate bonds amounting to P20,000, consist of five-year Series A Bonds, due 2022 with an interest rate of 4.8243% per annum, seven-year Series B Bonds, due 2024 with an interest rate of 5.2840% per annum, and 10-year Series C Bonds, due 2027 with an interest rate of 5.7613% per annum. Interests are payable on March 1, June 1, September 1, and December 1 of each year.

The second tranche of the fixed rate bonds amounting to P10,000 comprise of five-year Series D Bonds, due 2022 with an interest rate of 5.1923% per annum. Interests are payable on January 7, April 7, July 7 and October 7 of each year.

The third tranche of the fixed rate bonds amounting to P20,000, consist of five-year Series E Bonds, due 2023 with an interest rate of 6.2500% per annum, seven-year Series F Bonds, due 2025 with an interest rate of 6.6250% per annum, and 10-year Series G Bonds, due 2028 with an interest rate of 7.1250% per annum. Interests are payable on March 19, June 19, September 19, and December 19 of each year.

Proceeds from the first, second and third tranches were used to partially refinance various loans.

The Bonds were listed in the Philippine Dealing & Exchange Corp. (PDEx).

Unamortized debt issue costs amounted to P475 and P307 as of December 31, 2018 and 2017, respectively.

b. The amount represents P10,000 Fixed-Rate Notes (the "Fixed-Rate Notes") due 2020 issued by the Parent Company on May 25, 2018. The Fixed-Rate Notes were listed on the same date with the PDEx, with an interest rate of 5.25% per annum payable on February 25, May 25, August 25 and November 25 of each year.

Proceeds from the Fixed-Rate Notes were used to partially refinance various loans and partially invest in existing businesses of the subsidiaries of the Parent Company.

Unamortized debt issue costs amounted to P84 as of December 31, 2018.

c. The amount represents the drawdown of US$800 Notes (the Notes) issued on April 19, 2013, from the US$2,000 Medium Term Note (MTN) Programme of the Parent Company. The Notes were listed on the same date in the SGX-ST, with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing, working capital and general corporate purposes.

In 2015, the Parent Company purchased US$284 out of US$400 Notes offered for purchase in a tender offer.

Unamortized debt issue costs amounted to P162 and P195 as of December 31, 2018 and 2017, respectively.

d. The amount represents the drawdown by the Parent Company on March 16, 2018 from its term loan facility amounting to US$400. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund the subscription of Redeemable Perpetual Securities to partially finance the acquisition of Masinloc Group of Companies.

Unamortized debt issue costs amounted to P400 as of December 31, 2018.

e. The amount represents the drawdown by the Parent Company on October 24, 2017 from its medium-term facilities amounting to US$300 entered into with various banks. The loans have various maturities and is subject to floating interest rate. The proceeds were used to partially repay existing loans.

Unamortized debt issue costs amounted to P171 and P219 as of December 31, 2018 and 2017.

f. The amount represents the drawdown by the Parent Company on June 26, 2018 from its term loan facility amounting to US$300. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund general corporate requirements and/or additional investments to its subsidiaries.

   Unamortized debt issue costs amounted to P254 as of December 31, 2018.

g. The amount represents the drawdown by the Parent Company of US$120 and US$180 on September 25, 2018 and October 25, 2018, respectively, from its term loan facility amounting to US$300. The term of the loans is for five years and is subject to a floating interest rate. The proceeds were used to refinance existing US dollar-denominated obligations and/or for general corporate requirements.

   Unamortized debt issue costs amounted to P272 as of December 31, 2018.

h. The amount represents the drawdown by the Parent Company on November 21, 2018 from its term loan facility amounting to US$200. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to repay existing US dollar-denominated obligations.

   Unamortized debt issue costs amounted to P180 as of December 31, 2018.

i. The amount represents the drawdown by the Parent Company on November 21, 2017 from its medium-term loan from the revolving facility agreement dated November 6, 2016, as amended amounting to US$100. The maturity of the loan is on May 6, 2019 and is subject to floating interest rate. The proceeds were used to partially repay existing indebtedness.

   Unamortized debt issue costs amounted to P24 as of December 31, 2017.

j. The amount represents the drawdown on various dates, of US$580 medium-term loans from facility agreements entered into by the Parent Company on various dates in 2016 to partially refinance existing loans.

   In 2018, the Parent Company paid US$480 of the loan.

   Unamortized debt issue costs amounted to P6 and P108 as of December 31, 2018 and 2017, respectively.

k. The amount represents the first and second tranche of the P40,000 shelf registered fixed retail bonds issued by Petron amounting to P20,000 and P20,000, on October 27, 2016 and October 19, 2018, respectively.

   The first tranche of the fixed rate bonds amounting to P20,000, consist of five-year Series A Bonds, due 2021 with an interest rate of 4.0032% per annum and Series B Bonds, due 2023 with an interest rate of 4.5219% per annum. Interests are payable on January 27, April 27, July 27 and October 27 of each year.

   The second tranche of the fixed rate bonds amounting to P20,000, consist of 5.5 year term Series C Bonds, due 2024 with an interest rate of 7.8183% per annum and seven-year Series D Bonds, due 2025 with an interest rate of 8.0551% per annum. Interests are payable on January 19, April 19, July 19 and October 19 of each year.

   The proceeds from the first tranche were used to partially settle the US$475 and US$550 Term Loan, to repay short-term loans and for general corporate requirements.

   The proceeds from the second tranche were used for the payment of short-term loans, redeemed a portion of Petron's USCS (Note 5) and for general corporate purposes.

   The Bonds were listed in the PDEx.

   Unamortized debt issue costs amounted to P362 and P165 as of December 31, 2018 and 2017, respectively.

l. The amount represents the first and second tranche of the P35,000 shelf registered fixed rate bonds issued by SMC Global amounting to P20,000 on December 22, 2017 and P15,000 on August 17, 2018, respectively.

   The first tranche of the fixed rate bonds amounting to P20,000, consists of five-year Series D Bonds, due 2022 with an interest rate of 5.3750% per annum, seven-year Series E Bonds, due 2024 with an interest rate of 6.2500% per annum, and 10-year Series F Bonds, due 2027 with an interest rate of 6.6250% per annum. Interests are payable on March 22, June 22, September 22 and December 22 of each year.

   The second tranche of the fixed rate bonds amounting to P15,000, comprise of five-year Series G Bonds due 2023 with an interest rate of 6.7500% per annum. Interests are payable on February 17, May 17, August 17 and November 17 of each year.

   Proceeds from the first tranche were used to refinance SMC Global's P20,000 short-term loans.

   Proceeds from the second tranche were used to refinance the outstanding shareholder advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

   The Bonds were listed in the PDEx.

Unamortized debt issue costs amounted to P364 and P215 as of December 31, 2018 and 2017, respectively.

m. The amount represents P17,000 fixed rate bonds issued by SMB on April 2, 2012, divided into seven-year Series E Bonds, due 2019 with an interest rate of 5.93% per annum and ten-year Series F Bonds, due 2022 with an interest rate of 6.60% per annum. The Series E and F Bonds were part of the P20,000 fixed rate bonds of SMB. Interests are payable on April 2 and October 2 of each year.

   The proceeds from the issuance were used to refinance SMB's existing financial indebtedness and for general working capital purposes.

   The Bonds were listed in the PDEx.

   Unamortized debt issue costs amounted to P33 and P58 as of December 31, 2018 and 2017, respectively.

n. The amount represents P15,000 fixed rate bonds issued by SMB on April 2, 2014, divided into Series G Bonds, due 2021 with an interest rate of 5.50% per annum and Series H Bonds, due 2024 with an interest rate of 6.00% per annum. Interests are payable on April 2 and October 2 of each year.

   Proceeds from the Series G and Series H issuance were used to partially refinance the redemption of SMB's Series B Bonds.

   The Bonds were listed on the PDEx.

   Unamortized debt issue costs amounted to P61 and P81 as of December 31, 2018 and 2017, respectively.

o. The amount represents P15,000 fixed rate bonds issued by SMC Global on July 11, 2016, divided into Series A Bonds, due 2021 with an interest rate of 4.3458% per annum, Series B Bonds, due 2023 with an interest rate of 4.7575% per annum and Series C Bonds, due 2026 with an interest rate of 5.1792% per annum. Interests are payable on January 11, April 11, July 11 and October 11 of each year.

   Proceeds from the issuance were used to refinance the US$300 short-term loan that matured on July 25, 2016, which were used for the redemption of the US$300 bond in January 2016.

   The Bonds were listed on the PDEx.

   Unamortized debt issue costs amounted to P111 and P135 as of December 31, 2018 and 2017, respectively.

p. The amount represents P7,300 fixed rate bonds issued by SLTC on May 22, 2015, divided into Series A Bond, due 2020 with an interest rate of 4.9925% per annum, Series B Bonds, due 2022 with an interest rate of 5.5796% per annum and Series C Bonds, due 2025 with an interest rate of 6.4872% per annum. Interests are payable on February 22, May 22, August 22 and November 22 of each year.

   The proceeds from the issuance were used to prepay SLTC's peso-denominated Corporate Notes drawn in 2012.

   The Bonds were listed on the PDEx.

   Unamortized debt issue costs amounted to P58 and P68 as of December 31, 2018 and 2017, respectively.

q. The amount represents P2,810 Series C fixed rate bonds issued by SMB on April 3, 2009 with an interest rate of 10.50% per annum. The Series C Bonds was part of the P38,800 fixed rate bonds of SMB. Interests are payable on April 3 and November 3 of each year.

   The proceeds from the issuance were used to finance SMB's acquisition of the interest of the Parent Company in IBI and BPI.

   The Bonds were listed on the PDEx.

   Unamortized debt issue costs amounted to P1 and P6 as of December 31, 2018 and 2017, respectively.

r. The amount represents the drawdown by SCPC on June 28, 2017 of the Tranche A and Tranche B amounting to P42,000 and the remaining balance of Tranche B amounting to P2,000 on January 31, 2018, from its P44,000 OLSA dated June 22, 2017 with various banks.

   Proceeds from the loan were used for the settlement of the US$360 short-term loan, acquisition of the 2x150 MW Limay Coal-fired Power Plant in Limay, Bataan from LPPC, also a wholly-owned subsidiary of SMC Global, repayment of shareholder advances and financing of transaction costs relating to the OLSA. The loan is payable in 46 unequal quarterly installments commencing on the 9th month from initial advance for Tranche A, 36 unequal quarterly installments commencing on the 39th month from initial advance for Tranche B. Final repayment date is 12 years from initial advance.

   The loan is subject to repricing on the seventh year from the date of initial advance.

   In 2018, SCPC partially paid a total of P1,050 of the Tranche A of the P44,000 loan, pursuant to the terms and conditions of the OLSA.

   Unamortized debt issue costs amounted to P703 and P778 as of December 31, 2018 and 2017, respectively.

s. The amount represents the P30,000 and P11,900 loan drawn by CCEC as of December 31, 2018 and 2017, respectively, from its P31,000 OLSA dated December 15, 2014 with various banks.

Proceeds of the loan were used to partially finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project. The loan is payable in 35 unequal consecutive quarterly installments commencing on the period ending the earlier of 55 months from initial drawdown date or 3 months after the date of the issuance by the Toll Regulatory Board (TRB) of the Toll Operations Certificate. Final repayment date is 12 years after initial drawdown date.

The loan is subject to repricing on the seventh year from date of initial drawdown.

The drawdown includes payable to BOC amounting to P3,581 and P1,420 as of December 31, 2018 and 2017, respectively (Note 33).

Unamortized debt issue costs amounted to P358 and P139 as of December 31, 2018 and 2017, respectively.

t. The amount represents the P20,322 drawn by SMCPC on August 17, 2018 from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

The proceeds were used by SMCPC for the repayment of short-term loan used to fund the design, construction and operation of the Malita, Davao Power Plant and payment of transaction-related fees and expenses.

The drawdown includes payable to BOC amounting to P3,053 as of December 31, 2018 (Note 33).

Unamortized debt issue costs amounted to P262 as of December 31, 2018.

u. The amount represents the drawdown by SMC Global on April 26, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9265% per annum, payable quarterly. The proceeds were used for the payment of the remaining US$300 out of the US$700 five-year term loan drawn in 2013.

In 2018, SMC Global paid P150 pursuant to the loan agreement.

Unamortized debt issue costs amounted to P124 and P143 as of December 31, 2018 and 2017, respectively.

v. The amount represents the drawdown by Petron on July 25, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 5.5276% per annum payable quarterly. The proceeds were used to refinance the short-term loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-fired Power Plant.

