

COVER SHEET

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S. E. C. Registration Number

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(Company's Full Name)

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

SEC FORM

Preliminary Information Statement

2nd Tuesday of June

1	2
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Month

3	1
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Day

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FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I. D.

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SAN MIGUEL CORPORATION

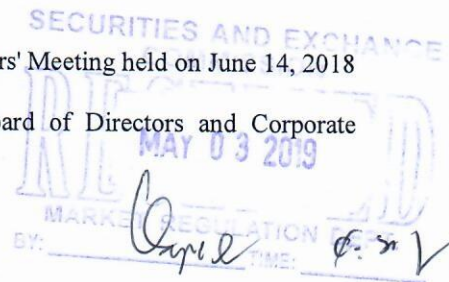
NOTICE OF REGULAR MEETING OF STOCKHOLDERS

June 11, 2019

The Regular Meeting of the Stockholders of San Miguel Corporation will be held on **Tuesday, June 11, 2019 at 2:00 P.M.** at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on June 14, 2018
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Approval of Directors' Fees for 2018
6. Appointment of External Auditors
7. Election of the Board of Directors
8. Other Matters
9. Adjournment



Minutes of the 2018 Regular Stockholders' Meeting and resolutions of the Board of Directors beginning January 1, 2018 will be available for examination during office hours at the Office of the Corporate Secretariat.

The deadline for submission of proxies is on **May 27, 2019**. For corporations, proxies must be accompanied by its Corporate Secretary's sworn certification stating the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on **June 3, 2019** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines. For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 A.M. and the registration booths will be closed at 2:15 P.M.

Virgilio S. Jacinto
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

SECURITIES AND EXCHANGE
COMMISSION
MAY 03 2019
[Signature] *[Signature]*

1. Check the appropriate box:
☒ Preliminary Information Statement
☐ Definitive Information Statement
2. Name of Registrant as specified in its charter **SAN MIGUEL CORPORATION**
3. Province, country or other jurisdiction of incorporation or organization **Philippines**
4. SEC Identification No. **PW 000277**
5. BIR Tax Identification No. **000-060-741-000**
6. Address of principal office Postal Code
No. 40 San Miguel Avenue, Mandaluyong City 1550
7. Registrant's telephone number, including area code **(02) 632-3000**
8. Date, Time and Place of the meeting of security holders
**Tuesday, June 11, 2019 at 2:00 P.M.
Ballroom, Valle Verde Country Club, Inc.,
Capt. Henry P. Javier St., Bo. Oranbo, Pasig City**
9. Approximate date on which the Information Statement is first to be sent or given to security holders
May 10, 2019
10. Name of Person Filing the Statement: **San Miguel Corporation**
Address: **40 San Miguel Ave., Mandaluyong City 1550**
Telephone No.: **(02) 632-3000**

11. Securities registered pursuant to Sections 8 and 12 of the SRC

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding and approximate Debt Outstanding (as of March 31, 2018)
Common Shares	2,383,896,588
Series 1 Preferred Shares	279,406,667
Series "2-A" Preferred Shares	0
Series "2-B" Preferred Shares	90,428,200
Series "2-C" Preferred Shares	255,559,400
Series "2-D" Preferred Shares	89,333,400
Series "2-E" Preferred Shares	134,000,100
Series "2-F" Preferred Shares	223,333,500
Series "2-G" Preferred Shares	66,666,600
Series "2-H" Preferred Shares	164,000,000
Series "2-I" Preferred Shares	<u>169,333,400</u>
TOTAL	3,855,957,855

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

Yes [☒] No [☐]

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

Philippine Stock Exchange

- (a) **Common Shares**
- (b) **Series "1" Preferred Shares**
- (c) **Series "2" Preferred Shares – 2-A¹**
- (d) **Series "2" Preferred Shares – 2-B**
- (e) **Series "2" Preferred Shares – 2-C**
- (f) **Series "2" Preferred Shares – 2-D**
- (g) **Series "2" Preferred Shares – 2-E**
- (h) **Series "2" Preferred Shares – 2-F**
- (i) **Series "2" Preferred Shares – 2-G**
- (j) **Series "2" Preferred Shares – 2-H**
- (k) **Series "2" Preferred Shares – 2-I**

¹ Subject to trading suspension following their redemption on September 21, 2015

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

The annual stockholders' meeting of **San Miguel Corporation** (the "Company" or "SMC") will be held at the **Ballroom, Valle Verde Country Club, Inc., Capt. Henry P. Javier St., Bo. Oranbo, Pasig City** on **June 11, 2019 at 2:00 p.m.** The complete mailing address of the principal office of the Company is No. 40 San Miguel Avenue, Mandaluyong City, 1550, Metro Manila, Philippines.

The information statement is first to be sent to security holders approximately on **May 10, 2019.**

YOU ARE NOT REQUESTED TO SEND US A PROXY.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of the Revised Corporation Code, stockholders dissenting from and voting against the proposed corporate action specified in Section 80 of the Revised Corporation Code, may, within thirty (3) days, from the date on which the vote was taken, exercise the right of appraisal by making a written demand on the Company for payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action. These specific corporate actions are as follows: (a) amendment to the corporation's articles and By-laws which has the effect of (i) changing and restricting the rights of any shareholder or class of shares, (ii) authorizing preferences in any respect superior to those of outstanding shares of any class, or (iii) extending or shortening of term of corporate existence; (b) sale, lease, mortgage or other disposition of all or substantially all of the corporation's assets; (c) merger or consolidation; and (d) investment of corporate funds in another corporation or business or for any purpose other than its primary purpose.

There are no corporate matters or actions at the 2019 annual stockholders' meeting that will entitle dissenting stockholders to exercise their right of appraisal as provided by Title X and other relevant provisions of the Revised Corporation Code.

SOLICITATION INFORMATION

The Company is not soliciting proxies. A proxy form is provided to the stockholders of the Company and included in this Information Statement.

Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office. None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of March 31, 2019, the Company had the following outstanding shares of stock:

<u>Title of Each Class</u>	<u>Number of Shares of Common and Preferred Stock Outstanding as of March 31, 2019</u>
Common Shares	<u>2,383,896,588</u>
SUB-TOTAL (Common Shares)	2,383,896,588
Series 1 Preferred Shares	279,406,667
Series “2-A” Preferred Shares	0
Series “2-B” Preferred Shares	90,428,200
Series “2-C” Preferred Shares	255,559,400
Series “2-D” Preferred Shares	89,333,400
Series “2-E” Preferred Shares	134,000,100
Series “2-F” Preferred Shares	223,333,500
Series “2-G” Preferred Shares	66,666,600
Series “2-H” Preferred Shares	164,000,000
Series “2-I” Preferred Shares	<u>169,333,400</u>
SUB-TOTAL (Preferred Shares)	<u>1,472,061,267</u>
TOTAL Outstanding Shares	3,855,957,855

As of March 31, 2019, the following is the foreign ownership of the shares of stock of the Company:

<u>Share Class</u>	<u>Foreign Shares</u>	<u>Percentage of Foreign Ownership</u>	<u>Local Shares / Shares held by Filipinos</u>	<u>Percentage of Filipino Ownership</u>	<u>Total Shares Outstanding</u>
Common	56,656,059	2.21%	2,331,240,529	97.79%	2,383,896,588
Preferred Shares Series 1	0	0.00%	279,406,667	100.00%	279,406,667
Preferred Shares “2-A”	0	0.00%	0	0.00%	0
Preferred Shares “2-B”	283,580	0.31%	90,144,620	99.69%	90,428,200
Preferred Shares “2-C”	1,320,860	0.52%	254,238,540	99.48%	255,559,400
Preferred Shares “2-D”	483,870	0.55%	88,849,530	99.46%	89,333,400
Preferred Shares “2-E”	803,232	0.60%	133,196,868	99.40%	134,000,100
Preferred Shares “2-F”	1,874,372	0.84%	221,459,128	99.16%	223,333,500
Preferred Shares “2-G”	408,275	0.61%	66,258,325	99.39%	66,666,600
Preferred Shares “2-H”	1,356,004	0.83%	162,643,996	99.17%	164,000,000
Preferred Shares “2-I”	2,200,530	1.30%	167,132,870	99.70%	169,333,400
TOTAL	61,386,782	1.59%	3,794,571,073	98.41%	3,855,957,855

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. Only stockholders of record at the close of business on May 10, 2019 will be entitled to vote at the meeting. With respect to the election of directors, in accordance with Section 23, Title III of the Revised Corporation Code of the Philippines, a stockholder may vote the number of common shares held in his name in the Company’s stock books as of May 10, 2019, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided, That the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **number of common shares held on record as of record date multiplied by 15 directors.**

The deadline for submission of proxies is on **May 27, 2019**. Validation of proxies will be on **June 3, 2019** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

Owners of more than 5% of the Company's voting² securities (both common and preferred shares) as of March 31, 2018 are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. Of Shares Held	Percent
Common	Top Frontier Investment Holdings Inc. ³ 5 th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo Zobel, Filipino, Director of the Company, and Ramon S. Ang, Filipino, the President and Chief Operating Officer of the Company, are beneficial owners of 59.96% and 26.03% ⁴ of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	40.80%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	219,123,970	33.07%
Series "2" Preferred Shares	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	1,056,176,690	
Common	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado. ⁵	Filipino	373,623,796 ⁶	9.69%

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the Chief Executive Officer, directors, key officers of the Company, and nominees for election as director as of March 31, 2018:

² Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "2" Preferred Shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.

³ The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2017, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 common shares of the Company which represent about 66.03% of the outstanding common capital stock of the Company.

⁴ As of December 31, 2018, through Privado Holdings, Corp and Master Year Limited, both stockholders of record of Top Frontier.

⁵ As of March 31, 2018.

⁶ Inclusive of 368,140,516 common shares held in the name of Privado Holdings Corp. and 5,483,280 common shares which are lodged with the PDTC.

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr.	3,828,702 (D)		Filipino	3,828,702 (0.10%)
Ramon S. Ang	1,345,429 (D) 368,140,516 (I) ⁷ 5,483,280 (I) ⁸		Filipino	374,969,225 (17.21%)
Leo S. Alvez	10,000 (D) 9,326 (I)		Filipino	19,326 (0.00%)
Aurora T. Calderon	22,600 (D)		Filipino	22,600 (0.00%)
Joselito D. Campos, Jr.	9,149 (D)		Filipino	9,149 (0.00%)
Reynaldo G. David	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez	5,000 (D)		Filipino	5,000 (0.00%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Alexander J. Poblador	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Jose C. de Venecia	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan	5,000 (D)	400,000 (D)	Filipino	5,000 (0.00%)
Margarito B. Teves	5,000 (D)		Filipino	5,000 (0.00%)
Ramon F. Villavicencio	35,000 (D) 9,000 (I)			44,000 (0.00%)
Iñigo Zobel	16,171 (D) 943,230,964 (I) ⁹		Filipino	943,247,135 (39.57%)
Ferdinand K. Constantino	477,692 (D)	200,000 (D)	Filipino	677,692 (0.02%)
Virgilio S. Jacinto	180,830 (D)		Filipino	180,830 (0.00%)
Joseph N. Pineda	62,715 (I)		Filipino	62,715 (0.00%)
Sergio G. Edeza	62 (D)		Filipino	62 (0.00%)

(D) – direct

(I) – indirect

The aggregate number of shares directly owned of record by the Chief Executive Officer, Chief Operating Officer, key officers and directors as a group as of March 31, 2018 is 6,273,648 shares or approximately 0.1627% of the Company's outstanding capital stock.

Voting Trust

There is no person holding more than 5% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change of control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

⁷ Through his 100% shareholdings in Privado Holdings Corp.

⁸ Through his 100% shareholdings in Privado Holdings Corp. which has shares which are lodged with the PDTC.

⁹ Through his 59.96% shareholdings in the common stock of Top Frontier Investment Holdings, Inc.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The names of the incumbent and nominee directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions held in the last five (5) years, are as follows:

Board of Directors

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.....	83	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang.....	65	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza.....	89	Filipino	Director
Leo S. Alvez.....	76	Filipino	Director
Aurora T. Calderon.....	64	Filipino	Director
Joselito D. Campos, Jr.....	68	Filipino	Director
Jose De Venecia, Jr.	82	Filipino	Director
Menardo R. Jimenez.....	86	Filipino	Director
Alexander J. Poblador.....	65	Filipino	Director
Thomas A. Tan.....	65	Filipino	Director
Ramon F. Villavicencio.....	77	Filipino	Director
Iñigo U. Zobel.....	62	Filipino	Director
Reynaldo G. David.....	76	Filipino	Independent Director
Reynato S. Puno.....	78	Filipino	Independent Director
Margarito B. Teves.....	75	Filipino	Independent Director

Eduardo M. Cojuangco, Jr. is the Chairman of the Board and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions in other publicly listed companies: Chairman of the Board and Chief Executive Officer of Ginebra San Miguel Inc.; and Chairman of the Board of San Miguel Food and Beverage, Inc. and Petron Corporation. He is also the Chairman of the Board of ECJ & Sons Agricultural Enterprises, Inc., Eduardo Cojuangco, Jr. Foundation, Inc., San Miguel Northern Cement, Inc., and Northern Cement Corporation, and a Director of Caiñaman Farms, Inc. He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A.

Ramon S. Ang is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee of the Company. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings Inc. and Petron Corporation; President of Ginebra San Miguel, Inc.; Chairman of the Board of Directors of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia) and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is also the Chairman of the Board of San Miguel Brewery Inc.; Chairman of the Board and Chief Executive Officer of, and concurrently the President of, and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman of the Board and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., SEA Refinery Corporation and San Miguel Aerocity Inc.; Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp.; Chairman of the Board of San Miguel Brewery Inc., San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation and Philippine Diamond Hotel & Resort, Inc.; President of San Miguel Northern Cement, Inc. and President and Chief Executive Officer of Northern Cement Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings,

Inc. and Cyber Bay Corporation, President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Estelito P. Mendoza was first elected as a Director of the Company on October 30, 1991 and served until April 21, 1993. He was re-elected as Director of the Company on April 21, 1998 up to the present. He is a Member of the Executive Committee and Audit and Risk Oversight Committee of the Company. He is also a Director of Petron Corporation, Philippine National Bank, and Philippine Airlines, Inc. He was formerly a director of the Manila Electric Company. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office, and was also formerly Chairman of the Board of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law cum laude. He also holds a Master of Laws degree from Harvard Law School.

Leo S. Alvez has been a Director of the Company since February 27, 2002 and a Member of the Audit and Risk Oversight Committee of the Company. He is also a Director of Ginebra San Miguel, Inc., Chairman of its Nominations and Hearing Committee and Member of its Executive Compensation Committee and Audit and Risk Oversight Committee; and a former Director of San Miguel Pure Foods Company, Inc., both of which are publicly listed companies. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

Aurora T. Calderon has been a director of the Company since June 10, 2014. She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of the Company since January 20, 2011. She is a member of the Corporate Governance Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). She is also a member of the Board of Directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, San Miguel Equity Investments Inc., SMC Asia Car Distributors Corp., San Miguel Yamamura Packaging Corp., and San Miguel Aerocity Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Joselito D. Campos, Jr. has been a Director since May 31, 2010. He is a member of the Related Party Transactions Committee of the Company. He is the Managing Director, Chief Executive Officer and member of the Board of Directors of Del Monte Pacific Ltd.; President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman of the Board and Chief Executive Officer of the NutriAsia Group of Companies; Chairman of the Board of Fort Bonifacio Development Corp.; and Vice Chairman of the Board of Ayala Greenfield Development Corp. He is also a Director of FieldFresh Foods (Pvt.) Ltd. He is also the Honorary Consul General in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Member of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and the WWF

(World Wildlife Fund) for Nature - Philippines. He was the former Chairman of the Board and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He graduated with a degree in BS Commerce, major in International Business from the University of Santa Clara, California and a Masters in Business Administration degree from Cornell University, New York.

Jose De Venecia, Jr. is a Director of the Company since March 16, 2017. He was former Speaker of the House of Representatives (from 1992 to 1998, and from 2001 to 2008). Before joining politics, he was an international entrepreneur, engaged in the business of port operations in Saudi Arabia, agriculture in Africa, mass housing in Iraq and oil exploration in the United Arab Emirates. He has a Bachelor of Arts degree in Journalism from the Ateneo de Manila University. He completed his secondary education at De La Salle College, Manila.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and a Member of the Executive Committee and Corporate Governance Committee of the Company. He is also a Director of San Miguel Food and Beverage, Inc., a publicly listed company, and Magnolia, Inc. His other positions include: Chairman of Majent Management and Development Corporation; Chairman of Coffee Bean and Tea Leaf Holdings, Inc., and Meedson Properties Corporation, among others. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

Alexander J. Poblador has been a Director of the Company since September 1, 2009 and a Member of the Related Party Transactions Committee of the Company. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws cum laude, class valedictorian, and Bachelor of Arts in Political Science cum laude. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

Thomas A. Tan was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation and Sakamoto International Packaging Corp. He obtained a degree in Bachelor of Science, major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management degree from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Ramon F. Villavicencio is a Director of the Company since March 15, 2018. Prior to his election as director of the Company, he owns the ICVI Financial Consultancy Services, has ownership interests in JoyToAll Amusement Corporation and is a consultant of Petro Finance Services, Inc. He graduated from De La Salle College with a degree in Bachelor of Science in Commerce and a Masters in Business Administration.

Iñigo Zobel has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He is a Member of the Executive Committee of the Company. He holds the position of Chairman of the Board of Top Frontier Investment Holdings Inc., a publicly listed company. He is also the Chairman of the Board and President of Zygnnet Prime Holdings Inc.; Chairman of the Board of IZ Investment Holdings, Inc. and E. Zobel, Inc.; Director of E. Zobel Foundation, Inc. Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly Chairman (2015-2016), Vice Chairman (since 2016) and President (since 2015) of Manila North Harbour Port, Inc., a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. He was formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He attended Santa Barbara College, California, U.S.A.

Reynaldo G. David has served as an Independent Director of the Company since June 14, 2016. He is the Chairman of the Related Party Transactions Committee and a Member of the Audit and Risk Oversight Committee and Corporate Governance Committee of the Company. He is also an Independent Director of Petron, a publicly listed company, and Tiger Resort, Leisure & Entertainment, Inc. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, *honoris causa*, by the Palawan State University in 2005 and the title Doctor of Humanities, *honoris causa*, by the West Visayas State University in 2009.

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and is the Chairman of the Corporate Governance Committee and a Member of the Audit and Risk Oversight Committee of the Company. He is also an independent director of San Miguel Brewery Hong Kong Ltd. (a company publicly listed in the Hong Kong Stock Exchange) and Union Bank of the Philippines, Inc., and a member of the Board of Commissioners of PT Delta Djakarta Tbk (a company listed in the Indonesia Stock Exchange). He is also the Chairman of the Environmental Heroes Foundation and World Vision; Vice Chairman of the Board of the GMA Kapuso Foundation; and Director of The New Standard newspaper. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1980, 1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit and Risk Oversight Committee and a Member of the Corporate Governance Committee and Related Party Transactions Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, Atlantic Aurum Investments Philippine Corporation, AB Capital Investment Corp., Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of the Board of Think Tank Inc. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Officers

Name	Age	Citizenship	Position
Ferdinand K. Constantino	67	Filipino	Chief Finance Officer and Treasurer
Virgilio S. Jacinto	62	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Joseph N. Pineda	55	Filipino	Senior Vice President – Deputy Chief Finance Officer
Aurora T. Calderon	64	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Sergio G. Edeza	61	Filipino	Senior Vice President – Head of Treasury
Lorenzo G. Formoso III	57	Filipino	Senior Vice President – Head of SMC Infrastructure Business

Ferdinand K. Constantino was a Director of the Company from May 31, 2010 to February 28, 2018. He is the Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions in other publicly-listed companies, as follows: Director of Top Frontier Investment Holdings Inc. and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). He is also the Director and Vice Chairman of the Board of SMC Global Power Holdings Corp., President of Anchor Insurance Brokerage Corporation; Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., Citra Metro Manila Tollways Corporation, San Miguel Aerocity Inc. and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of SMC during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice-President and General Counsel and Compliance Officer of the Company (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Corporate Secretary of Ginebra San Miguel, Inc. and other subsidiaries and affiliates of SMC. He is a Director of Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as General Counsel of the Company in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Mr. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of the Company.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of the Company. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of the Company] since January 2005. He is a director of Philippine Dealing System Holdings, Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Sergio G. Edeza is the Senior Vice President and Head of Treasury of the Company. Prior to joining SMC, Mr. Edeza was a Director of Merchant's Bank (2008), President (2007) and Director (2008) of Money Market Association of the Philippines, Executive Vice President and Treasurer of Rizal Commercial Banking Corporation, Treasury Consultant of YGC Corporate Services, and President and CEO of PhilEXIM Guarantee Corporation. He was also Treasurer of the Republic of the Philippines from February 16, 2001 to February 16, 2004. Mr. Edeza is a Certified Public Accountant and a Career Service Professional. He obtained his Bachelor of Science in Commerce degree and Master of Business Administration degree from the De La Salle University, and was accepted at the John F. Kennedy School of Government at Harvard University.

