



SAN MIGUEL CORPORATION

OFFER SUPPLEMENT

**Offer of up to ₱10,000,000,000.00 Fixed Rate Bonds
under its ₱60,000,000,000.00 Shelf Registration**

consisting of:

Series H Bonds: [●]% p.a. due 2024

Offer Price: 100% of Face Value

to be listed and traded through the Philippine Dealing & Exchange Corp.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation

China Bank Capital Corporation

PNB Capital and Investment Corporation

RCBC Capital Corporation

Selling Agent

[●]

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS OFFER SUPPLEMENT IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

This Offer Supplement is dated August 22, 2019

SAN MIGUEL CORPORATION

No. 40 San Miguel Avenue

Mandaluyong City

1550 Philippines

Telephone number (632) 632-3000

<http://www.sanmiguel.com.ph>

San Miguel Corporation (“**SMC**”, the “**Company**”, the “**Parent Company**”, or the “**Issuer**”), prepared the Prospectus dated February 10, 2017 (the “**Prospectus**”) relating to the shelf registration and the offer, and sale in the Philippines within the Shelf Period (as defined below) in tranches of Philippine Peso-denominated fixed rate bonds (the “**Bonds**”) with an aggregate principal amount of Sixty Billion Pesos (₱60,000,000,000.00) and covered by MSRD Order No. 3, series of 2017 dated February 14, 2017. The Bonds will be issued at face-value and listed and traded through the Philippine Dealing & Exchange Corp. (“**PDEX**”).

The Bonds shall be taken down from the shelf in tranches within a period of three (3) years from the effective date of the Registration Statement, subject to applicable regulations (the “**Shelf Period**”).

This Offer Supplement dated August 22, 2019 (“**this Offer Supplement**” and as the context may require, the term includes the Prospectus) relates to the takedown of and the public offer for the sale, distribution and issuance by the Company of an aggregate principal amount of Ten Billion Pesos (₱10,000,000,000.00) of Fixed Rate Bonds (the “**Offer Bonds**”). The Offer Bonds shall be the fourth and final tranche to be taken down from the ₱60,000,000,000.00 shelf registration.

The Offer Bonds will be issued on [October 4, 2019] (the “**Issue Date**”) and will be comprised of 5-year Series H Bonds due 2024 (the “**Series H Bonds**”).

The Series H Bonds shall have a term of five (5) years from Issue Date with a fixed interest rate equivalent [●]% per annum. For a detailed discussion on the Interest Payment Dates, please refer to the discussion under the section “*Description of Offer Bonds – Interest*” starting on page 30 of this Offer Supplement.

Subject to the consequences of default as may be contained in the Trust Agreement, and unless otherwise redeemed or purchased prior to the Maturity Date, the Offer Bonds will be redeemed at 100% of the face value thereof on the Maturity Date. For a more detailed discussion on the redemption of the Offer Bonds, please refer to the discussion under the section “*Description of Offer Bonds – Redemption and Purchase*” starting on page 30 of this Offer Supplement.

The Company reserves the right to withdraw the offer and sale of the Offer Bonds at any time, and the Joint Lead Underwriters and Bookrunners reserve the right to reject any application to purchase the Offer Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Bonds sought by such purchaser. If the Offer is withdrawn or discontinued, the Company shall subsequently notify the Securities and Exchange Commission of the Philippines (the “**SEC**”) and, as applicable, the PDEX. Any of the Joint Lead Underwriters and Bookrunners and any of the Selling Agents may acquire for their own account a portion of the Offer Bonds.

It is expected that the Offer Bonds will be delivered in book-entry form against payment thereof to the Philippine Depository & Trust Corp. (“**PDTC**”).

This Offer Supplement contains the final terms of the Offer Bonds and must be read in conjunction with the Prospectus. Unless defined in this Offer Supplement, terms used herein shall be deemed to be defined as set forth in the Prospectus. Full information on the Issuer and this Offer is only available on the basis of the combination of this Offer Supplement, the Prospectus, and all other Bond Agreements. All information contained in the Prospectus are deemed incorporated by reference in this Offer Supplement.

Unless otherwise stated, the information contained in the Prospectus and this Offer Supplement has been supplied by the Company. The Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in the Prospectus and this Offer Supplement is correct, and that there is no material misstatement or omission of fact which would make any statement in the Prospectus and this Offer Supplement misleading in any material respect. The Joint Lead Underwriters and Bookrunners have exercised reasonable due diligence required by regulations in ascertaining that all material representations contained in the Prospectus and this Offer Supplement are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading.

Unless otherwise indicated, all information in the Prospectus and this Offer Supplement is as of the date provided. Neither the delivery of the Prospectus and this Offer Supplement nor any sale made pursuant to the Prospectus and this Offer Supplement shall, under any circumstances, create any implication that the information contained herein is correct as of any date after the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout the Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and the Company does not make any representation, undertaking or other assurance as to the accuracy or completeness of such information, or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in the Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL
INFORMATION CONTAINED HEREIN ARE TRUE AND CORRECT.

SAN MIGUEL CORPORATION

By: 

RAMON S. ANG

President and Chief Operating Officer

REPUBLIC OF THE PHILIPPINES)
MANDALUYONG CITY, METRO MANILA) S.S.

SUBSCRIBED AND SWORN to before me this AUG 22 2019 in Mandaluyong City, affiant
exhibiting to me his Philippine Passport No. P2247867B expiring on May 21, 2029 as competent
evidence of identity.

Doc No. 320
Page No. 81
Book No. I
Series of 2019.





PAULA KATHERINA A. GAN

Commission No. 0308-19

Notary Public for Mandaluyong City

Until Dec. 31, 2020

SMC, 40 San Miguel Ave., Mandaluyong City

Roll No. 55988

PTR No. 3832114; 01/10/19; Mandaluyong City

IBP Lifetime Member No. 013353; 02/05/15, Q.C

MCLE Compliance No. VI-0019930; 03/20/19; Pasig City

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DEFINITION OF TERMS

In this Offer Supplement, unless the context otherwise requires, the following terms shall have the meanings set out below.

Affiliate	With respect to any Person, means any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, or who is a director or officer of such Person or (ii) any subsidiary of such Person or of any Person referred to in clause (i) of this definition. For purposes of this definition, control (including, with correlative meanings, the terms controlling, controlled by and under common control with), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.
Applicable Law	Any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority.
Applicant	A Person who seeks to subscribe to the Offer Bonds and submits a duly accomplished Application to Purchase, together with all the requirements set forth therein.
Application to Purchase ...	The application form accomplished and submitted by an Applicant for the purchase of a specified amount of the Series H Bonds, together with all the other requirements set forth in such application form.
BDO Capital	BDO Capital & Investment Corporation.
BIR	Bureau of Internal Revenue of the Philippines.
Bond Agreements.....	Collectively, the Underwriting Agreement, the Trust Agreement and the Registry and Paying Agency Agreement, and any amendments thereto.
Bondholder.....	A Person whose name appears, at any relevant time, as the registered owner of the Offer Bonds in the Registry of Bondholders.
Bonds	Collectively, the Philippine Peso-denominated fixed rate bonds of up to an aggregate principal amount of ₱60,000,000,000.00, inclusive of the Offer Bonds, to be issued in one or more tranches within the Shelf Period.
BSP	Bangko Sentral ng Pilipinas.
Business Day	A day other than a public non-working holiday, Saturday or Sunday on which banks are open for business in Metro Manila.
Capital Stock	With respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of such Person's capital stock and/or equity interest, whether outstanding on the date of the Trust Agreement or issued thereafter, including, without limitation, all common stock and preferred stock of such Person.
Change in Law or Circumstance	Each of the events described as such under “ <i>Description of the Offer Bonds – Redemption by Reason of Change in Law or Circumstance</i> ”.
Change of Control	The occurrence of any of the following: (a) the Controlling Stockholders collectively cease to be the beneficial owners of at least 35% of the total voting power of the Voting Stock of the Issuer; or

- (b) the Controlling Stockholders collectively cease to be the largest beneficial owners of the total voting power of the Voting Stock of the Issuer; or
- (c) the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any Person or Persons (other than any of the Controlling Stockholders where such Controlling Stockholder assumes all of the obligations of the Issuer under the Trust Agreement and the Offer Bonds) unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring control over the Issuer or the successor entity.

China Bank Capital	China Bank Capital Corporation.
Code	Securities Regulation Code of the Philippines.
Consolidated EBITDA	<p>In respect of any Relevant Period, the net income of the Group (excluding items between any or all of the Issuer and its Consolidated Subsidiaries):</p> <ul style="list-style-type: none"> (a) before any provision on account of taxation; (b) before any interest, commission, discounts or other fees incurred or payable, received or receivable by the Issuer or any of its Consolidated Subsidiaries in respect of Debt; (c) before any items treated as exceptional or extraordinary items; (d) before any amount attributable to the amortization of intangible assets and depreciation of tangible assets; and (e) if in respect of a calculation of a financial covenant under the section entitled “<i>Description of the Offer Bonds – Financial Ratio</i>,” Project Debt is excluded from the determination of Consolidated Total Debt, excluding income attributable to or generated by the Ring-Fenced Subsidiaries.
Consolidated Net Debt	At any date, the Consolidated Total Debt less the aggregate amount (without duplication) of freely available, unencumbered cash and cash equivalents on the consolidated balance sheet of the Group at such time.
Consolidated Net Worth ...	At any date, the total stockholders’ equity (including minority interests) which would appear on a consolidated balance sheet of the Group prepared as of such date in accordance with PFRS.
Consolidated Subsidiary ..	A Subsidiary of any Person which for financial reporting purposes, in accordance with PFRS, is accounted for by such Person as a consolidated Subsidiary.
Consolidated Total Debt ..	At any date, the aggregate amount (without duplication) of all Debt of the Group as at such date and including all obligations of the IPPAs (under their respective IPPA Agreements) owned or acquired by the Group which are Guaranteed pursuant to a standby letter of credit or other credit support document, issued on behalf of the administrator of the relevant IPPA but excluding (a) items between any or all of the Issuer and its Consolidated Subsidiaries which would be excluded in a consolidated balance sheet of the Group prepared as of such date in accordance with PFRS; (b) Project Debt; and (c) all obligations of the IPPAs (under their respective IPPA Agreements) which represent periodic financial lease payments to PSALM or any other counterparty to an IPPA Agreement.
Consolidated Total Equity	The consolidated total assets minus consolidated total liabilities plus deposit for future subscription as reported in the consolidated financial statements of the

Company and excluding all amounts attributable to or generated by the Ring-Fenced Subsidiaries.

Consolidated Total Interest Expense The total Interest Expense per consolidated financial statements of the Company less interest due on the Project Debt.

Controlling Stockholders (i) Top Frontier Investment Holdings, Inc., (ii) Privado Holdings, Corp. and (iii) any Affiliate of, or any Person who is a Related Person with respect to, those mentioned in (i) or (ii) above.

Debt Any indebtedness of a Person for or in respect of:

- (a) all obligations of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (c) all obligations of such person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business;
- (d) all obligations of such Person as lessee which are capitalized in accordance with PFRS;
- (e) all Debt (of any Person) secured by a Lien on any asset of such first-mentioned Person, whether or not such Debt is otherwise an obligation of such first-mentioned Person;
- (f) all obligations of such Person in respect of any redeemable stock of such Person provided that such redeemable stock (i) is required to be redeemed prior to [October 4], 2024; or (ii) redeemable at the option of the holder thereof or any other Person at any time prior to [October 4], 2024 provided such right has been exercised or notice of such exercise has been made; or (iii) convertible into or exchangeable for (a) Capital Stock; or (b) Debt of any Person having a scheduled maturity prior to [October 4], 2024, and such has been converted into Debt having a scheduled maturity prior to [October 4], 2024;
- (g) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit, Guarantee or similar instrument;
- (h) all Debt of others Guaranteed by such Person;
- (i) all indebtedness of such Person for or in respect of receivables sold or discounted (other than on a non-recourse basis); and
- (j) all indebtedness of such Person for or in respect of any interest rate swap, currency swap, forward foreign exchange transaction, cap, floor, collar or option transaction or any other treasury transaction or any combination thereof or any other transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and the amount of the indebtedness in relation to any such transaction described shall be calculated by reference to the mark-to-market valuation of such transaction at the relevant time),

and so that where the amount of Debt falls to be calculated, no amount shall be taken into account more than once in the same calculation and, where the amount is to be calculated on a consolidated basis in respect of a corporate group, monies borrowed or raised, or other indebtedness, as between members of such group shall be excluded.

Disruption Event	Either or both of: (i) a material disruption to those payment communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the transactions contemplated by the Trust Agreement to be carried out which disruption is not caused by, and is beyond the control of, any of the parties; or (ii) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a party preventing that party from: (a) performing its payment obligations under the Trust Agreement and the Registry and Paying Agency Agreement; or (b) communicating with other relevant parties (including, but not limited to, the Trustee and Paying Agent) in accordance with the terms of the Trust Agreement and the Registry and Paying Agency Agreement.
Governmental Authority ..	Any government agency, authority, bureau, department, court, tribunal, legislative body, statutory or legal entity (whether autonomous or not), commission, corporation, or instrumentality, whether national or local, of the Philippines.
Group	At any time, the Company and its Subsidiaries at such time.
Guarantee	Any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such first-mentioned Person entered into for the purpose of assuring in any manner the obligee of such Debt or other obligation or to protect such obligee against loss (in whole or in part), provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.
Interest Expense	<p>For any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments (other than payments of principal) in respect of indebtedness paid or payable by any member of the Group in cash or capitalized in respect of that Relevant Period:</p> <p>(a) including any upfront fees or costs;</p> <p>(b) including the interest (but not the capital) element of payments in respect of any lease or hire purchase contract which would, in accordance with PFRS, be treated as a finance or capital lease;</p> <p>(c) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Group under any interest rate hedging arrangement;</p> <p>(d) excluding any accrued interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments in respect of indebtedness paid or payable by any Ring-Fenced Subsidiaries; and</p> <p>(e) excluding any acquisition costs, together with the amount of any cash dividends or distributions paid or made by the Company in respect of that Relevant Period and in each case so that no amount shall be added (or deducted) more than once.</p>
Interest Payment Date	[January 4], 2020 and thereafter, each of [April 4], [July 4], [October 4], and [January 4] of each year, or the next Business Day if such date falls on a non-Business Day, during which any of the Offer Bonds are outstanding.
IPPA	An independent power producer administrator.