Petron paid P2,679 and P535 as of December 31, 2018 and 2017, respectively.

Unamortized debt issue costs amounted to P62 and P85 as of December 31, 2018 and 2017, respectively.

w. The amount represents the balance amounting to P11,404 and P16,551 as of December 31, 2018 and 2017, respectively, of the P14,500 and P16,700 Corporate Notes Facility Agreement entered into by AAIPC in 2013 and 2016, respectively.

Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC and S3HC.

The drawdown includes payable to BOC amounting to P441 and P1,100 as of December 31, 2018 and 2017, respectively (Note 33).

Unamortized debt issue costs amounted to P159 and P219 as of December 31, 2018 and 2017, respectively.

x. The amount represents series of drawdowns by PIDC from the P15,140 OLSA dated June 2, 2011, as amended, to finance the design, construction, operation, maintenance and implementation of the widening of Phase 1 and Phase 2 of TPLEX. The loan is payable in 24 unequal quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

The loan is subject to repricing on the fifth year from the date of initial drawdown.

PIDC paid P4,731 and P2,460 as of December 31, 2018 and 2017, respectively, as partial settlement of the loan principal.

Unamortized debt issue costs amounted to P41 and P68 as of December 31, 2018 and 2017, respectively.

y. The amount represents the drawdown by Petron on December 29, 2017 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance permanent working capital requirements.

Unamortized debt issue costs amounted to P35 and P50 as of December 31, 2018 and 2017, respectively.

z. The amount represents the remaining balance of the P1,100 and P6,400 loans drawn by Vertex in 2016 and 2015, respectively, from its P7,500 OLSA dated July 8, 2014. Proceeds of the loan were used to finance the ongoing construction of the NAIA Expressway. The loan is payable in 32 unequal consecutive quarterly installments commencing on the period ending the earlier of 24 months from initial drawdown date or the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 10 years after initial drawdown date.

    The drawdown includes payable to BOC amounting to P1,738 and P1,889 as of December 31, 2018 and 2017, respectively (Note 33).

    Payments made amounted to P982 and P418 as of December 31, 2018 and 2017, respectively.

    Unamortized debt issue costs amounted to P53 and P65 as of December 31, 2018 and 2017, respectively.

aa. The amount represents the drawdown of the First Tranche by LCWDC in 2018 amounting to P4,200 from its P5,400 OLSA dated September 16, 2016 with various local banks.

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

    The loan is subject to repricing on the seventh year from the initial drawdown date.

    Unamortized debt issue costs amounted to P41 as of December 31, 2018.

bb. The amount represents the drawdown by Petron on October 13, 2015 amounting to P5,000 from its term loan facility. The loan is amortized over seven years with a two-year grace period and is subject to a fixed interest rate of 5.4583% per annum payable quarterly. The proceeds were used to repay maturing obligations and for general corporate requirements.

    Payments made in 2018 amounted to P1,000.

    Unamortized debt issue costs amounted to P9 and P14 as of December 31, 2018 and 2017 respectively.

cc. The amount represents Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 consisting of Series A Notes amounting to P690 having a maturity of up to seven years from the issue date and Series B Notes amounting to P2,910 having a maturity of up to 10 years from the issue date. The FXCNs are subject to fixed interest coupons of 6.3212% per annum for the Series A Notes and 7.1827% per annum for the Series B Notes. The net proceeds from the issuance were used for general corporate requirements. Payments made amounted to P894 and P215 as of December 31, 2018 and 2017, respectively.

    Unamortized debt issue costs amounted to P10 and P16 as of December 31, 2018 and 2017, respectively.

dd. The amount represents the remaining balance of the P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022. Payments made amounted to P9,177 and P7,904 as of December 31, 2018 and 2017, respectively.

    The drawdown includes payable to BOC amounting to P353 and P547 as of December 31, 2018 and 2017, respectively (Note 33).

    Unamortized debt issue costs amounted to P16 and P42 as of December 31, 2018 and 2017, respectively.

ee. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of: (i) the 27th month from initial drawdown date or (ii) the third month from the date of receipt by SIDC of the financial completion certificate for the Project.

    Payments made amounted to P1,223 and P815 as of December 31, 2018 and 2017, respectively.

    Unamortized debt issue costs amounted to P13 and P18 as of December 31, 2018 and 2017, respectively.

ff. The amount represents drawdown by SMCSLC in 2011 amounting to P1,500, from a local bank, which was used for working capital requirements. The said loan was rolled-over for five years in July 2016.

    Unamortized debt issue costs amounted to P4 and P5 as of December 31, 2018 and 2017, respectively.

gg. The amount represents drawdown by GSMI on September 24, 2018 from its five-year credit facility with a local bank dated August 13, 2018 amounting to P1,000. The loan is carried at amortized cost and payable in equal quarterly installments commencing in September 2019. The proceeds were used to refinance existing short-term obligations.

    Unamortized debt issue costs amounted to P7 as of December 31, 2018.

hh. The amount represents the balance of the P3,000 loan facility of MNHPI with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI. Payments made amounted to P2,550 and P1,950 as of December 31, 2018 and 2017, respectively.

The drawdown includes payable to BOC amounting to P173 and P403 as of December 31, 2018 and 2017, respectively (Note 33).

ii. The amount represents drawdown by SMYAC from its P4,000 term loan facility amounting to P3,300. The term of the loan is for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements.

Payments made amounted to P18 in 2018.

Unamortized debt issue costs amounted to P23 as of December 31, 2018.

jj. The amount represents series of drawdowns in 2014 and 2013, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter. TADHC paid P573 and P326 as of December 31, 2018 and 2017, respectively as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P6 and P8 as of December 31, 2018 and 2017, respectively.

kk. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 and maturing on October 11, 2019. The proceeds of the loan were used for general financing and corporate requirements. SMYPC paid P2,875 and P2,000 as of December 31, 2018 and 2017, respectively, as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P1 as of December 31, 2017.

ll. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes. CAI paid P184 and P117 as of December 31, 2018 and 2017, respectively, as partial settlement of the loan principal (Note 33).

mm. The amount represents EPSBPI's unsecured loan used to finance the construction of its bottling facilities. The loan is payable in equal quarterly installments starting February 18, 2012, bearing an interest rate equivalent to the higher of benchmark rate (three-month BVAL rate) plus a spread or the overnight rate (BSP overnight reverse repo rate on interest rate settling date).

The remaining balance of P114 was paid in 2018.

nn. The amount represents the drawdown of US$600 and US$400 by Petron on June 28, 2017 and October 10, 2017, respectively, from its US$1,000 term loan facility, which was signed and executed on June 16, 2017. The loan is subject to a floating interest rate plus spread and is amortized over five years with a two-year grace period. The proceeds were used to fully pay the outstanding loan balances.

Petron paid US$50 of the US$1,000 in 2018.

Unamortized debt issue costs amounted to P500 and P745 as of December 31, 2018 and 2017, respectively.

oo. The amount represents the drawdown by SMC Global on March 15, 2018 and March 16, 2018 from its US$500 term facility and US$700 term loan facility, respectively.

The US$700 term loan facility is divided into Facility A Loan amounting to US$200 maturing on March 12, 2021 and Facility B Loan amounting to US$500 maturing on March 13, 2023.

The proceeds were used to partially finance the acquisition of the Masinloc Group.

In 2018, SMC Global partially paid US$350 of the US$500 term facility.

Unamortized debt issue costs amounted to P893 as of December 31, 2018.

pp. The amount represents the total outstanding loan drawn in various tranches by MPPCL from its ORA dated December 28, 2012, with various local banks, which refinanced its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on January 2, 2023 amounting to US$224 and US$75, respectively.

Unamortized debt issue costs amounted to P27 and P9 as of December 31, 2018 for the fixed interest tranche and floating interest tranche, respectively.

qq. The amount represents total outstanding loan drawn in various tranches by MPPCL from its OEFA dated December 1, 2015, with various local banks, to finance the construction of the additional 335 MW coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche based on a 6-month LIBOR plus margin maturing on December 16, 2030 amounting to US$306 and US$101, respectively.

Unamortized debt issue costs amounted to P376 and P123 as of December 31, 2018 for the fixed interest tranche and floating interest tranche, respectively.

The gross amount of long-term debt payable to BOC amounted to P12,857 and P10,066 as of December 31, 2018 and 2017, respectively (Note 33).

The debt agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock.

The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as of December 31, 2018 and 2017.

The movements in debt issue costs are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P3,977**	P3,925
Additions		**3,705**	2,807
Amortization	*30*	**(1,386)**	(2,778)
Reclassification, capitalized and others		**552**	23
Balance at end of year		**P6,848**	P3,977

Repayment Schedule

The annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2019	P56,182	P485	P55,697
2020	51,672	737	50,935
2021	82,279	917	81,362
2022	68,251	1,842	66,409
2023 and thereafter	366,079	2,867	363,212
Total	**P624,463**	**P6,848**	**P617,615**

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 40.

22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	**2018**	2017
Amounts owed to related parties	*33*	**P7,873**	P6,975
Retirement liabilities	*35*	**5,342**	8,783
ARO	*4*	**3,879**	2,838
Obligation to ROP - service concession agreement	*4, 34*	**2,449**	2,444
IRO	*4*	**888**	806
Cylinder deposits		**573**	577
Derivative liabilities - noncurrent	*4, 40, 41*	**566**	-
Cash bonds		**434**	400
Concession liabilities		**98**	100
Redeemable preferred shares	*4*	**18**	17
Others		**2,264**	2,640
	40, 41	**P24,384**	P25,580

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year BVAL). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

"Others" include amounts owed to a supplier for the purchase of equipment.

23. Income Taxes

The components of income tax expense are shown below:

	2018	2017	2016
Current	**P22,733**	P20,510	P19,529
Deferred	**1,735**	5,859	(2,476)
	P24,468	P26,369	P17,053

The movements of deferred tax assets and liabilities are accounted for as follows:

2018	**Balance at January 1**	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Others**	**Balance at December 31**
Allowance for impairment losses on trade and other receivables and inventory	**P4,779**	**P41**	**P -**	**(P72)**	**P4,748**
MCIT	**118**	**(3)**	**-**	**-**	**115**
NOLCO	**2,013**	**89**	**-**	**-**	**2,102**
Undistributed net earnings of foreign subsidiaries	**(1,025)**	**(5)**	**(67)**	**(32)**	**(1,129)**
Leases	**(5,343)**	**(2,440)**	**-**	**36**	**(7,747)**
Unrealized intercompany charges and others	**(2,804)**	**583**	**315**	**167**	**(1,739)**
	(P2,262)	**(P1,735)**	**P248**	**P99**	**(P3,650)**

2017	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,757	P22	P -	P -	P4,779
MCIT	227	(109)	-	-	118
NOLCO	2,146	(133)	-	-	2,013
Undistributed net earnings of foreign subsidiaries	(898)	(127)	-	-	(1,025)
Leases	(2,194)	(3,149)	-	-	(5,343)
Unrealized intercompany charges and others	(1,000)	(2,363)	507	52	(2,804)
	P3,038	(P5,859)	P507	P52	(P2,262)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2018**	2017
Deferred tax assets	*4*	**P19,249**	P18,412
Deferred tax liabilities		**(22,899)**	(20,674)
		(P3,650)	(P2,262)

As of December 31, 2018, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2016	December 31, 2019	P6,074	P74
2017	December 31, 2020	220	39
2018	December 31, 2021	712	2
		P7,006	**P115**

The reconciliation between the statutory income tax rate on income from continuing operations before income tax and the Group's effective income tax rate is as follows:

	2018	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	**(2.95%)**	(1.67%)	(1.93%)
Equity in net loss (earnings) of associates and joint ventures	**0.12%**	(0.11%)	(0.11%)
Gain on sale of investments subject to final or capital gains tax	**(0.10%)**	(0.32%)	(0.08%)
Others, mainly income subject to different tax rates - net	**6.39%**	4.58%	1.79%
Effective income tax rate	**33.46%**	32.48%	29.67%

24. Equity

a. *Amendments to the Articles of Incorporation*

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares, consisting of 691,099,686 Series "1" preferred treasury shares to Series "2" preferred treasury shares and 118,900,314 Series "1" preferred unissued shares to Series "2" preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" preferred shares and 1,910,000,000 for Series "2" preferred shares. The stockholders also approved the issuance of the Series "2" preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares was approved by the SEC on July 14, 2015.

b. *Capital Stock*

<u>Common Shares</u>

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both are available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 34,768 and 35,541 common stockholders as of December 31, 2018 and 2017, respectively.