Lorenzo G. Formoso III is the Senior Vice President and Head of the Infrastructure Business. Mr. Formoso holds various directorships in various local and offshore subsidiaries of the Company. Previously, he was a consultant of the Company for Infrastructure, Transportation and Telecommunications from July 2009 to August 2010. He was previously Assistant Secretary of the Department of Transportation and Communication of the Philippine Government from September 2006 to June 2009 and concurrent Commissioner of the Commission on Information and Communications Technology for the same period. He obtained his Juris Doctor degree from University of California, Davis School of Law and a degree in Bachelor of Arts in Philosophy from the University of the Philippines.

Term of Office

Pursuant to the Company's By-laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office until the next annual election and his successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on June 11, 2019 are as follows:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Leo S. Alvez
4. Aurora T. Calderon
5. Joselito D. Campos, Jr.
6. Jose C. de Venecia, Jr.
7. Menardo R. Jimenez
8. Estelito P. Mendoza
9. Alexander J. Poblador
10. Thomas A. Tan
11. Ramon F. Villavicencio
12. Iñigo Zobel
13. Reynaldo G. David – Independent Director
14. Reynato S. Puno – Independent Director
15. Margarito B. Teves – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Reynaldo G. David
2. Reynato S. Puno – Lead Independent Director
3. Margarito B. Teves

The incumbent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the incumbent directors are attached hereto as **Annexes "A-1", "A-2", and "A-3"**.

The nominees for election as independent directors of the Board of Directors on June 11, 2019 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Reynaldo G. David	Ramon S. Ang	None
Reynato S. Puno	Ramon S. Ang	None
Margarito B. Teves	Ramon S. Ang	None

In approving the nominations for independent directors, the Corporate Governance Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38 and the Manual for Corporate Governance of the Company.

The nominations for the election of all directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before such date that the Board of Directors may fix, provided that such date shall be prior to the stockholders' meeting.

The nominations are forwarded to the Corporate Governance Committee which shall pre-screen the qualifications of the nominees and prepare a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least five thousand (5,000) shares registered in his name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) which are not in the Company's ordinary course of business.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of SMC have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities,

commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in SMC.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and four (4) senior executive officers of the Company are as follows:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total	2019 (estimated)	P233.0 Million	P172.4 Million	P36.2 Million	P441.6 Million
Compensation of	2018	P208.7 Million	P213.3 Million	P46.1 Million	P468.1 Million
the Chief	2017	P197.5 Million	P236.2 Million	P45.9 Million	P479.6 Million
Executive Officer					
and Senior					
Executive					
Officers ¹⁰					
All other officers	2019 (estimated)	P256.0 Million	P72.0 Million	P57.5 Million	P385.5 Million
and directors as a	2018	P233.9 Million	P115.6 Million	P59.1 Million	P408.6 Million
group unnamed	2017	P220.6 Million	P111.5 Million	P53.2 Million	P385.3 Million
Total	2019 (estimated)	P489.0 Million	P244.4 Million	P93.7 Million	P827.1 Million
	2018	P442.6 Million	P328.9 Million	P105.2 Million	P876.7 Million
	2017	P418.1 Million	P347.7 Million	P99.1 Million	P864.9 Million

Section 10 of 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 therefrom 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. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively. In 2018, the members of the Board of Directors of the Company were paid an aggregate amount of ₱72.39 million for 2017.

The Long-Term Incentive Plan for Stock Options (“LTIP”) of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

On March 1, 2007, the Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and 26, 2008, the Company approved the grant of options to 755 executives consisting of 5.777 million shares and to 742 executives consisting of 7.46 million shares, respectively.

As of March 31, 2019, there are no more outstanding options under the LTIP held by the Chief Executive Officer and Senior Executive Officers of the Company, and officers and middle managers as a group.

¹⁰ The Chief Executive Officer and senior executive officers of the Company for 2018, 2017 and 2016 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Virgilio S. Jacinto.

The following are the outstanding, exercised and cancelled options as of relevant year:

	<u>2017</u>	<u>2018</u>	<u>2019</u> (as of March 31, 2019)
Outstanding	1,782,790	0	0
Exercised	2,057,465	1,630,873	0
Cancelled	188,050	151,917	0

There were no employment contracts between the Company and a named executive officer.

There were neither compensatory plans nor arrangements with respect to a named executive officer.

ACTION WITH RESPECT TO REPORTS

The approval of the following will be considered and acted upon at the meeting:

1. Management Report of the Company for the year ended December 31, 2018;
2. Minutes of the 2018 Annual Stockholders' Meeting with the following items:
 - (a) Certification of Notice and Quorum
 - (b) Approval of the Minutes of the Regular Stockholders' Meeting held on June 14, 2018
 - (c) Presentation of the Annual Report
 - (d) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
 - (e) Appointment of External Auditors
 - (f) Election of the Board of Directors
 - (g) Other Matters
 - (h) Adjournment
3. Ratification of all the acts of the Board of Directors and Officers since the 2018 Annual Stockholders' Meeting which include:
 - a) approval of the secondary sale by way of public offering of 887,000,000 common shares of San Miguel Food and Beverage, Inc. held by the Company, with an over-allotment option of 133,050,000 common shares;
 - b) declaration of cash dividends for the common shares, the Series "1", and the Series "2" Preferred Shares;
 - c) appointment of corporate officers; and
 - d) approval of signing authorities and limits.

Minutes of the 2018 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2018 Annual Stockholders' Meeting will be available for examination during office hours at the Office of the Corporate Secretariat.

VOTING PROCEDURES

For the election of directors, the 15 nominees with the greatest number of votes will be elected as directors.

Shareholders vote *viva voce*, unless a motion to cast votes by ballot is made and duly seconded, and approved by the majority of the shareholders present or represented at the meeting as the method of voting for any or all of the proposals or matters submitted to a vote at the meeting.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one vote. In case of election of directors, cumulative voting as set out in page 4 of this Information Statement shall be adopted.

Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretaries with the assistance of the independent auditors and the stock transfer agent of the Company.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

San Miguel Corporation (SMC, the Parent Company), together with its subsidiaries (collectively referred to as the Group), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales that accounts for about 5.9% of the Philippine gross domestic product in 2018.

Originally founded in 1890 as a single brewery in the Philippines, SMC has transformed itself from a market-leading beverage, food and packaging business with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses in fuel and oil, energy, infrastructure, and investment in banking. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefiting from and contributing to, the development and economic progress of the Philippines. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc. (PSE).

In 2007, in light of the opportunities presented by the global financial crisis, the ongoing program of asset and industry privatization of the Philippine government, SMC's strong cash position enhanced by recent divestments and cash flow generated by its established businesses, SMC began an aggressive business diversification program. SMC channeled its resources into what management believed were attractive growth sectors, aligned with the development and growth of the Philippine economy. More than ten years on, SMC's diversification has resulted in a more valuable and profitable mix of sales and operating income. SMC is now better positioned to access capital, take advantage of different growth opportunities and can better mitigate the impact of downturns and business cycles.

Since January 2008, SMC has either directly or through its subsidiaries, made a series of acquisitions in the fuel and oil, energy, infrastructure and banking industries.

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 28,598 regular employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2018. The extensive portfolio of SMC products includes beer, spirits, non-alcoholic beverages (NAB), poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, the SMC

Group contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies among them are Kirin Holdings Company, Limited (Kirin) for beer, Hormel Foods International Corporation (Hormel) for processed meats, Nihon Yamamura Glass Company, Ltd. (NYG), Fuso Machine & Mold Mfg. Co. Ltd. (Fuso) and Can-Pack S.A. (Can-Pack) for packaging products and Korea Water Resources Corporation (K-Water) for its power business.

Description of Businesses

Core Businesses

Food and Beverage

San Miguel Food and Beverage, Inc. (“SMFB”) is a leading food and beverage company in the Philippines. The brands under which SMFB produce, market and sell its products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy*, for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds.

SMFB has three primary operating segments - (i) beer and NAB, (ii) spirits, and (iii) food. The Beer and NAB Segment and the Spirits Segment comprise the beverage business (the “Beverage business”). SMFB operates its Beverage business through San Miguel Brewery Inc. and its subsidiaries (“SMB” or the “Beer and NAB Segment”), and Ginebra San Miguel Inc. and its subsidiaries (“GSMI” or the “Spirits Segment”). The Food business (the “Food Segment”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (SMFI), Magnolia, Inc., (Magnolia) and The Purefoods-Hormel Company, Inc. (Purefoods-Hormel). SMFB serve the Philippine archipelago through an extensive distribution and dealer network and export its products to almost 60 markets worldwide.

Beer and NAB Segment

The Beer and NAB Segment is the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets. Top beer brands in the Philippines include *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light* and *Gold Eagle*. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 128 years and was first produced by La Fabrica de Cerveza de San Miguel, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC. The Beer and NAB Segment also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice and carbonates.

SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, which is SMB’s flagship brand, *Red Horse*, *San Mig Light*, *San Miguel Flavored Beer*, *San Miguel Super Dry*, *San Miguel Premium All-Malt*, *Cerveza Negra*, *San Mig Zero*, and *Gold Eagle*. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

For the NAB business, SMB’s portfolio includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit Drink* (ready-to-drink juice), *San Mig Cola* (carbonates), as well as *Cali*, a sparkling malt-based non-alcoholic drink.

SMB discontinued the production of *Magnolia Purewater* (bottled water) in plastic bottles in line with SMC's initiative to reduce its environmental footprint and support a sustainable business model.

San Miguel Brewing International Limited and its subsidiaries ("SMBIL") also offers the *San Miguel Pale Pilsen* and *San Mig Light* brands in Hong Kong, China, Thailand, Vietnam, Indonesia and most export markets, *Red Horse* in Thailand, China, Hong Kong, Vietnam and selected export markets, and *Cerveza Negra* in Hong Kong, China, Vietnam, Indonesia, United States, Thailand, South Korea and Taiwan, in addition to locally available brands: *Valor* (Hong Kong), *Blue Ice* (Hong Kong), *Dragon* and *Guang's* (South China), *Blue Star* (North China), *WIN Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

Spirits Segment

The Spirits Segment is a leading spirits producer in the Philippines and the largest gin producer internationally by volume. It is the market leader in gin and Chinese wine in the Philippines. GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and other spirits. Ginebra traces its roots to a family-owned Spanish era distillery that introduced the Ginebra San Miguel brand in 1834. The distillery was then acquired by La Tondeña Incorporada in 1924, and thereafter by SMC in 1987 to form La Tondeña Distillers, Inc. (LTDI). In 2003, LTDI was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand.

GSMI has a diverse product portfolio that caters to the varied preference of the local market. Core brands *Ginebra San Miguel* and *Vino Kulafu*, the leading brands in the gin and Chinese wine categories, combined for 97% of GSMI's total revenues. The other products that complete the liquor business of GSMI comprise about 3% of its total revenues. These products are available nationwide while some are exclusively exported to select countries.

GSMI products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum*, *Tondeña Manila Rum*, *Gran Matador Solera*, *Gran Reserva Brandy*, *Gran Matador Gold* and *Añejo Dark Rum 5 years*. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

Food Segment

The Food Segment holds market-leading positions in many key food product categories in the Philippines and offers a broad range of high-quality food products and services to household, institutional and food service customers. The Food Segment has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *La Pacita* for biscuits, and *B-Meg* for animal feeds.

The Food Segment's portfolio includes branded value-added refrigerated meats and canned meats, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes and coffee and coffee-related products (collectively "Prepared and Packaged Food") to integrated feeds ("Animal Nutrition and Health") to poultry and fresh meats ("Protein") as well as flour milling, grain terminal handling, foodservice, franchising and international operations ("Others").

a) ***Prepared and Packaged Food*** - The major operating subsidiaries for the Prepared and Packaged Food business are Purefoods-Hormel, Magnolia and San Miguel Super Coffeemix Co., Inc. (“**SMSCCI**”). Purefoods-Hormel produces and markets value-added refrigerated processed meats and canned meat products and is a 60:40 joint venture with Hormel Netherlands, B.V. which was entered into in 1998. The joint venture agreement sets out the parties’ agreement as shareholders of Purefoods-Hormel, including, among others, provisions on technical assistance and sharing of know-how, the use of trademarks, fundamental matters requiring shareholder or Board approval, exclusivity covenants and restrictions on the transfer of Purefoods-Hormel shares.

Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods*, *Purefoods Tender Juicy*, *Star*, *Higante*, *Purefoods Beefies*, *Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods*, *Star* and *Ulam King* brands.

The dairy, spreads and biscuits business, primarily operated through Magnolia, Inc., manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids, biscuits, flour mixes and cooking oils. Bread spreads include butter, refrigerated and non-refrigerated margarine and cheese sold primarily under the *Magnolia*, *Dari Crème*, *Star* and *Cheezee* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream under the *Magnolia* brand; jelly-based snacks are under the *JellyYace* brand, biscuits under the *La Pacita* brand, while flour mixes, salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand. The margarine brands, *Star* and *Dari Crème*, established in 1931 and 1959 respectively, were acquired in the 1990s.

The coffee business under SMSCCI is a 70:30 joint venture between SMFB and a Singaporean partner, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte. Ltd. SMSCCI imports, packages, markets and distributes coffee mixes and coffee-related products in the Philippines.

In February 2015, the Food Segment entered the biscuits category through the acquisition of the *La Pacita* brand from Felicísimo Martínez & Co., Inc. *La Pacita* products include crackers and cookies in various formats, which are distributed in the Philippines and exported to other countries.

b) ***Animal Nutrition and Health*** - The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines. The operating subsidiary for the Animal Nutrition and Health segment is SMFI. Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands such as B-Meg, B-Meg Premium, Integra, Expert, Dynamix, Essential, Pureblend, Bonanza and Jumbo.

c) ***Protein*** - SMFI is also the operating subsidiary for the Protein segment, which sells poultry and fresh meats products. The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. The poultry business also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors and sells live chickens to dealers.

The fresh meats business breeds, grows and processes hogs and trades beef and pork products. Its operations include slaughtering live hogs and processing beef and pork carcasses into primal and sub-primal meat cuts. These specialty cuts and marinated products are sold in neighborhood meat shops under the well-recognized *Monterey* brand name.

d) **Others** - Flour milling, premixes and baking ingredients, foodservice and franchising together with international operations, are categorized under Others. The bulk of this segment is accounted for by the flour milling business and grain terminal operation.

The flour milling business operates under San Miguel Mills, Inc. (SMMI). SMMI owns Golden Bay Grain Terminal Corporation, which provides grain terminal, warehousing services and grain handling (e.g. unloading, storage, bagging, and outloading) services to clients, and Golden Avenue Corp., which holds investment in real property.

The flour milling business offers a variety of flour products that includes bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pan de sal mix, and rice cake mix. The business pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten in the Philippines for breakfast. Flour products are sold under 19 brand names which enjoy strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

The international operations of the Food Segment are located in Indonesia and Vietnam. PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah) (PTSMPI) is a 75:25 joint venture with PT Hero Intiputra of Indonesia. San Miguel Pure Foods Investment (BVI) Limited, which operates San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN) in Vietnam, is a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPI and SMPFVN are in the business of production and marketing of processed meats which are sold under the Farmhouse and Vida brands in Indonesia and under the Le Gourmet brand in Vietnam.

The foodservice business of the Food Segment is handled by Great Food Solutions (GFS), a group under SMFI. GFS, which services institutional accounts such as hotels, restaurants, bakeshops, fast food and pizza chains, was established in 2002 and is one of the largest foodservice providers in the Philippines. It markets and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour and coffee businesses. In turn, GFS receives a development fee from these businesses for selling their products to foodservice institutional clients.

The Food Division ventured into the franchising business to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. The franchising business, also a group under SMFI, follows a convenience store model under the *San Mig Food Ave* brand, most of which are located in Petron gasoline stations. *Roasters and Fryers* is the newest addition to the Food Division's franchising roster. Launched in October 2017, *Roasters and Fryers* gives its own take on the popular roast chicken, fried chicken, *crispy pata* and *lechon kawali* with top quality meats using *Monterey* and *Magnolia* brands.

Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation (SMYPC) and its subsidiaries, San Miguel Yamamura Packaging International Limited (SMYPIL) and its subsidiaries, San Miguel Yamamura Asia Corporation (SMYAC), SMC Yamamura Fuso Molds Corp. (SYMFC), Can Asia, Inc. (CAI), Mindanao Corrugated Fibreboard, Inc. (Mincorr), and Wine Brothers Philippines Corp., collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines, producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum cans, paper cartons, flexibles packaging, and other packaging products and services such as beverage toll filling for Polyethylene Terephthalate (PET) bottles and aluminum cans. The Packaging Group is the major source of packaging requirements of the other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, Australia and New Zealand, as well as to major multinational corporations in the Philippines, including Coca-Cola Femsa Philippines, Inc., Pepsi Cola Products Philippines, Inc. and Nestle Philippines, Inc.

The Packaging Group holds 14 international packaging companies, particularly, located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and radiant/thermal liners), Australia (trading, wine closures and bottle caps and wine filling services and distribution) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia and Thailand.

SMYPC owns all of the domestic plants of the Packaging Group, except the corrugated carton plant, Mincorr, which is 100% owned by SMC and SMYAC, a joint venture between SMC and NYG. Both Mincorr and SMYAC are being managed by SMYPC. SMYPIL's subsidiaries are the Packaging Group's international facilities.

a) **Glass** - The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities, and one glass and PET mold plant in the Philippines serving the requirements of the beverage, food, pharmaceutical, chemical, personal care and health care industries. The bulk of the glass bottle requirements served by this segment are for the beverage, pharmaceuticals and food industries. SMYAC is the country's most technologically advanced glass manufacturing facility and the largest glass manufacturing facility in the Philippines.

b) **Metal** - The metal business manufactures metal caps, crowns, resealable caps and two-piece aluminum beverage cans for a range of industries that include beer, spirits, soft drinks, condiments and food. The Packaging Group's metal container plant is the only aluminum beverage can plant in the Philippines and pioneered in the production of two-piece cans and ends for the beverage market.

c) **Plastics** - The plastics business provides plastic crates and pallets, plastic poultry flooring, food trays, plastic tubes, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets.

d) **PET** - The PET business produces PET preforms and bottles, plastic caps and handles and offers filling services for PET bottles and aluminum cans.

e) **Paper** – Through Mincorr, a wholly-owned subsidiary of SMC based in Davao, the Packaging group supplies the carton packaging needs of a broad range of manufacturing and agricultural industries.

f) **Flexibles** - Through the Rightpak plant and Malaysian plants, the Packaging Group manufactures flexible packaging for the food, beverage, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor and electronics.

SMYPC formed CAI, a joint venture with Can-Pack S.A., for the modernization of the two-piece aluminum can manufacturing business. Utilizing the know-how and technologies of Can-Pack Group on can manufacturing, CAI is now capable to produce aluminum cans and ends in three categories - regular (standard), sleek, and slim cans. With its aim to introduce various aluminum can-packaging formats to the growing market in the Philippines and the Asia Pacific region, the business has expanded its product line to offer 180 ml aluminum cans in 2018. To-date, CAI is capable of producing six can sizes.

On February 27, 2015, SMYPIL through its Australian subsidiary, SMYV Pty Ltd, has completed the acquisition of the assets and business of Vinocor Worldwide Direct Pty. Ltd. (Vinocor). Vinocor is a market leader in the supply of corks and closures for wine bottles in Australia, with facilities and operations based in Adelaide, South Australia.

On September 1, 2016, SMYA through its new New Zealand subsidiary, SMYE Limited, acquired the assets and business of Endeavour Glass Packaging Limited (In Receivership), a trading company based in Auckland, New Zealand. Thereafter, in 2017, SMYE Limited was amalgamated (or merged) with Cospak Limited, the New Zealand subsidiary of SMYA, with the latter continuing as the amalgamated (or surviving) company.

In 2017, SMYA acquired all of the issued share capital of Portavin Holdings Pty Ltd., Barrosa Bottling Services Pty Ltd. and Best Bottlers Pty Ltd., through its subsidiaries SMYP Pty Ltd., SMYB Pty Ltd and SMYBB Pty Ltd. These acquisitions strengthened SMYA's business in Australia and expanded its product base to include wine filling services, serving the growing wine markets in the Australasia region and in China.

To augment growth of the wine filling business of SMYA, the Packaging Group established Wine Brothers Australasia Pty Ltd in Australia and Wine Brothers Philippines Corp. in the Philippines in 2018. The business is involved in the sale and distribution of wine products in their respective countries.

Moreover, in 2018, SMYA through its subsidiary, SMYJ Pty Ltd. acquired the business assets of JMP Holdings Pty Ltd, a supplier of retail packaging products, transport packaging solutions and other products and services based in Victoria, Australia.