IPPA Agreement	Each independent power producer administrator agreement entered into between an IPPA and PSALM or any party, including a transferee of such IPPA Agreement.
Issue Date	[October 4, 2019] or such other date as the Issuer and the Joint Lead Underwriters and Bookrunners may agree in writing; provided, that such date shall be a date which is within the validity of the Permit to Sell.
Joint Lead Underwriters and Bookrunners	Collectively, BDO Capital & Investment Corporation, China Bank Capital Corporation, PNB Capital and Investment Corporation, and RCBC Capital Corporation.
Lien	With respect to any property or asset, (i) any mortgage, lien, pledge, charge, security interest, encumbrance or other preferential arrangement of any kind in respect of such property or asset, including, without limitation, any preference or priority under Article 2244(14) of the Civil Code of the Philippines, as the same may be amended from time to time, in each case, to the extent securing payment or performance of a Debt prior to any general creditor of such Person; and (ii) the right of a vendor, lessor, or similar party under any conditional sales agreement, capital lease or other title retention agreement relating to such property or asset, and any other right of or arrangement with any creditor to have its claims satisfied out of any property or asset, or the proceeds therefrom, prior to any general creditor of the owner thereof.
Majority Bondholders	(a) with respect to the matters relating only to the Series H Bonds, Bondholders representing more than 50% of the outstanding principal amount of the Series H Bonds; and [(b) with respect to matters affecting all Bonds, Bondholders representing more than 50% of the outstanding principal amount of the Bonds.]
Master Certificate of Indebtedness	The bond certificate issued by the Issuer in the name of the Trustee for the benefit of the Bondholders covering the entire principal amount of the Offer Bonds purchased during the Offer Period and to be issued by the Issuer on the Issue Date, which shall be substantially in the form attached as Annex B of the Trust Agreement.
Material Adverse Effect ...	In the reasonable opinion of the Majority Bondholders, acting in good faith and in consultation with the Issuer, a material adverse effect on (i) the ability of the Issuer to observe and comply with the provisions of and perform its financial obligations under the Offer Bonds and the Bond Agreements; or (ii) the validity or enforceability of the Offer Bonds or any of the Bond Agreements; or (iii) the financial condition, business or operations of the Issuer taken as a whole.
Material Subsidiary	At any time: (a) A Subsidiary of the Issuer as of such date with respect of which: (i) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the net income (excluding extraordinary gains and losses) thereof, as shown by the latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries), constitutes at least 25% of the consolidated net income of the Issuer (excluding extraordinary gains and losses) as shown by the consolidated audited accounts of the Issuer in respect of the same period; or (ii) the Issuer's proportionate share (based on the Issuer's direct or indirect equity interest therein) of the total assets thereof, as shown by the then latest audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) constitute at least 25% of the total consolidated

assets of the Issuer as shown by the consolidated audited accounts of the Issuer in respect of the same period.

Provided that for the purpose of the above:

- (1) in the case of a Subsidiary acquired, or a Person becoming a Subsidiary, after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer, for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the acquisition is made, or as the case may be, in which the person becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of such Subsidiary (which accounts shall be consolidated if such Subsidiary has any Subsidiaries) into such accounts (as if such latest consolidated audited accounts of the Issuer are prepared in respect of the same period as such latest audited accounts of such Subsidiary);
 - (2) if at any time when a determination must be made under this definition with respect to the Issuer or any Subsidiary for which consolidated audited accounts of the Issuer are necessary no such consolidated audited accounts are prepared and audited, net income (excluding extraordinary gains and losses) and total assets of the Issuer shall be determined on the basis of the pro forma consolidated accounts prepared for this purpose by the auditors at that time of the Issuer (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and
 - (3) if at any time when a determination must be made under this definition with respect to any Subsidiary for which audited accounts of such Subsidiary are necessary, no such accounts are prepared and audited, its net income (excluding extraordinary gains and losses) and total assets shall be determined on the basis of the pro forma accounts of such Subsidiary (which account should be consolidated if such Subsidiary has any Subsidiaries) prepared for this purpose by the auditors at that time of such Subsidiary (which pro forma accounts shall be procured by the Issuer as soon as reasonably practicable upon request by the Trustee); and
- (b) any Subsidiary of the Issuer to which is transferred all or substantially all of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary.

Maturity Date	The fifth (5 th) anniversary of the Issue Date or on [October 4], 2024, provided, that if the Maturity Date falls on a day that is not a Business Day, then the payment of the principal shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and principal to be paid.
MWSS	Metropolitan Waterworks and Sewerage System.
NGCP	National Grid Corporation of the Philippines.
NIA	National Irrigation Administration.
NWRB	National Water Resources Board.

Offer	The public offer for sale, distribution and issuance by the Issuer of the Offer Bonds by the Issuer to eligible investors.
Offer Bonds	The SEC-registered Series H Bonds to be issued by SMC in the aggregate amount of ₱10,000,000,000.00. As the context may require, the term shall include Bonds issued by SMC on the Issue Date pursuant to the Prospectus, this Offer Supplement and the other Bond Agreements.
Offer Period	The period when the Offer Bonds are publicly offered for sale, distribution and issuance by the Issuer to eligible investors, commencing at 9:00 a.m., Manila time, on, [September 23], 2019 and ending at 5:00 p.m., Manila time, on [September 27], 2019, or such other date as may be mutually agreed between the Issuer and the Joint Lead Underwriters and Bookrunners.
Offer Supplement	This document so titled and dated August 22, 2019 issued along with and supplementary to the Prospectus and containing the specific terms and conditions of the Offer and the Offer Bonds.
Optional Redemption Date	The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series H Bonds on the dates set out below (each an “ Optional Redemption Date ”):

Series H Bonds	
Optional Redemption Date	Optional Redemption Price
On the 3 rd year from Issue Date	100.5%
On the 4 th year from Issue Date	100.5%

Provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

Paying Agent	The Philippine Depository & Trust Corp., a corporation with a quasi-banking license duly organized and existing under and by virtue of the laws of the Philippines, whose principal obligation is to handle payments of the principal of, interest on, and all other amounts payable on the Offer Bonds, to the Bondholders, pursuant to the Registry and Paying Agency Agreement. The term includes, wherever the context permits, all other Person or Persons for the time being acting as paying agent or paying agents under the Registry and Paying Agency Agreement.
Payment Account	<p>The account to be opened and maintained by the Paying Agent with such Payment Account Bank designated by the Issuer and solely managed by the Paying Agent, in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal payments due on the Outstanding Bonds on a relevant date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders.</p> <p>As used in this definition, the terms “Outstanding Bonds” and “Payment Account Bank” have the respective meanings given to such terms in the Registry and Paying Agent Agreement.</p>
Payment Date	As the context may require, each Interest Payment Date, the Maturity Date for the Offer Bonds, and/or the relevant Redemption Date.
PDEX	Philippine Dealing & Exchange Corp.

PDEX Rules	The applicable rules, conventions and guidelines of PDEX.
PDS Group-Registered Cash Settlement Banks	Banking institutions that provide cash payment services for client investors arising from fixed income securities activities in PDS Group Subsidiaries.
PDTC	Philippine Depository & Trust Corp.
Permit to Sell	The Certificate of Permit to Sell or Offer for Sale of Securities issued by the SEC in respect of the Offer.
Permitted Liens	Means: <ul style="list-style-type: none"> (a) Any Lien existing as of the date of the Trust Agreement; (b) Liens for taxes or assessments or governmental charges or levies not yet delinquent or which are being contested in good faith; (c) Liens arising by operation of law (other than any preference or priority under Article 2244(14)(a) of the Civil Code of the Philippines) on any property or asset of the Issuer or its Material Subsidiaries, including without limitation, amounts owing to a landlord, carrier, warehouseman, mechanic or materialman; (d) Liens over or affecting any asset of any company which becomes a member of the Group after the date of the Trust Agreement, where the Lien is created prior to the date on which that company becomes a member of the Group; (e) Liens (not otherwise permitted in paragraphs (b) to (d) above) securing Debt owed under any government lending program or incurred by the Issuer and/or its Material Subsidiaries (in each case) in the ordinary course of any real property development business and in an aggregate principal amount (such aggregate being the aggregate for the Issuer and the Material Subsidiaries) at any date not to exceed 5% of Consolidated Net Worth as of such date; (f) To the extent notified to the Trustee in writing, any Lien created by a Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary; (g) To the extent notified to the Trustee in writing, any Lien created over shares in any Ring-Fenced Subsidiary securing Project Debt incurred by that Ring-Fenced Subsidiary; (h) Any Lien upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries to secure: <ul style="list-style-type: none"> (1) any Debt which (subject to paragraph (2) of this definition below) is not Public Debt; or (2) any Public Debt (A) which (i) by its terms does not provide that the Company or any Material Subsidiary is an obligor; (ii) by its terms does not provide that a Guarantee or credit support of any kind is given by the Company or any of the Material Subsidiaries; and (iii) does not have the legal effect of providing recourse against any of the assets of the Company or any of the Material Subsidiaries; and (B) no default with respect to which would permit upon notice, lapse of time or both any holders of any other Debt of the Company or any of the Material Subsidiaries to declare a default on such other Debt or cause the payment of such other Debt to be accelerated or payable prior to its stated maturity,

which, in either case (either alone or when aggregated with all other present or future business, undertaking, assets or revenues (including uncalled capital) of any of the Material Subsidiaries upon, or with respect to, which Liens are subsisting), does not exceed 15% of the consolidated Total Assets of the Group taken as a whole.

- (i) Liens created with the prior written consent of the Majority Bondholders; and
- (j) any extension, renewal, supplement, or replacement (or successive extensions, renewals, supplements, or replacements) in whole or in part of any Lien referred to in paragraphs (a), (f), (g) and (h), or any Debt secured thereby; provided that such extension, renewal, supplements, or replacement is limited to all or any part of the same property that secured the Lien extended, renewed, supplemented, or replaced (plus any construction, repair, or improvement on such property) and shall secure no larger amount of financial Debt than that existing at the time of such extension, renewal, supplement, or replacement.

Person	Any individual, firm, corporation, partnership, association, joint venture, tribunal, limited liability company, trust, government or political subdivision or agency or instrumentality thereof, or any other entity or organization.
PFRS	Philippine Financial Reporting Standards which includes statements named PFRS and Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC) or, at any time, generally accepted accounting principles in the Philippines in conformity with international accounting standards in effect at such time.
Philippines	The Republic of the Philippines.
Philippine Peso, Peso, PHP, ₱, or P	Philippine Peso, the legal currency of the Philippines.
PhilRatings	Philippine Rating Services Corporation.
Project Debt	Debt incurred by a Ring-Fenced Subsidiary in relation to project finance in respect of which there is no recourse to the Company or any other member of the Group, and in respect of which neither the Company nor any other member of the Group has any actual or contingent liability of any nature, whether as principal, guarantor, surety or otherwise, except in respect of the granting of Liens over shares in any Ring-Fenced Subsidiary.
Public Debt	Any present or future Debt (whether being principal, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and any Guarantee or indemnity of any such Debt.
Prospectus	The prospectus dated February 10, 2017 and any amendments, supplements and addenda thereto for the offer and sale to the public of the Bonds (inclusive of Offer Bonds) within the Shelf Period. As the context may require, the term includes this Offer Supplement.
PSE	The Philippine Stock Exchange, Inc.
Purchase Price	In respect of each Offer Bond, an amount equal to the face amount of such Offer Bond, which is payable upon submission of the duly executed Application to Purchase.

RCBC Capital	RCBC Capital Corporation.
Record Date	As used with respect to any Payment Date, (i) 2 Business Days immediately preceding the relevant Payment Date, which shall be the cut-off date in determining the Bondholders entitled to receive interest, principal or any amount due under the Offer Bonds or (ii) such other date as the Issuer may duly notify PDTC.
Redemption Date	The date when the Offer Bonds are redeemed earlier than the Maturity Date in accordance with the terms and conditions of the Offer Bonds; provided that if the Redemption Date falls on a day that is not a Business Day, then the payment of the principal shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and principal to be paid. For the avoidance of doubt, the term “Redemption Date” includes Optional Redemption Date.
Registrar	Philippine Depository & Trust Corp. The term includes, wherever the context permits, all other Person or Persons for the time being acting as registrar or registrars under the Registry and Paying Agency Agreement.
Registration Statement	The registration statement filed with the SEC in connection with the offer and sale to the public of the Bonds (inclusive of the Offer Bonds) and rendered effective by the SEC under MSRD Order No. 3 (series of 2017) dated February 14, 2017.
Registry of Bondholders ..	The electronic registry book of the Registrar containing the official information on the Bondholders and the amount of the Offer Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon, to be maintained by the Registrar pursuant to and under the terms of the Registry and Paying Agency Agreement.
Registry and Paying Agency Agreement	The Registry and Paying Agency Agreement dated [●], 2019, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Registrar and Paying Agent in relation to the Offer Bonds.
Related Person	<p>With respect to any Person means:</p> <ul style="list-style-type: none"> (a) any controlling stockholder or a majority (or more) owned Subsidiary of such Person, or, in the case of an individual, any spouse or immediate family member of such Person, any trust created for the benefit of such individual or such individual’s estate, executor, administrator, committee or beneficiaries; or (b) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding a majority (or more) controlling interest of which consist of such Person and/or such other Persons referred to in the immediately preceding paragraph.
Relevant Period	A period of 12 calendar months ending on the last day of any quarter of any of the Issuer’s fiscal years.
Ring-Fenced Subsidiary ...	<p>Any entity that satisfies the following conditions:</p> <ul style="list-style-type: none"> (a) such entity is a Subsidiary of the Issuer but not a Material Subsidiary; (b) such entity, to the extent directly owned by the Issuer or a member of the Group (other than another Ring-Fenced Subsidiary), is a limited liability company or corporation organized and existing under the laws of the Philippines; (c) the Issuer has delivered a written notification to the Trustee designating such entity as a Ring-Fenced Subsidiary;

- (d) no member of the Group (other than that Ring-Fenced Subsidiary) shall be contingently liable for any Debt of such entity or its Subsidiaries, except in respect of the granting by a member of the Group of Liens over its shares in such entity or such entity's Subsidiaries; and
- (e) all transactions conducted between any member of the Group and such entity or its Subsidiaries must be on an arm's length basis and on normal commercial terms,

and each Subsidiary of any such entity shall also be a Ring-Fenced Subsidiary.

RTGS	The Philippine Payment Settlement System via Real Time Gross Settlement that allows banks to effect electronic payment transfers which are interfaced directly to the automated accounting and settlement systems of the BSP.
SEC	Securities and Exchange Commission of the Philippines.
Selling Agents	Such selling agents as may be advised by the Joint Lead Underwriters and Bookrunners to the Registrar in writing on or before the last day of the Offer Period.
Shelf Period	Subject to applicable regulations, a period of 3 years from the effective date of the Registration Statement within which the Bonds under shelf registration may be offered and sold in tranches.
Subsidiary	An entity of which a Person has direct or indirect control or owns directly or indirectly more than 50% of the voting capital or similar right of ownership.
Tax Code	Philippine National Internal Revenue Code of 1997 (as amended).
TeaM Energy	TeaM Sual Corporation, owner of the Sual Power Plant, which is a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation.
Total Assets	With respect to any Person, the total consolidated assets of such Person and its Subsidiaries as determined by reference to the most recently available quarterly or annual consolidated financial statements of such Person and its Subsidiaries prepared in accordance with PFRS.
Transaction Date	With respect to the incurrence of any Debt, the date such Debt is incurred.
Trust Agreement	The Trust Agreement dated [●], 2019 and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Trustee.
Trustee	Rizal Commercial Banking Corporation – Trust and Investments Group. The term includes, wherever the context permits, all other Person or Persons for the time being acting as trustee or trustees under the Trust Agreement.
Underwriting Agreement ..	The Underwriting Agreement dated [●], 2019, and its annexes and attachments, as may be modified, supplemented or amended from time to time, and entered into between the Company and the Joint Lead Underwriters and Bookrunners in relation to the Offer Bonds.
US\$ or \$	U.S. Dollars, the legal currency of the United States of America.
Voting Stock	With respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

EXECUTIVE SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Offer Supplement.

Prospective investors should read this entire Offer Supplement fully and carefully, including the section on “Risk Factors” in the Prospectus. In case of any inconsistency between this summary and the more detailed information in this Offer Supplement, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

San Miguel Corporation (“**SMC**”) is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018.

Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property, car distributorship and banking services. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc., the “PSE”) on November 5, 1948 and as of June 28, 2019, SMC had a market capitalization of ₱417,659 million, with a common share price of ₱175.20.

Since adopting its business diversification program in 2007, SMC has channeled its resources into what it believes are attractive growth sectors, which are aligned with the development and growth of the Philippine economy. SMC believes that continuing this strategy and pursuing growth plans within each business will achieve a more diverse mix of sales and operating income, and better position SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles. The consolidated sales, gross profit and EBITDA of SMC for the year ended 2018 were ₱1,024,943 million, ₱199,195 million and ₱157,887 million, and for the six months ended June 30, 2019 were ₱509,495 million, ₱100,877 million and ₱79,876 million, respectively.