The movements in the number of issued and outstanding shares of common stock are as follows:

	Note	**2018**	2017	2016
Issued and outstanding shares at beginning of year		**3,287,018,252**	3,284,960,787	3,283,277,515
Issuances during the year	*39*	**1,630,873**	2,057,465	1,683,272
Issued shares at end of year		**3,288,649,125**	3,287,018,252	3,284,960,787
Less treasury shares		**904,752,537**	904,752,537	904,752,537
Issued and outstanding shares at end of year		**2,383,896,588**	2,382,265,715	2,380,208,250

Preferred Shares

i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Parent Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as of July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On December 8, 2010 and October 3, 2011, the Parent Company listed 873,173,353 and 97,333,000 Series "1" preferred shares worth P65,488 and P7,300, respectively.

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share.

On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury.

On April 14, 2015, the Parent Company reissued 279,406,667 Series "1" preferred shares held in treasury in the name of certain subscribers at P75.00 per share. The Series "1" preferred shares became tradable at the PSE beginning June 10, 2015.

The Parent Company has 279,406,667 outstanding Series "1" preferred shares held by three stockholders as of December 31, 2018 and 2017.

ii. Series "2" Preferred Shares

Subseries 2-A, 2-B and 2-C

In September 2012, the Parent Company issued 1,067,000,000 Series "2" preferred shares at the issue price of P75.00 per share. The said Series "2" preferred shares worth P80,025 were listed at the PSE on September 28, 2012. The SEC approved the registration and issued a permit to sell on August 10, 2012.

The Series "2" preferred shares were issued in three subseries (Subseries "2-A", Subseries "2-B" and Subseries "2-C") and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the third, fifth and seventh year and every dividend payment thereafter, with a "step-up" rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625%, 8.000% per annum for Subseries "2-A", "2-B" and "2-C", respectively.

Subseries 2-D, 2-E and 2-F

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series "2" preferred shares held in treasury in three subseries (Subseries "2-D", Subseries "2-E" and Subseries "2-F") and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries "2-D", "2-E" and "2-F", respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

On September 21, 2015, the Parent Company redeemed its 721,012,400 Series "2" preferred shares - Subseries "2-A" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P54,076 to the holders of Subseries "2-A" preferred shares. A portion of the amount used to pay to redeem the holders of the Subseries "2-A" preferred shares came from the entire proceeds from the issuance of the 446,667,000 Series "2-D","2-E" and "2-F" preferred shares amounting to P33,500.

Subseries 2-G, 2-H and 2-I

On February 24, 2016, the BOD of PSE approved the listing application of the Parent Company of up to 975,571,800 shares of Series "2" preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 400,000,000 shares of Series "2" preferred shares (the First Tranche) with a par value of P5.00 per share and an offer price of P75.00 per share. The SEC approved the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

The Parent Company offered the "First Tranche" of up to: (i) 280,000,000 shares of Series "2" preferred shares consisting of Subseries "2-G", "2-H" and "2-I" and (ii) 120,000,000 shares of Series "2" preferred shares to cover the oversubscription option. The First Tranche was re-issued and offered from the Series "2" preferred shares Subseries held in treasury. The offer period was from March 14 to March 18, 2016. The First Tranche was issued on March 30, 2016 which was also the listing date of the Shelf Registered Shares.

The remaining 575,571,800 Shelf Registered Shares will be issued within a period of three years. The offer shares shall be issued from the remaining Series "2" preferred shares Subseries "2-A" held in treasury and unissued Series "2" preferred shares.

Dividend rates are 6.5793%, 6.3222% and 6.3355% per annum for Subseries "2-G", "2-H" and "2-I", respectively.

Following the completion of the Parent Company's follow-on offering of 280,000,000 Series "2" preferred shares, with an oversubscription option of 120,000,000 Series "2" preferred shares, the Parent Company re-issued the Series "2" preferred shares held in treasury, as follows: (i) 244,432,686 Series "2" preferred shares; and (ii) 155,567,314 Subseries "2-A" preferred shares (collectively, the "Offer Shares"). The Series "2" preferred shares were Series "1" preferred shares held in treasury that were reclassified to Series "2" preferred shares on June 9, 2015.

After reissuance of the Offer Shares on March 30, 2016, the Parent Company has a remaining 565,445,086 Subseries "2-A" preferred shares held in treasury. There are no more Series "2" preferred shares held in treasury.

The Parent Company has 1,192,654,600 outstanding Series "2" preferred shares as of December 31, 2018 and 2017 and has a total of 1,128 and 1,142 preferred stockholders as of December 31, 2018 and 2017, respectively.

c. *Treasury Shares*

Treasury shares consist of:

	2018	2017	2016
Common	**P67,093**	P67,093	P67,093
Preferred	**42,408**	42,408	42,408
	P109,501	P109,501	P109,501

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as of December 31, 2018, 2017 and 2016.

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the common shares of the Parent Company under an agreement executed on March 26, 1986.

   Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation. The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB.

On October 5, 2012, the Parent Company redeemed all Series "1" preferred shares including those Series "1" preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series "1" preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As of October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a "Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38" ("Manifestation and Omnibus Motion").

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.'s "Manifestation" dated October 4, 2012 and PCGG's "Manifestation and Omnibus Motion." Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a "Manifestation Re: 'Resolution' dated November 20, 2012," dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that "no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court's directive".

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the "Manifestation and Omnibus Motion" filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the Republic of the Philippines to file the appropriate action or proceeding to determine the legal right of the Parent Company to the 25,450,000 treasury shares of the Parent Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

2. In 2009, 873,173,353 common shares reverted to treasury were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.

3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 SMC common shares held by Top Frontier. The Offer Shares were priced at P110.00 per share on April 20, 2011.

4. Also on May 5, 2011, US$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

   On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company.

   In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

   A total of 9,794,587 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as of December 31, 2014.

5. As of December 31, 2018 and 2017, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 39).

d. *Unappropriated Retained Earnings*

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2018, 2017 and 2016, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

e. *Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P15,164, P22,218 and P24,230 in 2018, 2017 and 2016, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P7,926, P12,234 and P16,251 in 2018, 2017 and 2016, respectively.

25. Sales

Sales consist of:

	Note	**2018**	2017	2016
Goods		**P995,633**	P799,437	P662,471
Services		**29,310**	26,649	22,843
	7	**P1,024,943**	P826,086	P685,314

26. Cost of Sales

Cost of sales consist of:

	Note	**2018**	2017	2016
Inventories		**P592,560**	P452,122	P353,606
Taxes and licenses		**79,100**	58,259	46,576
Depreciation and amortization	*28*	**30,498**	25,710	22,674
Energy fees	*34*	**25,424**	23,726	20,478
Fuel and oil		**23,979**	15,657	10,796
Contracted services		**16,393**	14,518	12,636
Freight, trucking and handling		**11,817**	10,604	11,203
Power purchase		**11,321**	10,851	7,837
Personnel	*29*	**11,250**	9,195	7,567
Tolling fees	*34*	**8,889**	7,970	7,525
Communications, light and water		**6,198**	5,772	5,412
Repairs and maintenance		**5,968**	5,387	4,823
Rent	*4, 34*	**945**	830	814
Others		**1,406**	3,620	2,074
		P825,748	P644,221	P514,021

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2018	2017	2016
Selling	**P42,718**	P36,629	P32,972
Administrative	**39,392**	34,194	38,667
	P82,110	P70,823	P71,639

Selling expenses consist of:

	Note	2018	2017	2016
Personnel	*29*	**P11,302**	P8,612	P7,724
Freight, trucking and handling		**9,853**	8,564	7,889
Advertising and promotions		**8,987**	9,085	8,025
Rent	*4, 34*	**3,694**	3,423	1,655
Depreciation and amortization	*28*	**3,092**	2,949	3,095
Repairs and maintenance		**1,449**	1,440	1,232
Taxes and licenses		**786**	689	678
Professional fees		**683**	552	448
Supplies		**663**	589	758
Communications, light and water		**494**	409	374
Others		**1,715**	317	1,094
		P42,718	P36,629	P32,972

Administrative expenses consist of:

	Note	2018	2017	2016
Personnel	*29, 39*	**P18,543**	P16,862	P14,947
Depreciation and amortization	*28*	**4,689**	4,391	4,885
Taxes and licenses		**3,415**	2,511	2,914
Professional fees		**2,926**	2,530	2,620
Repairs and maintenance		**1,321**	1,022	1,107
Impairment loss	*9*	**1,024**	537	4,704
Communications, light and water		**785**	730	694
Supplies		**653**	702	790
Rent	*4, 34*	**605**	739	426
Freight, trucking and handling		**388**	259	161
Research and development		**152**	127	103
Others	*34*	**4,891**	3,784	5,316
		P39,392	P34,194	P38,667

"Others" consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	2018	2017	2016
Cost of sales:				
Property, plant and equipment	*14*	**P22,682**	P18,341	P16,429
Deferred containers, biological assets and others	*16, 18*	**7,816**	7,369	6,245
	26	**30,498**	25,710	22,674
Selling and administrative expenses:				
Property, plant and equipment	*14*	**3,891**	4,400	4,526
Deferred containers and others	*18*	**3,890**	2,940	3,454
	27	**7,781**	7,340	7,980
		P38,279	P33,050	P30,654

Depreciation expense from discontinued operations amounted to P326 in 2016 (Notes 6 and 7).

"Others" include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	Note	2018	2017	2016
Salaries and wages		**P20,970**	P17,877	P15,539
Retirement costs - net	35	**2,002**	1,832	1,742
Other employee benefits	39	**18,123**	14,960	12,957
		P41,095	P34,669	P30,238

Personnel expenses are distributed as follows:

	Note	2018	2017	2016
Cost of sales	26	**P11,250**	P9,195	P7,567
Selling expenses	27	**11,302**	8,612	7,724
Administrative expenses	27	**18,543**	16,862	14,947
		P41,095	P34,669	P30,238

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2018	2017	2016
Interest expense		**P41,518**	P31,220	P30,567
Other financing charges	21	**3,978**	4,494	4,236
		P45,496	P35,714	P34,803

Amortization of debt issue costs included in "Other financing charges" amounted to P1,386, P2,778 and P2,174 in 2018, 2017 and 2016, respectively (Note 21).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	2018	2017	2016
Loans payable	19	**P7,141**	P5,513	P4,343
Long-term debt	21	**25,983**	16,623	16,548
Finance lease liabilities	34	**8,394**	9,084	9,676
		P41,518	P31,220	P30,567

Interest expense from discontinued operations amounted to P6 in 2016 (Note 6).

31. Interest Income

Interest income consists of:

	Note	2018	2017	2016
Interest from short-term investments, cash in banks and others	8, 13	**P6,709**	P4,019	P3,209
Interest on amounts owed by related parties	33, 35	**483**	506	484
		P7,192	P4,525	P3,693

Interest income from discontinued operations amounted to P14 in 2016 (Note 6).

32. Other Income (Charges)

Other income (charges) consists of:

	Note	**2018**	2017	2016
Construction revenue	*17, 34*	**P23,062**	P18,089	P12,623
Dividend income		**1,887**	1,350	1,075
PSALM monthly fees reduction		**1,615**	3,284	1,509
Gain (loss) on derivatives - net	*41*	**805**	(3,665)	(616)
Additional provision on impairment (a)	*14, 17, 18*	**(771)**	(610)	(793)
Gain (loss) on foreign exchange - net	*40*	**(9,714)**	241	(11,961)
Construction costs	*17, 34*	**(23,062)**	(18,089)	(12,623)
Others (b)		**550**	(446)	(640)
		(P5,628)	P154	(P11,426)

a. *SMBHK and SMBB.* In 2018, due to the fierce market competition in Hong Kong, SMB tested the related production plant located in Yuen Long, New Territories for impairment. SMB assessed the recoverable amounts of SMBHK and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P2,067. Accordingly, impairment loss recognized to reduce the carrying amount to recoverable amount of property, plant and equipment amounted to P544 in 2018.

   The recoverable amount of SMBHK is determined based on a value-in-use calculation and the cash flows are discounted using a discount rate of 10.2%. The discount rate used is pre-tax and reflects specific risks relating to the Hong Kong brewing operations.

   As SMBHK has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

   In 2017, the SMB also incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecast sales. These factors, among others, are indications that noncurrent assets of the SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired. SMB assessed that the recoverable amount of SMBB and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P1,262. Accordingly, impairment loss recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounted to P534 in 2017.