Real Estate

San Miguel Properties Inc. (SMPI) was created in 1990 initially as the corporate real estate arm of SMC. It is the primary property subsidiary of the SMC Group, currently 99.94% owned by SMC.

SMPI is presently engaged in commercial property development, sale and lease of real properties, management of strategic real estate ventures and corporate real estate services.

The first project of SMPI is the SMC Head Office Complex, now considered a landmark and a catalyst in transforming the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

Other residential developments are located in General Trias, Cavite and Sta. Rosa, Laguna.

The Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City, is already operational in 2015.

SMPI, through E-Fare Investment Holdings, Inc., is developing the Mariveles Industrial Estate and Economic Zone. It intends to provide an attractive location for private investments, stimulate regional economic activity, generate employment opportunities and establish forward and backward linkages among industries in and around the economic zone.

SMPI is currently the marketing arm of another industrial estate for medium to heavy industries in Malita, Davao which is being developed by Kyron Landholdings, Inc.

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (Petron), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines. Petron participates in the reseller (service station), industrial, lube and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

Petron owns and manages the most extensive oil distribution infrastructure in the Philippines. Petron has over 2,400 retail service stations in the Philippines and more than 640 retail service stations in Malaysia, as of December 31, 2018. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan Philippines. The refinery has its own piers and two off shore berthing facilities. In 2010, Petron started the upgrade of its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade (RMP-2) which started commercial operation on January 1, 2016. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex which further enhanced its operational efficiencies, converting its fuel oil production into higher value products – gasoline, diesel, jet fuel and petrochemicals, making it comparable to highly complex refineries worldwide. Petron also owns a refinery in Malaysia with a capacity of 88,000 barrels per day.

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. (SMC Global), is one of the leaders in the Philippine power generation industry, controlling 4,197 MW of combined capacity as of December 31, 2018. Through its subsidiaries, SMC Global administers the output produced by Independent Power Producers (“IPPs”) of the following plants: (1) San Miguel Energy Corporation (“SMEC”) for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, (2) Strategic Power Devt. Corp (“SPDC”) for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan, (3) South Premiere Power Corp. (“SPPC”) for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas, pursuant to the Independent Power Producer Administration Agreements (IPPA Agreements) with Power Sector Assets and Liabilities Management Corporation (PSALM).

An Independent Power Producer Administrator (IPPA) under the IPPA Agreement has the right to sell electricity generated by the power plants owned and operated by the IPPs. As an IPPA, SMEC, SPDC and SPPC also have the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the Philippine Wholesale Electricity Spot Market (“WESM”).

SMC Global began acting as an IPPA of the Sual power plant in November 2009, the San Roque power plant in January 2010 and the Ilijan power plant in June 2010. SMC Global sells power through off take agreements directly to customers, including Manila Electric Company and other distribution utilities, electric cooperatives and industrial customers, or through the WESM.

In August 2011, as part of the reorganization of the power-related assets of SMC, SMC Global acquired from SMC its 100% equity interest in San Miguel Electric Corp. (SMELC), which is a grantee of a Retail Electricity Supplier (RES) license issued by the Energy Regulatory Commission of the Philippines (ERC).

In April 2013, SMC Global, through SMC Power Generation Corp., acquired 35% equity stake in Olongapo Electric Distribution Company, Inc. In October 2013, SMC Global was awarded the winning concessionaire for the rehabilitation, operations and maintenance of Albay Electric Cooperative, Inc. located in Albay province which became effective upon confirmation of the National Electrification Administration in November 2013. A wholly-owned subsidiary, Albay Power and Energy Corp. was organized and established for this purpose.

In July 2013, SMC Global through San Miguel Consolidated Power Corporation, a wholly-owned subsidiary, commenced construction works for its 2 x 150 MW coal-fired power plant in Malita, Davao Occidental (Davao Greenfield Power Plant).

In September 2013, SMC Global, through SMC Powergen Inc. (“SPI”), acquired the 4 x 35 MW Co-Generation Solid Fuel-Fired Power Plant located at the Petron Bataan Refinery, Barangay Alangan, Limay, Bataan, (“Limay Co-Gen Power Plant”) from Petron Corporation (“Petron”). On December 23, 2016, the Limay Co-Gen Power Plant was purchased back by Petron from SPI.

In October 2013, SMC Global through SMC Consolidated Power Corporation (SCPC), a wholly-owned subsidiary, commenced construction works for its 4 x 150 MW coal-fired power plant in Limay, Bataan (Limay Greenfield Power Plant). The second 2 x 150 MW of the Limay Greenfield Power Plant was formerly owned by another subsidiary, the Limay Premiere Power Corp., but this was later transferred to SCPC in June 2017. SCPC was granted a RES license by the ERC on August 24, 2016, which gave it the ability to directly contract with contestable customers.

Units 1 and 2, with a combined rated capacity of 300 MW, of the Davao Greenfield Power Plant attained commercial operations on July 26, 2017 and February 26, 2018, respectively. Units 1, 2 and 3 with a rated capacity of 450 MW of the Limay Greenfield Power Plant attained commercial operations on May 26, 2017, September 26, 2017, and March 26, 2018, respectively, while Unit 4 is expected to commence commercial operations in second quarter of 2019.

In November 2014, PowerOne Ventures Energy Inc., a subsidiary of SMC Global, and K-Water entered into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant awarded by PSALM to K-Water.

On June 16, 2016, Meralco Powergen Corporation (“MGen”), a subsidiary of Manila Electric Company (“Meralco”), and Zygnnet Prime Holdings, Inc. (“Zygnnet”) subscribed to 2,500 and 102 common shares of Mariveles Power Generation Corporation (“MPGC”), then a wholly-owned subsidiary of SMC Global, respectively. As a result, the ownership of SMC Global was reduced to 49% of the outstanding capital stock of MPGC while MGen and Zygnnet each owns 49% and 2% equity interest in MPGC, respectively. MPGC intends to develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

On January 25, 2019, the SMC Global subscribed to the remaining 18,314,898 unissued common shares of MPGC, thereby increasing its ownership interest in MPGC from 49.0% to 73.6%, as a result of the waiver by MGen and Zygnnet of their right to contribute additional equity pursuant to the capital call issued by MPGC. On the same date, SMC Global subscribed to an additional 28,929,347 common shares to be issued out of the proposed increase in the authorized capital stock of MPGC upon approval by the SEC.

On March 20, 2018, SMC Global acquired 51% and 49% equity interests in SMCGP Masin Pte. Ltd. (formerly, Masin-AES Pte. Ltd. and hereinafter referred to as “SMCGP Masin”) from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. (MPPCL) and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as “SMCGP Philippines Energy”). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of the 335 MW unit (Unit 3) (Units 1, 2 and 3 are collectively referred to as the “Masinloc Power Plant”), and the 10 MW battery energy storage project (the “Masinloc BESS”), 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 (“Kabankalan BESS”). The MPPCL Assets add 684 MW capacity to the existing portfolio of SMC Global. MPCCL also owns 40% of Alpha Water Realty & Services, Corp. (“Alpha Water”).

As part of the sale, SMC Global also acquired SMCGP Transpower Pte. Ltd. (formerly, AES Transpower Private Ltd. and hereinafter referred to as “SMCGP Transpower”), and SMCGP Philippines Inc. (formerly, AES Philippines Inc. and hereinafter referred to as “SPHI”). SMCGP Transpower was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

On July 13, 2018, Prime Electric Generation Corporation (“PEGC”), a wholly-owned subsidiary of SMC Global, acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water, representing 60% of the outstanding capital stock of Alpha Water. As a result, SMC Global now effectively owns 100% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the MPPCL Assets in Zambales Province is located.

On September 19, 2018, PEGC and Oceantech Power Generation Corporation (“OPGC”), another wholly-owned subsidiary of SMC Global, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

Based on the total installed generating capacities reported in the Energy Regulatory Commission of the Philippines (“ERC”) Resolution No. 04, Series of 2018 (the “ERC Resolution on Grid Market Share Limitation”), SMC Global believes that its combined installed capacity gives it a market share of approximately 19% of the National Grid, 25% of the Luzon Grid and 9% market share of the Mindanao Grid, in each case as of December 31, 2018.

Infrastructure

The infrastructure business, conducted through San Miguel Holdings Corp. (SMHC), consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating toll roads include the South Luzon Expressway (SLEX), Skyway Stages 1 and 2, the Southern Tagalog Arterial Road (STAR), Tarlac-Pangasinan-La Union Toll Expressway (TPLEX), and NAIA Expressway (NAIAx) tollways. Ongoing projects include Skyway Stage 3, Skyway Stage 4, SLEX TR4 and the Mass Rail Transit Line 7 (MRT-7). It also operates and is currently expanding the Boracay Airport. It also has investments in Manila North Harbour Port Inc. (MNHPI) and Luzon Clean Water Development Corporation (LCWDC) for the Bulacan Bulk Water Supply Project.

SLEX / Skyway Stage 1 and 2

As of March 5, 2015, SMHC has a 95% stake in Atlantic Aurum Investments B.V. (AAIBV), a company which has the following shareholdings:

- 80.0% stake in South Luzon Tollway Corporation (SLTC), through MTD Manila Expressways, Inc. (MTDME), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km SLEX, one of the three (3) major expressways that link Metro Manila to Southern Luzon, and SLEX TR4, extending SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province by 56.862 km; and
- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation (CMMTC), through Atlantic Aurum Investments Philippines Corporation (AAIPC), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession rights to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. (CTCII) has an effective 100% interest in Star Infrastructure Development Corporation (SIDC). SIDC holds the 36-year Build-Transfer-Operate (BTO) concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

TPLEX

SMHC, through its subsidiary, Rapid Thoroughfares, Inc. (Rapid), owns a 70.11% equity interest in Private Infra Dev Corporation (PIDC). PIDC is a company which holds a 35-year BTO concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union. The stretch from Tarlac to Pozzorubio, Pangasinan has been operational since December 2017. The last phase from Pozzorubio to Rosario, La Union, is currently under construction.

NAIAx

On May 31, 2013, SMHC incorporated Vertex Tollways Devt. Inc. (Vertex), a company that holds the 30-year BTO concession rights for the construction and operation of the NAIAx – a four lane elevated expressway with end-to-end distance of 5.4 km that will provide access to NAIA Terminals 1, 2 and 3. NAIAx connects to the Skyway system, the Manila-Cavite Toll Expressway (CAVITEX) and the Entertainment City of the Philippine Amusement and Gaming Corporation (PAGCOR). NAIAx became fully operational in December 2016.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. (S3HC), which holds an 80% ownership interest in Citra Central Expressway Corp. (CCEC). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, 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.

On March 15, 2016, AAIBV sold its 100% ownership interest in S3HC to AAIPC.

Skyway Stage 4

Skyway Stage 4 is a proposed 34.8 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 will serve as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project has a concession period of 30 years (from start of operations), with a target completion date by end of 2022. To date, construction has not yet started.

Boracay Airport

SMC, through the 99.92% interest of SMHC in Trans Aire Development Holdings Corp. (TADHC), is undertaking the expansion of Boracay Airport under a 25-year Contract-Add-Operate-and-Transfer concession granted by the Republic of the Philippines (ROP), through the Department of Transportation and Communications (now the Department of Transportation).

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT Corporation (BVI) Limited (ULC BVI), which holds the 25-year Build-Gradual Transfer-Operate-Maintain concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of 22 km mass rail transit system with 14 stations that will start from San Jose del Monte City in Bulacan and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA and a 22 km six lane asphalt highway that will connect the North Luzon Expressway to the intermodal transport terminal in San Jose del Monte City, Bulacan and a 22-km road component from San Jose del Monte City, Bulacan to the Bocaue exit of the NLEX.

As of July 1, 2016, SMC, through SMHC already holds 100% ownership in ULC BVI.

On December 12, 2016, the ROP through the Department of Transportation, gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC Mass Rail Transit 7, Inc. (SMC MRT 7). SMC through SMHC owns 100% of SMC MRT 7.

MNHPI

MNHPI is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010. SMC through SMHC owns 43.33% of MNHPI.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable water to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. SMC through SMHC owns 90% of LCWDC, which will serve as the concessionaire for a period of 30 years (inclusive of the two-year construction period). Phase 1 of this project was completed end of 2018 and started supplying potable water to six (6) Bulacan municipalities as of the first quarter of 2019.

Banking

SMC through SMPI has a current ownership of 39.9% of Bank of Commerce (BOC). BOC is a commercial bank licensed to engage in banking operations in the Philippines.

On December 17, 2018, SMC through SMC Equivest Corporation acquired 5,258,956 common shares of BOC representing 4.69% ownership interest.

Financial Statements

The Audited Consolidated Financial Statements of the Company as of December 31, 2017, including the Company's Statement of Management's Responsibility, and the Notes to the 2017 Audited Consolidated Financial Statements of the Company are attached hereto as **Annex "B"**. The SEC Form 17-Q or the results of the financial position of the Company as of March 31, 2019 (the "First Quarter SEC Form 17-Q") is likewise attached hereto as **Annex "B-1"**

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2018 and as of March 31, 2019 are attached hereto as **Annexes "C" and "C-1"**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

The Parent Company paid the external auditor the amount of P32 million and P11 million, respectively, for its services rendered in 2018 and 2017. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the Company's external auditors. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit and Risk Oversight Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters

The Company's common shares, Series "1" preferred shares and Series "2" preferred shares are listed and traded in the Philippine Stock Exchange. The percentage of public ownership of the Company as of March 31, 2019 is 15.77%.

The Company's high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2019 are as follows:

	2018								2019	
	1 st		2 nd		3 rd		4 th		1 st	
	High	Low	High	Low	High	Low	High	Low	High	Low
Common	152.00	111.60	145.40	134.00	180.10	134.00	175.40	139.00	180.00	144.80
Preferred – 2B	77.50	75.00	78.00	75.20	91.00	75.00	76.45	75.00	75.90	74.00
Preferred – 2C	81.50	75.00	79.95	77.00	80.90	77.50	78.10	75.75	77.40	
Preferred – 2D	77.00	74.50	76.90	74.90	76.00	72.00	75.40	70.00	74.45	71.40
Preferred – 2E	79.00	75.00	76.95	75.05	77.00	73.35	75.45	71.95	75.00	71.30
Preferred – 2F	81.50	77.30	79.50	76.00	77.50	74.50	75.35	70.05	76.80	72.00
Preferred – 2G	78.60	75.00	76.80	75.00	76.50	74.60	75.20	70.30	74.90	71.20
Preferred – 2H	79.60	75.00	78.00	75.00	77.50	72.50	75.00	71.85	74.50	71.00
Preferred – 2I	79.80	76.80	78.90	75.10	77.00	74.50	75.00	70.05	75.00	71.05

	2017							
	1 st		2 nd		3 rd		4 th	
	High	Low	High	Low	High	Low	High	Low
Common	108.00	92.30	111.20	101.50	104.00	96.60	124.50	97.10
Preferred – 2B	78.30	76.00	78.00	76.00	77.00	74.00	78.05	74.50
Preferred – 2C	83.50	79.70	83.00	80.00	82.00	79.40	82.95	80.00
Preferred – 2D	78.50	75.50	78.00	76.00	77.75	75.85	78.50	75.10
Preferred – 2E	79.10	76.40	81.60	77.00	80.00	76.55	80.00	76.25
Preferred – 2F	81.10	78.10	81.30	79.00	82.00	80.00	82.70	79.50
Preferred – 2G	79.50	77.00	79.50	77.00	79.95	78.00	79.95	76.50
Preferred – 2H	79.50	76.60	79.00	77.50	79.70	77.30	79.50	76.15
Preferred – 2I	80.00	77.20	79.50	77.60	80.90	76.55	81.70	77.25

The closing prices as of April 1, 2018, the latest practicable trading date, are as follows:

Common	₱ 173.50
Series "2-B" Preferred	₱ 75.00
Series "2-C" Preferred	₱ 75.50
Series "2-D" Preferred	₱ 71.60
Series "2-E" Preferred	₱ 72.50
Series "2-F" Preferred	₱ 73.75
Series "2-G" Preferred	₱ 73.00
Series "2-H" Preferred	₱ 73.75
Series "2-I" Preferred	₱ 74.45

The approximate number of shareholders as of March 31, 2019 is 35,693.

The top 20 common and preferred stockholders as of March 31, 2019 are as follows:

	STOCKHOLDER NAME	Common	Preferred S1	Preferred S2	Total Shares	% OF O/S
1	Top Frontier Investment Holdings, Inc.	1,573,100,340	0	0	1,573,100,340	40.80%
2	PCD Nominee Corporation (Filipino)	165,427,140	0	767,662,218	933,089,358	24.20%
3	Privado Holdings, Corp.	368,140,516	0	0	368,140,516	9.55%
4	PCD Nominee Corporation	53,696,830	0	288,514,472	342,211,302	8.87%
5	Metroplex Holdings Corporation	0	106,174,534	1,578,000	107,752,534	2.79%
6	Lucena Holdings Corporation	0	89,410,133	1,332,000	90,742,133	2.35%
7	Gingoo Holdings Corporation	1,830,082	83,822,000	1,590,000	87,242,082	2.26%
8	PCD Nominee Corporation (Non-Filipino)	40,127,607	0	8,328,060	48,455,667	1.26%
9	PCGG In Trust For the Comprehensive Agrarian Reform Program	27,636,339	0	0	27,636,339	0.72%
10	San Miguel Brewery Inc. Retirement Plan	0	0	18,206,700	18,206,700	0.47%
11	G & E Shareholdings Inc.	0	0	15,000,000	15,000,000	0.39%
12	Millennium Energy Inc.	10,807,380	0	0	10,807,380	0.28%
13	San Miguel Corporation Retirement Plan FIP	0	0	10,441,700	10,441,700	0.27%
14	San Miguel Corporation Retirement Plan	15,001	0	10,000,000	10,015,001	0.26%
15	San Miguel Corporation Retirement Plan - STP	0	0	7,152,600	7,152,600	0.19%
16	Petron Corporation Employees' Retirement Plan	4,025,000	0	2,000,000	6,025,000	0.16%
17	GSIS Provident Fund	0	0	3,966,700	3,966,700	0.10%
18	Eduardo M. Cojuangco, Jr.	3,828,702	0	0	3,828,702	0.10%
19	Pryce Corporation	0	0	3,789,600	3,789,600	0.10%
20	Sysmart Corporation	3,457,000	0	0	3,457,000	0.09%
	TOTAL	2,252,091,937	279,406,667	1,139,562,050	3,671,060,654	95.20%

The Board of Directors 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

SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	1.11433125
	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
SMC2G	January 12, 2017	March 21, 2017	April 5, 2017	1.23361875
	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 Board of Directors 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 Board of Directors of the Parent Company declared cash dividends at P0.35 per share to all common stockholders of record as of April 5, 2019 to be paid on May 3, 2019.

Description of the following securities of the Group may be found in the indicated Notes to the 2017 audited Consolidated Financial Statements, attached herein as **Annex “B”**:

Equity	Note 24
Share-based transactions	Note 39

There were no securities sold by the Company within the past three (3) years which were not registered under the Securities Regulation Code (SRC), except for the issuance of shares under the LTIP and employee stock purchase plan of the Company in accordance with Section 10.2 of the SRC.

Independent Public Accountants

The accounting firm of R.G. Manabat & Co. served as the Parent Company's external auditors for the last thirteen (13) fiscal years. The BOD will again nominate R.G. Manabat & Co. as the Parent Company's external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the stockholders' meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire.

The Parent Company paid the external auditor the amount of P32 million and P11 million, respectively, for its services rendered in 2018 and 2017.

The stockholders approve the appointment of the Parent Company's external auditors. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. The Parent Company's Audit and Risk Oversight Committee's approval policies and procedures for external audit fees and services are stated in the Parent Company's Manual of Corporate Governance.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders. On April 14, 2010, the Board of Directors amended the Manual pursuant to the Revised Code of Corporate Governance issued by the SEC 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.

UNDERTAKING

The Company will post and make available for download the full version of this SEC Form 20-IS (Definitive Information Statement), together with all its annexes including the 2018 consolidated audited financial statements of the Company on the company website www.sanmiguel.com.ph upon its approval by the Securities and Exchange Commission.

The Company will likewise post or make available for download its interim unaudited financial statements for the first quarter of 2019 on SEC Form 17-Q on the company website www.sanmiguel.com.ph on May 14, 2019.

Upon the written request of a stockholder, the Company undertakes to timely furnish such stockholder with a copy of the full version of this SEC Form 20-IS (Definitive Information Statement), its SEC Form 17-Q for the first quarter of 2019 and/or its SEC Form 17-A, free of charge. Such written request shall be directed to the Office of the Corporate Secretary, 7/F SMC-HOC Building, No. 40 San Miguel Avenue, Mandaluyong City, Philippines, or sent via email at smc_stsc@smg.sanmiguel.com.ph

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on May 2, 2019.