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses in the Philippines and in the Asia-Pacific region with 30,057 regular employees as of June 30, 2019. The extensive portfolio of SMC products includes beer, liquor, non-alcoholic beverages, 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.

Major developments in the SMC Group are discussed in *Management’s Discussion and Analysis of Results of Operation and Financial Condition*, found on page [●].

Core Businesses

SMC’s key business groups, most of which are market leaders in their respective industries, include the following:

Food and Beverage

On June 29, 2018, SMC completed the consolidation of its beer and non-alcoholic (“**NAB**”) business, spirits and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“**SMFB**”, formerly San Miguel Pure Foods Company, Inc.).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets and sells 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 divisions—(i) beer and NAB, (ii) spirits, and (iii) food. SMFB operates its beverage business through San Miguel Brewery Inc. and its subsidiaries (“**SMB**” or the “**Beer and NAB Division**”) and Ginebra San Miguel Inc. and its subsidiaries (“**GSMI**” or the “**Spirits Division**”). The food business (the “**Food Division**”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (“**San Miguel Foods**”), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. (“**Purefoods-Hormel**”). SMFB serves the Philippine archipelago through an extensive distribution and dealer network and exports its products to almost 60 markets worldwide.

SMFB is listed on the PSE under stock code “**FB**” and as of June 28, 2019, had a market capitalization of ₱626,377 million, with a common share price of ₱106.00.

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 Corporation (“**SYMFC**”), Can Asia, Inc. (“**CAI**”), Mindanao Corrugated Fibreboard, Inc. (“**Mincorr**”) and Wine Brothers Philippines Corporation, collectively 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. As of June 30, 2019, the Packaging Group has 34 packaging facilities located in the Philippines and in China, Vietnam, Malaysia, Australia and New Zealand.

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a third strong player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), the largest and one of the most modernized, which supplies approximately 30% of the country’s total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene.

The common shares of Petron are listed on the PSE under stock code “**PCOR**”. The market capitalization of PCOR was ₱54,563 million, with a common share price of ₱5.82 as of June 28, 2019.

Energy

SMC Global Power Holdings Corp. (“**SMC Global Power**”), together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,197 MW of combined capacity as of June 30, 2019 and benefits from a portfolio of diversified fuel sources, including natural gas, coal, hydroelectric power and more recently, battery energy storage systems. Based on the total installed generating capacities reported in ERC Resolution No. 04, Series of 2018 (the “**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.

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. Currently operating toll roads include 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**”). Ongoing projects include Skyway Stages 3 and 4, the extension of SLEX – TR4 and the Mass Rail Transit Line 7 (“**MRT-7**”). SMHC also operates and is currently expanding the Boracay Airport and has investments in Manila North Harbour Port, Inc. and Luzon Clean Water Development Corporation for the Bulacan Bulk Water Supply Project.

Others

Other investments of SMC include real property, through San Miguel Properties, Inc. (“**SMPI**”), car distributorship through SMC Asia Car Distributors Corp. and banking and bank services through Bank of Commerce.

Competitive Strengths

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines is one of the fastest growing economies in the Southeast Asia. From 2009 to 2018, the nominal GDP in the Philippines grew from approximately ₱8,017 billion to ₱17,405 billion, according to Economist Intelligence Unit, representing a compound annual growth rate (“**CAGR**”) of 9.0%. The Philippines has one of the youngest populations in Southeast Asia with a median age of 24 years, and urbanization is expected to remain consistent at around 44% until 2022 according to GlobalData.

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018. The SMC Group is broadly exposed to the Philippine economy through its market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, and property and investments in car distributorship and banking services. This diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their respective markets.

Food and Beverage: The domestic beer business of SMC has consistently led the Philippine beer market, with a market share of 92.7% by volume in 2017, according to GlobalData, with no significant change thereafter. SMB has held this position since 1999. Ginebra is the market leader in the gin segment and it also produces some of the most recognizable brands in the Philippine liquor market. SMC also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink tea and fruit juices. According to GlobalData, SMFB held the #1 market position in four out of eight food categories in 2017, contributing over 80% of the total Food Division’s revenue. Within the branded and processed meat category, SMFB holds the #1 market position with 35% market share; in butter and spreadable fats, SMFB holds the #1 market position with 47.8% market share; in cheese, SMFB holds the #2 market position with 17% market share and in ice cream, SMFB holds the #2 market position with 11.4% market share. In the animal nutrition and health segment, SMFB holds the #1 market position with 25% market share, while in the protein products segment, SMFB holds the #1 market position with 23.5% market share, according to GlobalData.

Packaging: The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business 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, and Australasia, as well as to major multinational corporations in the Philippines, including Coca-Cola Beverages Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

The Packaging Group has 21 international packaging facilities located in China (glass, plastics and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures and wine bottling facilities) 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.

Fuel and Oil: Petron is a leading integrated oil refining and marketing company in the Philippines, with an overall market share of 28.5% of the Philippine oil market for the year ended December 31, 2018, in terms of sales volume based on Petron estimates using its internal assumptions and calculation and industry data from the DOE. In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines. As of June 30, 2019, Petron had approximately 2,400 retail service stations, an increase of approximately 86% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of June 30, 2019, Petron’s retail service stations represent approximately 26% of the country’s total service station count. In Malaysia, Petron ranked third in the retail market with 20.9% market share in 2018, based on Petron estimates

using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy: SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,197 MW of combined capacity as of June 30, 2019 and benefits from a portfolio of diversified fuel sources, including natural gas, coal, hydroelectric power and more recently, battery energy storage systems. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport, mass rail transit and bulk water. SMHC has rights to approximately 55.45% of the total road length of awarded toll road projects.

Experienced management team

The SMC Group has a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage the SMC Group through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The core businesses of food and beverage and packaging businesses, including the new business of fuel and oil and power, provide SMC with a sustainable stream of income. The core businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy, while the new businesses are the ones providing further growth. For the year ended December 31, 2018, the core businesses provided 31% of consolidated sales and 38% of total EBITDA of SMC. For the six months ended June 30, 2019, core businesses provided 33% of total SMC sales and 37% of total SMC EBITDA.

For the period ended June 30, 2019, SMC generated ₱79,876 million of EBITDA and ₱13,232 million of net income attributable to the Parent Company with ₱27,960 million of capital expenditure. In 2018, SMC generated ₱157,887 million of EBITDA and ₱23,077 million of net income attributable to the Parent Company with ₱47,323 million of capital expenditure. In 2017, it generated ₱147,342 million of EBITDA and ₱28,225 million of net income attributable to the Parent Company with ₱38,693 million of capital expenditure. In 2016, it generated ₱130,875 million of EBITDA and ₱29,289 million of net income attributable to the Parent Company with ₱40,649 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The core businesses in food and beverage and packaging continue to provide stable cash flow, while its investments in fuel and oil, energy and infrastructure have grown significantly and have enabled SMC to expand its ability to generate higher returns.

Food and Beverage: SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by the country's sustained economic growth, expanding urbanization, favorable demographic patterns, and rapidly changing consumer tastes and preferences. In addition, the international beer business is experiencing increased sales and brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, United States and Asia-Pacific region. Ginebra is expanding its liquor business throughout the Philippines. Additionally, the Food Division is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meat and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products. The food and beverage business continue to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Packaging: The packaging business aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. Increasing environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. The Packaging Group plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and Oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, which it believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism (“APM”) that provides stable returns to fuel retailers. Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, Petron will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide “value conscious” customers with a one-stop full service experience; and (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support Petron’s growing retail business and continuing service station network expansion. In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 650 retail service stations. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians. Petron believes it has a competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses.

Energy: Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya may result in a reduction of energy generated by natural gas power plants by 2024. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that may be scheduled for privatization as asset sales or under the IPPA framework.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. Since assuming the Philippine presidency in 2016, President Rodrigo R. Duterte and his administration have implemented the “Build, Build, Build Program”, which aims to increase infrastructure spending and build new railways, roads, airports and other key infrastructure at an expected cost of over ₱8 trillion spread over six years. Over the past ten years, SMHC has built the TPLEX, SLEX, Skyway Stage 1, 2 and 3, STAR and NAIAX. It also operates and is currently expanding the Boracay Airport. It is also currently constructing the MRT-7. SMC believes that its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry of new players to the business.

Synergies across businesses

SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

- **Ancillary business opportunities:** SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Initiatives would include building of service stations and retail outlets along toll roads which also serves as an opportunity for its products from various businesses.
- **Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC. SMC’s infrastructure business also contributes to the efficient delivery system of our products to consumers by providing better road access.
- **Economies of scale:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.

- **Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses. SMC's integration strategies range from supplying the fuel and oil and power requirements to providing a total packaging solution of our various businesses.

Business Strategies of SMC

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include building additional service and micro-filling stations and food and beverage facilities, constructing new power plants and infrastructure projects and the continued expansion of our various businesses. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses that it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders. Our current partners are Kirin Holdings Company, Limited ("**Kirin**") for beer, Hormel Netherlands B.V., ("**Hormel**") for processed meats, Korea Water Resources Corporation ("**K-Water**") for power and Nihon Yamamura Glass Company, Ltd. ("**NYG**"), Fuso Machine & Mold Mfg. Co. Ltd. ("**Fuso**") and Can-Pack S.A. ("**Can-Pack**") for packaging products. These partnerships provide access to the latest technologies and expertise in these technologies, marketing and expansion opportunities and sharing of best practices.

Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;
2. Risks relating to SMC, its subsidiaries and their business and operations; and
3. The nature, the absence of a liquid secondary market and volatility, and other risks relating to the Offer.

(For a more detailed discussion, see "*Risk Factors*" on page 27 **Error! Bookmark not defined.** of the Prospectus)

SUMMARY OF FINANCIAL INFORMATION

Prospective purchasers of the Offer should read the summary financial data below together with the financial statements, including the notes thereto, included in this Offer Supplement and “Management's Discussion and Analysis of Results of Operations and Financial Condition”. The summary financial data for the 3 years ended December 31, 2018, 2017 and 2016 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix “B” of this Offer Supplement. The detailed financial information for the six months ended June 30, 2019 and 2018 are found on Appendix “A” of this Offer Supplement.

The summary of financial and operating information of SMC presented below as of and for the years ended December 31, 2018, 2017 and 2016 were derived from the consolidated financial statements of SMC, audited by R.G. Manabat & Co. formerly known as “Manabat Sanagustin & Co.” and prepared in compliance with the Philippine Financial Reporting Standards (“**PFRS**”). The financial and operating information of SMC presented below as of and for the six months ended June 30, 2019 and 2018 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards (“**PAS**”) 34, “Interim Financial Reporting”. The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices “A” and “B” of this Offer Supplement. The historical financial condition, results of operations and cash flows of SMC are not a guarantee of its future operating and financial performance.

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(Audited)			(Unaudited)	
	(in millions except per share data)				
Consolidated Statements of Income Data					
Sales	₱ 685,314	₱ 826,086	₱1,024,943	₱ 499,000	₱ 509,495
Cost of sales	514,021	644,221	825,748	392,855	408,618
Gross profit	171,293	181,865	199,195	106,145	100,877
Selling and administrative expenses.....	(71,639)	(70,823)	(82,110)	(39,139)	(43,261)
Interest expense and other financing charges	(34,803)	(35,714)	(45,496)	(20,162)	(28,166)
Interest income.....	3,693	4,525	7,192	3,072	5,576
Equity in net earnings (losses) of associates and joint ventures.....	203	297	(289)	(90)	171
Gain on sale of investments and property and equipment	154	879	252	337	65
Other income (charges) - Net.....	(11,426)	154	(5,628)	(10,906)	3,531
Income before income tax	57,475	81,183	73,116	39,257	38,793
Income tax expense	17,053	26,369	24,468	11,672	12,641
Income from continuing operations.....	40,422	54,814	48,648	27,585	26,152
Income after income tax from discontinued operations	11,818	-	-	-	-
Net income	₱ 52,240	₱ 54,814	₱ 48,648	₱ 27,585	₱ 26,152
Attributable to:					
Equity holders of the Parent Company.....	₱ 29,289	₱ 28,225	₱ 23,077	₱ 12,780	₱ 13,232
Non-controlling interests.....	22,951	26,589	25,571	14,805	12,920
	₱ 52,240	₱ 54,814	₱ 48,648	₱ 27,585	₱ 26,152
Earnings per common share from continuing operations attributable to equity holders of the Parent Company basic	₱ 4.49	₱ 8.78	₱ 6.61	₱ 3.83	₱4.02
Earnings per common share from continuing operations attributable to equity holders of the Parent Company diluted	₱ 4.49	₱ 8.77	₱ 6.61	₱ 3.83	₱ 4.02

	As of the years ended December 31,			As of the six months ended June 30,
	2016	2017	2018	2019
		(Audited)		(Unaudited)
	(in millions)			
Consolidated Statements of Financial Position Data				
Assets				
Total current assets.....	₱ 479,427	₱ 506,338	₱ 594,470	₱ 607,716
Total non-current assets.....	827,397	873,305	1,082,172	1,123,565
Total assets	₱ 1,306,824	₱ 1,379,643	₱ 1,676,642	₱ 1,731,281
Liabilities and Equity				
Current liabilities				
Total current liabilities	₱ 379,608	₱ 361,771	₱ 433,127	₱ 395,510
Total non-current liabilities	490,435	546,810	731,568	772,759
Total liabilities	₱ 870,043	₱ 908,581	₱ 1,164,695	₱ 1,168,269
Equity				
Equity attributable to equity holders of the Parent Company	279,942	300,297	337,745	342,516
Non-controlling interests	156,839	170,765	174,202	220,496
Total equity	436,781	471,062	511,947	563,012
Total liabilities and equity	₱ 1,306,824	₱ 1,379,643	₱ 1,676,642	₱ 1,731,281

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(Audited)			(Unaudited)	
	(in millions)				
Cash Flow Data					
Net cash provided by (used in):					
Operating activities.....	₱ 79,193	₱ 79,228	₱ 58,224	₱ 21,857	₱ 47,082
Investing activities.....	(23,257)	(53,624)	(194,765)	(139,435)	(46,471)
Financing activities.....	(34,147)	(22,386)	174,015	133,081	26,768
Effect of exchange rates changes in cash and cash equivalents.....	606	(298)	(397)	962	(3,104)
Net increase in cash and cash equivalents.....	22,395	2,920	37,077	16,465	24,275
Cash and cash equivalents at beginning of year	180,758	203,153	206,073	206,073	243,150
Cash and cash equivalents at end of period	₱ 203,153	₱ 206,073	₱ 243,150	₱ 222,538	₱ 267,425

SUMMARY OF THE OFFER

The terms and conditions of this Offer are as follows:

Issuer.....	San Miguel Corporation
Instrument.....	Fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of SMC.
Offer Size.....	₱10,000,000,000.00
The Offer.....	<p>Philippine Peso denominated 5-year Series H Bonds due 2024 with an aggregate principal amount of ₱10,000,000,000.</p> <p>The Offer Bonds will be issued from the remaining balance of the ₱60,000,000,000.00 Fixed Rate Bonds Shelf Registration Program of SMC.</p>
Manner of Distribution.....	Public offering in the Philippines to eligible investors.
Use of Proceeds.....	<p>The net proceeds of the Offer may be used either: (i) to fund the redemption of the outstanding Series 2B Preferred Shares of the Company, in the event the Company exercises the option to redeem the Series 2B Preferred Shares, which redemption may be initially funded through a bridge loan; or (ii) refinancing or re-denomination of existing loan obligations of the Company.</p> <p>For a detailed discussion on the Use of Proceeds please refer to the section on “<i>Use of Proceeds</i>” in the Offer Supplement.</p>
Form and Denomination of the Offer Bonds.....	The Offer Bonds shall be issued in scripless form in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.
Purchase Price.....	The Offer Bonds shall be issued at 100% of face value.
Offer Period.....	The Offer shall commence at 9:00 a.m. (Philippine Standard Time) on [September 23, 2019] and end at 5:00 p.m. (Philippine Standard Time) on [September 27, 2019], or on such date as the Issuer and the Joint Lead Underwriters and Bookrunners may agree upon.
Issue Date of the Offer Bonds.....	[October 4, 2019]
Maturity Date.....	[October 4, 2024] or the 5 th anniversary of the Issue Date
Interest Rate.....	[●]% per annum
Interest Payment Dates and Interest Payment Computation.....	<p>Interest payment on the Offer Bonds shall commence on [January 4], 2020 and thereafter, on [April 4], [July 4], [October 4] and [January 4] of each year, or the next Business Day if any such dates fall on a non-Business Day, during the term of the Offer Bonds (each, an “Interest Payment Date”).</p> <p>Interest on the Offer Bonds shall be calculated on a European 30/360-day count basis regardless of the actual number of days in a month. Interest shall be paid quarterly in arrears.</p>

Final Redemption..... The Offer Bonds shall be redeemed at 100% of face value on the Maturity Date, unless earlier redeemed or purchased and cancelled by the Company.