   The recoverable amount of SMBB has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 17 years, which is the remaining estimated useful life of the assets. Cash flows beyond ten-year period are kept constant. Sales volume growth rate and pre-tax discount rate used for value in use calculation were 2% - 20% and 11%, respectively.

   As SMBB has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

   Management determined the growth rate and gross contribution rate based on past experiences and future plans and expected market trends.

b. "Others" consist of gain on redemption of notes, rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO and insurance claims.

33. 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 December 31:

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	*9, 18, 36*	**2018**	**P8**	**P -**	**P6,803**	**P551**	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
		2017	5	-	6,613	551		
Retirement Plans	*9, 18, 35*	**2018**	**399**	**-**	**9,516**	**-**	On demand; interest bearing	Unsecured; no impairment
		2017	400	-	12,131	-		
Associates	*9, 18, 20*	**2018**	**2,905**	**251**	**1,564**	**193**	On demand; interest and non-interest bearing	Unsecured; no impairment
		2017	2,466	598	1,462	521		
	19, 21	**2018**	**-**	**-**	**-**	**21,425**	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2017	-	-	-	22,552		
Joint Ventures	*9,18, 20*	**2018**	**76**	**1,181**	**684**	**64**	On demand; non-interest bearing	Unsecured; no impairment
		2017	116	1,418	1,245	118		
Shareholders in Subsidiaries	*9, 20*	**2018**	**125**	**103**	**29**	**2,515**	On demand; non-interest bearing	Unsecured; no impairment
		2017	391	79	95	2,644		
Others	*9, 11, 20, 22*	**2018**	**2,235**	**1,499**	**600**	**7,878**	On demand; non-interest bearing	Unsecured; no impairment
		2017	236	493	300	7,012		
Total		**2018**	**P5,748**	**P3,034**	**P19,196**	**P32,626**		
Total		2017	P3,614	P2,588	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 (Note 36).

c. The amounts owed to associates include interest bearing loans payable to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

d. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	**2018**	2017	2016
Short-term employee benefits		**P742**	P739	P630
Retirement cost	*35*	**8**	10	22
		P750	P749	P652

34. Significant Agreements and Lease Commitments

<u>Significant Agreements:</u>

- Energy

  o *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;

ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;

iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;

iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;

v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;

vi. maintain the performance bond in full force and effect with a qualified bank; and

vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P25,424, P23,726 and P20,478 in 2018, 2017 and 2016, respectively (Note 26). SMEC and SPDC renewed their performance bonds amounting to US$58 and US$20, which will expire on November 3, 2019 and January 25, 2019, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2020.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 43).

o *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC, SCPC, SMELC and MPPCL each entered into separate MPAs with PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL amounted to P325, P147 and P161 in 2018, 2017 and 2016, respectively (Note 27).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2019 and 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

o *Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)*

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party RES and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

o *Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. On March 23, 2018, SPDC and SRPC finalized the extension of the MOA until March 25, 2020.

o *Ancillary Service Procurement Agreement (ASPA)*

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of five years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

o *Coal Supply Agreements*

SMEC, SMCPC, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

o *Distribution Wheeling Service (DWS) Agreements*

As Retail Electricity Supplier (RES), SMELC, SCPC and MPPCL, each entered into DWS Agreements with certain Distribution Utilities (DUs) for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to its customers as mandated by the ERC thru the "Single-Billing Policy".

o *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, SMC Global and APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement and (b) the amount of P2 every quarter for the upkeep of residual ALECO (fixed concession fee);

ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049;

iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and

iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

o *Coal Operating Contract (COC)*

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2018.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2018, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE, is located in Sarangani and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2018.

Status of Operations
The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2006	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another ten-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which will expire on February 23, 2019. This application was accompanied by a new five-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new five-year WPB, initially with a deadline on January 25, 2019 but was extended until February 20, 2019 which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring instead of considering another moratorium extension, the submission of a five-year WPB initially with a deadline of January 25, 2019 but extended into February 20, 2019 which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a ten-year extension of its COC No. 138 which will expire on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a five-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new 5-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first two years of the 5-year WPB submitted by DAMI, SEPC and BERI, focuses on the "removal of tension cracked materials to prevent landslide" within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;

b. The mining method is "contour stripping and progressive rehabilitation" and not the banned "open-pit mining";

c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and

d. The ban could be lifted as a result of court cases filed against it.

As of December 31, 2018, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as of December 31, 2018.

- Fuel and Oil

  - *Supply Agreements*

    Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

    PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

    Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 20).

  - *Lease Agreement with Philippine National Oil Company (PNOC)*

    On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2018 and 2017, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 43).

- Infrastructure

  - *Airport Concession Agreement*

    The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

    On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the DOTr and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

    The salient features of the Concession Agreement are presented below:

    1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

    2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2018, TADHC has yet to pay the OMPS as the Airport Project has not yet entered the In-Service Date.

    3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

    4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to a loan with BOC. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained (Notes 21 and 33).

5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC of the works required to be carried out in connection with the construction and completion of civil, structural, sanitary, mechanical, electrical and architectural infrastructure. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium in 2017, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 11).

6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal is currently ongoing and is expected to be completed in the first quarter of 2019.

o *MRT 7 Concession Agreement*

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US$1,236, adjusted to 2008 prices at US$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.

2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.

3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.

5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the amortization payment made over the total amortization payment to be made during the concession period. After the end of the concession period but provided that all the amortization payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.

6. The amortization payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.

7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.

9. Upon the expiration of the concession period and payment in full of the amortization payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.

10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement.

On April 20, 2016, ULC BVI through the Parent Company, led the ground breaking ceremony for the MRT 7 Project.

Pursuant to Section 19.1 of the Concession Agreement, on September 30, 2016, ULC BVI sent a request letter to the ROP through the DOTr to secure the latter's prior approval in relation to the intention of ULC BVI to assign all its rights and obligations under the Concession Agreement to SMC MRT 7, the designated special purpose company for the MRT 7 Project. The assignment of the rights and obligations from ULC BVI to SMC MRT 7 will be achieved through execution of Accession Agreement. Based on the Concession Agreement, ULC BVI may assign its rights, title, interests or obligations therein, provided that the following conditions are met:

- The assignment will not in any way diminish ULC BVI's principal liability under the Concession Agreement; and
- ULC BVI secures from ROP, through the DOTr, its prior approval, which shall not be unreasonably withheld.

In addition, the letter dated September 30, 2016 from ULC BVI also requested that upon submission by SMC MRT 7 of the lenders' recognition that the Financing Agreements for the MRT 7 Project is for its benefit, the DOTr shall cause the amendment of the Performance Undertaking dated July 23, 2014 by changing the addressee and beneficiary thereof from ULC BVI to SMC MRT 7.

On December 12, 2016, the ROP through the DOTr gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC MRT 7.

Following the DOTr's approval, SMC MRT 7 and ULC BVI carried out the Accession Agreement on January 12, 2017.

- *Toll Road Concession Agreements*

  i. *SLEX*

  On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

  On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of the initial toll rate starting April 1, 2011.

  In 2012, SLTC received a letter from the Department of Finance informing SLTC of the conveyance by PNCC to the ROP of its shares of stock in SLTC, by way of deed of assignment. Moreover, SLTC also received the Declarations of Trust signed by the individual nominees of PNCC, in favor of the ROP, in which each nominee affirmed their holding of single, qualifying share in SLTC in favor of the ROP.

  On July 21, 2015, SLTC entered into a MOA with Ayala Corporation (AC), on the inter-operability of the SLEX and Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

  The MOA on inter-operability provides the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway on July 24, 2015.

  ii. *NAIA Expressway*

  On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through the Department of Public Works and Highways (DPWH), wherein Vertex was granted the right to finance, design, construct, and operate and maintain the NAIA Expressway Project. The NAIA Expressway Project links the three NAIA terminals to the Skyway, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation.

  On September 22, 2016, Vertex started commercial operations of NAIA Expressway upon receipt of the Toll Operations Permit from the TRB. The Toll Operations Permit for Phase II A and B was issued on September 9, 2016 and December 19, 2016, respectively.

  At the end of the concession period, Vertex shall turnover the NAIA Expressway to the DPWH in the condition required for turnover as described in the Minimum Performance Standards Specifications of the Concession Agreement.

  iii. *Skyway*

  On June 10, 1994, PNCC, the franchise holder for the construction, operations and maintenance of the Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (Citra), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering not only the proposed Skyway but also the planned Metro Manila Tollways. The Joint Investment Proposal embodied, among others, that Citra in cooperation with PNCC committed itself to finance, design and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995.

  - Skyway Stages 1 and 2

    The STOA for SMMS was executed on November 27, 1995 by and among CMMTC, PNCC and the ROP acting through the TRB. Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the operations and maintenance of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

    On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the operations and maintenance of the SMMS to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the operations and maintenance responsibilities for the SMMS from PSC to SOMCO.

    The SMMS shall be owned by the ROP, without prejudice to the rights and entitlement of CMMTC and SOMCO under the STOA. The legal transfer of ownership of the SMMS to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among CMMTC, SOMCO and PNCC for the operations and maintenance of the SMMS.

The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed significant if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least five percent. The applicable exchange rate shall be the exchange rate between the currencies in effect as of the date of approval of the prevailing preceding toll rate.

- Skyway Stage 3

  The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

  The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

  The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

  The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate for the entire Skyway Stage 3 Project to CCEC and/or CMMSC. As of December 31, 2018, the Skyway Stage 3 Project is in the construction stage.

  CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

- Skyway Stage 4

  On July 14, 2014, the Stage 4 STOA was executed by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator. CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

  The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the Toll Operation Certificate by the TRB to CITI and/or MOMCO.

  As of December 31, 2018, the Skyway Stage 4 Project is in the pre-construction stage.

iv. *TPLEX*

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each segment of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, PIDC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 30.31-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14.91-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting March 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 6, 2017, while Segment 8 (Pozorrubio to Rosario) is expected to be completed on June 30, 2019.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

Stage	Project Description
Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II (Phases I and II)	Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

o *Port Concession Agreements*

On November 19, 2009, MNHPI entered into a Contract for the Development, Operation and Maintenance of the Manila North Harbor (the Contract) with the PPA. Under the Contract, the PPA grants MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations, and renewable for another 25 years under such terms and conditions as the parties may agree.

MNHPI shall provide services and development based on the operation and volume requirement of the port and shall be allowed to collect fees and charges, as approved by the PPA.

In consideration thereof, MNHPI shall remit a fixed fee every quarter and performance security every year to the PPA after the date of takeover of operations of the Manila North Harbor until the end of the concession period.

On April 12, 2010, the PPA turned over the operations of the Manila North Harbor to MNHPI.

On March 21, 2011, MNHPI and the PPA entered into a Clarificatory Agreement to the Contract related to the implementation of some terms and conditions as follows: (a) the fixed fee is exclusive of VAT; (b) the performance security shall be equivalent to 60% of the annual fixed fee, which shall be reckoned from April 12, 2010; (c) establishment of the Port Worker's Retirement and Separation Fund shall be within one year from April 12, 2010; (d) all rentals within the area of management, operation, development and maintenance of MNHPI from April 12, 2010 and thereafter shall accrue to MNHPI; and (e) applicable terms and conditions of the Contract shall become operative on April 12, 2010.

Upon the expiration of the Contract or in the event of its termination or cancellation prior to its expiration, all existing improvements, structures, building and facilities at the Manila North Harbor, permanent or semi-permanent, constructed by or belonging to MNHPI shall automatically become the property of the PPA without any obligation to reimburse therefore, except for port equipment purchased five years prior to expiration or termination of the Contract wherein the PPA has option to either purchase or lease the same from MNHPI.

MNHPI completed the construction of Phase 1 of the port facility on August 30, 2017. Proposed development plant for the succeeding phases has been submitted and is pending approval from the PPA.

o *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement. The Bulacan Bulk Water Supply Project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the province of Bulacan.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay water right fee to the Provincial Government of Bulacan amounting to an aggregate amount of P25 for the first five years of operation and a certain percentage of annual gross revenue from the sixth year until the transfer date.

2. The Bulacan Bulk Water Supply Project will be implemented in three stages in different localities around the Province of Bulacan. The Water Service Providers (WSPs) entered into separate Memoranda of Understanding (MOU) with MWSS pursuant to which they agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Supply Project. Each MOU also provides that MWSS, respective WSP, and LCWDC will enter into a MOA simultaneous with the execution of the Concession Agreement.