By:

SAN MIGUEL CORPORATION



Virgilio S. Jacinto
Corporate Secretary

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MARGARITO B. TEVES**, Filipino, of legal age, and a resident of 411 Ambuklao Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation ("SMC") and have been its independent director since June 14, 2012.

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
P.J. Lhuillier Group of Companies	Member, Strategic Committee	February 2015 to present
Petron	Independent Director	May 20, 2014 to present
Bank of Commerce	Board Adviser	July 26, 2013 to present
Atlantic Aurum Investments Philippines Corporation	Independent Director	July 19, 2013 to present
AB Capital Investment Corp.	Independent Director	June 29, 2012 to present
The Wallace Business Forum	Managing Director	March 1, 2012 to present
Think Tank	Chairman	1998 to 2000; 2010 to present
Alphaland Balesin Island Club, Inc.	Independent Director	2012 to present
Alphaland Corporation	Independent Director	May 26, 2011 to present
Atok-Big Wedge Co., Inc.	Independent Director	2011 to present
The City Club at Alphaland Makati Place, Inc.	Independent Director	2011 to present
Pampanga Sugar Development Co.	Director	July 2011 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

Offense Charged/Investigated	Tribunal or Agency Involved	Status
A legal suit between private parties for qualified theft and/or estafa. I was included only because I was the <i>former President of Land Bank</i> .	Office of the City Prosecutor (Manila)	Have not received copy of the actual complaint-affidavit
Republic Act No. 3019. I was included only because I was the former <i>ex officio</i> Chairman of Land Bank (as DOF Secretary)	Sandiganbayan	Pending at the Sandiganbayan; latest court order to date: case suspended pending civil suit of SMC vs. Land Bank

6. I am neither in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing rules and regulations, the Code of Corporate Governance and other SEC issuances.

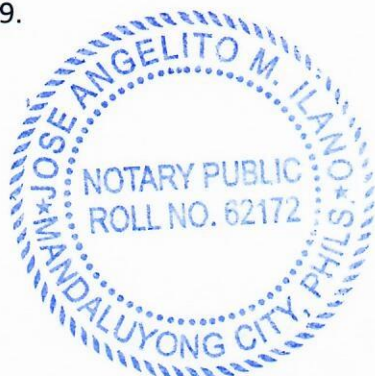
8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

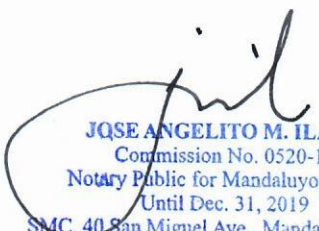
Done this MAR 14 2019 of day of March 2019 at Mandaluyong City.


MARGARITO B. TEVES
Independent Director

SUBSCRIBED AND SWORN to before me this MAR 14 2019 of day of March 2019 at Mandaluyong City, affiant exhibiting to me his Passport Number EC3397199 issued on February 6, 2015 at DFA Manila.

Doc. No. 195;
Page No. 40;
Book No. IV;
Series of 2019.




JOSE ANGELITO M. ILANO
Commission No. 0520-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 62172
PTR No. 3824023 ; 01/03/19; Mandaluyong City
IBP Lifetime Member No. 018308; 12/14/17; Quezon City
MCLE Compliance No. V-0015562; 03/07/16; Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNATO S. PUNO**, Filipino, of legal age with address at No. 13 Julius Street, Don Jose Heights, Commonwealth Avenue, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation (SMC) and have been its independent director since January 20, 2011.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Environmental Heroes Foundation	Chairman	2013-present
World Vision Foundation	Chairman	2012-present
GMA Kapuso Foundation	Vice Chairman	2013-present
Union Bank of the Philippines	Independent Director	2012-present
San Miguel Brewery Hong Kong Ltd.	Independent Director	2012-present
PT Delta Djakarta, Tbk	Independent Commissioner	2013-present
The New Standard newspaper	Member of the Board of Directors	2014-present
Previous Company/Organization	Previous Position/Relationship	Period of Service
Supreme Court of the Philippines	Former Chief Justice of the Supreme Court	December 6, 2006, Retired, May 17, 2010
Presidential Electoral Tribunal	Former Chairman	2007-2010
First, Second and Third Division of the Supreme Court	Former Justice	1993-2007

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

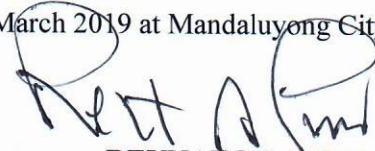
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am neither in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

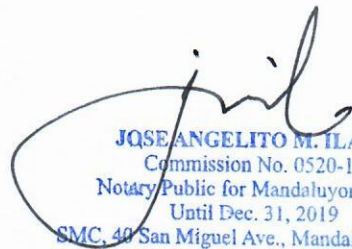
8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

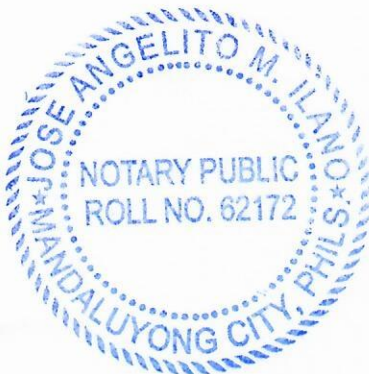
Done this MAR 14 2019 day of March 2019 at Mandaluyong City.


REYNATO S. PUNO
Affiant

SUBSCRIBED AND SWORN to before me this MAR 14 2019 day of March 2019 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. P0084717A issued at DFA-NCR-Northeast on August 29, 2016.

Doc. No. 144;
Page No. 40;
Book No. 1;
Series of 2019.


JOSE ANGELITO M. ILANO
Commission No. 0520-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 62172
PTR No. 3824023 ; 01/03/19; Mandaluyong City
IBP Lifetime Member No. 018308; 12/14/17; Quezon City
MCLE Compliance No. V-0015562; 03/07/16; Pasig City



CERTIFICATION OF INDEPENDENT DIRECTORS

I, **REYNALDO G. DAVID**, Filipino, of legal age with address at No.35, Narra Street, South Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation (SMC) since June 14, 2016.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Petron Corporation	Independent Director	May 12, 2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code, and its Implementing Rules and Regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

Offense Charged/Investigated	Tribunal or Agency Involved	Status
Violation of Section 3(e) of R. A. 3019, as amended	Sandiganbayan Supreme Court	Case before Sandiganbayan dismissed. Appeal pending with the Supreme Court
Petition for the issuance of Freeze Order	Court of Appeals Supreme Court	Petition before Court of Appeals dismissed. Appeal pending with the Supreme Court
Queries regarding Philex Mining Corporation	Securities and Exchange Commission	Comment submitted.

6. I am not in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

MAR 14 2019

Done this _____ day of March 2019 at Mandaluyong City.

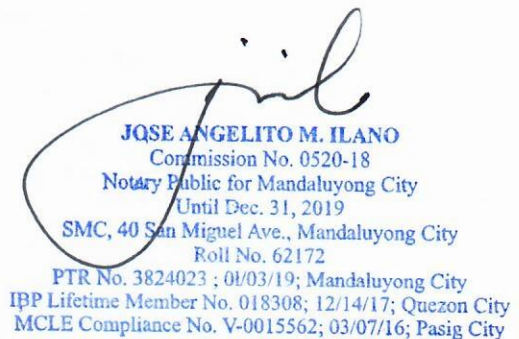


REYNALDO G. DAVID
Affiant

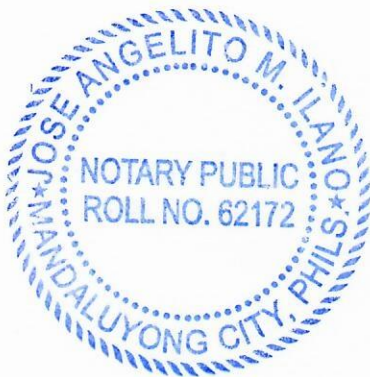
MAR 14 2019

SUBSCRIBED AND SWORN to before me this _____ day of March 2019 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. P8615707A issued at DFA Manila on September 5, 2018.

Doc. No. 143;
Page No. 40;
Book No. 11;
Series of 2019.



JOSE ANGELITO M. ILANO
Commission No. 0520-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 62172
PTR No. 3824023 ; 01/03/19; Mandaluyong City
IPP Lifetime Member No. 018308; 12/14/17; Quezon City
MCLE Compliance No. V-0015562; 03/07/16; Pasig City



ANNEX “B”

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018, 2017 and 2016



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

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S.S.

Before me, a Notary Public for and in Mandaluyong City, this 14th day of March 2019, personally appeared the following:

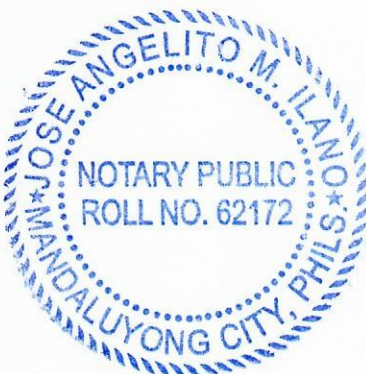
<u>Name</u>	<u>Passport No.</u>	<u>Date / Place of Issue</u>
Mr. Eduardo M. Cojuangco Jr.	P6769283A	04/13/18/DFA-Manila
Mr. Ramon S. Ang	P4589066A	10/02/17/DFA-Manila
Mr. Ferdinand K. Constantino	P0341304A	09/22/16/DFA-NCR East

known to me to be the same person who executed the foregoing instrument and they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they represent.

IN WITNESS WHEREOF, I have hereunto affixed my notarial seal at the date and place first above written.

Doc. No.: 197 ;
Page No.: 41 ;
Book No.: 11 ;
Series of 2019.


JOSE ANGELITO M. ILANO
Commission No. 0520-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 62172
PTR No. 3824023 ; 01/03/19; Mandaluyong City
IBP Lifetime Member No. 018308; 12/14/17; Quezon City
MCLE Compliance No. V-0015562; 03/07/16; Pasig City





R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

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.
- 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.

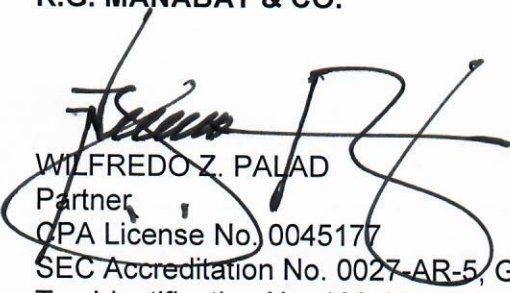
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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)

	<i>Note</i>	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

Forward

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

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Total Noncurrent Liabilities		731,568	546,810

Forward



	Note	2018	2017
Equity	24, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		P16,443	P16,435
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)

	<i>Note</i>	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)

	<i>Note</i>	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)

	Note	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
		Equity Reserves											Total			
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock				
		Common	Preferred							Appropriated	Unappropriated	Common		Preferred		
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				Retained Earnings		Treasury Stock				
	Note	Capital Stock		Additional	Reserve for	Fair Value	Translation	Other						Non-	Total
		Common	Preferred	Paid-in	Retirement	Reserve	Reserve	Equity	Appro-	Unappro-	Common	Preferred	Total	controlling	Equity
				Capital	Plan			Reserve	riated	riated				Interests	
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				Retained Earnings		Treasury Stock				
	Note	Capital Stock	Preferred	Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred	Total	Non-controlling Interests	Total Equity
		Common	Preferred	Capital	Plan	Reserve	Reserve	Reserve							
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)

	<i>Note</i>	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

	<i>Note</i>	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:

	<u>Percentage of Ownership</u>		Country of Incorporation
	<u>2018</u>	<u>2017</u>	
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]			

Forward

	Percentage of Ownership		Country of Incorporation
	2018	2017	
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
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

Forward

	Percentage of Ownership		Country of Incorporation
	2018	2017	
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:

- o 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.
- o 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.
- o 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.
- o 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	48,648	(65)	48,583
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.

New and Amended Standards and Interpretation Not Yet Adopted

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:
 - o 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.
 - o 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.
 - o 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).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. 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).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

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.

Forward

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:

- o represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- o 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:
 - o South Luzon Expressway (SLEX);
 - o Ninoy Aquino International Airport (NAIA) Expressway;
 - o Metro Manila Skyway (Skyway);
 - o Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
 - o Southern Tagalog Arterial Road (STAR); and
 - o 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:

	<i>Note</i>	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:

	<i>Note</i>	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 provisional 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:

	<i>Note</i>	2018
Assets		
Cash		P32
Trade and other receivables		165
Inventories		199
Prepaid expenses and other current assets		2
Property, plant and equipment	<i>14</i>	15
Deferred tax assets		4
Liabilities		
Accounts payable and accrued expenses		(261)
Other noncurrent liabilities		(6)
Total Identifiable Net Assets at Fair Value	<i>38</i>	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 provisional 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:

	<i>Note</i>	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,

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 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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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 SMCP 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:

	<i>Note</i>	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

Investments in Shares of Stock of Associates

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.

Investments in Shares of Stock of Joint Ventures

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
	<i>4, 40, 41</i>	42,220	42,268
Less current portion	<i>11</i>	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) Ovinor'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	<i>4, 11, 40, 41</i>	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:

	<i>Note</i>	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					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
	Note	Toll Road	Airport	Power	Port	Water				
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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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

Forward

	2018	2017
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (p)	P7,242	P7,232
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 GSML 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:

	<i>Note</i>	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

Common Shares

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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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:

	<i>Note</i>	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 2017	P8 5	P - -	P6,803 6,613	P551 551	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
Retirement Plans	9, 18, 35	2018 2017	399 400	- -	9,516 12,131	- -	On demand; interest bearing	Unsecured; no impairment
Associates	9, 18, 20	2018 2017	2,905 2,466	251 598	1,564 1,462	193 521	On demand; interest and non-interest bearing	Unsecured; no impairment
	19, 21	2018 2017	- -	- -	- -	21,425 22,552	Less than 1 to 10 years; interest bearing	Unsecured; no impairment Unsecured and secured
Joint Ventures	9, 18, 20	2018 2017	76 116	1,181 1,418	684 1,245	64 118	On demand; non-interest bearing	Unsecured; no impairment
Shareholders in Subsidiaries	9, 20	2018 2017	125 391	103 79	29 95	2,515 2,644	On demand; non-interest bearing	Unsecured; no impairment
Others	9, 11, 20, 22	2018 2017	2,235 236	1,499 493	600 300	7,878 7,012	On demand; non-interest bearing	Unsecured; no impairment
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

Significant Agreements:

- 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, SMCP, 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, SMCP, 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, SMCP, 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

- o *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).

o 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**

o 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.

o *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.

o 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.

o 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.

o 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

- o *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).

Lease Commitments

- 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, P74.95, 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
SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	1.11433125
	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
SMC2G	January 12, 2017	March 21, 2017	April 5, 2017	1.23361875
	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:

	Note	2018		2017	
		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 Interest rate	P29,436 5.4583% - 10.50%	P28,159 4.9925% - 8.6615%	P51,765 4.0032% - 9.885%	P49,110 4.8243% - 9.885%	P49,465 4.5219% - 9.885%	P161,404 5.1792% - 9.885%	P369,339
Foreign currency-denominated (expressed in Philippine peso) Interest rate	1,949 4.7776% - 5.5959%	2,477 4.7776% - 5.5959%	2,607 4.7776% - 5.5959%	1,838 4.7776% - 5.5959%	33,965 4.7776% - 5.5959%	12,222 5.5959%	55,058
Floating Rate							
Philippine peso-denominated Interest rate	1,239 BVAL + margin or BSP overnight rate, whichever is higher	985 BVAL + margin or BSP overnight rate, whichever is higher	1,503 BVAL + margin or BSP overnight rate, whichever is higher	2,347 BVAL + margin or BSP overnight rate, whichever is higher	726 BVAL + margin or BSP overnight rate, whichever is higher	- -	6,800 -
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,558 LIBOR + margin	20,051 LIBOR + margin	26,404 LIBOR + margin	14,956 LIBOR + margin	99,541 LIBOR + margin	8,756 LIBOR + margin	193,266
	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 Interest rate	P11,996 5.4583% - 8.6615%	P28,165 5.4583% - 10.50%	P17,858 4.9925% - 8.6615%	P50,526 4.0032% - 8.0589%	P48,193 4.8243% - 8.0589%	P117,266 4.5219% - 8.0589%	P274,004
Foreign currency-denominated (expressed in Philippine peso) Interest rate	- -	- -	- -	- -	- -	25,783 4.875%	25,783
Floating Rate							
Philippine peso-denominated Interest rate	1,304 PDST-R2 + margin or BSP overnight rate, whichever is higher	1,059 PDST-R2 + margin or BSP overnight rate, whichever is higher	545 PDST-R2 + margin or 5.75%, whichever is higher	534 PDST-R2 + margin or 5.75%, whichever is higher	1,379 PDST-R2 + margin	- -	4,821 -
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,966 LIBOR + margin	24,252 LIBOR + margin	18,260 LIBOR + margin	14,266 LIBOR + margin	13,623 LIBOR + margin	4,494 LIBOR + margin	98,861
	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	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2018				
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	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2017				
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			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
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			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
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

- o In 2013, SMCPG 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 SMCPG 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. SMCPD 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.

- o 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 SMCPD, 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 SMCPD 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.

- o 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.

- o 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.
- o 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.

- o 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.

License Granted by the ERC

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 MPPCLs 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

SMFI

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:

- o *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.

- o *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.
- o *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.
- o *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.
- o *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.

- o *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.

GBGTC

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.

SMMI

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.

PF-Hormel

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:

- o 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.
- o Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- o 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.
- o 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.
- o Exemption from real property tax on production equipment or machinery.
- o 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*

- o *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.
- o *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*
 - o *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.
 - o *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*

- o *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.
- o *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.
- o *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.

- o *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 Dstraint 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 Dstraint 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 IPOP HL ruled in favor of TDI and held that: (a) “GINEBRA” is generic for “gin”, (b) GSML’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 IPOP HL’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 GSML.

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 partiality 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 consignment 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 Consignment 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 consignment.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignment 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 consignment 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.

COVER SHEET

For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	2	7	7		
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COMPANY NAME

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				
S	U	B	S	I	D	I	A	R	I	E	S																		

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

N	o	.		4	0		S	a	n		M	i	g	u	e	l		A	v	e	n	u	e	,					
M	a	n	d	a	l	u	y	o	n	g		C	i	t	y														

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

632-3000

Mobile Number

N/A

No. of Stockholders

34,768

Annual Meeting (Month / Day)

Second Tuesday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Bella O. Navarra

Email Address

N/A

Telephone Number/s

632-3000

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

No. 40 San Miguel Avenue, Mandaluyong City
--

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

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



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

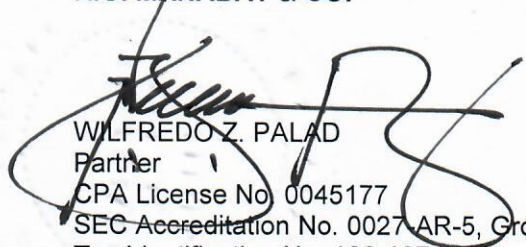
We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

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

- Map of the Conglomerate
- Schedule of Philippine Financial Reporting Standards and Interpretations
- Supplementary Schedules of Annex 68-E

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.