In the event the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Optional Redemption..... The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series H Bonds on the dates set out below (each an “**Optional Redemption Date**”):

Series H Bonds	
Optional Redemption Dates	Optional Redemption Price
On the 3 rd year from Issue Date	100.5%
On the 4 th year from Issue Date	100.5%

provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Offer Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Offer Bonds being redeemed and the optional redemption price in accordance with the above table.

The Issuer shall give no less than 30 nor more than 60 days’ prior written notice to the Trustee, the Registrar and Paying Agent of its intention to redeem the Offer Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Offer Bonds on the Optional Redemption Date stated in such notice.

For a detailed discussion on Optional Redemption please refer to the section on “*Description of the Offer Bonds – Optional Redemption*” in the Offer Supplement.

Redemption for Taxation Reasons..... If payments under the Offer Bonds become subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the Offer Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days’ nor less than 30 days’ prior written notice to the Trustee, the Registrar and Paying Agent) at 100% of the face value and paid together with the accrued interest thereon, subject to the requirements of Applicable Law.

For a detailed discussion on Redemption for Taxation Reasons please refer to the section on “*Description of the Offer Bonds – Redemption for Taxation Reasons*” in the Offer Supplement.

Redemption by Reason of Change in Law or Circumstance..... Upon the occurrence of a Change in Law or Circumstance, the Issuer may redeem the Offer Bonds in whole, but not in part, having given not more than 60 days’ nor less than 30 days’ written notice to the Trustee, the Registrar and the Paying Agent, at 100% of the face value and paid together with accrued interest thereon.

For a detailed discussion on Redemption for Taxation Reasons please refer to the section on “*Description of the Offer Bonds – Redemption by Reason of Change in Law or Circumstance*” in the Offer Supplement.

Redemption by Reason of Change of Control.....	<p>Upon the occurrence of a Change of Control, Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Offer Bonds, at 100% of face value, which shall be paid together with the accrued interest thereon. The decision of the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds shall be conclusive and binding upon all the Bondholders.</p> <p>For a detailed discussion on Redemption for Taxation Reasons please refer to the section on “<i>Description of the Offer Bonds – Redemption by Reason of Change of Control</i>” in the Offer Supplement.</p>
Status of the Bonds.....	The Offer Bonds shall constitute the direct, unconditional, unsubordinated and unsecured obligations of SMC and shall at all times rank <i>pari passu</i> and ratably without any preference or priority amongst themselves and at least <i>pari passu</i> with all other present and future unsubordinated and unsecured Debt of SMC, other than Debt mandatorily preferred by law, and preferred claims under any bankruptcy, insolvency, reorganization, moratorium, liquidation or other similar laws affecting the enforcement of creditors’ rights generally and by general principles of equity (but not the preference or priority established by Article 2244(14)(a) of the Civil Code of the Philippines).
Negative Pledge.....	The Offer Bonds will have the benefit of a negative pledge on all properties and assets of the Issuer, subject to the exceptions as described in page [●] of the Offer Supplement.
Listing.....	The Issuer will list the Bonds on the Philippine Dealing Exchange Corp. (“ PDEx ”) on the Issue Date.
Purchase and Cancellation.....	<p>The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEx Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.</p> <p>Upon listing of the Offer Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.</p>
Bond Rating.....	<p>The Offer Bonds have been rated PRS [●] with [●] outlook by the Philippine Rating Services Corporation (“PhilRatings”) on [●].</p> <p>The rating is subject to regular annual reviews, or more frequently as market developments may dictate, while the Offer Bonds are outstanding.</p>
Transfer of the Offer Bonds.....	<p>Trading of the Offer Bonds will be coursed through a PDTC Participant under the scripless book-entry system of the PDTC. Trading, transfer and/or settlement of the Offer Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and the Registrar. Upon any assignment, title to the Offer Bonds will pass by recording of the transfer from the transferor to the transferee in the Registry of Bondholders to be maintained by the Registrar.</p> <p>Please see the sections on “<i>Description of the Offer Bonds – Transfer; Tax Status</i>” in the Offer Supplement for a more detailed discussion on transfer of the Offer Bonds.</p>
Joint Lead Underwriters and Bookrunners.....	<p>BDO Capital & Investment Corporation (“BDO Capital”)</p> <p>China Bank Capital Corporation (“China Bank Capital”)</p> <p>PNB Capital and Investment Corporation (“PNB Capital”)</p> <p>RCBC Capital Corporation (“RCBC Capital”)</p>
Registry and Paying Agent.....	Philippine Depository & Trust Corp. (“ PDTC ”)
Trustee.....	Rizal Commercial Banking Corporation – Trust and Investments Group
Counsel to SMC.....	Picazo Buyco Tan Fider & Santos

Counsel to the Joint Lead
Underwriters and
Bookrunners.....

SyCip Salazar Hernandez & Gatmaitan

Incorporation by way of
Reference.....

All disclosures, reports, and filings of the Company made after the date of the Prospectus and the Offer Supplement (the “**Company Disclosures**”) and submitted to the SEC and/or the PSE pursuant to the Corporation Code, the Securities Regulation Code, and the Revised Disclosure Rules of the PSE are incorporated or deemed incorporated by reference in the Offer Supplement. Copies of the Company Disclosures may be viewed at the website of the Company at www.sanmiguel.com.ph. The Company Disclosures contain material and meaningful information relating to the Company and investors should review all information contained in the Prospectus, the Offer Supplement and the Company Disclosures incorporated or deemed incorporated herein by reference.

Indicative
Timetable.....

[Week of August 19, 2019]	Filing of the Registration Statement and the Offer Supplement with the SEC
[September 18, 2019]	Pricing
[September 19, 2019]	Final Allocation to QIBs
[September 19, 2019]	Filing of the Final Offer Supplement with the SEC
[September 20, 2019]	Receipt of SEC Permit to Sell
[September 23-27, 2019]	Public Offer Period
[October 4, 2019]	Settlement Date Issue and Listing Date

DESCRIPTION OF THE BONDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Offer Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the articles of incorporation, by-Laws and resolutions of the board of directors of the Company submitted to the SEC, the information contained in the Prospectus, this Offer Supplement, the Trust Agreement, and the other Bond Agreements, Application to Purchase or other documents relevant to the Offer, Applicable Law, rules and regulations of PDTC and PDEx relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Offer Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Offer Bonds.

The offer and issuance of the Offer Bonds was authorized by a resolution of the Board of Directors of the Company on July 10, 2019. The Offer Bonds with an aggregate principal amount of up to ₱10,000,000,000.00 shall be issued for the fourth and final tranche to be taken down from the Issuer's ₱60,000,000,000.00 Fixed Rate Bonds Shelf Registration. The Offer Bonds will be issued on the Issue Date, that is [●], 2019 as 5-year Series H Bonds due 2024.

The Offer Bonds shall be governed by a Trust Agreement to be executed on [●], 2019 between the Issuer and Rizal Commercial Banking Corporation–Trust and Investments Group as Trustee. The Trustee has no interest in or relation to the Issuer which may conflict with the performance of its functions. The description of the terms and conditions of the Offer Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A Registry and Paying Agency Agreement in relation to the Offer Bonds will be executed on [●], 2019 between the Issuer and PDTC as Registrar and Paying Agent.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Agreement and all the provisions of the Registry and Paying Agency Agreement applicable to them.

Form and Denomination

The Offer Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Series H Bonds sold in the Offer shall be issued to and registered in the name of the Trustee for the benefit of the Bondholders.

The Offer Bonds shall be issued in minimum denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter and traded in denominations of ₱10,000.00 in the secondary market.

Title

Legal title to the Offer Bonds will be shown in the Registry of Bondholders maintained by the Registrar. A notice confirming the principal amount of the Offer Bonds purchased by each Applicant in the Offer shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Offer Bonds shall pass by recording the transfer from the transferor to the transferee in the Registry of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Offer Bonds, including the settlement of any cost arising from such transfer or change, including, but not limited to, documentary stamps taxes, if any, shall be for the account of the relevant Bondholder or the transferee, as applicable.

BOND RATING

The Offer Bonds have been rated PRS [●] with [●] by PhilRatings. [PRS Aaa is the highest rating assigned by PhilRatings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.]

The rating is subject to annual review, or more frequently as market developments may dictate, for as long as the Offer Bonds are outstanding. After Issue Date, the Trustee shall monitor the compliance of the Offer Bonds with the regular annual reviews.

TRANSFER OF THE OFFER BONDS

Registry of Bondholders

The Issuer shall cause the Registry of Bondholders to be kept by the Registrar in electronic form. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and of all transfers and assignments of Offer Bonds, including any liens and encumbrances thereon, shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least every quarter (at the cost of the Issuer), and a written advice confirming every receipt or transfer of the Offer Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Offer Bonds may be made during the Closed Period (as defined below).

Transfers; Tax Status

Settlement in respect of such transfers or change of title to the Offer Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder or the transferee, as applicable.

Subject to the provisions of the Registry and Paying Agency Agreement, the relevant rules, conventions and guidelines of PDEX and PDTC, the Bondholders may not transfer their Offer Bonds as follows:

- (a) transfers across Tax Categories on a date other than an Interest Payment Date that falls on a Business Day; provided, however, that transfers from a tax-exempt Tax Category to a taxable Tax Category on a date other than an Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEX, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt person shall be treated as being of the same Tax Category as its taxable counterparty for the interest period within which such transfer occurred; provided, finally, that this restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented. For purposes hereof, "Tax Categories" shall refer to the 4 final withholding tax categories in the PDEX system covering, particularly, tax-exempt persons, 20% tax-withheld persons, 25% tax-withheld persons, and 30% tax-withheld persons, as such categories may be revised, amended or supplemented by PDEX in accordance with its rules and Applicable Law;
- (b) transfers by Bondholders with deficient documents; and
- (c) transfers during a Closed Period. For purposes hereof, "Closed Period" means the period during which the Registrar shall not register any transfer or assignment of the Offer Bonds, specifically: (i) the period of 2 Business Days preceding any Interest Payment Date or the due date for any payment of the Final Redemption Amount of the Offer Bonds; or (ii) the period when any of the Offer Bonds have been previously called for redemption.

Transfers taking place in the Registry of Bondholders after the Offer Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if/and or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC.

A Bondholder claiming tax-exempt status is required to submit to the Registry of Bondholders the required tax-exempt documents as detailed in the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar. Please see the section on "*Description of the Offer Bonds –Tax-Exempt Status or Entitlement to Preferential Tax Rate*" for a detailed discussion on the requirements for claiming a preferential tax status.

Notwithstanding the submission by the Bondholder, or the receipt by the Issuer, the Registrar, the Joint Lead Underwriters and Bookrunners of documentary proof of tax-exempt status of a Bondholder, the Issuer may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Offer Bonds. Any question on such determination shall be referred to the Issuer.

The Bondholders shall be responsible for monitoring and accurately reflecting their tax status in the Registry of Bondholders. The payment report to be prepared by the Registrar and submitted to the Issuer in accordance with the

Registry and Paying Agency Agreement, which shall be the basis of payments on the Offer Bonds on any Interest Payment Date, shall reflect the tax status of the Bondholders as indicated in their accounts as of the Record Date.

Secondary Trading of the Offer Bonds

The Issuer intends to list the Offer Bonds on PDEX for secondary market trading and, for that purpose, the Issuer will file an application for such listing. However, there can be no assurance that such a listing will actually be achieved or whether such a listing will materially affect the liquidity of the Offer Bonds on the secondary market. Such listing would be subject to the Issuer's execution of a listing agreement with PDEX that may require the Issuer to make certain disclosures, undertakings and payments on an ongoing basis.

For so long as any of the Offer Bonds are listed on PDEX, the Offer Bonds will be traded in a minimum board lot size of ₱10,000.00, and in multiples of ₱10,000.00 in excess thereof. Secondary market trading in PDEX shall follow the applicable PDEX Rules, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEX and PDTC, all of which shall be for the account of the Bondholders.

RANKING

The Offer Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Issuer ranking at least *pari passu* and ratably without any preference or priority among themselves and at least *pari passu* with all its other present and future contingent or otherwise, unsecured and unsubordinated Debt of SMC, other than Debt mandatorily preferred by law, and preferred claims under any bankruptcy, insolvency, reorganization, moratorium, liquidation or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (but not the preference or priority established by Article 2244(14)(a) of the Civil Code of the Philippines).

INTEREST

Interest Payment Dates

The Series H Bonds shall bear interest on its principal amount from and including the Issue Date at the rate of [●]% *per annum*, payable quarterly in arrears starting on [January 4], 2020 as the first Interest Payment Date, and on [April 4], [July 4], [October 4], and [January 4] of each year at which the Series H Bonds are outstanding as the subsequent Interest Payment Dates, or the subsequent Business Day, without adjustment for accrued interest, if the relevant Interest Payment Date falls on a non-Business Day.

The cut-off date in determining the existing Bondholders entitled to receive interest, principal or any other amount due under the Offer Bonds shall be 2 Business Days prior to the relevant Payment Date or such other date as the Issuer may duly notify PDTC (the "**Record Date**"). The Record Date shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Offer Bonds. No transfers of the Bonds may be made during the Closed Period.

Interest Accrual

The Offer Bonds shall cease to bear interest from and including the Maturity Date, as defined in the discussion on "*Description of the Offer Bonds - Final Redemption*" below, unless, upon due presentation, payment of the principal in respect of the Offer Bonds then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "*Description of the Offer Bonds - Penalty Interest*" below) shall apply.

Determination of Interest

Interest on the Offer Bonds shall be calculated on a European 30/360-day count basis, regardless of the actual number of days in a month.

REDEMPTION AND PURCHASE

Final Redemption

Unless otherwise earlier redeemed or purchased and cancelled, the Offer Bonds shall be redeemed at 100% of face value on the Maturity Date. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Issuer through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

Each Bondholder in whose name the Offer Bonds are registered in the Registry of Bondholders at the close of business on the Record Date preceding Maturity Date shall be entitled to receive the principal amount of the Offer Bonds. In all cases, repayment of principal shall be remitted to the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Optional Redemption

The Issuer shall have the right, but not the obligation, to redeem in whole (but not in part), any outstanding Series H Bonds, on the dates set out below (each an “**Optional Redemption Date**”):

Series H Bonds	
Optional Redemption Dates	Optional Redemption Price
On the 3 rd year from Issue Date	100.5%
On the 4 th year from Issue Date	100.5%

provided, that if the relevant Optional Redemption Date falls on a day that is not a Business Day, then the payment of the optional redemption price shall be made by the Issuer on the next Business Day, without adjustment to the amount of interest and optional redemption price to be paid.