3. LCWDC can use the National Housing Authority (NHA) site for the water treatment facility. The NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC can either pay in staggered cash or in installment. Ownership of NHA site shall be and shall remain with MWSS at all times.

   LCWDC may also opt to acquire an alternative site, including all land rights, and rights of way (whether permanent or temporary) required and otherwise necessary to access the alternative site and carry out the works for the water treatment facility. Ownership of alternative site, land rights and right of way required shall be with LCWDC and shall continue to be so until transfer date.

4. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.

- Food and Beverage

  - *Toll Agreements*

    The significant subsidiaries of SMFB have entered into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the "Parties"). The terms of the agreements include the following, among others:

    - The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.

    - Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.

    - The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

    Total tolling expenses included as part of "Cost of sales" account in the consolidated statements of income amounted to P8,889, P7,970 and P7,525 in 2018, 2017 and 2016, respectively (Note 26).

<u>Lease Commitments</u>

- Finance Leases

  Group as Lessee

  a. IPPA Agreements

  The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group's IPPA Agreements with PSALM, the Group's management has made a judgment that the IPPA Agreements are agreements that contains a finance lease. The Group's management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group's capitalized asset and related liability of P167,387 and P141,916 as of December 31, 2018 and P172,573 and P154,794 as of December 31, 2017, respectively, (equivalent to the present value of the minimum lease payments using the Group's incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of "Property, plant and equipment" and "Finance lease liabilities" accounts in the consolidated statements of financial position (Notes 4 and 14).

  The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at the inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P8,321, P9,074 and P9,668 in 2018, 2017 and 2016, respectively (Note 30).

The future minimum lease payments for each of the following periods are as follows:

2018

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$268**	**P14,095**	**P12,836**	**P26,931**
More than one year and not later than five years	**1,054**	**55,400**	**50,478**	**105,878**
Later than five years	**360**	**18,937**	**17,275**	**36,212**
	1,682	**88,432**	**80,589**	**169,021**
Less: Future finance charges on finance lease liabilities	**185**	**9,724**	**17,381**	**27,105**
Present values of finance lease liabilities	**US$1,497**	**P78,708**	**P63,208**	**P141,916**

2017

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$256	P12,771	P12,249	P25,020
More than one year and not later than five years	1,114	55,640	53,375	109,015
Later than five years	568	28,335	27,215	55,550
	1,938	96,746	92,839	189,585
Less: Future finance charges on finance lease liabilities	244	12,184	22,607	34,791
Present values of finance lease liabilities	US$1,694	P84,562	P70,232	P154,794

The present values of minimum lease payments for each of the following periods are as follows:

2018

	Dollar Payments	**Peso Equivalent of Dollar Payments**	**Peso Payments**	**Total**
Not later than one year	**US$217**	**P11,392**	**P8,198**	**P19,590**
More than one year and not later than five years	**939**	**49,364**	**39,689**	**89,053**
Later than five years	**341**	**17,952**	**15,321**	**33,273**
	US$1,497	**P78,708**	**P63,208**	**P141,916**

2017

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$197	P9,822	P7,023	P16,845
More than one year and not later than five years	964	48,131	39,494	87,625
Later than five years	533	26,609	23,715	50,324
	US$1,694	P84,562	P70,232	P154,794

b. Land Finance Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of the 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

The finance lease liability is amortized using the discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P66 in 2018 (Note 30).

MPPCL's land under finance lease presented under "Property, plant and equipment" account in the consolidated statements of financial position amounted to P880 as of December 31, 2018 (Notes 4 and 14).

Future minimum lease payments under finance lease with the present value of future minimum lease payments follow:

2018

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than one year	**P69**	**P69**
More than one year but not more than five years	**16**	**13**
Later than five years	**17**	**10**
	102	**92**
Less: Future finance charges on finance lease liabilities	**10**	**-**
Present values of finance lease liabilities	**P92**	**P92**

c. Equipment

The Group's finance leases cover equipment needed for business operations. The agreements do not allow subleasing. The net carrying amount of leased assets is P137 and P166 as of December 31, 2018 and 2017, respectively (Notes 4 and 14).

Interest expense amounted to P7, P10 and P8 in 2018, 2017 and 2016, respectively (Note 30).

The Group's share in the minimum lease payments for these finance lease liabilities are as follows:

2018

	Minimum Lease Payable	Interest	Principal
Within one year	**P42**	**P3**	**P39**
After one year but not more than five years	**20**	**1**	**19**
	P62	**P4**	**P58**

2017

	Minimum Lease Payable	Interest	Principal
Within one year	P51	P7	P44
After one year but not more than five years	63	4	59
	P114	P11	P103

- Operating Leases

Group as Lessor
The Group has entered into lease agreements on its investment property portfolio, consisting of surplus office spaces (Note 15) and certain service stations and other related structures and machinery and equipment (Note 14). The non-cancellable leases have remaining terms of three to ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The future minimum lease receipts under non-cancellable operating leases are as follows:

	2018	2017
Within one year	**P326**	P264
After one year but not more than five years	**504**	336
After five years	**536**	14
	P1,366	P614

Rent income recognized in the consolidated statements of income amounted to P785, P1,307 and P1,378 in 2018, 2017 and 2016, respectively (Note 4).

Group as Lessee
The Group leases a number of office, warehouse, factory facilities and parcels of land under operating leases. The leases typically run for a period of 1 to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals are payable as follows:

	2018	2017
Within one year	**P2,933**	P2,383
After one year but not more than five years	**9,771**	7,247
More than five years	**21,462**	14,999
	P34,166	P24,629

Rent expense recognized in the consolidated statements of income amounted to P5,244, P4,992 and P2,895 in 2018, 2017 and 2016, respectively (Notes 4, 26 and 27).

35. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Parent Company and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2018. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of the Parent Company and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

The following table shows a reconciliation of the net defined benefit retirement asset (liability) and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Balance at beginning of year	**P29,748**	P27,799	**(P32,209)**	(P28,595)	**(P3,188)**	(P2,957)	**(P5,649)**	(P3,753)
Benefit obligation of newly-acquired subsidiaries	**-**	-	**(165)**	-	**-**	-	**(165)**	-
Recognized in profit or loss								
Service costs	**-**	-	**(1,779)**	(1,616)	**-**	-	**(1,779)**	(1,616)
Interest expense	**-**	-	**(1,823)**	(1,450)	**-**	-	**(1,823)**	(1,450)
Interest income	**1,777**	1,377	**-**	-	**-**	-	**1,777**	1,377
Interest on the effect of asset ceiling	**-**	-	**4**	-	**(181)**	(143)	**(177)**	(143)
	1,777	1,377	**(3,598)**	(3,066)	**(181)**	(143)	**(2,002)**	(1,832)
Recognized in other comprehensive income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	**-**	-	**(2,557)**	(3,587)	**-**	-	**(2,557)**	(3,587)
Changes in financial assumptions	**-**	-	**3,698**	1,194	**-**	-	**3,698**	1,194
Changes in demographic assumptions	**-**	-	**(93)**	242	**-**	-	**(93)**	242
Return on plan assets excluding interest income	**(1,636)**	519	**-**	-	**-**	-	**(1,636)**	519
Changes in the effect of asset ceiling	**-**	-	**-**	-	**48**	(88)	**48**	(88)
	(1,636)	519	**1,048**	(2,151)	**48**	(88)	**(540)**	(1,720)
Others								
Contributions	**5,513**	1,506	**-**	-	**-**	-	**5,513**	1,506
Benefits paid	**(1,960)**	(1,461)	**2,150**	1,659	**-**	-	**190**	198
Transfers from other plans	**18**	60	**(18)**	(60)	**-**	-	**-**	-
Transfers to other plans	**(18)**	(60)	**18**	60	**-**	-	**-**	-
Other adjustments	**26**	8	**(5)**	(56)	**-**	-	**21**	(48)
	3,579	53	**2,145**	1,603	**-**	-	**5,724**	1,656
Balance at end of year	**P33,468**	P29,748	**(P32,779)**	(P32,209)	**(P3,321)**	(P3,188)	**(P2,632)**	(P5,649)

The Group's annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs (benefits) recognized in the consolidated statements of income by the Parent Company amounted to (P38), (P18) and P7 in 2018, 2017 and 2016, respectively (Note 29).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P2,040, P1,850 and P1,735 in 2018, 2017 and 2016, respectively (Note 29).

As of December 31, 2018, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,838 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P128 and P5,342, respectively (Notes 20 and 22).

As of December 31, 2017, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P3,316 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P182 and P8,783, respectively (Notes 20 and 22).

The carrying amounts of the Group's retirement fund approximate fair values as of December 31, 2018 and 2017.

The Group's plan assets consist of the following:

	In Percentages	
	2018	2017
Investments in marketable securities and shares of stock	**74.16**	76.57
Investments in pooled funds:		
Fixed income portfolio	**8.95**	9.62
Stock trading portfolio	**4.09**	5.19
Investments in real estate	**1.32**	0.82
Others	**11.48**	7.80

Investments in Marketable Securities

As of December 31, 2018, the plan assets include:

- 48,631,227 common shares and 30,338,650 Subseries "2-B", 2,872,500 Subseries "2-D", 4,133,190 Subseries "2-E", 8,038,270 Subseries "2-F", 75,630 Subseries "2-G", 264,840 Subseries "2-H" and 6,356,670 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P147.00, P75.00, P74.95h, P73.00, P75.00, P74.90, P74.50 and P73.50, respectively;

- 744,178,797 common shares and 290,470 preferred shares of Petron with fair market value per share of P7.71 and P980.00, respectively;

- 33,635,700 common shares of SMB with fair market value per share of P20.00;

- 23,891,570 common shares of GSMI with fair market value per share of P26.75;

- 2,269,980 common shares of SMFB with fair market value per share of P82.00;

- 250,700 preferred shares of SMFB with fair market value per share of P997.00;

- 300 common shares of SMPI with fair market value per share of P134.12; and

- 5,975,541 common shares of Top Frontier with fair market value per share of P249.80.

As of December 31, 2017, the plan assets include:

- 43,775,047 common shares and 30,338,700 Subseries "2-B", 2,712,300 Subseries "2-D", 4,000,000 Subseries "2-E", 8,000,000 Subseries "2-F", and 6,153,600 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P111.60, P76.50, P75.65, P76.50, P81.95 and P79.80, respectively;

- 731,516,097 common shares and 290,470 preferred shares of Petron with fair market value per share of P9.17 and P1,060.00, respectively;

- 25,338,285 common shares of GSMI with fair market value per share of P26.85;

- 226,998 common shares and 300,000 preferred shares of SMFB with fair market value per share of P529.00 and P1,000.00, respectively;

- 33,635,700 common shares of SMB with fair market value per share of P20.00; and

- 5,954,871 common shares of Top Frontier with fair market value per share of P286.00.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as of the reporting date (Note 4).

The Group's Retirement Plans recognized a gain on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to P97, P794 and P4,716 in 2018, 2017 and 2016, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P515, P474 and P457 in 2018, 2017 and 2016, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method, amounting to P10,437 and P10,366 as of December 31, 2018 and 2017, respectively. SMCRP recognized its share in total comprehensive income of BOC amounting to P71 and P198 in 2018 and 2017, respectively.

b. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI, measured using cost method since cost approximates fair value, amounting to P769 and P480 as of December 31, 2018 and 2017, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 72% and 48% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2018 and 2017, respectively.

Approximately 76% and 68% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of the Parent Company and its subsidiaries as of December 31, 2018 and 2017, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P634 and P370 as of December 31, 2018 and 2017, respectively.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P2,290 to the Retirement Plans in 2019.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2018	2017
Discount rate	**5.50 - 8.50**	5.50 - 7.00
Salary increase rate	**5.00 - 8.00**	5.00 - 8.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation ranges from 3.1 to 21 years and 4.5 to 22.5 years as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2018		2017	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P1,709)**	**P1,985**	(P2,186)	P2,544
Salary increase rate	**2,153**	**(1,908)**	2,246	(1,967)

The outstanding balances of the Group's receivable from the retirement plans are as follows:

a. The Parent Company has advances to SMCRP amounting to P7,117 and P6,943 as of December 31, 2018 and 2017, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 9 and 33). The advances are subject to interest of 5.75% in 2018 and 2017 (Note 31).

b. Petron has advances to PCERP amounting to P2,399 and P5,188 as of December 31, 2018 and 2017, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 9 and 33). The advances are subject to interest of 5% in 2018 and 2017 (Note 31).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as of December 31, 2018 and 2017 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans in 2018, 2017 and 2016.