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

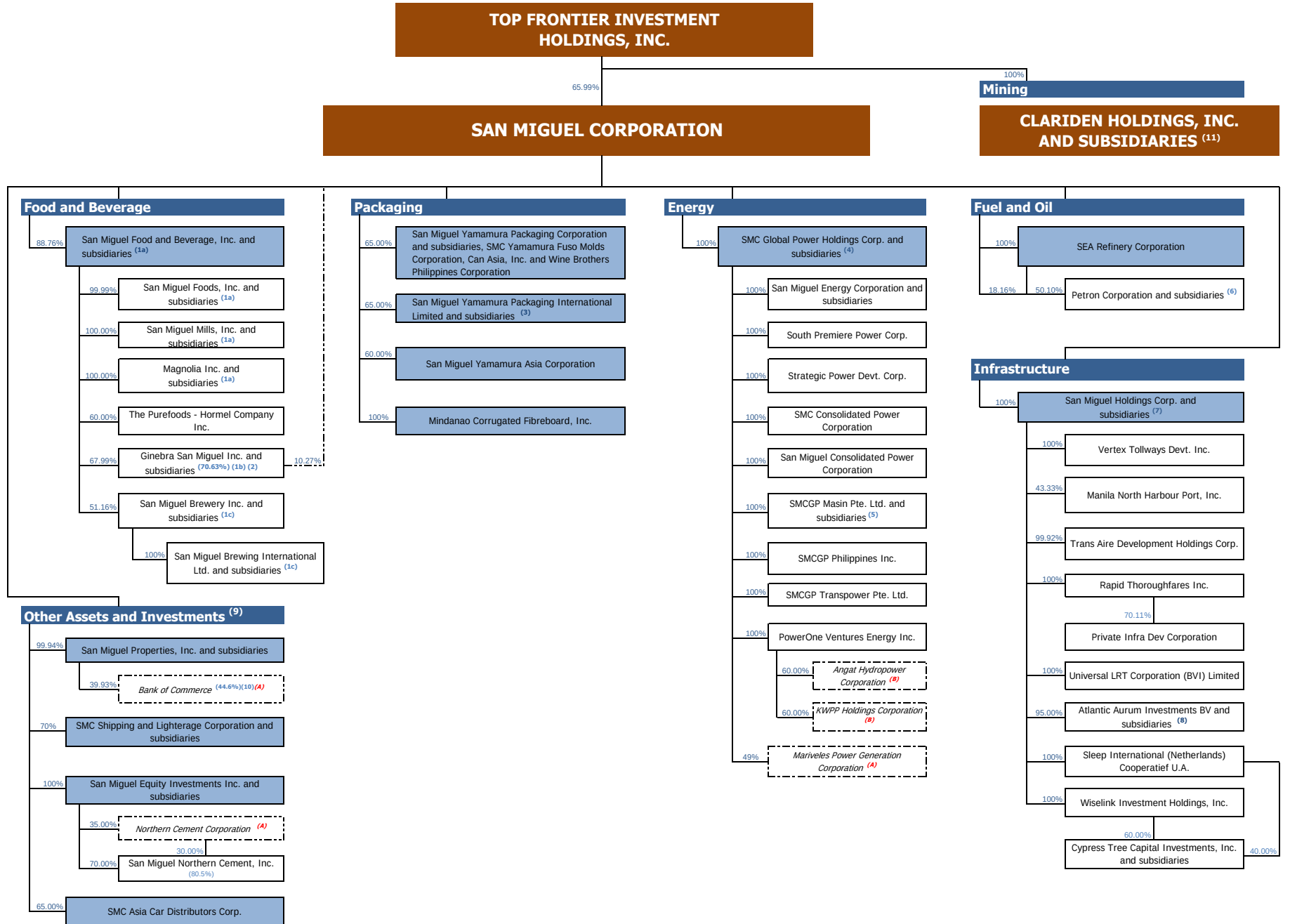
Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 7333629

Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

SAN MIGUEL CORPORATION GROUP STRUCTURE *



* The group structure includes the Parent Company, Top Frontier Investment Holdings, Inc., its co-subsidiary, Clariden Holdings, Inc. and its subsidiaries and San Miguel Corporation's major subsidiaries, associates and joint ventures.

Note:
(A) Associate
(B) Joint Venture

I. Subsidiaries

1. San Miguel Food and Beverage Inc. (formerly San Miguel Pure Foods Company Inc.) subsidiaries also include (a) 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., formerly San Miguel Hormel (VN) Co., Ltd.; (b) Ginebra San Miguel Inc. subsidiaries including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.; and (c) San Miguel Brewery Inc. subsidiaries including Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary and San Miguel Brewing International Ltd. and subsidiaries including, San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Djakarta Tbk. and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited.
2. San Miguel Food and Beverage Inc. owns 67.99% of issued and outstanding common and preferred shares of Ginebra San Miguel Inc. San Miguel Corporation owns the total issued and outstanding preferred shares of Ginebra San Miguel Inc. equivalent to direct ownership of 10.27%. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 70.62% of total issued and outstanding common and preferred shares of Ginebra San Miguel Inc.
3. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, 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 and subsidiaries including SMYC Pty Ltd (formerly Cospak Pty Ltd) and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Limited, SMYBB Pty Ltd, SMYJ Pty Ltd, Wine Brothers Australasia Pty Ltd and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary.
4. SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc. and subsidiary, SMC Power Generation Corp., Albay Power and Energy Corp., Limay Premiere Power Corp. and Prime Electric Generation Corporation.
5. SMCGP Masin Pte. Ltd. subsidiaries include Strategic Holdings B.V., SMCGP Masinloc Partners Company Limited, SMCGP Philippines Energy Storage Co. Ltd., SMCGP Masinloc Power Company Limited, Transpower Holdings B.V., and Masinloc Power Partners Co. Ltd. and subsidiary, Alpha Water and Realty Services, Corp.
6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Limay Energen Corporation, New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, 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. (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
7. San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Infraventures, Inc. and subsidiary, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc. and Luzon Clean Water Development Corporation.
8. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.
9. Other Assets and Investments also include SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, Anchor Insurance Brokerage Corporation, Davana Heights Development Corporation and subsidiaries and SMC Equivest Corporation.
10. SMC Equivest Corporation also owns 4.69% ownership in Bank of Commerce.

II. Co-Subsidiary

11. Clariden Holdings, Inc. subsidiaries include V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited and subsidiaries including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively the Philnico Group).



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 885 7000
Fax +63 (2) 894 1985
Internet www.kpmg.com.ph
Email ph-inquiry@kpmg.com.ph

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

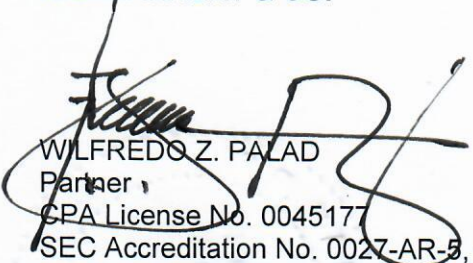
The Board of Directors and Stockholders
San Miguel Corporation
No. 40 San Miguel Avenue
Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Corporation (the Company) as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.



WILFREDO Z. PALAD

Partner

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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
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In Millions)

Unappropriated Retained Earnings, January 1, 2018	P144,961
Adjustments:	
<i>(see adjustments in previous year's reconciliation)</i>	(74,877)
Unappropriated retained earnings as adjusted, January 1, 2018	70,084
Add: Net income actually earned/realized during the period	
Net income during the period closed to retained earnings	366,632
Unrealized gain from exchange of shares*	(328,273)
Deferred tax assets	418
Net income actually earned during the period	38,777
	108,861
Less: Dividend declared during the period	(10,653)
Total Unappropriated Retained Earnings Available for Dividend Declaration, December 31, 2018	P98,208

* The unrealized gain from exchange of shares, presented as part of "Gain on sale of investments, property and equipment and others" account in the separate statements of income, is the difference between the total transfer value of San Miguel Food and Beverage, Inc., common shares and the carrying amount of the Company's investments in San Miguel Brewery Inc. and Ginebra San Miguel Inc. Details of the transaction are disclosed in Note 7 of the separate financial statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3 (Revised)	Business Combinations	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation*			
	Amendments to PFRS 3: Definition of a Business*			
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources	✓		
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments	✓		
PFRS 9	Financial Instruments (2014)	✓		
	Amendments to PFRS 9: Prepayment Features with Negative Compensation*			
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Amendments to PFRS 3 and PFRS 11 - Previously held interest in a joint operation*			
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
PFRS 16	Leases*			
PFRS 17	Insurance Contracts*			
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Comparative Information beyond Minimum Requirements			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material*			
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 1 and PAS 8: Definition of Material*			
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Income tax consequences of payments on financial instruments classified as equity*			
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Classification of Servicing Equipment	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
	Amendments to PAS 19: Plan Amendment, Curtailment or Settlement*			
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Annual Improvements to PFRSs 2015 - 2017 Cycle: Borrowing costs eligible for capitalization*			
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value	✓		
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*			
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Income Tax Consequences of Distributions	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Segment Assets and Liabilities	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture	✓		
	Amendments to PAS 16 and PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	✓		
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments*			
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures	✓		
SIC-32	Intangible Assets - Web Site Costs			✓
Philippine Interpretations Committee Questions and Answers				
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2008-01-Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2009-01	Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2010-02	PAS 1R.16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations	✓		
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares	✓		
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?	✓		
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements	✓		
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building	✓		
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013	✓		
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law	✓		
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity	✓		
PIC Q&A 2016-03	Accounting for Common Areas and the Related Subsequent Costs by Condominium Corporations			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts	✓		
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building	✓		
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures	✓		
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for collector's items	✓		
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees	✓		
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property	✓		
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control	✓		
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans	✓		
PIC Q&A 2018-01	PAS 8 - Voluntary changes in accounting policy	✓		
PIC Q&A 2018-02	PAS 36 - Non-controlling interests and goodwill impairment test	✓		
PIC Q&A 2018-03	PFRS 13, PAS 16 and PAS 36 - Fair value of property, plant and equipment and depreciated replacement cost			✓
PIC Q&A 2018-04	PAS 41 - Inability to measure fair value reliably for biological assets within the scope of PAS 41, Agriculture	✓		
PIC Q&A 2018-05	PAS 37 - Liability arising from maintenance requirement of an asset held under lease	✓		
PIC Q&A 2018-06	PAS 27 - Cost of investment in subsidiaries in separate financial statements when pooling is applied in consolidated financial statements	✓		
PIC Q&A 2018-07	PAS 27 and PAS 28 - Cost of an associate, joint venture, or subsidiary in separate financial statements	✓		
PIC Q&A 2018-08	PFRS 10 and PFRS 3 - Accounting for the acquisition of non-wholly owned subsidiary that is not a business	✓		
PIC Q&A 2018-09	PAS 21 - Classification of deposits and progress payments as monetary or non-monetary items	✓		
PIC Q&A 2018-10	PAS 2 - Scope of disclosure of inventory write-downs	✓		
PIC Q&A 2018-11	Classification of land by real estate developer	✓		
PIC Q&A 2018-12	PFRS 15 Implementation issues affecting the real estate industry	✓		
PIC Q&A 2018-13	Conforming Changes to PIC Q&As - Cycle 2018	✓		
PIC Q&A 2018-14	PFRS 15 - Accounting for Cancellation of Real Estate Sales	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-15	PAS 1- Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current	✓		
PIC Q&A 2018-16	PFRS 13 - Level of fair value hierarchy of government securities using Bloomberg's standard rule on fair value hierarchy	✓		

Legend:

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

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

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

*These standards, amendments or interpretations will become effective subsequent to December 31, 2018. The Group will adopt these new and amended standards and interpretations on the respective effective dates.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

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

	December 31	
	2018	2017
<u>Liquidity:</u>		
Current Ratio	1.37	1.40
<u>Solvency:</u>		
Debt to Equity Ratio	2.28	1.93
Asset to Equity Ratio	3.28	2.93
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	7.23%	9.73%
Interest Rate Coverage Ratio	2.61	3.27
<u>Operating Efficiency:</u>		
Volume Growth	8%	4%
Revenue Growth	24%	21%
Operating Margin	11%	13%

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

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

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018**

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- INTANGIBLE ASSETS - OTHER ASSETS	
E	- LONG-TERM DEBT	
F	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
G	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
H	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2018
(Amounts in Millions, except No. of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2018	Income Received and Accrued
Cash and cash equivalents	- P	243,150	Not applicable P	6,368
Trade and other receivables - net	-	129,893	Not applicable	545
Derivative assets	-	1,545	Not applicable	805 *
Financial assets at FVPL	-	254	Not applicable	84
Financial assets at FVOCI**	-	41,994 P	41,994	1,904
Financial assets at amortized cost**	-	226	226	7
Noncurrent receivables and deposits - net	-	21,158	Not applicable	28
Restricted cash	-	14,005	Not applicable	227
	P	<u>452,225</u>	P <u>42,220</u> P	<u>9,968</u>

* This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.

**The number of shares or principal amounts of bonds and notes are presented in ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS.

See Notes 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2018
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2018 (a)
San Miguel Corporation		
Alabang Country Club	7 P	47
Alta Vista Golf and Country Club	2	1
Apo Golf & Country Club	3	-
Baguio Country Club	1	3
Bancom Group Inc	999,546	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	4
Capitol Hills Golf & Country Club	1	-
Carmen Red Ltd.	-	5,139
Casino Espanol de Manila	2	-
Cebu Country Club	1	6
Celebrity Sports Plaza	3	-
Club Filipino	8	2
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	7
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	149
Manila Polo Club	2	46
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	171
Merchant Investment	41,660	-
Metropolitan Club	2	-
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	-
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	2
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2018 (a)
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-
Pilipino Telephone	600	-
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	-
Sta Elena Properties	7	5
Sta Elena Golf Club	1	6
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	1
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	4
Top Frontier Holdings, Inc. - Common	2,561,031	633
Top Frontier Holdings, Inc. - Preferred	1,904,540	35,424
Universal Leisure Club	1	-
Valle Verde Golf Club	53	21
Valley Golf Club Inc.	2	1
Victorias Country Club	1	-
Petron Corporation		
Government Security	196	196
Aboitiz Power Bonds	28	26
ABOITIZ EQUITY VENTURES, INC. (AEV 11-20)	37	36
Ayala Bond	75	72
SM Investments Corporation Bond	50	48
San Miguel International Limited		
Others	-	-
San Miguel Properties, Inc.		
Apo Golf & Country Club	1	1
Mimosa Golf & Country Club	4	2
Sta. Elena Golf & Country Club	1	6
Metro Club	1	-
Phil. Long Distance Tel Co	41,850	-
Meralco	273,119	1
Riviera Golf Course and Country Club	1	4
Tagaytay Midlands Country Club	1	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2018 (a)
San Miguel Paper Packaging Corp.		
Phil Long Distance Tel.	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
San Miguel Yamamura Asia Corporation		
Manila Southwoods Golf & Country Club	1	1
Orchard Golf and Country Club	1	1
Evercrest Golf & Country Club	1	-
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	2
Manila Southwoods Golf and Country Club	1	2
Orchard Golf & Country Club	1	2
Puerto Azul Golf Club	1	-
Riviera Golf Course and Country Club	1	-
Mindanao Corrugated Fibreboard, Inc.		
Apo Golf Country Club	1	-
Food and Beverage Group		
Club Filipino	2	1
Makati Sports Club, Inc.	2	1
Philippine Long Distance Tel. Co.	4,253	-
Valle Verde Country Club	1	-
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	7
Golf Club Bogor Raya	1	-
Manila Southwoods Golf & Country Club	1	1
Sta Elena Golf Club	1	5
Manila Electric Co.	66,060	1
Tagaytay Highland Golf and Country Club	1	1
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	-
HSBC Holdings	20,400	9
Pacific Club Kowloon	1	7
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	9
Hong Kong Football Club	1	7
Discovery Bay Golf Club	1	9
San Miguel Holdings Corp.		
Architectural Center Club Inc	1	-
Philippine Expressway Support Service Inc	1	-
Phil Am Properties	1	-
San Miguel Global Power		
Philippine Treasury Bill	-	54
Total Financial Assets	P	42,220

See Notes 4, 11, 13, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	P 32,494	P -	P (1,112)	-	P 31,382	P 31,382	P -	31,382
San Miguel Holdings Corp. and Subsidiaries	22,982	3,896	(2,676)	-	24,202	23,902	300	24,202
San Miguel Corporation	10,326	2,955	(11,759)	-	1,522	1,521	1	1,522
San Miguel Food and Beverage, Inc. and Subsidiaries	5,173	31,615	(30,588)	-	6,200	6,194	6	6,200
SMC Asia Car Distributors Corp.	3,073	790	(200)	-	3,663	592	3,071	3,663
Challenger Aero Air Corporation	2,712	2,789	(84)	-	5,417	5,417	-	5,417
Fortunate Land Inc. and a Subsidiary	2,010	-	-	-	2,010	-	2,010	2,010
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,575	3,646	(4,033)	-	1,188	1,188	-	1,188
San Miguel International Limited and Subsidiaries	1,039	294	(294)	-	1,039	360	679	1,039
San Miguel Yamamura Asia Corporation	922	3,556	(3,612)	-	866	866	-	866
SMC Shipping and Lighterage Corporation and Subsidiaries	796	4,945	(3,793)	-	1,948	1,948	-	1,948
Petron Corporation and Subsidiaries	772	6,291	(6,149)	-	914	914	-	914
Advantage Properties Corporation	704	(158)	-	-	546	546	-	546
San Miguel Beverages, Inc.	656	-	-	-	656	656	-	656
SMC Global Power Holdings Corp. and Subsidiaries	493	4,306	(4,244)	-	555	555	-	555
San Miguel Paper Packaging Corp.	431	6	(10)	-	427	10	417	427
San Miguel Campo Carne Corporation	398	-	-	-	398	398	-	398
San Miguel Properties, Inc. and Subsidiaries	274	178	(189)	-	263	255	8	263
Pacific Central Properties, Inc.	224	5	(2)	-	227	218	9	227
Archen Technologies, Inc.	17	336	(145)	-	208	158	50	208
San Miguel Equity Investments, Inc. and Subsidiaries	4	3,404	(398)	-	3,010	3,010	-	3,010
SMC Equivest Corporation	-	975	-	-	975	-	975	975
Others	1,923	5,223	(249)	-	6,897	4,073	2,824	6,897
	P <u>88,998</u>	P <u>75,052</u>	P <u>(69,537)</u>	P <u>-</u>	P <u>94,513</u>	P <u>84,163</u>	P <u>10,350</u>	P <u>94,513</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	P 68,341	P 40,407	P (37,336)	-	P 71,412	P 64,343	P 7,069	P 71,412
San Miguel International Limited and Subsidiaries	7,323	1,463	(8,082)	-	704	704	-	704
San Miguel Holdings Corp. and Subsidiaries	2,801	(690)	(977)	-	1,134	823	311	1,134
SMC Shipping and Lighterage Corporation and Subsidiaries	2,769	16,986	(16,722)	-	3,033	3,033	-	3,033
San Miguel Yamamura Asia Corporation	1,737	4,473	(4,650)	-	1,560	876	684	1,560
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,591	11,922	(8,146)	-	5,367	5,295	72	5,367
SMC Global Power Holdings Corp. and Subsidiaries	1,077	8,226	(3,781)	-	5,522	5,522	-	5,522
Petron Corporation and Subsidiaries	843	8,085	(6,877)	-	2,051	2,051	-	2,051
San Miguel Food and Beverage, Inc. and Subsidiaries	750	1,047	(936)	-	861	748	113	861
Archen Technologies, Inc.	454	1,731	(1,626)	-	559	559	-	559
SMITS, Inc. and Subsidiaries	264	1,452	(1,146)	-	570	491	79	570
San Miguel Properties, Inc. and Subsidiaries	253	319	(466)	-	106	106	-	106
Others	795	4,920	(4,081)	-	1,634	1,619	15	1,634
	P 88,998	P 100,341	P (94,826)	-	P 94,513	P 86,170	P 8,343	P 94,513

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2018
(Amounts in Millions)

Part A - Goodwill and Other Intangible Assets

Description	Beginning Balance	Additions/ Acquisition of Subsidiaries	Disposal / Reclassified to other Accounts	Charged to Costs and Expenses	Currency Translation Adjustment	Ending Balance
Goodwill	P <u>60,124</u>	P <u>70,384</u>	P <u>-</u>	P <u>-</u>	P <u>344</u>	P <u>130,852</u>
Trademarks and Other Intangibles						
Cost:						
Trademarks and brand names	P 936	P -	P -	P -	P 26	P 962
Licenses	2,012	-	-	-	123	2,135
Toll road concession rights	131,899	10,145	2,005	-	-	144,049
Port concession rights	13,761	98	(21)	-	-	13,838
Airport concession rights	6,236	504	296	-	-	7,036
Mineral rights and evaluation assets	1,734	-	-	-	-	1,734
Leasehold and land use rights	2,533	51	-	-	64	2,648
Power concession right	894	140	-	-	-	1,034
Water concession right	2,938	3,581	-	-	-	6,519
Computer software, licenses and other intangible assets	3,684	739	(5)	-	21	4,439
	<u>P 166,627</u>	<u>P 15,258</u>	<u>P 2,275</u>	<u>P -</u>	<u>P 234</u>	<u>P 184,394</u>
Accumulated Amortization and Impairment Losses:						
Trademarks and brand names	P 231	P -	P -	P -	P 23	P 254
Toll road concession rights	26,396	-	-	3,976	-	30,372
Port concession rights	1,716	-	2	742	-	2,460
Airport concession rights	372	-	-	325	-	697
Leasehold and land use rights	891	-	-	65	21	977
Power concession right	112	-	-	41	-	153
Computer software, licenses and other intangible assets	2,471	9	43	331	19	2,873
	<u>P 32,189</u>	<u>P 9</u>	<u>P 45</u>	<u>P 5,480</u>	<u>P 63</u>	<u>P 37,786</u>
Net Book Value:	P <u>134,438</u>	P <u>15,249</u>	P <u>2,230</u>	P <u>(5,480)</u>	P <u>171</u>	P <u>146,608</u>

See Notes 4, 5, 17 and 38 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS AND OTHER ASSETS
DECEMBER 31, 2018
(Amounts in Millions)