The amount payable to the Bondholders upon the exercise of the optional redemption by the Issuer shall be calculated, based on the principal amount of Offer Bonds being redeemed, as the sum of: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount of the Offer Bonds being redeemed and the optional redemption price in accordance with the above table.

The Issuer shall give no more than 60 days’ nor less than 30 days’ prior written notice to the Trustee, Registrar and Paying Agent of its intention to redeem the Offer Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Offer Bonds on the Optional Redemption Date stated in such notice. Upon receipt by the Trustee of such notice, the Trustee through the Issuer shall secure from the Registrar an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the interest and optional redemption price. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption for Taxation Reasons

If payments under the Offer Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer, the Issuer may redeem the relevant Offer Bond series in whole, and not in part only, on any Interest Payment Date (having given not more than 60 nor less than 30 days’ written notice to the Trustee, Registrar and Paying Agent) at 100% of face value and paid together with the accrued interest thereon, subject to the requirements of Applicable Law; provided that if the Issuer does not redeem the Offer Bonds then all payments of principal and interest in respect of the Offer Bonds shall be made free and clear of, and without withholding or deduction for, any such new or additional taxes, duties, assessments or governmental charges, unless such withholding or deduction is required by Applicable Law. In that event, the Issuer shall pay to the Bondholders concerned such additional amount as will result in the receipt by such Bondholders of such amounts as would have been received by them had no such withholding or deduction for new or additional taxes been required.

Upon receipt by the Trustee of a written notice from the Issuer hereunder, the Trustee through the Issuer shall secure from the Registrar an updated list of Bondholders as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Offer Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Redemption by Reason of Change in Law or Circumstance

Upon the occurrence of a Change in Law or Circumstance (as enumerated below), the Issuer may redeem the Offer Bonds in whole, but not in part, having given not more than 60 days’ nor less than 30 days’ written notice to the Trustee, the Registrar and the Paying Agent, at 100% of the face value and paid together with the accrued interest thereon.

The following events shall be considered as changes in law or circumstance (“**Change in Law or Circumstance**”) as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Agreement:

- (a) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Offer Bonds shall be modified, withdrawn or withheld in a manner which will materially and adversely affect the ability of the Issuer to comply with such obligations; or
- (b) Any provision of the Bond Agreements (in whole or in part) is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations thereunder or to enforce any provision thereunder; or any law is introduced or any existing Applicable Law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the Issuer of its obligations under the Bond Agreements; or
- (c) Any concession, permit, right, franchise or privilege required for the conduct of the business and operations of the Issuer shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Issuer; or
- (d) The Philippines or any competent authority thereof takes any action to suspend the whole or a substantial portion of the operations of the Issuer and to condemn, seize, nationalize or appropriate (either with or without compensation) the Issuer or any material portion of its properties or assets, unless such act, deed or proceedings are contested in good faith by the Issuer or the same does not materially and adversely affect the financial condition or operations of the Issuer.

Upon receipt by the Trustee of a written notice from the Issuer on the occurrence of any Change in Law or Circumstance, the Trustee shall secure from the Registrar an updated list of Bondholders and as of the Record Date indicated in the notice from the Issuer and provide written notices to all registered Bondholders of the intended early redemption. Each Bondholder in whose name the Offer Bonds subject of the early redemption are registered in the Registry of Bondholders at the close of business on the relevant Record Date shall be entitled to receive the principal of the Offer Bonds subject of the early redemption and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Offer Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Redemption by Reason of Change of Control

Upon the occurrence of a Change of Control, Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Offer Bonds, at 100% of face value, which shall be paid together with the accrued interest thereon. Within 15 days following a Change of Control, the Issuer shall notify the Trustee, which shall, in turn, notify the Bondholders (i) that a Change of Control has occurred and that the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds may require the Issuer to redeem all (but not some) of the Bonds, and (ii) the date set by the Issuer for such redemption (which shall not be earlier than 45 days and no later than 60 days from the date written notice is received by the Trustee). The decision of the Bondholders holding at least 2/3 of the outstanding principal amount of the Offer Bonds under this section shall be conclusive and binding upon all the Bondholders.

Each Bondholder in whose name the Offer Bonds are registered in the Registry of Bondholders at the close of business on the Record Date indicated in the notice to the Bondholders shall be entitled to receive the principal of the Offer Bonds and the interest accrued thereon. The Issuer shall pay the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

Accrued interest on the Offer Bonds to be redeemed under this section for the last Interest Payment Date up to the relevant redemption date shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

Purchase and Cancellation

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEX Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Offer Bonds in the PDEX, the Issuer shall disclose any such transaction in accordance with the applicable PDEX disclosure rules.

Payments

The principal of, interests on, and all other amounts payable on the Offer Bonds shall be paid to the Bondholders through the Paying Agent. The Paying Agent shall credit the proper amounts received from the Issuer via RTGS, net of final taxes and fees (if any), to the cash settlement banks of the Bondholders (nominated by the Bondholders in the Application to Purchase or as the Bondholder may notify the Paying Agent in writing), for onward remittance to the relevant cash settlement account of the Bondholder with the cash settlement bank. The principal of, and interest on, the Offer Bonds shall be payable in Philippine Pesos.

In the event that the details of the cash settlement account indicated by the relevant Bondholder in the Application to Purchase are incomplete or erroneous, or the cash settlement account of the relevant Bondholders has been closed, dormant, or inexistent, due to which payments to the Bondholders cannot be effected in a timely manner, the relevant cash settlement bank shall handle such funds in accordance with its own internal procedures until the correction of the cash settlement account is effected and until credit of the relevant cash entitlement is completed. In these cases, the Issuer and the Registrar and Paying Agent shall not be liable to the relevant Bondholder for any failure or delay in the Bondholder's receipt of such payments.

The Issuer shall ensure that so long as any of the Offer Bonds remain outstanding, there shall at all times be a Paying Agent for the purposes of the Offer Bonds and the Issuer or the Paying Agent may only terminate the appointment of the Paying Agent as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, the Issuer shall appoint such other leading institution in the Philippines authorized to act in its place.

Payment of Additional Amounts – Taxation

Interest income on the Offer Bonds is subject to a withholding tax at rates of 20%, 25% or 30% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

- (a) The withholding tax applicable on interest earned on the Offer Bonds prescribed under the Tax Code, and its implementing rules and regulations as may be in effect from time to time; provided, further, that all Bondholders are required to provide the Issuer through the Paying Agent their validly issued tax identification numbers issued by the BIR;
- (b) Gross Receipts Tax under Section 121 of the Tax Code;
- (c) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding;
- (d) Value-Added Tax under Sections 106 to 108 of the Tax Code; and
- (e) Any applicable taxes on any subsequent sale or transfer of the Offer Bonds by any holder which shall be for the account of such holder (or its buyer, as the holder and the buyer may have agreed upon).

Documentary stamp tax for the primary issue of the Offer Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

Please see the section on “*Taxation*” on page [●] of this Offer Supplement for a more detailed discussion on the tax consequences of the acquisition, ownership and disposition of the Offer Bonds.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer, as being sufficient in form and substance:

- (a) BIR-certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Bondholder, confirming its exemption or its entitlement to the preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto;
- (b) sworn certification or undertaking issued by the relevant applicant or Bondholder, confirming/certifying that the tax exemption certificate, ruling or opinion [referred to in (a) above] submitted is the latest/most recent tax exemption certificate, ruling or opinion issued by the BIR;
- (c) with respect to tax treaty relief,
 - (i) for Applicant investors, (1) 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief (“**CORTT**”) Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer upon the submission of the Application to Purchase or no later than the 1st day of the month when the initial interest payment date shall fall due. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.
 - (ii) For transferee Bondholders, (1) 3 originals of a duly accomplished valid, current and subsisting CORTT Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No.8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer through the Registrar upon the submission of the account opening documents or no later than the 1st day of the month when the first interest payment date shall fall due following the transfer of the Offer Bonds to the said transferee Bondholder. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.
- (d) a duly notarized undertaking executed by (i) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Offer Bonds for its account, or (ii) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities’ tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent (1) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (2) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (3) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Offer Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such investor shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose. In the event that the Issuer is assessed by the relevant taxing authority or other authorities arising from the exemption, reduced withholding tax rate and/or an incorrect or non-withholding of tax due to the above representation of the Bondholder, the Issuer shall pay the said assessed

amount to the relevant taxing authority or other authorities and the Bondholder shall immediately reimburse Issuer for any amount/s paid subject to the imposition of interest as may be deemed appropriate by the Issuer; and

- (e) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

Unless otherwise indicated above, the foregoing requirements shall be submitted, (i) in respect of an initial issuance of Offer Bonds, upon submission of the Application to Purchase to the Joint Lead Underwriters and Bookrunners or Selling Agents (if any) who shall then forward the same to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the account opening documents.

Failure on the part of the Bondholder to submit the aforementioned document/s within the time prescribed shall result in the application of the regular tax rates.

FINANCIAL RATIO

The Issuer may incur Debt if on the Transaction Date, after giving effect to the incurrence of such Debt, but not giving any effect to the receipt or application of proceeds therefrom, the ratio of the Consolidated Net Debt to Total Equity to be equal to or less than 2.10x, and Consolidated EBITDA to Consolidated Total Interest Expense to be equal to or more than 2.00x.

NEGATIVE PLEDGE

The Issuer will not, and shall procure that none of its Material Subsidiaries shall, without the consent of the Majority Bondholders, (i) create, assume, incur or suffer to exist any Lien upon any of its properties or assets; and (ii) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Issuer or any member of the Group, in each case, where the arrangement or transaction is entered into primarily as method of raising Debt or of financing acquisitions of an asset, provided that the foregoing restrictions shall not apply to any Permitted Liens.

EVENTS OF DEFAULT

Each of the following events shall constitute an “**Event of Default**” under the Offer Bonds and the Trust Agreement:

- (a) the Issuer defaults in the payment when due of any amount payable to the Bondholders under the Trust Agreement unless such failure arises solely as a result of an administrative or technical error or a Disruption Event and payment is made within 3 Business Days after the date such payment is due (a “**Payment Default**”);
- (b) the Issuer fails to perform, comply with, or violates any material provision, term, condition, covenant or obligation contained in the Trust Agreement (other than by reason of paragraph (a) above), and any such failure, non-compliance or violation is not remediable or, if remediable, continues unremedied for a period of 30 days (or such longer curing period granted to the Issuer by the Majority Bondholders) from the date after written notice thereof shall have been given to the Issuer by the Trustee;
- (c) any representation or warranty which is made by the Issuer or any of the directors or officers of the Issuer in the Trust Agreement or otherwise in connection with the Trust Agreement, or in any certificate delivered by the Issuer under or in connection with the Trust Agreement, shall prove to have been untrue or incorrect in any material respect as of the time it was made;
- (d) any Debt of the Issuer, whether singly or in the aggregate, in excess of US\$25 million or its equivalent in Pesos or other currencies, using the Philippine Dealing System (PDS) closing rate of the immediately preceding Business Day, is not paid on its due date or within any applicable grace period or is declared to be due and payable prior to its stated date of payment (except where liability for payment of that Debt is being contested in good faith by appropriate means);
- (e) a decree or order by a court or other Governmental Authority having jurisdiction over the premises is entered without the consent or application of the Issuer:
 - (1) adjudging the Issuer bankrupt or insolvent;
 - (2) approving a petition seeking a suspension of payments by or a reorganization of the Issuer under any applicable bankruptcy, insolvency or reorganization law;

- (3) appointing a receiver, liquidator or trustee or assignee in bankruptcy or insolvency of the Issuer or of all or substantially all of the business or assets of the Issuer;
- (4) providing for the winding up or liquidation of the affairs of the Issuer;
- (5) with a view to the rehabilitation, administration, liquidation, winding-up or dissolution of the Issuer; or
- (6) taking other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (5) above (inclusive);

provided, that, the issuance of any such decree or order shall not be an Event of Default if the same shall have been dismissed or stayed by injunction or otherwise within 90 days from issuance thereof;

(f) the Issuer:

- (1) institutes voluntary proceedings to be adjudicated bankrupt or insolvent or consents to the filing of a bankruptcy or insolvency proceeding against it;
- (2) files a petition seeking a suspension of payments by it or its reorganization under any applicable bankruptcy, insolvency or reorganization law or consents to the filing of any such petition;
- (3) seeks or consents to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets;
- (4) makes an assignment for the benefit of its creditors or admits in writing its inability to pay its debts generally as they become due;
- (5) files a petition seeking the winding up or liquidation of its affairs or consents to the filing of any such petition;
- (6) takes any other step with a view to its rehabilitation, administration, liquidation, winding-up or dissolution or a suspension of payments by it; or
- (7) takes other action under Applicable Law which is similar to any of the events mentioned in paragraphs (1) to (6) above (inclusive);

(g) final and executory judgment(s) or order(s) are rendered by a court of competent jurisdiction against the Issuer or its properties or assets from which no appeal may be made for the payment of money which will have a Material Adverse Effect and such judgment or order shall continue unsatisfied or undischarged after 90 days;

(h) the Issuer shall suspend or discontinue all or a substantial portion of its business operations, whether voluntarily or involuntarily for a period of 30 consecutive days except in cases of strike, lockout, or closure when necessary to prevent business losses or when due to fortuitous events, or in cases of force majeure, provided that in any such event of strikes, lockouts, closure, or force majeure, there is no Material Adverse Effect; and

(i) any event or circumstance that will have a Material Adverse Effect has occurred and is continuing.

Notice of Default

The Trustee shall, within 5 Business Days after receipt of written notice from the Issuer or the Majority Bondholders of the occurrence of an Event of Default, give to all the Bondholders written notice of any such Event of Default unless the same shall have been cured before the giving of such notice; provided, that in the case of a Payment Default (as described in paragraph (a) of the “*Description of the Offer Bonds – Events of Default*”) the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment Default.

Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing after the lapse of the period given to the Issuer within which to cure such Event of Default, if any, or upon the occurrence of such Event of Default for which no cure period is provided, (i) the Trustee upon the written direction of the Majority Bondholders, by notice in writing delivered to the Issuer, or (ii) the Majority Bondholders, by notice in writing delivered to the Issuer and the Trustee, may declare the Issuer in default (“**Declaration of Default**”) and declare

the principal of the Offer Bonds then outstanding, together with all accrued and unpaid interest thereon and all amounts due thereunder, to be due and payable not later than 5 Business Days from the receipt of the Declaration of Default (“**Default Payment Date**”) with a copy to the Paying Agent who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon, the Issuer shall make all payments due on the Offer Bonds in accordance with the Registry and Paying Agency Agreement.

- (b) All the unpaid obligations under the Offer Bonds, including accrued interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer.

Penalty Interest

In case any amount payable by the Issuer under the Offer Bonds, whether for principal, interest, or otherwise, is not paid on the relevant due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay a penalty fee on the defaulted amount(s) at the rate of 12% per annum (the “**Penalty Interest**”) from the time the amount fell due until it is fully paid in accordance with the Terms and Conditions of this Offer and the Trust Agreement.