36. Cash Dividends

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

2018

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 15, 2018	April 6, 2018	May 4, 2018	**P0.35**
	June 14, 2018	July 2, 2018	July 25, 2018	**0.35**
	September 13, 2018	October 5, 2018	October 30, 2018	**0.35**
	December 6, 2018	January 2, 2019	January 24, 2019	**0.35**
Preferred				
SMCP1	January 25, 2018	March 8, 2018	April 5, 2018	**1.0565625**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.0565625**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.0565625**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.0565625**
SMC2B	January 25, 2018	March 8, 2018	April 5, 2018	**1.4296875**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.4296875**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.4296875**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.4296875**
SMC2C	January 25, 2018	March 8, 2018	April 5, 2018	**1.50**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.50**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.50**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.50**

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	**P1.11433125**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.11433125**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.11433125**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.11433125**
SMC2E	January 25, 2018	March 8, 2018	April 5, 2018	**1.18603125**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.18603125**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.18603125**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.18603125**
SMC2F	January 25, 2018	March 8, 2018	April 5, 2018	**1.27635**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.27635**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.27635**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.27635**
SMC2G	January 25, 2018	March 8, 2018	April 5, 2018	**1.23361875**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.23361875**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.23361875**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.23361875**
SMC2H	January 25, 2018	March 8, 2018	April 5, 2018	**1.1854125**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.1854125**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.1854125**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.1854125**
SMC2I	January 25, 2018	March 8, 2018	April 5, 2018	**1.18790625**
	May 10, 2018	June 21, 2018	July 6, 2018	**1.18790625**
	August 9, 2018	September 21, 2018	October 5, 2018	**1.18790625**
	November 13, 2018	December 21, 2018	January 11, 2019	**1.18790625**

2017

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 16, 2017	April 7, 2017	May 4, 2017	P0.35
	June 13, 2017	June 30, 2017	July 25, 2017	0.35
	September 14, 2017	October 9, 2017	November 6, 2017	0.35
	December 7, 2017	January 2, 2018	January 24, 2018	0.35
Preferred				
SMCP1	January 12, 2017	March 21, 2017	April 5, 2017	1.0565625
	May 10, 2017	June 21, 2017	July 6, 2017	1.0565625
	August 10, 2017	September 21, 2017	October 6, 2017	1.0565625
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.4296875
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.50
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.11433125
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.18603125
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.27635
	November 10, 2017	December 21, 2017	January 5, 2018	1.27635

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
SMC2G	January 12, 2017	March 21, 2017	April 5, 2017	P1.23361875
	May 10, 2017	June 21, 2017	July 6, 2017	1.23361875
	August 10, 2017	September 21, 2017	October 6, 2017	1.23361875
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.1854125
	November 10, 2017	December 21, 2017	January 5, 2018	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
	August 10, 2017	September 21, 2017	October 6, 2017	1.18790625
	November 10, 2017	December 21, 2017	January 5, 2018	1.18790625

On January 24, 2019, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of March 22, 2019 on the following shares to be paid on April 5, 2019, as follows:

Class of Shares	Dividends Per Share
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

On March 14, 2019, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as of April 5, 2019 to be paid on May 3, 2019.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	**2018**	2017	2016
Net income from continuing operations attributable to equity holders of the Parent Company		**P23,077**	P28,225	P17,533
Dividends on preferred shares	*24, 36*	**(7,317)**	(7,317)	(6,839)
Net income from continuing operations attributable to common shareholders of the Parent Company (a)		**15,760**	20,908	10,694
Net income from discontinued operations attributable to common shareholders of the Parent Company (b)	*6*	**-**	-	11,756
Net income attributable to common shareholders of the Parent Company		**P15,760**	P20,908	P22,450
Weighted average number of common shares outstanding (in millions) - basic (c)		**2,383**	2,381	2,380
Effect of dilution of common shares (in millions)	*39*	**-**	2	4
Weighted average number of common shares outstanding (in millions) - diluted (d)		**2,383**	2,383	2,384
Earnings per common share attributable to equity holders of the Parent Company				
Basic EPS from continuing operations (a/c)		**P6.61**	P8.78	P4.49
Basic EPS from discontinued operations (b/c)		**-**	-	4.94
		P6.61	P8.78	P9.43
Diluted EPS from continuing operations (a/d)		**P6.61**	P8.77	P4.49
Diluted EPS from discontinued operations (b/d)		**-**	-	4.93
		P6.61	P8.77	P9.42

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2018	2017	2016
Trade and other receivables - net	**(P10,398)**	(P10,677)	(P3,214)
Inventories	**(17,146)**	(20,081)	(19,039)
Prepaid expenses and other current assets	**(10,869)**	(3,139)	(5,498)
Accounts payable and accrued expenses	**(6,101)**	11,732	16,004
Income and other taxes payable and others	**1,889**	2,624	(2,914)
	(P42,625)	(P19,541)	(P14,661)

b. Acquisition of subsidiaries

	Note	**2018**	2017	2016
Cash and cash equivalents		**P1,715**	P29	P37
Trade and other receivables - net		**2,679**	897	59
Inventories		**2,577**	172	6
Prepaid expenses and other current assets		**1,639**	(264)	10
Investments and advances - net		**190**	-	-
Property, plant and equipment - net	*14*	**62,323**	1,186	2,070
Investment property - net	*15*	**90**	707	-
Other intangible assets - net	*17*	**80**	-	-
Deferred tax assets		**66**	47	-
Other noncurrent assets - net		**3,095**	-	-
Loans payable		**(2,344)**	-	-
Accounts payable and accrued expenses		**(9,951)**	(1,233)	(89)
Income and other taxes payable		**(234)**	(63)	(12)
Long-term debt - net of debt issue costs		**(31,952)**	-	-
Deferred tax liabilities		**(116)**	(43)	-
Finance lease liabilities		**(31)**	-	-
Other noncurrent liabilities		**(210)**	-	(36)
Non-controlling interests		**(198)**	-	-
Net assets		**29,418**	1,435	2,045
Cash and cash equivalents		**(1,715)**	(29)	(37)
Mineral rights and evaluation assets		**-**	-	14
Goodwill in subsidiaries	*4, 17*	**70,384**	1,162	4
Investments and advances		**(30)**	-	-
Gain on acquisition of a subsidiary		**-**	-	(121)
Net cash flows		**P98,057**	P2,568	P1,905

c. Changes in liabilities arising from financing activities

	Loans Payable	**Long-term Debt**	**Finance Lease Liabilities**	**Dividends Payable**
Balance as of January 1, 2018	**P149,863**	**P399,492**	**P154,897**	**P4,429**
Changes from Financing Activities				
Proceeds from borrowings	**996,769**	**242,405**	**-**	**-**
Payments of borrowings	**(964,464)**	**(65,591)**	**-**	**-**
Payments of finance lease liabilities	**-**	**-**	**(25,698)**	**-**
Dividends and distributions paid	**-**	**-**	**-**	**(29,706)**
Total Changes from Financing Activities	**32,305**	**176,814**	**(25,698)**	**(29,706)**
The Effect of Changes in Foreign Exchange Rates	**(488)**	**7,951**	**4,510**	**(2)**
Acquisition of Subsidiaries and Other Changes	**2,344**	**33,358**	**8,357**	**29,321**
Balance as of December 31, 2018	**P184,024**	**P617,615**	**P142,066**	**P4,042**

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Dividends Payable
Balance as of January 1, 2017	P189,277	P328,600	P170,240	P3,992
Changes from Financing Activities				
Proceeds from borrowings	848,320	203,715	-	-
Payments of borrowings	(888,378)	(135,975)	-	-
Payments of finance lease liabilities	-	-	(24,924)	-
Dividends and distributions paid	-	-	-	(27,023)
Total Changes from Financing Activities	(40,058)	67,740	(24,924)	(27,023)
The Effect of Changes in Foreign Exchange Rates	644	397	497	-
Other Changes	-	2,755	9,084	27,460
Balance as of December 31, 2017	P149,863	P399,492	P154,897	P4,429

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As of December 31, 2018 and 2017, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 24).

There were no shares offered under the ESPP in 2018 and 2017.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as of the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its ten-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2018 and 2017.

There were no options outstanding as of December 31, 2018.

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

		2018		2017	
	Note	**Number of Share Stock Options**	**Weighted Average Price**	Number of Share Stock Options	Weighted Average Price
Class "A"					
Number of shares at beginning of year		**1,782,790**	**P120.33**	3,712,210	P89.33
Exercised during the year	*24*	**(1,630,873)**	**120.33**	(1,753,747)	58.05
Expired during the year		**(151,917)**	**120.33**	(175,673)	87.08
Number of shares at end of year		**-**	**-**	1,782,790	120.33
Class "B"					
Number of shares at beginning of year		**-**	**-**	316,095	63.35
Exercised during the year	*24*	**-**	**-**	(303,718)	58.05
Expired during the year		**-**	**-**	(12,377)	58.05
Number of shares at end of year		**-**	**-**	-	-

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as of December 31, 2017, the number of the outstanding share stock options and related weighted average price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as of the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The price for options outstanding as of December 31, 2017 was P120.33.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P29, P44 and P29 in 2018, 2017 and 2016, respectively (Notes 27 and 29).

40. 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 FVPL, financial assets at FVOCI, financial assets at amortized cost, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets 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 accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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.

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. The 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 Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and

- changes in the timing of the hedged transactions.

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:

December 31, 2018	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P29,436**	**P28,159**	**P51,765**	**P49,110**	**P49,465**	**P161,404**	**P369,339**
Interest rate	**5.4583% - 10.50%**	**4.9925% - 8.6615%**	**4.0032% - 9.885%**	**4.8243% - 9.885%**	**4.5219% - 9.885%**	**5.1792% - 9.885%**	
Foreign currency-denominated (expressed in Philippine peso)	**1,949**	**2,477**	**2,607**	**1,838**	**33,965**	**12,222**	**55,058**
Interest rate	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**5.5959%**	
Floating Rate							
Philippine peso-denominated	**1,239**	**985**	**1,503**	**2,347**	**726**	**-**	**6,800**
Interest rate	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**BVAL + margin or BSP overnight rate, whichever is higher**	**-**	
Foreign currency-denominated (expressed in Philippine peso)	**23,558**	**20,051**	**26,404**	**14,956**	**99,541**	**8,756**	**193,266**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P56,182	**P51,672**	**P82,279**	**P68,251**	**P183,697**	**P182,382**	**P624,463**

December 31, 2017	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
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 (expressed in Philippine peso)	-	-	-	-	-	25,783	25,783
Interest rate	-	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,304	1,059	545	534	1,379	-	4,821
Interest rate	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2 + margin	-	
Foreign currency-denominated (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

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 P2,001, P1,037 and P1,342 in 2018, 2017 and 2016, 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.

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.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and

- changes in the timing of the hedged transactions.

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

	December 31, 2018		December 31, 2017	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,444**	**P128,529**	US$1,507	P75,302
Trade and other receivables	**842**	**44,237**	411	20,495
Prepaid expenses and other current assets	**17**	**926**	3	124
Noncurrent receivables	**87**	**4,552**	-	16
	3,390	**178,244**	1,921	95,937
Liabilities				
Loans payable	**696**	**36,574**	173	8,630
Accounts payable and accrued expenses	**1,156**	**60,808**	872	43,569
Long-term debt (including current maturities)	**4,722**	**248,324**	2,496	124,644
Finance lease liabilities (including current portion)	**1,499**	**78,799**	1,694	84,563
Other noncurrent liabilities	**166**	**8,722**	158	7,891
	8,239	**433,227**	5,393	269,297
Net foreign currency-denominated monetary liabilities	**(US$4,849)**	**(P254,983)**	(US$3,472)	(P173,360)

The Group reported net gains (losses) on foreign exchange amounting to (P9,714), P241 and (P11,961) in 2018, 2017 and 2016, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2018	**52.58**
December 31, 2017	49.93
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):

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
December 31, 2018	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,031)**	**(P1,835)**	**P2,031**	**P1,835**
Trade and other receivables	**(334)**	**(790)**	**334**	**790**
Prepaid expenses and other current assets	**(8)**	**(16)**	**8**	**16**
Noncurrent receivables	**(30)**	**(77)**	**30**	**77**
	(2,403)	**(2,718)**	**2,403**	**2,718**
Loans payable	**450**	**561**	**(450)**	**(561)**
Accounts payable and accrued expenses	**618**	**1,181**	**(618)**	**(1,181)**
Long-term debt (including current maturities)	**4,016**	**3,517**	**(4,016)**	**(3,517)**
Finance lease liabilities (including current portion)	**785**	**1,050**	**(785)**	**(1,050)**
Other noncurrent liabilities	**16**	**162**	**(16)**	**(162)**
	5,885	**6,471**	**(5,885)**	**(6,471)**
	P3,482	**P3,753**	**(P3,482)**	**(P3,753)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2017	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on 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 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 expenses	526	1,194	(526)	(1,194)
Long-term debt (including current maturities)	2,496	1,747	(2,496)	(1,747)
Finance lease liabilities (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 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 due 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.