Part B - Other Noncurrent Assets

Description		Beginning Balance		Additions / Acquisition of Subsidiaries		Charged to Cost and Expenses		Other Changes/ Reclassifications/ (Disposal)		Currency Translation Adjustment		Ending Balance
Noncurrent receivables and deposits	P	14,543	P	6,663	P	1	P	(78)	P	29	P	21,158
Deferred containers expense - net of accumulated amortization		7,949		5,442		(2,077)		105		(5)		11,414
Restricted Cash		5,756		2,929		-		(3,811)		93		4,967
Noncurrent prepaid input tax		4,825		466		5		(1,402)		-		3,894
Advances to contractors and suppliers		3,696		729		-		4,394		1		8,820
Retirement assets		3,316		-		-		(478)		-		2,838
Noncurrent prepaid rent		2,607		628		(245)		60		72		3,122
Deposits on land for future development		2,089		689		(6)		(638)		-		2,134
Others - net		4,501		1,191		(971)		692		13		5,426
	P	<u>49,282</u>	P	<u>18,737</u>	P	<u>(3,293)</u>	P	<u>(1,156)</u>	P	<u>203</u>	P	<u>63,773</u>

See Notes 4, 5, 18, 33, 34, 35, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2018
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company													
<u>Peso denominated:</u>													
Fixed	Philippine Depository and Trust Corp.	P 50,000	P -	P -	P -	50,000	P (475)	P 49,525	P 49,525	4.8243%, 5.1923%, 5.2840%, 5.7613%, 6.25%, 6.625% and 7.125%	Bullet	Quarterly	March 2022, April 2022, March 2023, March 2024, March 2025,
Fixed	Philippine Depository and Trust Corp.	10,000	-	-	-	10,000	(84)	9,916	9,916	5.25%	Bullet	Quarterly	March 2027 and March 2028 May 2020
<u>Foreign currency - denominated:</u>													
Fixed	DB Trustees (Hong Kong) Limited	27,151	-	-	-	27,151	(162)	26,989	26,989	4.875%	Bullet	Semi-annual	April 2023
Floating	Various foreign banks	21,032	-	-	-	21,032	(400)	20,632	20,632	LIBOR + margin	Bullet	1/3/6 months	March 2023
Floating	Various foreign banks	15,774	-	-	-	15,774	(171)	15,603	15,603	LIBOR + margin	Bullet	1/3/6 months	October 2020, 2022 and 2024
Floating	Various foreign banks	15,774	-	-	-	15,774	(254)	15,520	15,520	LIBOR + margin	Bullet	1/3/6 months	June 2023
	Sumitomo Mitsui Banking Corporation												
Floating	Singapore Branch	15,774	-	-	-	15,774	(272)	15,502	15,502	LIBOR + margin	Bullet	1/3/6 months	September 2023
Floating	Mizuho Bank, Ltd.	10,516	-	-	-	10,516	(180)	10,336	10,336	LIBOR + margin	Bullet	1/3/6 months	November 2023
Floating	DBS Bank Ltd.	5,258	5,258	-	5,258	-	-	-	5,258	LIBOR + margin	Bullet	1/3/6 months	May 2019
Floating	Various foreign banks	5,258	5,258	(6)	5,252	-	-	-	5,252	LIBOR + margin	Bullet	1/3/6 months	May 2019
		<u>176,537</u>	<u>10,516</u>	<u>(6)</u>	<u>10,510</u>	<u>166,021</u>	<u>(1,998)</u>	<u>164,023</u>	<u>174,533</u>				
Subsidiaries													
<u>Peso denominated:</u>													
<u>Petron Corporation</u>													
Fixed	Philippine Depository and Trust Corp.	13,000	-	-	-	13,000	(78)	12,922	12,922	4.0032%	Bullet	Quarterly	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	-	-	7,000	(52)	6,948	6,948	4.5219%	Bullet	Quarterly	October 2023
Fixed	Philippine Depository and Trust Corp.	13,200	-	-	-	13,200	(153)	13,047	13,047	7.8183%	Bullet	Quarterly	April 2024
Fixed	Philippine Depository and Trust Corp.	6,800	-	-	-	6,800	(79)	6,721	6,721	8.0551%	Bullet	Quarterly	April 2025
		<u>40,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(362)</u>	<u>39,638</u>	<u>39,638</u>				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository and Trust Corp.	35,000	-	-	-	35,000	(364)	34,636	34,636	5.375%, 6.25%, 6.625% and 6.75%	Bullet	Quarterly	December 2022, August 2023, December 2024 and December 2027
<u>SM Brewery Inc.</u>													
Fixed	Philippine Depository & Trust Corp.	10,000	10,000	(5)	9,995	-	-	-	9,995	5.930%	Bullet	Semi-annual	April 2019
Fixed	Philippine Depository & Trust Corp.	7,000	-	-	-	7,000	(28)	6,972	6,972	6.60%	Bullet	Semi-annual	April 2022
		<u>17,000</u>	<u>10,000</u>	<u>(5)</u>	<u>9,995</u>	<u>7,000</u>	<u>(28)</u>	<u>6,972</u>	<u>16,967</u>				
<u>SM Brewery Inc.</u>													
Fixed	Philippine Depository & Trust Corp.	12,462	-	-	-	12,462	(46)	12,416	12,416	5.50%	Bullet	Semi-annual	April 2021
Fixed	Philippine Depository & Trust Corp.	2,538	-	-	-	2,538	(15)	2,523	2,523	6.00%	Bullet	Semi-annual	April 2024
		<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>(61)</u>	<u>14,939</u>	<u>14,939</u>				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository & Trust Corp.	6,153	-	-	-	6,153	(37)	6,116	6,116	4.3458%	Bullet	Quarterly	July 2021
Fixed	Philippine Depository & Trust Corp.	4,091	-	-	-	4,091	(31)	4,060	4,060	4.7575%	Bullet	Quarterly	July 2023
Fixed	Philippine Depository & Trust Corp.	4,756	-	-	-	4,756	(43)	4,713	4,713	5.1792%	Bullet	Quarterly	July 2026
		<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>(111)</u>	<u>14,889</u>	<u>14,889</u>				
<u>South Luzon Tollway Corporation</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	7,300	-	-	-	7,300	(58)	7,242	7,242	4.9925%, 5.5796% and 6.4872%	Bullet	Quarterly	August 2020, May 2022 and May 2025
<u>SM Brewery Inc.</u>													
Fixed	Philippine Depository & Trust Corp.	2,810	2,810	(1)	2,809	-	-	-	2,809	10.50%	Bullet	Semi-annual	April 2019
<u>SMC Consolidated Power Corporation</u>													
Fixed	Philippine National Bank as Trustee	42,950	1,050	(41)	1,009	41,900	(662)	41,238	42,247	6.2836%, 6.5361%, 7.0650% and 7.3889%	Amortized	Quarterly	June 2029
<u>Citra Central Expressway Corp.</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	8,700	-	-	-	8,700	(86)	8,614	8,614	6.865%, 6.9283%, 7.4817%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	3,200	-	-	-	3,200	(38)	3,162	3,162	8.0589%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	18,100	-	-	-	18,100	(234)	17,866	17,866	9.0260%, 9.4679%, 9.8080 % and 9.8754%	Amortized	Quarterly	August 2027
		<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>(358)</u>	<u>29,642</u>	<u>29,642</u>				
<u>San Miguel Consolidated Power Corportion</u>													
Fixed	Philippine National Bank as Trustee	20,322	1,236	(28)	1,208	19,086	(234)	18,852	20,060	7.7521%	Amortized	Quarterly	August 2030

AGENT / LENDER		Outstanding Balance	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>SMC Global Power Holdings Corp.</u>													
Fixed	BDO Unibank, Inc.	P 14,850	P 150	P (20)	P 130	P 14,700	P (104)	P 14,596	P 14,726	6.9265%	Amortized	Quarterly	April 2024
<u>Petron Corporation</u>													
Fixed	BDO Unibank, Inc.	12,321	2,143	(19)	2,124	10,178	(43)	10,135	12,259	5.5276%	Amortized	Quarterly	July 2024
<u>Atlantic Aurum Investments Philippines Corporation</u>													
Fixed	Philippine National Bank as Trustee	1,599	1,599	(12)	1,587	-	-	-	1,587	6.52%	Amortized	Semi-annual	September 2019
Fixed	Philippine National Bank as Trustee	9,805	584	(34)	550	9,221	(113)	9,108	9,658	6.7394%	Amortized	Semi-annual	March 2025
		11,404	2,183	(46)	2,137	9,221	(113)	9,108	11,245				
<u>Private Infra Dev Corporation</u>													
Fixed	Banco De Oro Unibank, Inc. as Trustee	10,409	3,028	(22)	3,006	7,381	(19)	7,362	10,368	6.50%	Amortized	Quarterly	September 2021
<u>Petron Corporation</u>													
Fixed	Bank of the Philippine Islands	10,000	2,500	(14)	2,486	7,500	(21)	7,479	9,965	5.7584%	Amortized	Quarterly	December 2022
<u>Vertex Tollways Devt. Inc.</u>													
Fixed	Philippine National Bank as Trustee	6,518	699	(13)	686	5,819	(40)	5,779	6,465	6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567%	Amortized	Quarterly	February 2025
<u>Luzon Clean Water Development Corporation</u>													
Fixed	Asia United Bank Corporation - Trust and Investment Group as Trustee	4,200	-	-	-	4,200	(41)	4,159	4,159	8.4211%, 8.699%, 9.278% and 9.885%	Amortized	Quarterly	March 2030
<u>Petron Corporation</u>													
Fixed	Union Bank of the Philippines	4,000	1,000	(4)	996	3,000	(5)	2,995	3,991	5.4583%	Amortized	Quarterly	October 2022
<u>Petron Corporation</u>													
Fixed	Rizal Commercial Banking Corporation	2,706	29	(4)	25	2,677	(6)	2,671	2,696	7.1827%	Amortized	Annual	October 2021
<u>MTD Manila Expressways Inc.</u>													
Fixed	Standard Chartered Bank, Philippines Branch as Security Agent	2,323	1,581	(14)	1,567	742	(2)	740	2,307	8.6615%	Amortized	Semi-annual	March 2020
<u>Star Infrastructure Development Corporation</u>													
Fixed	Philippine National Bank as Trustee	2,277	459	(5)	454	1,818	(8)	1,810	2,264	6.6583%	Amortized	Quarterly	June 2023
<u>SMC Shipping and Lighterage Corporation</u>													
Fixed	Union Bank of the Philippines	1,500	-	-	-	1,500	(4)	1,496	1,496	5.000%	Bullet	Quarterly	July 2021
<u>Ginebra San Miguel Inc.</u>													
Fixed	Union Bank of the Philippines	1,000	118	(2)	116	882	(5)	877	993	8.3480%	Amortized	Quarterly	September 2023
<u>Manila North Harbour Port, Inc.</u>													
Fixed	Land Bank of th Philippines - Trust Banking Group as Trustee	450	450	-	450	-	-	-	450	5.65%	Amortized	Quarterly	August 2019
<u>San Miguel Yamamura Asia Corporation</u>													
Floating	Philippine National Bank	3,282	180	(7)	173	3,102	(16)	3,086	3,259	BVAL + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	July 2023
<u>Trans Aire Development Holdings Corp.</u>													
Floating	Bank of Commerce	2,727	367	(2)	365	2,360	(4)	2,356	2,721	BVAL + margin	Amortized	Quarterly	October 2022
<u>San Miguel Yamamura Packaging Corporation</u>													
Floating	Bank of Commerce	625	625	-	625	-	-	-	625	BVAL + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	July 2019
<u>Can Asia, Inc.</u>													
Floating	Bank of Commerce	166	67	-	67	99	-	99	166	BVAL + margin or 5.75%, whichever is higher	Amortized	Quarterly	April 2021
<u>Foreign currency - denominated</u>													
<u>Petron Corporation</u>													
Floating	Standard Chartered Bank (Hongkong) Limited	49,951	12,394	(226)	12,168	37,557	(274)	37,283	49,451	LIBOR + margin	Amortized	1, 3, or 6 months	June 2022

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE E - LONG-TERM DEBT
DECEMBER 31, 2018
(Amounts in Millions)

		Outstanding Balance		Current Portion of Debt		Transaction Cost Current		Amount Shown as Current		Long-term Noncurrent Portion Debt		Noncurrent Transaction Cost		Amount Shown as Noncurrent		Outstanding Balance		INTEREST RATES		Number of Periodic Installments		Interest Payments		Final Maturity	
TITLE OF ISSUE		AGENT / LENDER																							
<u>SMC Global Power Holdings Corp.</u>																									
Floating	Winrock Special Opportunities I Limited	P	44,693	P	-	P	-	P	-	P	44,693	P	(893)	P	43,800	P	43,800	LIBOR + margin		Bullet		Quarterly		March 2023	
<u>Masinloc Power Partners Co. Ltd.</u>																									
Fixed	Philippine National Bank as Trustee		27,907		1,949		(5)		1,944		25,958		(398)		25,560		27,504	4.7776% and 5.5959%		Amortized		Semi-annual		January 2023 and December 2030	
Floating	Philippine National Bank as Trustee		9,235		648		(1)		647		8,587		(131)		8,456		9,103	LIBOR + margin		Amortized		Semi-annual		January 2023 and December 2030	
			<u>447,926</u>		<u>45,666</u>		<u>(479)</u>		<u>45,187</u>		<u>402,260</u>		<u>(4,365)</u>		<u>397,895</u>		<u>443,082</u>								
Total Long-term Debt		P	<u>624,463</u>	P	<u>56,182</u>	P	<u>(485)</u>	P	<u>55,697</u>	P	<u>568,281</u>	P	<u>(6,363)</u>	P	<u>561,918</u>	P	<u>617,615</u>								

See Notes 5, 21, 30, 33, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE H - CAPITAL STOCK
December 31, 2018

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS *	NUMBER OF SHARES HELD BY: AFFILIATES	DIRECTORS, OFFICERS AND EMPLOYEES
ISSUED SHARES							
COMMON STOCK	3,790,000,000	3,288,649,125	904,752,537	2,383,896,588	134,641,564	16,395	8,602,429
SERIES "1" PREFERRED SHARES	300,000,000	279,406,667	-	279,406,667	-	-	
SERIES "2" PREFERRED SHARES	1,910,000,000	1,758,099,686	565,445,086	1,192,654,600		10,000,000	1,067,600
	<u>6,000,000,000</u>	<u>5,326,155,478</u>	<u>1,470,197,623</u>	<u>3,855,957,855</u>	<u>134,641,564</u>	<u>10,016,395</u>	<u>9,670,029</u>

* See Notes 24, 36, 37 and 39 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
DECEMBER 31, 2018
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	76,494	52,659	8,450	2,800	12,585
Non-trade	50,257	23,010	1,048	3,398	22,801
Others	16,338	15,218	338	9	773
Total	143,089	90,887	9,836	6,207	36,159
Less allowance for impairment losses	13,196				
Net	129,893				



MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of San Miguel Corporation ("SMC" or the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2018. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018. All necessary adjustments to present fairly the Group's consolidated financial position as of December 31, 2018 and the financial performance and cash flows for the year ended December 31, 2018 and for all the other periods presented, have been made.

I. 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. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

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 at 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 - 2018; Available-for-sale 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.

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.

New and Amended Standards and Interpretation Adopted in 2018

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.

- 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. (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. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

- 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 amendments to standards did not have a material effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2018	2017	2016
		<i>(In Millions)</i>	
Sales	P1,024,943	P826,086	P685,314
Cost of Sales	825,748	644,221	514,021
Gross Profit	199,195	181,865	171,293
Selling and Administrative Expenses	(82,110)	(70,823)	(71,639)
Operating Income	117,085	111,042	99,654
Financing Charges - net	(38,304)	(31,189)	(31,110)
Gain on Sale of Investments and Property and Equipment	252	879	154
Equity in Net Earnings (Losses) of Associates and Joint Ventures	(289)	297	203
Other (Charges) - net	(5,628)	154	(11,426)
Income from Continuing Operations	48,648	54,814	40,422
Income after Income Tax from Discontinued Operations	-	-	11,818
Net Income	48,648	54,814	52,240
Net Income Attributable to Equity Holders of the Parent Company	23,077	28,225	29,289
Net Income Attributable to Non- controlling interests	25,571	26,589	22,951

2018 vs. 2017

The Group's consolidated sales revenue reached P1,024,943 million in 2018, 24% higher than the previous year mainly driven by higher volumes and favorable selling prices across all major businesses.

Cost of sales increased by 28% to P825,748 million mainly due to the increase in crude prices and effect of excise tax of Petron Corporation (Petron); higher sales volume of San Miguel Brewery Inc. (SMB) and the Food Segment; increase in excise tax by 4% per case of the domestic operations of SMB and operations of the newly acquired Masinloc Power Partners Co. Ltd. (MPPCL or the Masinloc Group) and the new Greenfield power plants in Bataan and Davao.

Selling and administrative expenses increased mainly due to higher personnel expenses, distribution costs, contracted services costs and advertising and promotions.

Consolidated operating income increased by 5% at P117,085 million. This growth was however partly softened by higher raw material costs that impacted Petron and the Food businesses.

The higher net financing costs was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017.

The decrease in equity in net earnings in 2018 primarily represents the share of SMC Global on the higher net loss of Angat Hydropower Corporation (Angat Hydro) and share of San Miguel Properties, Inc. (SMPI) on the lower earnings of Bank of Commerce (BOC).

The gain on sale of investments and property and equipment in 2018 pertains mainly to the sale by SMPI of its investment in Legacy Homes, Inc.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt and finance lease liabilities, partly offset by the higher gain on the translation of foreign currency denominated cash and cash equivalents with the peso depreciating by P2.65 from P49.93 in December 2017 to P52.58 in December 2018.

Consolidated recurring net income, excluding the effect of foreign exchange translation, amounted to P55,175 million, 1% higher than P54,654 million 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. Consolidated net income as a result, amounted to P48,648 million.

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

1. FOOD AND BEVERAGE

In 2018, SMC completed the consolidation of its Beer and NAB, Spirits and Food businesses through San Miguel Food and Beverage, Inc. (SMFB).

SMFB delivered a strong performance in 2018, posting consolidated revenues of P286,378 million, 14% higher than the P251,589 million recorded in 2017. This was driven by higher volumes and revenues across the Beer and NAB, Spirits and Food segments. Consolidated operating income and net income both increased 8% to P45,950 million and P30,533 million, respectively over last year.

a) Beer and NAB Segment (SMB)

SMB reported revenues amounting to P129,249 million, 14% higher from 2017, as volumes increased 10% to 284.6 million cases. Consolidated operating income rose 13% to P35,285 million while net income grew 15% to P23,836 million.

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 SMB's top selling brands. Its performance was boosted by consumption-generating initiatives and defense programs which further strengthened the equity of SMB brands.

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 benefitted from volume growth in its South China and Indonesia operations as well as Exports, and better sales mix. 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.

b) Spirits Segment (GSMI)

GSMI recorded a banner year in 2018, sustaining strong sales volume which reached 31.4 million cases, 13% better than the 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 P24,835 million, 19% higher than the previous year. Operating income surged 40% to P1,832 million, due to strong volumes and lower operating costs, while net income increased 75% to P1,053 million.

c) Food Segment

Food Segment posted consolidated revenues of P132,299 million, 13% higher than 2017, on account of the strong performance of the Animal Nutrition and Health, Protein, and Prepared and Packaged Food segments. Most of the food business segments registered double-digit revenue growth, resulting from increased sales volumes and better selling prices.

Revenues from the Animal Nutrition and Health segment, comprising the feeds and vetmed businesses, posted a revenue growth of 14%. Protein, which includes the poultry and fresh meats businesses, grew by 11% while the “Prepared and Packaged Food” expanded by 15%.

The rising costs of major raw materials, intense competition and the additional impact of peso depreciation, however, pulled Food Group’s operating income, down 7% to P9,182 million compared to the same period last year.

Net income fell 15% to P5,885 million, affected by a weaker peso, start-up and pre-operating expenses of the new facilities, and higher interest expenses related to its expansion projects.

Food Segment made significant strides in its ongoing expansion in 2018, completing new facilities that will provide much-needed additional capacities to serve the growing demand and changing preferences of consumers. These include feedmills in Bulacan and Bataan, and one 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 in Sta. Rosa, Laguna that will cater to the growing demand for convenient, pre-prepared and pre-cooked meals.

2. PACKAGING

The Packaging Group completed two acquisitions in 2018. In June, it acquired through San Miguel Yamamura Packaging International Ltd., JMP Holdings, a supplier of packaging products for various industries, including retail packaging, cargo protection, and materials handling. In January 2019, through San Miguel Yamamura Wooven Products Ltd., it acquired INSA Alliance Sdn Bhd, a Malaysian manufacturer of high quality bulk bags. The acquisition complements its existing woven bags plant in Malaysia.

Sales revenues for the year amounted to P37,325 million, 16% higher than 2017, as all business segments delivered solid results. Glass set record deliveries to SMB and GSMI; Metals benefited from a favorable sale mix for crowns; deliveries of Plastic crates and pallets were sustained; and logistics operations delivered significant growth with the increase in demand for rented pallets and trucking services.

The Packaging Group's Australian operations continued to contribute significantly to overall growth, registering strong sales across the different operations.