Payments in the Event of Default

Upon the occurrence of any Event of Default, and provided that there has been a Declaration of Default and acceleration of payment of the Offer Bonds by the Majority Bondholders, then in any such case:

- (a) the Issuer will pay the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on such outstanding Offer Bonds with interest at the rate borne by the Offer Bonds on the overdue principal and with Penalty Interest, where applicable, based on the payment report no later than the Default Payment Date. The Issuer also undertakes that it shall give the Trustee written notice of its intention to make any payments under this paragraph (a); and
- (b) the Trustee shall have the right to require the Registrar and the Paying Agent, upon demand in writing, to do the following:
 - (i) to hold all sums, documents and records held by them in respect of the Offer Bonds on behalf of the Trustee; and/or
 - (ii) deliver all evidences of the Offer Bonds and all sums, documents and records held by them in respect of the Offer Bonds to the Trustee or as the Trustee shall direct in such demand; provided, that such demand shall be deemed not to apply to any documents or records which the Paying Agent or the Registrar is not allowed to release by any law or regulation; and/or
 - (iii) subject to the terms of the Registry and Paying Agency Agreement, apply any money received from the Issuer pursuant to this section in the order of preference provided in the “*Description of the Offer Bonds – Application of Payments*” below.

Application of Payments

Any money collected by the Trustee as a consequence of a Declaration of Default and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds or to the Registry and Paying Agency Agreement, shall be applied by the Trustee in the order of preference as follows:

- (a) *First:* to the *pro rata* payment to the Trustee, the Registrar, Paying Agent and PDEX of the reasonable, actual and documented costs, expenses, fees, and other charges of collection, including reasonable compensation to them, their agents, attorneys, and all reasonable, actual and documented expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith in carrying out their respective obligations under their respective agreements with the Issuer in connection with the Offer Bonds.
- (b) *Second:* to the payment of all outstanding interest, including any Penalty Interest, in the order of maturity of such interest, based on the information on Bondholders reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.

- (c) *Third:* to the payment of the principal amount of the Offer Bonds then due and payable based on the information on Bondholders reflected in the relevant registry account to be provided by the Registrar and Paying Agent in accordance with the Registry and Paying Agency Agreement.
- (d) *Fourth:* the remainder, if any, shall be paid to the Issuer, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Prescription

Claims in respect of principal and interest or other sums payable under the Offer Bonds shall prescribe unless the claim is made within 10 years (in the case of principal or other sums) or 5 years (in the case of interest) from the date on which payment becomes due.

Remedies

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion under “*Description of the Offer Bonds – Ability to File Suit.*”

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer under the Trust Agreement on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder unless (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Offer Bonds in accordance with the provisions on notice of default (See *Description of the Offer Bonds – Notice of Default*); (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in its own name; (iii) the Trustee, for 60 days after the receipt of such notice and request, shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no Bondholder shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Offer Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholder, waive any past default except the Events of Default defined as a Payment Default, insolvency default or closure default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights under the Trust Agreement; provided, that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Offer Bonds.

SUBSTITUTION

Substitution of the Offer Bonds is not contemplated.

TRUSTEE; NOTICES

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice to the Trustee

All documents required to be submitted to the Trustee and all other notices, requests and other communications must be in writing and will be deemed to have been duly given only if delivered personally, by facsimile transmission, or mailed (first class postage prepaid) or emailed to the Trustee at the following address, facsimile number or email address; and addressed to the individuals named below:

To the Trustee:

**RIZAL COMMERCIAL BANKING CORPORATION –
TRUST AND INVESTMENTS GROUP**
9th Floor, Yuchengco Tower RCBC Plaza 6819 Ayala Avenue,
Makati City 1226

Attention: Ryan Roy W. Sinaon

Telephone No.: (+632) 894-9000 local 1278

Facsimile: (+632) 878-3377

Email: rwsinaon@rcbc.com

All such notices, requests and other communications will: (i) if delivered personally to the address as provided above, be deemed given upon delivery; (ii) if delivered by facsimile transmission to the facsimile number as provided above, be deemed given upon receipt in readable form; and (iii) if delivered by mail or email in the manner described above to the address as provided above, be deemed given upon receipt and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other Person on behalf of such individual to whom a copy of such notice, request or other communication is to be delivered). The Trustee may from time to time change its address, facsimile number or other information for the purpose of notices hereunder by giving notice specifying such change.

Any notice, report or communication received on a non-working day or after business hours in the place of receipt will only be deemed given on the next working day in that place.

Notice to the Bondholders

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Registry of Bondholders. Except where a specific mode of notification is provided for in the Bond Agreements, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) by publication for at least once a week for 2 consecutive weeks in at least 2 newspapers of general circulation in the Philippines; (iv) personal delivery to the address of record in the Registry of Bondholders; or (v) disclosure through the Online Disclosure System of the PDEX. The Trustee shall rely on the Registry of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) 10 days from posting if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on the date of last publication, if notice is made by publication; or (iv) on the date of delivery, for personal delivery; or (v) on the date of disclosure, if notice is made by disclosure through the Online Disclosure System of the PDEX.

A notice made by the Issuer to the Trustee is notice to the Bondholders. The publication in a newspaper of general circulation in the Philippines of a press release or news item about a communication or disclosure made by the Issuer to the PDEX on a matter relating to the Offer Bonds shall be deemed a notice to the Bondholders of said matter on the date of the first publication or the date of the disclosure, as the case may be.

Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the observance by the Issuer of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Issuer.

- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such diligence, judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters will exercise in the management of their own affairs.
- (c) None of the provisions contained in the Trust Agreement, the Prospectus and this Offer Supplement shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers under the Trust Agreement.

Resignation and Change of Trustee

- (a) The Trustee may resign at any time by giving 90 days' prior written notice to the Issuer of such resignation.
- (b) Upon receipt of such notice of resignation of the Trustee, the Issuer shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, 1 copy of which instrument shall be delivered to the resigning Trustee and 1 copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide holder for at least the immediately preceding 6 months may, for and in behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.
- (c) Subject to paragraph (f) below, a successor trustee must possess all the qualifications required under pertinent laws and the Trust Agreement.
- (d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, or for other causes set out in the Trust Agreement, then the Issuer may within 30 days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, 1 copy of which instrument shall be delivered to the Trustee so removed and 1 copy to the successor trustee. If the Issuer fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder for at least the immediately preceding 6 months may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.
- (e) The Majority Bondholders may at any time remove the Trustee for cause, and with consent of the Issuer, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Issuer of the required evidence of the action in that regard taken by the Majority Bondholders, which removal shall take effect 30 days from receipt of such notice by the Trustee; provided, that if no successor trustee shall have been appointed within 90 days from the receipt of the Issuer of the required evidence of the action taken, the Majority Bondholders may appoint a successor trustee without the consent of the Issuer. This is without prejudice to whatever remedies may be available to the Majority Bondholders under the law or in equity.
- (f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions in the Trust Agreement shall become effective upon the earlier of: (i) the acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided, however, that after the effectivity of the resignation notice and, as relevant, until such successor trustee is qualified and appointed, the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Issuer.

Successor Trustee

- (a) Any successor trustee appointed shall execute, acknowledge and deliver to the Issuer and to its predecessor trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as Trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Issuer or of the successor trustee, the trustee ceasing to act as such shall execute and deliver an

instrument transferring to the successor trustee, all the rights, powers and duties of the trustee so ceasing to act as such. Upon request of any such successor trustee, the Issuer shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

- (b) Upon acceptance of the appointment by a successor trustee, the Issuer shall notify the Bondholders in writing of the succession of such trustee to the trusteeship and/or by publication once in a newspaper of general circulation in Metro Manila, Philippines. If the Issuer fails to notify the Bondholders within 10 days after the acceptance of appointment by the successor trustee, the latter shall cause the Bondholders to be notified at the expense of the Issuer.

Reports to the Bondholders

The Trustee shall submit to the Bondholders on or before March 1 of each year from the Issue Date until full payment of the Offer Bonds a brief report dated as of December 31 of the immediately preceding year with respect to:

- (a) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report which shall be based on the report to be given by the Paying Agent to the Trustee upon request by the Trustee through the Issuer; and
- (b) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Offer Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, the remaining unpaid amounts of such advance is at least 10% of the aggregate outstanding principal amount of the Offer Bonds at such time.

Inspection of Documents

Upon due notice to the Trustee, the following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:

- (a) the Trust Agreement;
- (b) the Registry and Paying Agency Agreement;
- (c) the Articles of Incorporation and By-laws of the Company; and
- (d) the Registration Statement of the Company with respect to the Bonds (including the Offer Bonds) with the Prospectus and this Offer Supplement.

MEETINGS OF THE BONDHOLDERS

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Offer Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Offer Bonds.

The following discussion is qualified by the more detailed information as contained in the Trust Agreement.

Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, on its own accord or upon the written request by the Issuer, or the Majority Bondholders, for purposes of taking any actions authorized under the Trust Agreement. The meeting may be held at such time and at such place as the Trustee shall determine.

Unless otherwise provided in the Trust Agreement, the Trustee shall give notice of every meeting of the Bondholders (which notice must set forth the time, place, and purpose of such meeting in reasonable detail) to the Issuer and each of the registered Bondholders not earlier than 45 days nor later than 15 days prior to the date fixed for the meeting and shall publish such notice once in a newspaper of general circulation; provided, that the Trustee shall fix the record date for determining the Bondholders entitled to notice and vote during the meeting, which record date shall not be earlier than 45 days before the date of the meeting; provided, further, that all reasonable, actual and documented costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within 10 days from receipt of the duly supported billing statement, subject to obtaining prior written consent of the Issuer for

reasonable, actual and documented costs and expenses in excess of Fifty Thousand Pesos (₱50,000.00) per occurrence; provided, further, that any meetings of the Bondholders shall be held at such time and place within Metro Manila as the party requesting such meeting may determine.

Failure of the Trustee to Call a Meeting

Failure of the Trustee to call a meeting upon the written request of either the Issuer or the Majority Bondholders within 5 Business Days from receipt of such request shall entitle the requesting party to send and publish the appropriate notice of Bondholders' meeting and fix the record date for determining the Bondholders entitled to attend and vote in accordance with the procedure set forth under "*Description of the Offer Bonds – Notice of Meetings*". The costs for calling such a meeting shall be for the Trustee's account in case of unjustified failure of the Trustee to call the meeting is due to its willful misconduct, fraud, evident bad faith or gross negligence.

Quorum

The presence of Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders. The Trustee shall determine and record the presence of the Majority Bondholders based on the list of Bondholders prepared by the Registrar in accordance with the Registry and Paying Agency Agreement (which list shall include (i) the complete names of the Bondholders (including the name of the authorized representative of the Bondholder, where applicable) (ii) the amount of Offer Bonds held by the Bondholders as of the Record Date, (iii) the complete address and contact details of the Bondholders, (iv) specimen signatures of the Bondholders' authorized signatories and (v) such other information necessary for the performance of the duties and powers of the Trustee under this Agreement as may be requested by the Trustee through the Issuer). The Registrar shall provide the Trustee with the foregoing list and information upon receipt of a written request from the Trustee.

Procedure for Meetings

- (a) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Issuer or by the Majority Bondholders as provided under "*Description of the Offer Bonds – Failure of the Trustee to Call a Meeting*" in which case the Issuer or the Majority Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting. The elected secretary shall take down the minutes of the meeting, covering all matters presented for resolutions by and the results of the votes cast by the Bondholders entitled to vote at the meeting and/or the Person appointed in writing by a public instrument as proxy or agent by any such Bondholder in accordance with the procedure set forth in "*Description of the Offer Bonds – Voting Rights*". The elected secretary shall immediately provide the Trustee with a copy of the minutes of the meeting which copy shall be made available at any time to the Issuer and all Bondholders upon receipt of written request.
- (b) Any meeting of the Bondholders may be adjourned from time to time for a period or periods not to exceed in the aggregate 1 year from the date for which the meeting shall originally have been called, and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by Persons representing a majority of the aggregate principal amount of the Offer Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

Voting Rights

To be entitled to vote at any meeting of the Bondholders, a Person should be a registered holder of the Offer Bonds as reflected in the Registry of Bondholders on the relevant record date fixed by the Trustee, the Issuer, or the Majority Bondholders, as the case may be, or a Person appointed in writing by a public instrument as proxy or agent by any such Bondholder (and, in case of corporate or institutional Bondholders, duly supported by the resolutions of its board of directors or equivalent body authorizing the appointment of the proxy or agent duly certified by its corporate secretary or an authorized officer) for the meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00). The only Persons who shall be entitled to be present or to participate at any meeting of the Bondholders shall be the Persons entitled to vote at such meeting, the Trustee, and any representative of the Issuer and its legal counsel.

Voting Requirement

Except as provided in "*Description of the Offer Bonds - Amendments*", all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders (present or represented in a meeting at which there is a quorum). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations (not inconsistent with the Trust Agreement) as it may deem advisable for any meeting of the Bondholders, with regard to proof of ownership of the Offer Bonds, the appointment of proxies by the Bondholders, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

Evidence Supporting the Action of the Bondholders

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Offer Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

Non-Reliance

Each Bondholder represents and warrants to the Trustee and to the Issuer that it has independently and, without reliance on the Trustee or the Issuer, made its own credit investigation and appraisal of the financial condition and affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Offer Bonds and on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee or the Issuer. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all claims, liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations under the Trust Agreement, except for its gross negligence, fraud, evident bad faith or willful misconduct.

Amendments

The Issuer and the Trustee may, without prior notice to or the consent of the Bondholders or other parties, amend or waive any provisions of the Trust Agreement if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency; provided, in all cases, that such amendment or waiver does not adversely affect the interests of the Bondholders; provided, further, that all Bondholders are notified of such amendment or waiver.

With the consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors or the executive committee of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental to the Trust Agreement for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, that no such supplemental agreement shall:

- (a) without the consent of all Bondholders affected thereby: (i) extend the maturity date of the Offer Bonds; or (ii) reduce the principal amount of the Offer Bonds; or (iii) reduce the rate or extend the time of payment of interest and principal thereon;
- (b) impair the right of any Bondholder to (i) receive payment of principal of and interest on the Offer Bonds on or after the due dates therefore or (ii) to institute suit for the enforcement of any payment on or with respect to such Bondholder;
- (c) affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders;
- (d) make any Offer Bond payable in money other than that stated in the Offer Bond;
- (e) subordinate the Offer Bonds to any other obligation of the Issuer;
- (f) amend or modify the provisions of the Terms and Conditions on Taxation, the Events of Default or the waiver of default by the Bondholders;
- (g) reduce the percentage of the Bondholders required to be obtained under the Trust Agreement for their consent to or approval of any supplemental agreement or any waiver provided for in the Trust Agreement, without the consent of all the Bondholders; or

(h) make any change or waiver of the conditions under paragraphs (a) to (g) inclusive.

It shall not be necessary to obtain the consent of the Bondholders under the foregoing paragraphs for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given pursuant to this section shall be conclusive and binding upon all Bondholders and upon all future holders and owners of the Offer Bonds or of any Offer Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Offer Bonds.

GOVERNING LAW

The Bond Agreements are governed by and are construed in accordance with Philippine law.

VENUE

Any suit, action, or proceeding arising out of, or relating to, the Offer Bonds or the Trust Agreement shall be brought before the proper courts in the Cities of Makati and Mandaluyong, to the exclusion of all other courts, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Issuer, Trustee and Bondholders expressly waiving other venue.

WAIVER OF PREFERENCE

The obligations created under the Bond Agreements and the Offer Bonds shall not enjoy any priority of preference or special privileges whatsoever over any Debt or obligations of the Issuer. Accordingly, whatever priorities or preferences that the Bond Agreements may have or any Person deriving a right hereunder may have under Article 2244, paragraph 14(a) of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines shall be revoked if it be shown that any Debt of the Issuer has a priority or preference under the said provision.