December 31, 2018	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	**P243,150**	**P243,150**	**P243,150**	**P -**	**P -**	**P -**
Trade and other receivables - net	**129,893**	**129,893**	**129,893**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,545**	**1,545**	**1,174**	**371**	**-**	**-**
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**254**	**254**	**254**	**-**	**-**	**-**
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**41,994**	**42,021**	**60**	**46**	**127**	**41,788**
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**226**	**247**	**49**	**77**	**121**	**-**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**21,158**	**21,454**	**-**	**2,870**	**16,304**	**2,280**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**14,005**	**14,005**	**9,038**	**4,967**	**-**	**-**
Financial Liabilities						
Loans payable	**184,024**	**184,876**	**184,876**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**145,758**	**145,758**	**145,758**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**2,495**	**2,495**	**1,929**	**566**	**-**	**-**
Long-term debt (including current maturities)	**617,615**	**783,230**	**89,195**	**82,220**	**400,027**	**211,788**
Finance lease liabilities (including current portion)	**142,066**	**169,173**	**27,042**	**29,698**	**76,222**	**36,211**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	**13,217**	**15,710**	**-**	**1,777**	**9,330**	**4,603**

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 - net" accounts)	333	333	271	62	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	170	170	170	-	-	-
AFS financial assets (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	42,268	42,314	246	41,731	309	28
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" 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 - net" 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, deferred income 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 when 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.

Investment in Debt Instruments
The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality
In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

The credit quality of financial assets is being managed by the Group using internal credit ratings. Credit quality of the financial assets were determined as follows:

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and non-current receivables and deposits.

Receivables with high probability of delinquency and default were fully provided with allowance for impairment losses.

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

	Note	**2018**	2017
Cash and cash equivalents (excluding cash on hand)	*8*	**P239,619**	P203,180
Trade and other receivables - net	*9*	**129,893**	116,040
Derivative assets	*11, 18*	**1,545**	333
Financial assets at FVOCI	*11, 13*	**206**	-
Financial assets at amortized cost	*11, 13*	**226**	-
AFS financial assets	*11, 13*	**-**	531
Noncurrent receivables and deposits - net	*18*	**21,158**	14,543
Restricted cash	*11, 18*	**14,005**	8,634
		P406,652	P343,261

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2018					
	Financial Assets at Amortized Cost					
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P239,619**	**P -**	**P -**	**P -**	**P -**	**P239,619**
Trade and other receivables	**129,893**	**-**	**13,196**	**-**	**-**	**143,089**
Derivative assets	**-**	**-**	**-**	**1,545**	**-**	**1,545**
Investment in debt instruments at FVOCI	**-**	**-**	**-**	**-**	**206**	**206**
Investment in debt instruments at amortized cost	**40**	**186**	**-**	**-**	**-**	**226**
Noncurrent receivables and deposits	**21,158**	**-**	**493**	**-**	**-**	**21,651**
Restricted cash	**9,038**	**4,967**	**-**	**-**	**-**	**14,005**

The aging of receivables is as follows:

December 31, 2018	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P52,659**	**P23,010**	**P15,218**	**P90,887**
Past due:				
1 - 30 days	**8,450**	**1,048**	**338**	**9,836**
31 - 60 days	**2,800**	**3,398**	**9**	**6,207**
61 - 90 days	**1,071**	**1,710**	**2**	**2,783**
Over 90 days	**11,514**	**21,091**	**771**	**33,376**
	P76,494	**P50,257**	**P16,338**	**P143,089**

December 31, 2017	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P49,017	P20,061	P17,996	P87,074
Past due:				
1 - 30 days	5,617	1,042	131	6,790
31 - 60 days	1,922	552	20	2,494
61 - 90 days	965	783	14	1,762
Over 90 days	10,475	18,879	1,532	30,886
	P67,996	P41,317	P19,693	P129,006

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

The Group's cash and cash equivalents, derivative assets, financial assets at FVOCI, financial assets at amortized cost and restricted cash are placed with 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 (financial assets at FVPL and 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 BSP, is not subject to externally imposed capital requirements.

41. Financial Assets and Financial Liabilities

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

	December 31, 2018		December 31, 2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P243,150**	**P243,150**	P206,073	P206,073
Trade and other receivables - net	**129,893**	**129,893**	116,040	116,040
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,545**	**1,545**	333	333
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**254**	**254**	170	170
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**41,994**	**41,994**	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**-**	**-**	42,268	42,268
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**226**	**226**	-	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	**21,158**	**21,158**	14,543	14,543
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**14,005**	**14,005**	8,634	8,634
Financial Liabilities				
Loans payable	**184,024**	**184,024**	149,863	149,863
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**145,758**	**145,758**	131,320	131,320
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**2,495**	**2,495**	3,487	3,487
Long-term debt (including current maturities)	**617,615**	**623,959**	399,492	419,198
Finance lease liabilities (including current portion)	**142,066**	**142,066**	154,897	154,897
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	**13,217**	**13,217**	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.

Financial Assets 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 5.2% to 7.1% and 2.4% to 5.7% as of December 31, 2018 and 2017, respectively. The discount rates used for foreign currency-denominated loans range from 2.5% to 3.0% and 1.7% to 2.2% as of December 31, 2018 and 2017, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments
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 that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

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

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges as of December 31, 2018:

	Maturity			
	1 Year or Less	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk				
Currency forwards				
Notional amount	US$15	US$ -	US$ -	US$15
Average forward rate	P54.27	-	-	
Call spread swaps				
Notional amount	US$22	US$65	US$220	US$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US$ -	US$ -	US$120	US$120
Strike rate	-	-	P54.31	
Fixed interest rate	5.80%	5.80%	5.80%	

The following are the amounts relating to hedged items as of December 31, 2018:

	Change in Fair Value Used for Measuring Hedge Ineffectiveness	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk			
US dollar-denominated borrowings	P11	P -	(P77)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	1,020	(538)	419

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments as of December 31, 2018:

	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk:									
Currency forwards	US$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other income (charges)
Call spread swaps	307	386	332	Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	-	(183)	-	70	Interest expense and other financing charges, and Other income (charges)
Foreign currency and interest rate risk:									
Cross currency swap	120	-	377	Other noncurrent liabilities	(1,020)	598	252	-	Interest expense and other financing charges, and Other income (charges)

No ineffectiveness was recognized in the 2018 consolidated statement of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	Hedging Reserve	**Cost of Hedging Reserve**
Balance as of January 1, 2018	P -	P -
Changes in fair value:		
Foreign currency risk	(11)	(187)
Foreign currency risk and interest rate risk	(1,020)	598
Amount reclassified to profit or loss	263	77
Tax effect	230	(146)
Balance as of December 31, 2018	(P538)	P342

The Group has no outstanding derivative instruments accounted as cash flow hedges as of December 31, 2017.

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, foreign currency and commodity derivatives entered into by the Group.

Interest Rate Swap
As of December 31, 2018 and 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 P1,104 and P1,563 as of December 31, 2018 and 2017, respectively.

Currency Forwards
The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$912 and US$1,283 as of December 31, 2018 and 2017, and with various maturities in 2019 and 2018, respectively. The negative fair value of these currency forwards amounted to P297 and P445 as of December 31, 2018 and 2017, respectively.

Currency Options
As of December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US$370, and with various maturities in 2019. The negative fair value of these currency options amounted to P10 as of December 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 various maturities in 2019. 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 1,500 metric tons as of December 31, 2018. The negative fair value of these swaps amounted to P10 as of December 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 2019 and 2018. Under the agreements, 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 17.0 and 42.6 million barrels as of December 31, 2018 and 2017, respectively. The net positive (negative) fair value of these swaps amounted to P489 and (P1,177) as of December 31, 2018 and 2017, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, 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 December 31, 2018 and 2017. The positive fair value of these swaps amounted to P96 and P62 as of December 31, 2018 and 2017, respectively.

Commodity Options
As of December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as of December 31, 2018.

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

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$187 and US$169 as of December 31, 2018 and 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 positive fair value of these embedded currency forwards amounted to P87 and P93 as of December 31, 2018 and 2017, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P805, (P3,665) and (P616) in 2018, 2017 and 2016, respectively (Note 32).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2018	2017
Balance at beginning of year	**(P3,154)**	(P2,391)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(453)**	-
Not designated as accounting hedge	**853**	(3,665)
	(2,754)	(6,056)
Less fair value of settled instruments	**(1,804)**	(2,902)
Balance at end of year	**(P950)**	(P3,154)

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 (Note 3).

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

	December 31, 2018			December 31, 2017		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,545**	**P1,545**	P -	P333	P333
Financial assets at FVPL	**-**	**254**	**254**	-	170	170
Financial assets at FVOCI	**1,019**	**40,975**	**41,994**	-	-	-
AFS financial assets	**-**	**-**	**-**	1,002	41,266	42,268
Financial Liabilities						
Derivative liabilities	**-**	**2,495**	**2,495**	-	3,487	3,487

The Group has no financial instruments valued based on Level 3 as of December 31, 2018 and 2017. In 2018 and 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.

42. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987 (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or one month from the date of such commissioning or testing, whichever comes earlier as certified by National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCPC has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017 and September 26, 2017, respectively. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LPPC was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LPPC's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LPPC to SCPC. On July 13, 2018, BOI granted the SCPC's request to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 commenced on March 26, 2018.

On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPC, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPC and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises". The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMC Global for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.

- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-Pioneer Status.

- On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 300 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for three years from December 2018 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On June 25, 2015, BOI approved the amendments on the registration which includes the downgrade of registered capacity from 600MW to 300MW and the extension of start of commercial operation date to December 2019. However, the ITH reckoning date remains to be the same (December 2018).

  On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10MW BESS Project. The BESS Facility provides 10MW of interconnected capacity and enhances the reliability of the Luzon grid using the Advancion energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for six years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration.

- On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20MW Kabankalan Advancion Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for six years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.

<u>License Granted by the ERC</u>
On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the Electric Power Industry Reform Act of 2001 (EPIRA), which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMFB

<u>SMFI</u>
SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of EO No. 226, the projects are entitled, among others, to the following incentives:

- *New Producer of Hogs*. SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

  SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts. The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  Because of the significant changes and developments in the capacity requirements of both plants, as well as the change of project site for the proposed Quezon Poultry Project, the original project proposals are no longer feasible, thus the need to revise the business plans. On September 19, 2018, SMFI submitted to the BOI request for the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082 and voluntarily surrendered the above BOI Certificates of Registration.

  On October 10, 2018, the BOI approved the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082.

  On February 15, 2019, SMFI submitted its new applications for registration of the Davao and Quezon Poultry Projects reflecting the revised project proposals. The applications are currently subject to the evaluation and approval of the BOI.

- *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Great Food Solutions project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the Authority of Freeport Area of Bataan (AFAB) as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057 valid for the year 2017. On March 6, 2018, the AFAB issued its Certificate of Registration No. 2018-096 for Bataan Feedmill Project, valid for the year 2018.

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

<u>GBGTC</u>
GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in EO No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

<u>SMMI</u>
SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in EO No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On November 9, 2017, the BOI approved the change in the start date of the ITH entitlement of the flour mill expansion project to December 2018 or actual start of commercial operations, whichever is earlier.

<u>PF-Hormel</u>
PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in EO No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

c. Petron

Refinery Master Plan 2 (RMP-2) Project
On June 3, 2011, the BOI approved Petron's application under the Downstream Oil Industry Deregulation Act (RA No. 8479) as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.

- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

- Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

- Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

- Exemption from real property tax on production equipment or machinery.

- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH in 2016, 2017 and 2018.

On August 11, 2017, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2016 Income Tax Return. On June 20, 2018, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2017 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits in 2018, 2017 and 2016.

d. SMCSLC

SMCSLC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

   - *Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga).* The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.