With the implementation of stringent fixed cost management measures and further improvements in productivity, operating income grew 11% to P3,311 million.

3. ENERGY

SMC Global's consolidated off-take volume for 2018 reached 23,864 gigawatt hours (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 power plants in February and March, respectively. Together, these new units have brought online 300 megawatts (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 in 2018.

With higher off-take volumes and average realization price, consolidated revenues rose 45% to P120,103 million from P82,791 million in the previous year. This was mainly driven by the additional revenues from the new greenfield power plants, the Masinloc power plant and higher average prices from the Sual and Ilijan bilateral and spot offtake volumes. Operating income reached P33,174 million, 37% higher while net income amounted to P8,300 million, 1% higher from last year, which was offset by the effect of forex movements.

4. FUEL AND OIL

Petron reported consolidated revenues of P557,386 million for 2018, 28% higher than the P434,624 million in the previous year which was mainly driven by strong domestic sales of high-margin products such as gasoline, Jet-A1 and Liquefied Petroleum Gas (LPG), on the account of higher prices of crude oil and finished products.

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

During the fourth quarter of 2018, the oil industry has been challenged by increase in global oil production supply which saw crude prices falling sharply starting second half of October until December. Benchmark Dubai crude averaged at US\$79.4 per barrel in October which fell to US\$57.3 per barrel in December, a US\$ 22.1 per barrel drop by year-end. This was also combined with substantially weak gasoline refining margins on the supply side factors.

Consolidated operating income and net income stood at P18,921 million and P7,069 million, 32% and 50% decline from 2017, 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, enabling it to produce even more high-value fuels and petrochemicals. Petrochemical and polypropylene sales grew by 3% and 28%, respectively driving the export volume growth by 7%.

Petron stations continue to grow in the Philippines and Malaysia which is now over 2,400 and 640 stations, respectively.

5. INFRASTRUCTURE

SMC Infrastructure reported in 2018 revenues of P24,530 million, a 9% increase from the previous year, mainly driven by continuous growth in vehicular volume from all operating toll roads. As a result, operating income reached P11,828 million, 13% growth from 2017.

Construction of ongoing projects are on track. The 14.82-kilometer Skyway Stage 3 project is in the advanced stages of construction. The 88.82-kilometer Tarlac-Pangasinan-La Union Expressway is now operational up to the Pozzorubio exit. The last phase from Pozzorubio to Rosario, La Union, is currently under construction.

Construction of the 22-kilometer Mass Rail Transit Line (MRT-7) project, is 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 end of 2018. It has started supplying potable water to six Bulacan municipalities in the first quarter of 2019.

Preparations for the start of construction of South Luzon Expressway-Toll Road 4 (SLEX-TR4) which held its groundbreaking on March 26, 2019 and Skyway Stage 4 are underway.

2017 vs. 2016

The Group's consolidated sales revenue for the year 2017 amounted to P826,086 million, 21% higher than 2016, on the back of robust, double-digit growth across its fuel and oil, infrastructure, and beer, liquor, and packaging businesses.

The higher cost of sales resulted from the increase in crude prices of Petron, increase in sales volume of Petron and SMB, higher excise tax of SMB domestic operations, and the higher coal prices and energy fees of SMC Global.

Sustained sales growth, coupled with effective fixed cost management, brought consolidated operating income to P111,042 million, 11% higher than 2016.

The increase in equity in net earnings in 2017 primarily represents the share of SMC Global on the net income of Angat Hydro as against a net loss in 2016. This was partially offset by the decrease in net income of Northern Cement Corporation (NCC).

The gain on sale of investments and property and equipment in 2017 pertains to the sale of service stations by Petron Malaysia to the Malaysian government. Certain service stations of Petron Malaysia were closed to give way to the Mass Rail Transit project of Malaysia.

The decrease in other charges was primarily due to the recognition of lower foreign exchange loss on the translation of the US Dollar denominated long-term debt of SMC, Petron, and SMC Global, and finance lease liabilities of SMC Global, partly offset by the lower gain on foreign exchange from foreign currency denominated cash and cash equivalents of the Parent Company.

Income from continuing operations amounted to P54,814 million, 36% higher compared to 2016.

Consolidated recurring net income, excluding the effect of forex translation and one-time gain from the sale of the telecommunications business in 2016, was up 11% to P54,654 million, compared to P49,350 million in 2016.

Share of non-controlling interests in the Group's net income increased in 2017 compared to 2016 mainly due to the higher net income of Petron and SMB.

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

1. FOOD AND BEVERAGE

The combined sales revenues of SMFB in 2017 grew 11% to P251,589 million from P227,279 million in 2016. Operating income reached P42,401 million in 2017, an increase of 14% from the same period in 2016.

a) SMB

Consolidated volume of SMB reached almost 260 million cases, surpassing 2016 volume by 13%. Strong volume growth was driven mainly by favorable economic conditions, along with effective marketing campaigns and integrated sales initiatives. Consolidated revenues rose 17% to P113,255 million.

Strong domestic operations, coupled with the contributions of international operations, pushed operating income up 15% to P31,161 million, while net income rose 17% to P20,711 million.

Domestic Operations

With favorable economic conditions, domestic beer volumes rose 15%, boosted by strong marketing campaigns and integrated sales initiatives. Revenues grew 18% to P99,999 million, partly reflecting a price increase implemented on October 1, 2017, as a result of the increase in excise tax. This significant improvement in volumes partly made up for the impact of higher excise taxes and operating costs and resulted to a 14% improvement in operating income to P30,139 million.

Red Horse Extra Strong Beer and San Miguel Pale Pilsen remained the top selling brands, with San Mig Light, Gold Eagle Beer, and San Miguel Flavored Beer turning in strong contributions as well.

In 2017, SMB implemented new marketing campaigns and consumer and trade programs to sustain volume growth, strengthen brand equity, and increase consumption. New digital video campaigns featuring actress Ina Raymundo and rapper Curtsmith, as well as the "MBC Bagong Taon, Bagong Milyon" crown collection promo, strengthened Pale Pilsen's position. Meanwhile, Red Horse's "Pambansang Muziklaban" and "Pasiklaban" events continued to enable the brand to assert its position as "The No. 1 beer". San Mig Light also continued to push its "Mahaba-habang inuman" campaign through a new television commercial dubbed "5 Signs", while San Miguel Flavoured Beer utilized digital and social media advertising to boost penetration of the 'millennial' market.

International Operations

San Miguel Brewing International Limited's (SMBIL) operating income in 2017 grew 18% to US\$24 million. SMBIL continued to intensify efforts to sustain profit growth and accelerate the growth of San Miguel Brands, including Red Horse. San Miguel brands grew 6% versus 2016 on the back of strong results from South and North China, Thailand, Vietnam and the Exports markets. However, due to lower sales from some local brands in Indonesia and North China, overall volume declined 2%. Revenues ended at US\$263 million, at par with 2016.

SMBIL continues to implement volume expansion initiatives for San Miguel brands by increasing trade coverage as well as pursuing cost reduction and efficiency improvements.

b) GSMI

For the fourth consecutive year, GSMI registered continued growth. Sales volumes rose 10% to 27.7 million cases, on the back of effective campaigns and below-the-line promotions, which led to higher consumption of flagship brand Ginebra San Miguel and Vino Kulafu. Both brands posted double digit growth. Consumers' strong affinity to the Barangay Ginebra Gin Kings basketball team was a key contributor to growth, as was Vino Kulafu's 60th year anniversary, which was hyped all-year-round via radio commercials anchored on its "Dosenang Lakas" proposition.

Expansion of consumer market reach, particularly the millennial generation, also contributed to strong volumes. Based on the Nielsen Retail Audit as of December 2017, market share is at 32%.

Revenues rose 12% to P20,892 million, the result of higher volumes and price increase implemented last April 1, 2017. Operating income reached P1,307 million, 43% higher than 2016 while net income significantly rose 67% to P602 million.

c) Food Segment

The Food Segment posted consolidated revenues of P117,449 million, 5% higher than 2016, on the sustained strong performance of the Protein and Prepared and Packaged Food businesses.

Operating Income rose 11% to P9,926 million, the result of favorable selling prices for poultry, fresh and processed meats products; a better sales mix and lower costs of some major raw materials.

Net income ended 16% higher at P6,906 million.

The Protein and Animal Nutrition and Health businesses ended 2017 with revenues reaching P80,803 million, up 6% from 2016. This mainly was the result of better sales mix, favorable selling prices of chicken and fresh Meats products and aggressive marketing and promotion activities for feeds.

Milling business revenues declined by 3% to P9,506 million due to flat volumes and continued price pressures, including stiff competition and lower global wheat prices. Nevertheless, the Milling business remained profitable despite the margin squeeze.

Food Segment's Prepared and Packaged Food Business benefitted from the continued growth of its core products. The robust performance of processed meats, coupled with new product launches and intensified brand-building efforts, resulted to revenues of P29,405 million, 6% higher than 2016.

In a bid to further strengthen market leadership, a number of new products were introduced. Among these products are Purefoods Pulled Pork, Purefoods flavored luncheon meat (Cheese and Bacon), La Pacita Graham Cracker sandwiches and Oat Cookies, dual-flavored popsies and Avocado classic ice cream made with carabao milk.

Food Segment grew its value-added products and launched new offerings under the easy-to-cook and easy-to-heat lines. These include pre-marinated chicken cut-ups in three flavors (ginger, gata and tomato) and fully cooked lechon kawali and crispy pata.

Food Segment also started implementing its capacity expansion program in 2017. This includes the construction of five feed mills and at least one flour mill; a new hotdog plant, and the first ready-to-eat manufacturing plant, located in Santa Rosa Laguna, which will serve the growing consumer demand for convenient and nutritious meals. Construction of these facilities is progressing according to schedule.

2. PACKAGING

In 2017, the Packaging Group continued to work to broaden its market presence in the region, posting very encouraging growth in Australia. The group achieved total year revenue of P32,099 million, 17% higher than 2016, driven by the continued growth of Australian operations and higher sales to various beverage companies of glass, metal and plastics products.

With continuous implementation of cost management efforts and programs to increase productivity, operating income grew 16% to P2,994 million.

The Packaging group continued to grow its business in Australia, completing the acquisition of three major companies: Portavin Holdings Pty. Ltd. (Portavin); Barrosa Bottling Services Pty. Ltd. - a specialist and independent contract wine bottling and packaging facility serving artisan wineries in South Australia and Best Bottlers Pty. Ltd. Best Bottlers is a wine bottling and packaging facility specializing in various formats of contract-filling, including still and sparkling wines, cider, ready-to-drink and non-alcoholic beverages, such as fruit juices.

3. ENERGY

SMC Global's consolidated revenues for year 2017 grew 6% to P82,791 million, the result of higher realization prices from both bilateral and spot sales. Consolidated off-take volume however ended slightly lower at 17,227 Gwh due to lower bilateral volumes from Ilijan and San Roque power plants. Ilijan Power Plant's Block 1 underwent an annual maintenance shutdown as did the Malampaya gas facility, from January 28 to February 16. Block 2 experienced a temporary shutdown due to series of earthquakes that hit Batangas at the beginning of 2017. Sual Power Plant's Unit 2 likewise experienced a shutdown from June 14 to November 10, 2017, due to a main generator transformer failure. San Roque power plant also recorded lower power dispatch due to lower water level.

Operating income ended 9% lower than 2016 at P24,276 million, the result of higher energy fees, coal consumption costs, higher natural gas prices, replacement power purchases, lower bilateral volumes from Ilijan, and the sale of the Limay Cogen plant in 2016.

Net income amounted to P8,217 million, significantly higher than 2016 due to lower unrealized forex losses.

In 2017, SMC Global's total generating capacity reached 3,213 MW, with the addition of 450 MW from the Malita and Limay power plants, which finally started commercial operations.

4. FUEL AND OIL

Petron reported a net income of P14,087 million, 30% higher than the P10,822 million in 2016 as a result of its continued focus on high-value segments and strong sales volumes from both Philippine and Malaysian operations.

Consolidated volumes reached 107.8 million barrels, up 2% from 105.7 million barrels in 2016. Sales in the retail segment grew 8%, on the back of the continued aggressive expansion of its service station network. By the end of the year, Petron breached the 3,000-service station mark. Sales of high-margin products such as gasoline, Jet A-1 and lubricants grew double digits while Petrochemicals provided good margins and additional revenue as volumes grew by 9%.

Petron's consolidated revenues reached P434,624 million, a 26% improvement from the P343,840 million recorded in 2016. Operating income grew 16% to P27,638 million. This would have been much higher if not for the scheduled maintenance turnarounds at both the 180,000 barrel-per-day Bataan refinery and the 88,000 barrel-per-day Port Dickson refinery in Malaysia.

Petron's domestic performance was driven by higher sales of high-margin products such as gasoline, Jet A-1, and lubricants. In 2017, Petron launched the first and only Euro 6 fuel, Blaze 100 Euro 6, considered the best gasoline in the country. Sales of lubricants such as Blaze Racing also contributed to overall growth. These new products, together with better efficiencies and higher production capability at the upgraded Petron Bataan refinery, all helped boost Philippine operations for 2017.

The performance of Petron's Malaysia operations was also remarkable, driven by strong volume growth which resulted to increased market share. Petron Malaysia also continues to pursue its retail outlet expansion program.

5. INFRASTRUCTURE

SMC Infrastructure posted consolidated revenues of P22,497 million for 2017, a 13% increase from 2016. Growth is attributed to higher vehicular volume at all operating toll roads namely the: SLEX, Skyway 1 and 2, Southern Tagalog Arterial Road (STAR), Tarlac-Pangasinan-La Union Toll Expressway (TPLEX), and the Ninoy Aquino International Airport Expressway (NAIAx). Operating income grew 6% to P10,440 million.

Tollroads

All operating toll roads – the SLEX, Skyway 1 and 2, STAR, TPLEX and NAIAx continue to record strong growth in average daily traffic, delivering combined revenues amounting to P18,683 million, 11% higher vs. 2016.

In December 2017, the Pozorrubio exit of TPLEX was completed and opened to the public which now brings to 77.4 km the length of the total commercially operational toll road out of the 89.21 kms total length of the expressway.

The construction of Skyway Stage 3's Sections 1 and 2 from Buendia to Aurora, as well as Sections 3 and 4 from Araneta Avenue to Balintawak, Quezon City, is ongoing and progressing well. The Toll Regulatory Board (TRB) has already issued a Notice of Approval for the San Juan River alignment proposal.

Construction for SLEX-TR4 (Sto. Tomas, Batangas to Lucena City) is set to begin. Final engineering plans and drawings has been approved and signed by the TRB. The Department of Public Works and Highways (DPWH) is working on right-of-way (ROW) acquisitions.

Preparations for the construction of Skyway Stage 4 are also underway. This is 58.09 km roadway will start at Skyway 1 and will go all the way to Batasan Complex in Quezon City. Once operational, this vital expressway will help decongest EDSA, C5 and other major roads. It will also serve as a faster alternative route for motorists coming from the Rizal and Calabarzon area.

Airport

Volumes and revenues from Boracay Airport in Caticlan grew in 2017, following the completion of runway expansion and the installation of navigation lights. These upgrades now allow the airport to accommodate larger aircraft as well as night flights. Meanwhile, the interim arrival hall is complete and is now being used, as the construction for the new passenger terminal is being completed. Plans to further extend the runway from 1.8km to 2.1km, is also underway.

Mass Rail

Construction of the MRT 7 project remains on-track. Currently, work is focused at the area between Quezon Memorial Circle to SM Fairview, traversing Commonwealth Ave. and Regalado Ave. Civil works, rolling stocks, and electromechanical works and acquisition of subject lands are also ongoing.

Bulk Water

SMC Infrastructure is currently constructing the Water Treatment and Pipe Conveyance facilities for the Bulacan Bulk Water project. Environmental Compliance Certificate for the water treatment and pipe conveyance facilities have been issued. Discussions with DPWH, the Department of Transportation and the Bulacan local government units on the ROW of pipe conveyance facilities, are ongoing.

6. REAL ESTATE

San Miguel Properties, Inc. (SMPI), posted revenues of P2,394 million, a 39% rise from 2016, as it continued to see growth in its real estate, hotel, and leasing operations.

III. FINANCIAL POSITION

A. The following are the major developments in 2018:

INVESTMENT IN SUBSIDIARIES

Food and Beverage

- *Consolidation of Food and Beverage Businesses*

On November 3, 2017, the Board of Directors (BOD) of SMC 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 SMC approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

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

On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC'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 million. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 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 million divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share, to P12,000 million divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the Board of Directors and shareholders of SMFB.

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

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of SMC'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 million, the investment value of SMFB in SMB and GSMI.

On October 12, 2018, the Bureau of Internal Revenue (BIR) issued BIR Certification No. SN: 010-2018 which confirmed the tax-free transfer by SMC 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.

- *Follow-on Offering of SMFB Shares*

On October 26, 2018, the SEC issued the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale relating to the offer of up to 1,020,050,000 common shares in SMFB owned by SMC (the "Offer Shares") in a secondary sale transaction at an offer price of P85.00 per share.

In 2018, SMC 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 million.

With the completion of the follow-on offering, the total number of common shares held by SMC 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.

Energy

▪ *Acquisition of 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 million (P98,990 million). 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 AES Transpower Private Ltd. (ATPL) and AES Philippines, Inc. (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 transaction was financed through the following:

- a) Availment by SMC Global of a US\$500 million term loan and a US\$700 million term loan on March 15, 2018 and March 16, 2018, respectively.

In 2018, SMC Global partially paid US\$350 million of the US\$500 million term loan.

- b) Availment by SMC of a total of US\$400 million floating interest rate term loan maturing on March 13, 2023 and a total of US\$400 million long-term loans.

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

On August 17, 2018, SMC Global paid the US\$150 million advance from SMC.

LONG-TERM DEBT

▪ REFINANCING OF LOANS

AVAILMENT OF LOANS

SMC

– Availment of US\$300 Million Term Loan

In 2018, SMC availed of a US\$300 million five-year Term Facility subject to a floating interest rate of LIBOR plus margin.

The proceeds were used to refinance existing US dollar-denominated obligations and/or for general corporate requirements.

– Availment of US\$200 Million Term Loan

On November 21, 2018 SMC availed of a US\$200 million term loan which is subject to a floating interest rate of LIBOR plus margin.

The proceeds were used to refinance existing US dollar-denominated obligations.

GSMI

– Availment of P1,000 Million Term Loan

On September 24, 2018, GSMI drew P1,000 million from a five-year credit facility with a local bank to refinance its existing short-term obligations. The loan is carried at amortized cost and is subject to a fixed interest rate, and equal quarterly installments commencing in September 2019.

REDEMPTION OF US\$750 MILLION UNDATED SUBORDINATED CAPITAL SECURITIES (USCS)

Petron

On January 22, 2018, Petron redeemed US\$402 million of its US\$750 million USCS from the proceeds of the issuance of the US\$500 million Senior Perpetual Capital Securities (SPCS). The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

The remaining balance of US\$348 million of the USCS was redeemed from the proceeds of the issuance of the P20,000 million peso-denominated fixed rate bonds out of its P40,000 million shelf registered Peso bonds.

The bonds are comprised of the six-year 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%.

- **REDENOMINATION OF FOREIGN CURRENCY LOANS**

In 2018, the Group redenominated certain foreign currency loans to reduce exposure to changes in the peso-dollar exchange rates.

SMC

- *Issuance of P20,000 Million Fixed Rate Peso-denominated Bonds*

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

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

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

The proceeds from the issuance were used for the payment of the US dollar-denominated short-term loan and long-term debt.

- *Issuance of P10,000 Million Fixed Rate Peso-denominated Notes*

On May 25, 2018, SMC issued and listed with the PDEX peso-denominated Fixed-Rate Notes (the “Fixed-Rate Notes”) amounting to P10,000 million. The Fixed-Rate Notes have interest rate equivalent to 5.25% per annum due 2020.

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.

SMC Global

On August 17, 2018, SMC Global issued and listed with the PDEX the second tranche of the P35,000 million shelf registered fixed rate bonds amounting to P15,000 million. The Bonds have interest rate equivalent to 6.75% per annum due 2023.

Proceeds from the issuance were used to refinance the outstanding shareholder advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

- **AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECTS/INVESTMENT**

SMC Consolidated Power Corporation (SCPC)

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

Luzon Clean Water Development Corporation (LCWDC)

On various dates in 2018, LCWDC drew a total of P4,200 million from the P5,400 million OLSA with various local banks dated September 16, 2016. The loans are subject to a floating interest rate.

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

Citra Central Expressway Corp. (CCEC)

On various dates in 2018, CCEC drew a total of P18,100 million from the P31,000 million OLSA with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

SMC

On June 26, 2018, SMC availed of a US\$300 million five-year Facility Agreement to fund general corporate requirements and/or additional investments. The loan is subject to a floating interest rate.