USE OF PROCEEDS

SMC expects to raise ₱10,000,000,000.00 as gross proceeds from the Offer. The Company estimates that the net proceeds from the Offer after deducting expenses payable by the Company, will be approximately ₱[9,876,050,000.00], estimated as follows:

Particulars	Total (₱)
Estimated proceeds from the Offer.....	10,000,000,000.00
Less: Estimated fees, commissions and expenses	
Gross Underwriting Fees	[45,000,000.00]
Documentary Stamp Taxes to be paid by the Company.....	[75,000,000.00]
SEC Registration fee	not applicable ¹
SEC Legal Research and Publication Fee.....	not applicable ¹
SEC Publication Fee.....	[100,000.00]
PDEX Listing Application Fee	300,000.00
Listing and Maintenance Fee.....	150,000.00
Legal and other professional fees.....	[2,500,000.00]
Printing Cost.....	[200,000.00]
Paying Agency and Registry Fees.....	[200,000.00]
Other expenses.....	[500,000.00]
Total estimated fees, commissions and expenses	[123,950,000.00]
Estimated net proceeds.....	₱ [9,876,050,000.00]

Aside from the foregoing one-time costs, SMC expects the following annual expenses related to the Offer Bonds:

- (a) The Issuer will be charged by the PDEX for the first annual maintenance fee in advance upon approval of the listing and thereafter, the Issuer will pay PDEX an annual maintenance listing fee amounting to ₱450,000.00 per annum;
- (b) The Issuer will pay an annual retainer fee to the Trustee amounting to ₱120,000.00 per annum;
- (c) After the Issue Date, a Paying Agency fee amounting to approximately ₱150,000.00 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Offer Bonds and number of Bondholders; and
- (d) The Issuer will pay an annual monitoring fee of ₱560,000.00 to PhilRatings.

The net proceeds of the Offer may be used either: (i) to fund the redemption of the outstanding Series 2B Preferred Shares of the Company, in the event the Company exercises the option to redeem the Series 2B Preferred Shares, which redemption may be initially funded through a bridge loan; or (ii) refinancing or re-denomination of existing loan obligations of the Company, as follows:

Purpose	Amount	Estimated Timing of Disbursement
Fund the redemption of the outstanding Series 2B Preferred Shares of the Company	₱6,782,115,000.00	[October 2019]
Refinancing of short-term Peso loans and/or redenomination of other existing loan obligations of the Company	[₱3,093,935,000.00]	[Within six (6) months from Issue Date]

¹ SEC Registration Fee, legal research and publication fee, were already paid on January 30, 2018.

Fund the redemption of the Series 2B Preferred Shares of the Company

₱6,782,115,000.00 from the net proceeds of the Offer may be used to fund the redemption of the outstanding Series 2B Preferred Shares of the Company. In the event the Company exercises the option to redeem the Series 2B Preferred Shares, redemption of the shares will be on September 21, 2019. Pending issuance of the Offer Bonds and receipt by the Company of the proceeds from the Offer on Issue Date, the Company intends to initially fund the redemption through a bridge loan to be availed of from BDO Unibank, Inc.

Refinancing of short-term Peso loans and/or redenomination of other existing loan obligations of the Company

[₱3,093,935,000.00] from the net proceeds of the Offer shall be used to partially refinance or re-denominate existing loan obligations of the Company. The existing loan obligations of the Company that may be refinanced or re-denominated are disclosed in Note 19 of the consolidated financial statements of the Company as of December 31, 2018 attached to this Offer Supplement. The Company shall file the appropriate SEC Form 17-C with the SEC and the PSE upon making any disbursement of the proceeds of the Offer, for any of the aforementioned purposes.

The Board of Directors of the Company authorized its Management to cause the repayment or redenomination of the existing loan obligations of the Company at any time and from time to time, subject to the determination by Management of, among others, favorable market conditions and agreements with creditors.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn at prevailing market rates. In the event such investments should incur losses, any shortfall will be financed from the Company's internally generated funds.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

Except the underwriting fees, issue management fees and expenses related to the Offer Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Lead Underwriters and Bookrunners. Please see section on "*Plan of Distribution*".

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's development plan, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds for future investments or other uses, and/or hold such funds in investments, whichever is better for the Company's and its shareholders' interest taken as a whole. The Company's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company's management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC and the stockholders in writing at least 30 days before such deviation, adjustment or reallocation is implemented.

PLAN OF DISTRIBUTION

The Offer Bonds shall be the fourth and final tranche to be issued under the ₱60,000,000,000.00 Fixed Rate Bonds Shelf Registration Program of SMC. The Company shall issue the Offer Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Lead Underwriters and Bookrunners. The Offer does not include an international offering.

A total of ₱10,000,000,000.00 Bonds will be taken down from the shelf. Upon completion of the Offer, all Bonds of the Issuer under its shelf registration of ₱60,000,000,000.00 worth of fixed-rate bonds would have been issued.

Joint Lead Underwriters and Bookrunners

BDO Capital & Investment Corporation, China Bank Capital Corporation, PNB Capital and Investment Corporation, and RCBC Capital Corporation (the “**Joint Lead Underwriters and Bookrunners**”) have agreed to distribute and sell the Offer Bonds at the Purchase Price, pursuant to an Underwriting Agreement with SMC dated September [18], 2019 (the “**Underwriting Agreement**”). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Lead Underwriters and Bookrunners have committed to underwrite the following amounts on a firm basis:

Joint Lead Underwriters and Bookrunners	Underwriting Commitment
BDO Capital & Investment Corporation	₱2,500,000,000.00
China Bank Capital Corporation	₱2,500,000,000.00
PNB Capital and Investment Corporation	₱2,500,000,000.00
RCBC Capital Corporation	₱2,500,000,000.00
Total	₱10,000,000,000.00

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to SMC of the net proceeds of the Offer Bonds.

The underwriting fees and any selling fees to be paid by the Company in relation to the Offer shall be equivalent to [0.45]% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Lead Underwriters and Bookrunners and any commissions to be paid to the Selling Agents.

The Joint Lead Underwriters and Bookrunners have no direct relations with SMC in terms of ownership by either of their respective major shareholder/s and have no right to designate or nominate any member of the Board of Directors of SMC.

The Joint Lead Underwriters and Bookrunners have no contract or other arrangement with SMC by which it may return to SMC any unsold Offer Bonds.

For the purpose of complying with their respective commitments under the Underwriting Agreement, each Joint Lead Underwriter and Bookrunner may, under such terms and conditions not inconsistent with the provisions of the Underwriting Agreement, particularly the underwriting commitment of the Joint Lead Underwriters and Bookrunners, enter into agreements with co-lead managers and co-managers, and appoint Selling Agents for the sale and distribution to the public of the Offer Bonds; provided, that the Joint Lead Underwriters and Bookrunners shall remain solely responsible to the Issuer in respect of their obligations under the Underwriting Agreement entered into by them with the Issuer, and except as otherwise provided in the Underwriting Agreement, the Issuer shall not be bound by any of the terms and conditions of any agreements entered into by the Joint Lead Underwriters and Bookrunners with the co-lead managers, co-managers, and Selling Agents.

The Joint Lead Underwriters and Bookrunners are duly-licensed by the SEC to engage in the underwriting or distribution of the Offer Bonds. The Joint Lead Underwriters and Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMC or any of its subsidiaries.

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc. It obtained its license from the Philippine SEC to operate as an investment house in 1998 and is licensed by the Philippine SEC to engage in the underwriting and distribution of securities to the public. As of 31 December 2018, BDO Capital & Investment Corporation has an authorized capital stock of ₱1.1 billion and paid up capital stock of ₱1,000,039,900.

China Bank Capital, a subsidiary of China Bank, provides a wide range of investment banking services to clients across different sectors and industries. Its primary business is to help enterprises raise capital by arranging or underwriting debt and equity transactions, such as project financing, loan syndications, bonds and notes issuances, securitizations, initial and follow-on public offerings, and private equity placements. China Bank Capital also advises clients on structuring, valuation, and execution of corporate transactions, including mergers, acquisitions, divestitures, and joint ventures. It was established and licensed as an investment house in 2015 as the spin-off of China Bank's investment banking group, which was organized in 2012.

PNB Capital and Investment Corporation, an investment house with a non-bank, non-quasibanking license, was incorporated on July 30, 1997 and commenced operations on October 8, 1997. Its principal business is providing investment banking services, namely: debt underwriting, equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the government of the Philippines.

RCBC Capital is a 99.96%-owned, investment banking subsidiary of Rizal Commercial Banking Corporation. It offers a complete range of investment banking and financial consultancy services which include (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution, (ii) the syndication of foreign currency or Peso loan, and (iii) financial advisory services. It has been in existence for 46 years, making it one of the most recognized houses in the Philippine investment banking arena. Throughout its existence, it also has taken lead roles in arranging a number of syndicated loans, project financing and notes issues. The firm is composed of seasoned professionals with over 86 years' experience in investment banking or corporate finance. As of December 2018, RCBC Capital's total assets were ₱4.88 billion while total capital was ₱3.76 billion.

Part of the proceeds of this Offer may be used to repay the ₱6,782,115,000.00 bridge loan which the Company may avail from BDO Unibank, Inc. to initially fund the redemption of the Series 2B Preferred Shares. BDO Unibank, is the parent company of BDO Capital which is a Joint Lead Underwriter and Bookrunner for this Offer.

Part of the proceeds of this Offer may also be used to repay the [₱3,093,935,000.00] short-term loan obligations of the Company with Rizal Commercial Banking Corporation ("RCBC"). RCBC is the parent company of RCBC Capital which is a Joint Lead Underwriter and Bookrunner for this Offer.

SALE AND DISTRIBUTION

The distribution and sale of the Offer Bonds shall be undertaken by the Joint Lead Underwriters and Bookrunners who shall sell and distribute the Offer Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters from purchasing the Offer Bonds for their own respective accounts.

There are no Persons to whom the Offer Bonds are allocated or designated. The Offer Bonds shall be offered to the public at large and without preference.

The obligations of each of the Joint Lead Underwriters and Bookrunners will be several, and not solidary, and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters. Unless otherwise expressly provided in the Underwriting Agreement, the failure by an Underwriter to carry out its obligations thereunder shall neither relieve the other Joint Lead Underwriters of their obligations under the same Underwriting Agreement, nor shall any Underwriter be responsible for the obligation of another Underwriter.

OFFER PERIOD

The Offer Period shall commence at 9:00 a.m., Manila time, on [September 23, 2019] and end at 5:00 p.m., Manila time, on [September 27, 2019], or such other date as may be mutually agreed by the Company and the Joint Lead Underwriters and Bookrunners.

APPLICATION TO PURCHASE

The procedure set out in this section and the succeeding sections should be read together with the more detailed procedure and other conditions set out in the Application to Purchase.

Applicants may purchase the Offer Bonds during the relevant Offer Period by submitting to the Joint Lead Underwriters properly completed Applications to Purchase, together with 2 signature cards, and the full payment of the Purchase Price of the Offer Bonds in the manner provided in the said Application to Purchase.

Corporate and institutional applicants must also submit, in addition to the foregoing:

- (a) an original notarized certificate of the corporate secretary or an equivalent officer of the Applicant setting forth resolutions of the board of directors, partners or equivalent body (i) authorizing the purchase of the Offer Bonds indicated in the Application to Purchase; and (ii) designating the signatories, with their specimen signatures, for the said purposes;
- (b) copies of its Articles of Incorporation and By-Laws and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, stamped and signed as certified true copies by the SEC or the equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the Applicant who is/are authorized signatory(ies);
- (c) 2 duly accomplished signature cards containing the specimen signatures of the authorized signatories of the Applicant, validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies) (whose authority(ies) and specimen signatures will be submitted to the Registrar);
- (d) validly issued tax identification number issued by the BIR;
- (e) identification document(s) of the authorized signatories of the Applicant, as specified in item (a) of the immediately succeeding paragraph below; and
- (f) such other documents as may be reasonably required by any of the Joint Lead Underwriters, Selling Agents (if any) or the Registrar in the implementation of its internal policies regarding “know your customer” and anti-money laundering.

Individual applicants must also submit, in addition to accomplished Applications to Purchase and its required attachments:

- (a) identification document (“ID”) of the Applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Passport, Driver’s License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Voter’s ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman’s Book, Alien Certification of Registration/Immigrant Certificate of Registration, MARINA ID, Government Office and government-owned and controlled corporation ID, e.g., Armed Forces of the Philippines, Home Development Mutual Fund, Certification from the National Council for the Welfare of Disabled Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);
- (b) 2 duly accomplished signature cards containing the specimen signature of the Applicant;
- (c) validly issued tax identification number issued by the BIR; and
- (d) such other documents as may be reasonably required by the Joint Lead Underwriters, Selling Agents (if any) or the Registrar in implementation of its internal policies regarding “know your customer” and anti-money laundering.

An Applicant who is claiming exemption from any applicable tax, or entitlement to preferential tax rates shall, in addition to the requirements set forth above, be required to submit the following requirements to the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any) (together with their respective Applications to Purchase), subject to acceptance by the Issuer as being sufficient in form and substance:

- (i) for Applicant investors:

- (a) BIR-certified true copy of a valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR and addressed to the relevant applicant or Bondholder, confirming its exemption or its entitlement to the preferential rate, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto; and

(b) sworn certification or undertaking issued by the relevant applicant or Bondholder, confirming/certifying that the tax exemption certificate, ruling or opinion (referred to in (a) above) submitted is the latest/most recent tax exemption certificate, ruling or opinion issued by the BIR.

(c) with respect to Applicant investors relying on tax treaty relief: (1) 3 originals of a duly accomplished valid, current and subsisting Certificate of Residence for Tax Treaty Relief (“**CORTT**”) Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer upon the submission of the Application to Purchase or no later than the 1st day of the month when the initial interest payment date shall fall due. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

(d) a duly notarized undertaking executed by (i) the corporate secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Offer Bonds for its account, or (ii) the trust officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Offer Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities’ tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer, the Registrar and the Paying Agent (1) of any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (2) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature and method of operation, which are inconsistent with the basis for its income tax exemption; or (3) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Offer Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Issuer, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or incorrect withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such investor shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose. In the event that the Issuer is assessed by the relevant taxing authority or other authorities arising from the exemption, reduced withholding tax rate and/or an incorrect or non-withholding of tax due to the above representation of the Bondholder, the Issuer shall pay the said assessed amount to the relevant taxing authority or other authorities and the Bondholder shall immediately reimburse Issuer for any amount/s paid subject to the imposition of interest as may be deemed appropriate by the Issuer; and

(e) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

- (ii) For transferee Bondholders, (1) 3 originals of a duly accomplished valid, current and subsisting CORTT Form or the prescribed certificate of residency of their country together with the CORTT Form as required under BIR Revenue Memorandum Order No. 8-2017 and (2) 3 originals of the Special Power of Attorney executed by the Bondholder in favor of its authorized representative (if the CORTT Form and other documents are accomplished by an authorized representative) shall be submitted by the Bondholder to the Issuer through the Registrar upon the submission of the account opening documents or no later than the 1st day of the month when the first interest payment date shall fall due following the transfer of the Offer Bonds to the said transferee Bondholder. For subsequent interests due, 3 originals of Part II (D) of the CORTT Form shall be submitted by the Bondholder to the Issuer through the Registrar no later than the 1st day of the month when such subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto.

Unless otherwise indicated above, the foregoing requirements shall be submitted, (i) in respect of an initial issuance of Offer Bonds, upon submission of the Application to Purchase to the Joint Lead Underwriters and Bookrunners or Selling Agents (if any) who shall then forward the same to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar upon submission of the account opening documents.

Failure on the part of the Bondholder to submit the aforementioned document/s within the time prescribed shall result in the application of the regular tax rates.