   - *Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the sales/revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Additional Deduction for Labor Expense.* For the first five years from registration, SMCSLC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, SMCSLC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products in its Main Office located at Tondo, Manila was granted with Registration No. 2013-068. In 2015, SLHBTC also registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations, whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier, but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Tondo and Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

ii. *Additional Deduction from Taxable Income.* SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.

iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment.* Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:

- they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
- the equipment is reasonably needed and will be exclusively used in the registered activity; and
- prior BOI approval is obtained for the importation as endorsed by the DOE.

iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.

vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:

- at least 70% of production is imported;
- such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
- all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.

vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.

viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.

ix. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operation and/or start of date of registration.

f. MTC

MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *Operation of Oil Tanker Vessel (MTC Apitong, 2,993GT).* The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT).* The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional Deduction for Labor Expense.* For the first five years from registration, MTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

g. BTC

BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT).* The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT)*. The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense.* For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

h. NTC

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT). The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense.* For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

i. SMNCI

On January 15, 2018, SMNCI was registered with the BOI as a new producer of cement on a non-pioneer status. SMNCI's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

i. ITH for four years from January 2023 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 22 and its Implementing Rules and Regulation.

iii. Additional deduction from taxable income of 50% of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the requirements as stated in the BOI Certificate.

iv. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.

v. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.

vi. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration.

vii. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.

viii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

43. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock; and, (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motion while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner. On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. On March 14, 2019, counsels for SMC, GSMI and SMFB received a copy of the Motion for Reconsideration of the decision of the SEC Special Hearing Panel dated March 6, 2019. SMC, GSMI and SMFB will file their respective comments on the Motion for Reconsideration no later than March 29, 2019.

- Penalties for Late Filing

On March 20, 2012, the Parent Company was assessed by the Corporate Finance Department of the SEC (SEC-CFD) for a penalty amounting to P769, in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) relating to the purchase by the Parent Company of the shares in Manila Electric Company. The Parent Company filed an appeal from the order of the SEC-CFD to the SEC *En Banc* on April 17, 2012.

On November 21, 2017, the SEC *En Banc* rendered a Decision denying the appeal of the Parent Company.

On December 7, 2017, the Parent Company filed a petition for review of the Decision of the SEC *En Banc* to set aside the imposition of the penalty, with an urgent application for issuance of ex parte temporary restraining order and/or writ of preliminary injunction to enjoin the SEC from enforcing the said Decision.

In a Decision dated December 20, 2018, the Court of Appeals ruled in favor of the Parent Company that the penalty imposed by the SEC was in violation of Section 54.1 (ii) of the Securities Regulation Code.

The issue in the petition filed by the Parent Company is whether the SEC *En Banc* erred in affirming the respondent Corporate Finance Department's imposition upon petitioner SMC of the fine of P769 for late filing of SEC Forms 23-A and B, and in not applying the limitation prescribed under Section 54.1 (ii) of the SEC.

In view of the favorable decision, the penalty was reduced to P3. The SEC has filed a manifestation in the Court of Appeals that it will no longer appeal the said Decision, and accordingly the decision of the Court of Appeals became final and executory.

- Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA Case Nos. 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA Case No. 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA Case Nos. 7052 and 7053) and claim for refund (CTA Case No. 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA Case No. 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA Case Nos. 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". The Parent Company's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against the Parent Company, especially in view of the Parent Company's pending claims for refund.

As of December 31, 2018, the BIR has taken no further action on the matter.

On July 24, 2009, the Parent Company filed its third claim for refund with the CTA (3rd Division), under CTA Case No. 7953, also in relation to the contested assessments. As mentioned later in this Note, CTA Case No. 7953 was consolidated with CTA Case No. 7973 filed by SMB, which consolidated cases were subsequently decided in favor of the Parent Company and SMB by the CTA Third Division, ordering the BIR to refund to them the joint amount of P934.

On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company's counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period of December 1, 2005 to July 31, 2007, and P782 for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the Court of Tax Appeals, the Parent Company filed a motion for execution in CTA Cases Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 representing refund of excess taxes erroneously collected for the period of February 2, 2004 to November 30, 2005; and another and separate motion for execution in CTA Case No. 7708 on the final judgment of P926 for the period of December 1, 2005 to July 31, 2007. These motions for execution, to which the Commissioner of Internal Revenue offered no opposition, are pending resolution in the First and Second Divisions of the CTA.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

Filed by SMB

SMB filed ten claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - docketed as CTA Case No. 9513 (December 2016);

(i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - docketed as CTA Case No. 9743 (December 2017); and

(j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 - docketed as CTA Case No. 10000 (December 2018).

CTA Case No. 7973, which was consolidated with CTA Case No. 7953, had been decided in favor of SMB by the Third Division, ordering the BIR in the consolidated cases to refund to SMC and SMB the joint amount of P934, which decision was appealed by the BIR before the CTA *En Banc*. The CTA *En Banc* affirmed the Decision of the Third Division and, subsequently, the BIR filed a Motion for Reconsideration, which was denied. The BIR elevated the CTA *En Banc* decision to the Supreme Court by way of a petition for review, which was docketed thereat as G.R. No. 232404. The petition was denied by the Supreme Court on September 11, 2017, thereby affirming the decision of the CTA *En Banc*. On January 23, 2019, after the motion for reconsideration filed by the Office of the Solicitor General was denied and the Supreme Court remanded the cases to the Court of Tax Appeals, SMC/SMB filed a motion for execution with the CTA. This motion is pending with the CTA Second Division.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division, ordering the BIR to refund the amount of P730. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the Court of Tax Appeals, SMB filed a motion for execution with the CTA. This motion is pending with the CTA Third Division.

CTA Case No. 8591 was decided in favor of SMB by the Second Division. The BIR was ordered to refund to SMB the amount of P740. On appeal to the CTA *En Banc*, the latter affirmed the decision of the division. The BIR filed a motion for reconsideration, which was denied by the CTA *En Banc*. The BIR, through the Office of the Solicitor General, appealed the CTA *En Banc* decision to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 232776. On February 21, 2018, the Supreme Court denied the petition for review and affirmed the decision of the CTA *En Banc*. Subsequently, the Office of the Solicitor General filed a motion for reconsideration, which was denied with finality on July 23, 2018. As soon as the case is remanded by the Supreme Court to the Court of Tax Appeals, SMB will file a motion for execution with the CTA Second Division.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761, which was appealed by the BIR to the CTA *En Banc*. On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. The CIR's motion for reconsideration is pending in the CTA *En Banc*.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the CIR filed a motion for reconsideration on the aforesaid decision, to which motion SMB filed an opposition. The motion was denied by the CTA *En Banc* in a resolution dated January 24, 2019.

In CTA Cases Nos. 9223, 9513 and 9743, after the parties filed their memoranda, the cases were deemed submitted for decision.

CTA Case No. 10000 will be scheduled for pre-trial after the respondent BIR Commissioner shall have filed his answer to SMB's petition for review.

Filed by GSMI

CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 in Case No. 8953, and P133 in Case No. 8954 representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessments and collection cases arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol. This case is still pending with the CTA.

- Deficiency Tax Liabilities

IBI

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment (FDDA) issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motions for Reconsideration, which were denied by CTA *En Banc* in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Certiorari on September 7, 2018. The petitions of IBI and the BIR are pending in the Supreme Court.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc* (docketed as CTA EB No 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic deficiency tax, in the amount of P110, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA *En Banc* did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 in light of the amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA *En Banc* has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. An application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending for resolution by the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to the CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three (3) Divisions of the Court. On December 18, 2018, the CTA First Division issued a Resolution admitting IBI's Formal Offer of Evidence and resetting the presentation of evidence by the BIR on March 5, 2019.

SMFI

i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand /Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand /Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

The case is now submitted for decision of the CTA First Division.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on certiorari dated December 5, 2012. On July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases are still pending as of December 31, 2018.

- Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour TRO and Verified Applications for 20-day TRO and Writ of Preliminary Injunction. In its complaint, Petron seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

Petron alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with Petron.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. As of December 31, 2018, the case was under judicial dispute resolution proceeding before the court.

- Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 ("CA Decision"). In the CA decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 ("CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision dated December 19, 2017 and the July 12, 2018 CA Resolution. To date, PSALM's petition is still pending with the Supreme Court.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City which scheduled the Pre-Trial Conference on May 11, 2018. Meanwhile, prior to the scheduled Pre-Trial Conference, SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an Order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said Order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. The issue is now pending resolution with the RTC.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon expiry of the IPPA agreement in 2022.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP administrator for the Ilijan Power Plant.

- Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. Unfortunately, the Supreme Court denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of "*League of Cities vs. Commission of Elections*" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. This case is still pending with the Supreme Court.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's complaint for trademark infringement and unfair competition against Tanduay Distillers, Inc. (TDI) filed with the RTC, arising from TDI's distribution and sale of "Ginebra Kapitan" and use of a bottle design similar to that used by GSMI. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court. These cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224. This case is still pending with the Supreme Court.

- Imported Industrial Fuel Oil

SLHBTC has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 or one and one-half times of the assessed amount of P82 representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

By Order dated September 25, 2018, the case was transferred to the CTA's First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As of December 31, 2018, the case is still pending with the CTA.

- Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partially and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount US$60. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons, in relation to acts that they have allegedly committed in violation of Section 3(e) of RA No. 3019, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (Team Sual), relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of RA 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

- Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignation without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignation case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and Team Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

- TRO Issued to Meralco

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 27 and May 9, 2014. On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its Decision dated November 7, 2017 ("Decision"), granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL, declaring the aforesaid ERC Orders null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid Motions. On June 2018, the intervenors filed their respective Motions for Reconsideration of the said Resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018. To date, these motions for Reconsideration remain pending with the Court of Appeals.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322, plus interest.

- System Loss Charge

  In 2008, Meralco filed a petition for dispute resolution against PEMC, National Transmission Corporation (TransCo), NPC and PSALM seeking, among others, the refund of the transmission line loss components of the line rentals associated with PSALM/NPC bilateral transactions from the start of the WESM operations and Transition Supply Contract (TSC) implemented in 2006. In this case, the ERC concluded that Meralco was being charged twice considering that it already paid line rental to the WESM beginning June 2006. Hence, the ERC ordered PSALM/NPC to refund Meralco the 2.98% system loss charge embedded in the NPC Time-of-Use ("NPC TOU") rate (Meralco vs. PSALM, NPC, TransCo).

  On March 4, 2013, the ERC issued a subsequent order directing Meralco (i) to collect this system loss charge from the Successor Generating Companies (SGCs), which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs. PSALM appealed the ERC's March 4, 2013 order to the Court of Appeals.

  In compliance with the ERC's March 4, 2013 order, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC (including SMEC, SPPC and MPPCL). On September 20, 2013, SMEC, SPPC and MPPCL jointly with the other SGCs filed a Motion to Dismiss before the ERC, which to this day remains unresolved by the ERC.

- Validity of Concession Agreement with ALECO

  The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed on December 16, 2014 by a certain group of persons headed by an individual who claims to be the president of ALECO (the "Appellants"), against APEC and its former general manager (the "Defendants"), enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global that was subsequently assigned to APEC. The foregoing Complaint also questioned the validity of the Concession Agreement due to alleged oppressive and disadvantageous provisions therein. On September 29, 2015, the trial court upheld the validity of the Concession Agreement and dismissed the Complaint. As a result, the Appellants filed an appeal with the Court of Appeals. On November 23, 2016, the Court of Appeals issued a decision ("November 2016 Decision") reversing the decision of the trial court on the ground that no pre-trial conference was conducted and ruled that the case should be remanded back to conduct the pre-trial conference and for the case to be resolved with dispatch in accordance with the Rules of Court. After motion for reconsideration from Defendants, the Court of Appeals sustained its November 2016 Decision on June 26, 2018.

  To date, the Defendants have not received any order from the trial court on the schedule of the pre-trial conference.

b. *EPIRA*

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2018.

c. *Commitments*

The outstanding purchase commitments of the Group amounted to P127,366 as of December 31, 2018.

Amount authorized but not yet disbursed for capital projects is approximately P197,559 as of December 31, 2018.

d. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries, associates and joint ventures to Philippine peso were closing rates of P52.58 and P49.93 in 2018 and 2017, respectively, for consolidated statements of financial position accounts; and average rates of P52.69, P50.40 and P47.48 in 2018, 2017 and 2016, respectively, for income and expense accounts.

e. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

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