MPPCL

On July 6, 2018 and October 8, 2018, MPPCL drew a total of US\$120 million from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (net; Unit 3) coal-fired plant within the existing facilities of MPPCL. The loan is divided into fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

San Miguel Consolidated Power Corporation (SMCPC)

On August 17, 2018, SMCPC drew P20,322 million from the P21,300 million OLSA with various local banks dated August 9, 2018, to fund the design, construction and operations of the Malita Power Plant.

SMY Asia

On various dates in 2018, SMY Asia drew a total of P3,300 million from its P4,000 million term loan facility to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and for general funding requirements. The loan is subject to a floating interest rate with maturities up to July 2023.

▪ PAYMENT OF MATURING OBLIGATIONS

Infrastructure Group

In 2018, the SMC Infrastructure Group paid a total of P10,512 million of its maturing long-term debt.

Energy Group

In 2018, the Energy Group paid a total of P3,226 million of its maturing long-term debt.

Other Subsidiaries

In 2018, Petron, San Miguel Yamamura Packaging Corporation (SMYPC), SMY Asia, East Pacific Star Bottlers Phils Inc. (EPSBPI), and Can Asia, Inc. (CAI) paid their maturing long-term debt amounting to P7,514 million.

B. The following are the major developments in 2017:

INVESTMENT IN SUBSIDIARIES

- *Sale of 34.83% Equity Interest in Manila North Harbour Port, Inc. (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 million.

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 the stake of San Miguel Holdings Corp. (SMHC) in MNHPI.

LONG-TERM DEBT

- **REDENOMINATION OF FOREIGN CURRENCY LOANS**

In 2017, the Group redenominated certain foreign currency loans to reduce exposure to changes in the peso-dollar exchange rates.

Parent Company

- *Shelf Registration of P60,000 Million worth of Fixed Rate Peso-denominated Bonds by the Parent Company and Issuance of P30,000 Million Bonds*

On February 14, 2017, the SEC approved the shelf registration of up to P60,000 million worth of Fixed Rate Bonds of the Parent Company.

On March 1, 2017, the Parent Company issued and listed in the PDEX the first tranche of the fixed rate bonds amounting to P20,000 million.

The Bonds are comprised of five-year Series A Bonds due 2022, seven-year Series B Bonds due 2024, and 10-year Series C Bonds due 2027. The Series A, Series B and Series C Bonds have interest rate per annum equivalent to 4.8243%, 5.2840% and 5.7613%, respectively. Interests are payable on March 1, June 1, September 1, and December 1 of each year.

Proceeds from the issuance were used by the Parent Company to partially pay the P25,000 million short-term bridge loan which was availed to partially redenominate the US\$500 million out of the US\$1,500 million long-term debt of the Parent Company.

On April 7, 2017, the Parent Company issued and listed in the PDEX the second tranche of the fixed rate bonds amounting to P10,000 million. The Bonds comprised of five-year Series D Bonds due 2022 with interest rate per annum equivalent to 5.1923%.

Proceeds from the issuance were used by the Parent Company to refinance the US\$200 million short-term bridge loan which was availed to partially redenominate the US\$200 million obligation, under the US\$300 million Facility Agreement.

SMC Global

– Availment of P15,000 Million Term Loan

On April 26, 2017, SMC Global availed of a P15,000 million fixed-rate, seven-year term loan to fund the payment of the US\$300 million out of the US\$700 million, five-year term loan drawn to refinance existing indebtedness and to fund the construction of the power plants in Malita, Davao and Limay, Bataan, investments in power-related assets, and for general corporate purposes.

– Shelf Registration of P35,000 Million worth of Fixed Rate Peso-denominated Bonds and Issuance of P20,000 Million Bonds

On December 8, 2017, the SEC approved the shelf registration of up to P35,000 million worth of Fixed Rate Bonds of SMC Global.

On December 22, 2017, SMC Global issued and listed in the PDEX the first tranche of P20,000 million Fixed Rate Bonds comprising of five-year Series D Bonds due 2022, seven-year Series E Bonds due 2024, and 10-year Series F Bonds due 2027.

The Series D, Series E and Series F Bonds have fixed interest rate per annum equivalent to 5.375%, 6.25% and 6.625%, respectively. Interests are payable on March 22, June 22, September 22, and December 22 of each year.

Proceeds from the issuance were used by SMC Global to pay the short-term bridge loans availed in March and September 2017, used to redenominate the US\$400 million out of the US\$700 million term loan.

SCPC

– Availment of P42,000 Million Term Loan

On June 22, 2017, SCPC entered into a P44,000 million OLSA, with various banks, of which P42,000 million has been drawn on June 28, 2017. Proceeds from the loan was used primarily for the payment of the US\$360 million short-term bridge financing loan availed in May 2017, to redenominate the US\$359 million loan drawn in 2016 to finance the acquisition and ongoing construction of the 2x150 MW Limay Coal-fired Power Plant.

■ REFINANCING OF LOANS

Parent Company

– Availment of US\$300 million Medium Term Loan

On October 24, 2017, the Parent Company drew US\$300 million from the medium-term loan facility subject to a floating interest rate plus spread and with maturities up to October 24, 2024. The proceeds were used to refinance the US\$287 million term loan drawn in 2015. The interest rate per annum of the US\$300 million loan is lower than the interest rate of the US\$287 million loan.

– *Availment of US\$100 Million Medium Term Loan*

On November 21, 2017, the Parent Company drew US\$100 million from its amended revolving facility agreement dated November 6, 2016. The loan is subject to a floating interest rate per annum of LIBOR plus a spread and maturing on May 6, 2019. The proceeds were used to refinance the US\$100 million short-term loan. The refinancing extended the term of the loan from short-term loan to long-term debt.

Petron

– *US\$1,000 Million Term Loan*

On June 16, 2017, Petron signed and executed a US\$1,000 million term loan facility to be amortized over five years with a two-year grace period and is subject to a floating interest rate plus a spread. On June 28 and October 10, 2017, Petron drew US\$600 million and US\$400 million, respectively from the loan facility.

The proceeds from the US\$600 million loan were used to fully pay the outstanding balances of US\$115 million and US\$470 million under the US\$475 million and US\$550 million term loan facilities, respectively.

The proceeds of the US\$400 million loan were used to settle the P20,000 million Peso-denominated Notes which matured on November 10, 2017. The interest rate per annum of the new loan is lower than the fixed interest rate per annum of the P20,000 million loan.

The previous loans were prepaid to benefit from the lower interest rate of the new facility.

▪ **AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECTS**

Petron

– *P15,000 Million Term Loan*

On July 25, 2017, Petron drew P15,000 million from its term loan facility. 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 140MW Power Plant in Limay, Bataan.

– *P10,000 Million Term Loan*

On December 29, 2017, Petron drew P10,000 million from its term loan facility. 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.

CCEC

On December 15, 2017, CCEC drew P3,200 million from the P31,000 million OLSA dated December 15, 2014. The loan was used to partially finance the design, construction and the operation and maintenance of the Stage 3 of Metro Manila Skyway Project.

As of December 31, 2017, P200 million was spent for the construction of Skyway Stage 3 Project.

SCPC

– Availment of P42,000 Million Term Loan

Part of the balance of the P42,000 million loan proceeds amounting to P20,050 million were used for the ongoing construction of the Limay Greenfield power plant projects and for payment of transaction costs, interest and shareholder advances previously used by SCPC to defray its capex requirements.

▪ PAYMENT OF MATURING OBLIGATIONS

Infrastructure Group

In 2017, the SMC Infrastructure Group paid a total of P10,473 million of its maturing long-term debt.

SMB

On April 3, 2017, SMB completed the redemption of the P3,000 million Series “D” fixed rate bonds. The Series D bonds was part of the P20,000 million Series “D, E and F” fixed rate bonds issued by SMB in 2012. The payment was funded by cash generated from operations of SMB.

Petron

Petron Group paid a total of P3,400 million of its maturing long-term debt in 2017.

Other Subsidiaries

In 2017, SMYPC, EPSBPI, and CAI paid their maturing long-term debt amounting to P1,056 million.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2018 vs. 2017

The Group’s consolidated total assets as of December 31, 2018 amounted to P1,676,642 million, P296,999 million higher than last year. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets, and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents by P37,077 million was mainly due to proceeds from the follow-on offering of SMFB common shares in November 2018.

The increase in trade and other receivables by P13,853 million was mainly attributable to the higher revenue of SMC Global, Petron and Food Segment, consolidation of Masinloc Group and increase in Petron Malaysia’s government subsidy receivable.

Inventories increased by P22,564 million primarily due to the higher prices and volume of crude oil and finished products including excise taxes of Petron, reclassification by SMB of customer’s containers deposit, from contra inventory account to liability account due to the adoption of PFRS 15, consolidation of the materials and supplies of MPPCL and increase in Food Segment’s inventory to meet forecasted peak season sales and to maintain safety inventory levels.

Biological assets increased by P972 million mainly due to Poultry's expansion of farm capacities to support increasing supply requirement and higher growing cost due to increase in importation cost of parent stocks.

The increase in prepaid expenses and other current assets was primarily due to the net increase in restricted cash balance of CCEC and SMCPC, consolidation of Masinloc Group's prepaid expenses and higher prepaid taxes, mainly from input tax, of Petron, SMC Global and SMHC.

Investments and advances increased by P14,982 million mainly due to the advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited and acquisition by SMC Equivest Corporation of 4.69% equity interest in BOC.

The increase of P70,786 million in property, plant and equipment was primarily due to the consolidation of the power plant and properties of the Masinloc Group.

The increase in investment property was due to the reclassification of various property, plant and equipment of Petron to investment property to reflect the usage of properties being leased out to its dealers, and acquisitions during the year.

The increase in goodwill mainly represents the goodwill recognized as a result of the consolidation of the Masinloc Group.

Other intangible assets increased mainly due to the costs of various infrastructure projects of the Infrastructure Group net of amortization during the period.

Deferred tax assets increased by P837 million mainly due to the effect of recognition of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated long-term debt and loans payable as a result of the depreciation of the Philippine Peso against the US Dollar in December 2018 compared to December 2017.

The increase in other noncurrent assets by P14,491 million was mainly due to the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited from current to noncurrent due to delay in MRT 7 Project completion, capitalized expenditures on the construction of MRT 7 Project, purchase of new containers by SMB and the consolidation of the Masinloc Group's other noncurrent assets.

The increase in loans payable by P34,161 million was mainly due to net availment of working capital loans and for general corporate purposes by Petron, Food Segment and SMC.

Accounts payable and accrued expenses increased by P12,771 million mainly due to the consolidation of the balances of Masinloc entities, reclassification of SMB's customer's container deposit from contra inventory account to liability due to the adoption of PFRS 15.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities due in 2019 of Energy Group.

The P3,248 million increase in income and other taxes payable was mainly due to the higher excise tax of Petron and the contributed income tax and other payables of the Masinloc entities.

Dividends payable decreased primarily due to dividend payments made by Citra Metro Manila Tollways Corp and SMY Asia.

The increase in current maturities of long-term debt was mainly due to the reclassification to current liability of the amounts due in 2019.

The higher amount of long-term debt resulted from the loan availments made by SMC Global and SMC, and the issuance of fixed rate bonds by SMC Global to finance the acquisition of Masinloc Power, consolidation of the long-term debt of MPPCL, availment for investment and general corporate purposes, and loan availments by the Energy Group and the Infrastructure Group to finance capital expenditures.

The increase in deferred tax liability is mainly attributable to the temporary differences arising from interest expense, depreciation and foreign exchange.

The decrease in finance lease liabilities by P15,641 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Other noncurrent liabilities decreased primarily due to Petron's settlement of retirement liability and contribution to the retirement fund.

Equity reserves increased by P26,312 million mainly due to the effect of SMFB's share swap and the gain from the follow on offering of SMFB common shares, net of the redemption of USCS of Petron.

The increase in appropriated retained earnings by P5,930 million was mainly due to appropriations by SMFB net of the reversals of SMC Global, SMITS, Infrastructure Group, SMC Shipping and Lighterage Corporation (SMCSLC) and SMY Asia.

Equity

The increase in equity in 2018 is due to:

<i>(In millions)</i>	2018
Income during the period	P48,648
Other comprehensive income	926
Net addition to non-controlling interests and others	20,430
Issuance of capital stock	196
Adjustments due to PFRS 9 and 15	6
Cash dividends and distributions	(29,321)
	<u>P40,885</u>

2017 vs. 2016

The Group's consolidated total assets as of December 31, 2017 amounted to P1,379,643 million, P72,819 million higher than 2016. The increase was primarily due to the increase in inventories, biological assets, property, plant and equipment, other intangible assets and other noncurrent assets.

Inventories increased by P19,334 million primarily due to the higher prices of crude oil and finished products of Petron and increased importation of certain raw materials to support expected surge in sales volume and in anticipation of further increase in raw material costs of the Food Segment.

Current and noncurrent portion of biological assets increased by P300 million and P432 million, respectively, mainly due to expansion of Poultry farms' capacities to support increasing supply requirement.

Assets held for sale decreased by P184 million due to the sale of certain machinery and equipment to NCC by SMC Powergen Inc. in 2017.

The increase in investments and advances by P3,025 million was mainly due to advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited.

Other intangible assets increased by P9,273 million mainly due to the additional concession rights for the various infrastructure projects of SMC Infrastructure, such as: Skyway Stages 3 and 4, Bulacan Bulk Water, Manila North Harbour, TPLEX, Boracay Airport, NAIAX, STAR and SLEX-TR4 in 2017, net of the recognition of amortization.

Deferred tax assets decreased by P1,855 million mainly due to the temporary difference on the higher actual monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease interest expense accrued in 2017.

The increase in other noncurrent assets by P14,279 million was mainly due to the a) capitalized project costs incurred for the MRT 7 Project, advances to contractors of the Skyway Stage 3 Project and increase in noncurrent portion of the subsidy receivable from DPWH for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of TPLEX Project; b) higher restricted cash to cover SCPC's debt servicing and capex requirements and higher prepaid input VAT recognized on additional purchases for the construction of Limay Phase II.

The decrease in loans payable by P39,414 million was mainly due to the net payments made by the Parent Company and settlement by Petron of the P15,000 million bridge loan, offset by availments made by SMCP for Malita, Davao capex requirements.

Accounts payable and accrued expenses increased by P15,391 million mainly due to higher liabilities for crude and other products of Petron, and higher volume of transactions with third party suppliers in the last quarter of 2017 of the Food Segment.

Dividends payable increased by P437 million mainly due to unclaimed dividends payable to common stockholders of the Parent Company.

The higher amount of long-term debt by P70,892 million resulted from the P42,000 million term loan availed by SCPC; issuance by the Parent Company of P30,000 million fixed rate - bonds; availment by Petron of the P15,000 million and P10,000 million term loans; and availment by CCEC of the P3,200 million term loan for the construction of the Skyway Stage 3 project. The increase was partially offset by the payments made by the Infrastructure Group, and prepayment of Petron Malaysia of its long-term debt and the redemption of SMB of the Series D Bonds.

Deferred tax liabilities increased by P3,445 million mainly due to the temporary differences arising from the: a) different method of depreciation used for tax reporting (accelerated method) and financial accounting (straight-line method) for power plant acquired by Petron in December 2016 and RMP-2, and realization of forex loss of Petron; and b) actual monthly payments to the PSALM over the finance lease liability-related expenses of SPPC.

The decrease in finance lease liabilities by P15,343 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

The P3,444 million increase in other noncurrent liabilities was primarily due to higher retirement liabilities caused mainly by the recognition of re-measurement losses on plan assets and increase in asset retirement obligation of Petron, retention payable to the contractors of MRT 7 and LCWDC and additional long term liability of MNHPI for the purchase of certain equipment in relation to the expansion project.

Equity reserves increased by P2,901 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron, Packaging Group International and SMB.

The increase in appropriated retained earnings by P9,984 million was mainly due to the increase in appropriation by SMC Global for monthly fixed payments and energy fees to PSALM and SMB for the payment of Series C & E bonds due in 2019 partially offset by the reversal of SMCSLC of appropriations for completed projects.

Unappropriated retained earnings increased by P7,351 million mainly due to the net income attributable to the equity holders of the Parent Company, net of additional appropriations and dividends declared by the Parent Company.

Non-controlling interests increased by P13,926 million primarily due to the share of non-controlling stockholders in the higher net income of SMB, Petron, Food Segment and Infrastructure and translation adjustments, net of dividends declared to the non-controlling stockholders of SMB and Petron.

Equity

The increase in equity in 2017 is due to:

<i>(In millions)</i>	2017
Income during the period	P54,814
Other comprehensive income	3,440
Net addition to non-controlling interests and others	3,368
Issuance of capital stock	119
Cash dividends and distributions	(27,460)
	<u>P34,281</u>

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2018	2017	2016
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	P58,224	P79,228	P79,193
Net cash flows used in investing activities	(194,765)	(53,624)	(23,257)
Net cash flows provided by (used) in financing activities	174,015	(22,386)	(34,147)

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities are as follows:

	December 31		
	2018	2017	2016
	<i>(In Millions)</i>		
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(P98,057)	(P2,568)	(P1,905)
Additions to property, plant and equipment	(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	(20,021)	(2,908)	(8,038)
Interest received	6,537	4,263	3,480
Dividend received	1,906	1,355	1,081
Proceeds from sale of investments and property and equipment	1,139	1,930	1,114
Dividend received	1,906	1,355	1,081
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	-	13,020	37,175

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2018	2017	2016
	<i>(In Millions)</i>		
Net proceeds from (payments of) long-term borrowings	P176,814	P67,740	(P52,325)
Proceeds from follow-on offering of common shares of a subsidiary	35,083	-	-
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	24,881	-	-
Redemption of undated subordinated capital securities of a subsidiary	(39,769)	-	-
Proceeds from follow-on offering of common shares of a subsidiary			
Net proceeds from (payments of) short-term borrowings	(32,305)	(40,058)	42,160
Cash dividends and distributions paid	(29,706)	(27,023)	(24,338)
Payments of finance lease liabilities	(25,698)	(24,924)	(23,907)
Increase (decrease) in non-controlling interests	(91)	1,760	(5,515)
Proceeds from issuance of capital stock	196	119	71
Proceeds from reissuance of treasury shares	-	-	29,707

The effect of exchange rate changes on cash and cash equivalents amounted to (P397) million, (P298) million and P606 million on December 31, 2018, 2017 and 2016, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 million in 2018, 2017 and 2016, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group include 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.

VI. KEY PERFORMANCE INDICATORS

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

	December 31	
	2018	2017
Liquidity:		
Current Ratio	1.37	1.40
Solvency:		
Debt to Equity Ratio	2.28	1.93
Asset to Equity Ratio	3.28	2.93
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	7.23%	9.73%
Interest Rate Coverage Ratio	2.61	3.27
Operating Efficiency:		
Volume Growth	8%	4%
Revenue Growth	24%	21%
Operating Margin	11%	13%

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

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

VII. OTHER MATTERS

▪ 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.

a. 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.

b. 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 million, 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 (Meralco). 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 million 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 million. 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.

c. Treasury Shares of the Parent Company

A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481 million, [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 million; 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 G.R. No. 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.

d. 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 million.

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 million, 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 million, 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 million for the period of December 1, 2005 to July 31, 2007, and P782 million 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 million 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 million 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 million, 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 million. 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 million. 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 million. 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 million, 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 million in Case No. 8953, and P133 million 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 million, 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.

e. Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on Iconic Beverages, Inc. (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 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 million 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 million, 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 million 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.

f. San Miguel Foods, Inc. (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.

g. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million 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 Tax 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.

h. 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 million. The cases are still pending as of December 31, 2018.

i. Lease Agreements with Philippine National Oil Company (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 Temporary Restraining Order (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.

j. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan Independent Power Producer Administration (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 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.

k. 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 Tanduary 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 (2) 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.

l. Imported Industrial Fuel Oil

SL Harbor Bulk Terminal Corporation (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 ₱ 751 million. 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 ₱123 million or one and one-half times of the assessed amount of ₱82 million 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.

m. 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 million. 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.

San Miguel Energy Corporation (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 the 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.

n. Civil Case

SMEC

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment 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 Consignment 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 consignment.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignment 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 consignment 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 Energy Regulatory Commission (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.

o. 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 Philippine Electricity Market Corporation (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 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 million, plus interest.

p. System Loss Charge

In 2008, Meralco filed a petition for dispute resolution against PEMC, National Transmission Corporation (TransCo), National Power Corporation (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.

q. Validity of Concession Agreement with Albay Electric Cooperative, Inc. (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 Albay Power and Energy Corp. (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.

r. Electric Power Industry Reform Act (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.

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.

- Commitments

The outstanding purchase commitments of the Group amounted to P127,366 million as of December 31, 2018.

Amount authorized but not yet disbursed for capital projects is approximately P197,559 million as of December 31, 2018.

- Foreign Exchange Rates

The foreign exchange rates used in translating the US Dollar accounts of foreign subsidiaries and 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.

- 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.
- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as of December 31, 2018.
- The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period December 31, 2018.