The Purchase Price for each Offer Bond is payable in full upon submission of the duly executed Application to Purchase. Payments of the Purchase Price shall be made either in checks or appropriate debit instructions or payment instructions made out to the order of the relevant Joint Lead Underwriter and Bookrunner or Selling Agent (if any). All payments must be made or delivered to the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) to whom the Application to Purchase is submitted.

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) prior to the end of the Offer Period, or such earlier date as may be specified by the Underwriters. Acceptance by the Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) of the completed Application to Purchase shall be subject to the availability of the Offer Bonds and the acceptance by SMC. In the event that any check payment is returned by the drawee bank for any reason whatsoever or the nominated bank account to be debited is invalid, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase shall be deemed revoked.

MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

ALLOTMENT OF THE OFFER BONDS

If the Offer Bonds are insufficient to satisfy all Applications to Purchase, the available Offer Bonds shall be allotted in accordance with the chronological order of submission of properly completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice and subject to Joint Lead Underwriters' and Bookrunners' exercise of the right of rejection on behalf of the Issuer.

ACCEPTANCE OF APPLICATIONS

SMC and the Joint Lead Underwriters and Bookrunners reserve the right to accept or reject applications to purchase the Offer Bonds and allocate the Offer Bonds available to the Applicants in a manner they deem appropriate.

REJECTION OF APPLICATIONS

The Joint Lead Underwriters and Bookrunners shall accept, reduce or reject Applications to Purchase on behalf of the Issuer in accordance with the following provisions and the allocation plan. Reasons for rejection may include the following:

- (a) Applications may be rejected if: (i) the Purchase Price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonored upon first presentation; (iii) the Application to Purchase is not received by the Joint Lead Underwriters and Bookrunners or the Selling Agent (if any) on or before the end of the Offer Period; (iv) the number of Offer Bonds subscribed is less than the minimum amount of subscription; (v) the applications do not comply with the terms of the Offer; or (vi) the applications do not have sufficient information or are not supported by the required documents.
- (b) Applications may be reduced if the Offer is oversubscribed, in which case the number of Offer Bonds covered by the applications shall be reduced pro rata.

In the event an Application to Purchase is rejected or the amount of Offer Bonds applied for is scaled down for a particular Applicant, the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) shall notify the Applicant concerned that his/her application has been rejected or that the amount of Offer Bonds applied for is scaled down.

REFUNDS

If any application is rejected or accepted in part only, payments made by the Applicant or the appropriate portion thereof shall be returned without interest to such Applicant through the relevant Joint Lead Underwriter and Bookrunner or the Selling Agent (if any) with whom such Application to Purchase was made.

Refunds shall be made, at the option of each Joint Lead Underwriter and Bookrunner or the Selling Agent (if any), either (i) through the issuance of check(s) payable to the order of the relevant Applicant and crossed "Payees' Account Only"

and mailed or delivered, at the risk of the Applicant, to the address specified in the Application to Purchase, or (ii) through the issuance of instructions for automatic credit payments to the accounts of the relevant Applicants, as indicated in their respective Application to Purchase.

PAYMENTS

The Paying Agent shall open and maintain a Payment Account for each series of the Offer Bonds, which shall be operated solely and exclusively by the said Paying Agent in accordance with the Registry and Paying Agency Agreement, provided that beneficial ownership of the Payment Accounts shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the principal, interest and other payments due on the Offer Bonds on the relevant Payment Date.

The Paying Agent shall maintain the relevant Payment Account while the relevant series of the Offer Bonds are outstanding, and until 6 months past the Maturity Date or date of early redemption, as applicable. Upon closure of the Payment Accounts, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments and such other payments that due on the relevant series of the Offer Bonds.

UNCLAIMED PAYMENTS

Any payment of interest on, or the principal of the Offer Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk and shall be dealt with in accordance with the relevant provisions of the Registry and Paying Agency Agreement.

PURCHASE AND CANCELLATION

The Issuer may purchase the Offer Bonds at any time in the open market or by tender or by contract, in accordance with PDEX Rules, as may be amended from time to time, without any obligation to make pro rata purchases from all Bondholders. Offer Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Offer Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

SECONDARY MARKET

SMC intends to list the Offer Bonds in the PDEX.

For a more detailed discussion, please refer to the section on "*Description of the Offer Bonds – Secondary Trading of the Offer Bonds*".

REGISTRY OF BONDHOLDERS

The Offer Bonds shall be issued in scripless form. A Master Certificate of Indebtedness representing the Series H Bonds sold in the Offer shall be issued in the name of the Trustee for the benefit of the Bondholders.

Legal title to the Offer Bonds shall be shown in the Registry of Bondholders to be maintained by the Registrar. The names and addresses of the Bondholders and the particulars of the Offer Bonds held by them and all transfers of the Offer Bonds shall be entered into the Registry of Bondholders. Transfers of ownership shall be effected through book-entry transfers in the scripless Registry of Bondholders.

For a more detailed discussion, please refer to the section on "*Description of the Offer Bonds – Transfer of the Offer Bonds*".

CAPITALIZATION

The following table sets forth the unaudited consolidated short-term and long-term debt and capitalization of SMC as of June 30, 2019. This table should be read in conjunction with the more detailed information and reviewed and unaudited financial statements, including notes thereto, found in Annex “B” of the Prospectus.

(in ₱ Millions)	As of June 30, 2019 (Unaudited)	Adjustments	Notes	As adjusted for maximum Offer Size of ₱10.00 billion (Upon issuance of Offer Bonds)
Current Liabilities				
Loans payable.....	₱164,183			₱164,183
Accounts payable and accrued expenses.....	148,041			148,041
Lease liabilities - current portion.....	23,420			23,420
Income and other taxes payable.....	20,065			20,065
Dividends payable.....	4,368			4,368
Current maturities of long-term debt - net of debt issue cost.....	35,433			35,433
Total Current Liabilities.....	395,510			395,510
Non-current Liabilities				
Long term debt - net of current maturities and debt issue costs.....	598,328	9,881	1	608,209
Deferred tax liabilities.....	23,926			23,926
Finance lease liabilities - net of current portion.....	127,760			127,760
Other noncurrent liabilities.....	22,745			22,745
Total Non-current Liabilities.....	772,759			782,640
Equity				
Equity Attributable to Equity Holders of the Parent Company				
Capital stock - common	16,443			16,443
Capital stock - preferred	10,187			10,187
Additional paid-in capital	177,938			177,938
Equity Reserve	19,594			19,594
Retained Earnings				
Appropriated	50,314			50,314
Unappropriated	177,541			177,541
Treasury stock	(109,501)			(109,501)
	342,516			342,516
Non-controlling interests.....	220,496			220,496
Total Equity.....	563,012			563,012
Total Capitalization.....	₱1,731,281		2	₱1,741,162

Notes:

1. Adjusted amount as of June 30, 2019 includes proceeds of P10 billion of the Offer, after deduction of fees, commissions and expenses

2. Total capitalization is the sum of debt and equity.

THE COMPANY

OVERVIEW

San Miguel Corporation (“**SMC**”) is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018. Originally founded in 1890 as a single brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property, car distributorship and banking services. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc., the “**PSE**”) on November 5, 1948 and as of June 28, 2019, SMC had a market capitalization of ₱417,659 million, with a common share price of ₱175.20.

Since adopting its business diversification program in 2007, SMC has channeled its resources into what it believes are attractive growth sectors, which are aligned with the development and growth of the Philippine economy. SMC believes that continuing this strategy and pursuing growth plans within each business will achieve a more diverse mix of sales and operating income, and better position SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles. The consolidated sales, gross profit and EBITDA of SMC for the year ended 2018 were ₱1,024,943 million, ₱199,195 million and ₱157,887 million, and for the six months ended June 30, 2019 were ₱509,495 million, ₱100,877 million and ₱79,876 million, respectively.

SMC’s key business groups, most of which are market leaders in their respective industries, include the following:

- **Food and Beverage:** In June 2018, SMC completed the consolidation of its beer and non-alcoholic (“**NAB**”) business, spirits and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“**SMFB**”, formerly San Miguel Pure Foods Company, Inc.).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets and sells 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 divisions—(i) beer and NAB, (ii) spirits, and (iii) food. SMFB operates its beverage business through San Miguel Brewery Inc. and its subsidiaries (“**SMB**” or the “**Beer and NAB Division**”) and Ginebra San Miguel Inc. and its subsidiaries (“**GSMI**” or the “**Spirits Division**”). The food business (the “**Food Division**”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (“**San Miguel Foods**”), Magnolia, Inc., and The Purefoods-Hormel Company, Inc. (“**Purefoods-Hormel**”). SMFB serves the Philippine archipelago through an extensive distribution and dealer network and exports its products to almost 60 markets worldwide.

SMFB is listed on the PSE under stock code “**FB**” and as of June 28, 2019, had a market capitalization of ₱626,377 million, with a common share price of ₱106.00.

- **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 Corporation (“**SYMFC**”), Can Asia, Inc. (“**CAI**”), Mindanao Corrugated Fibreboard, Inc. (“**Mincorr**”) and Wine Brothers Philippines Corporation, collectively 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. As of June 30, 2019, the Packaging Group has 34 packaging facilities located in the Philippines and in China, Vietnam, Malaysia, Australia and New Zealand.
- **Fuel and Oil:** SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a third strong player in the

Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), the largest and one of the most modernized, which supplies approximately 30% of the country’s total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene.

The common shares of Petron are listed on the PSE under stock code “**PCOR**”. The market capitalization of PCOR was ₱54,563 million, with a common share price of ₱5.82 as of June 28, 2019.

- **Energy:** SMC Global Power Holdings Corp. (“**SMC Global Power**”), together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,197 MW of combined capacity as of June 30, 2019 and benefits from a portfolio of diversified fuel sources, including natural gas, coal, hydroelectric power and more recently, battery energy storage systems. Based on the total installed generating capacities reported in ERC Resolution No. 04, Series of 2018 (the “**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.
- **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. Currently operating toll roads include 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**”). Ongoing projects include Skyway Stage 3 and Stage 4, the extension of SLEX – TR4 and the Mass Rail Transit Line 7 (“**MRT-7**”). SMHC also operates and is currently expanding the Boracay Airport and has investments in Manila North Harbour Port, Inc. and Luzon Clean Water Development Corporation for the Bulacan Bulk Water Supply Project.
- **Others:** Other investments of SMC includes real property, through San Miguel Properties, Inc. (“**SMPI**”), car distributorship through SMC Asia Car Distributors Corp. and banking and bank services through Bank of Commerce.

The following table sets forth the contribution of each of the businesses of SMC to its revenues for the periods indicated:

	For the years ended December 31						For the Six Months Ended	
	2016		2017		2018		June 30, 2019	
	Sales	%	Sales	%	Sales	%	Sales	%
	(in ₱ millions)		(in ₱ millions)		(in ₱ millions)		(in ₱ millions)	
Food and Beverage	227,279	33.2	251,589	30.5	286,378	27.9	151,107	29.7
Packaging	27,386	4.0	32,099	3.9	37,325	3.6	17,835	3.5
Energy	77,972	11.4	82,791	10.0	120,103	11.7	72,511	14.2
Fuel and Oil	343,840	50.2	434,624	52.6	557,386	54.4	254,807	50.0
Infrastructure	19,866	2.9	22,497	2.7	24,530	2.4	12,315	2.4
Others	23,261	3.4	36,989	4.5	38,568	3.8	20,274	4.0
Eliminations	(34,290)	(5.0)	(34,503)	(4.2)	(39,347)	(3.8)	(19,354)	(3.8)
Total	685,314	100.0	826,086	100.0	1,024,943	100.0	509,495	100.0

The foreign operations of the SMC Group in 2018 contributed approximately 26.74% of the consolidated sales and 15.46 % of consolidated net income. Foreign sales are broken down by market as follows:

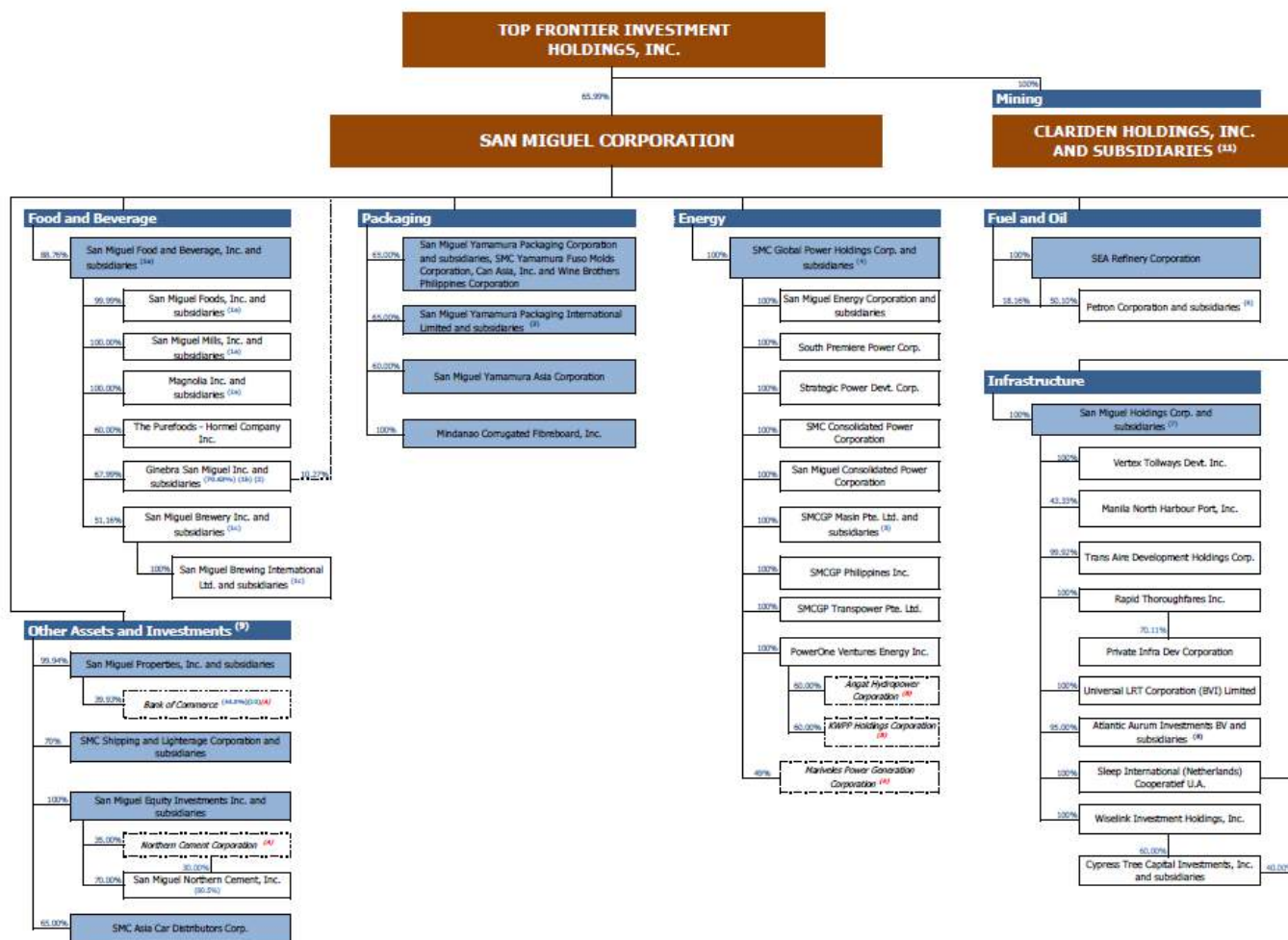
(%) to Consolidated Sales			
Market	2016	2017	2018
Malaysia	16.25	18.71	19.92
Singapore	4.01	4.41	3.92
Australia	0.81	1.18	1.17
China	0.90	0.79	0.68

Indonesia	0.86	0.72	0.60
Vietnam	0.27	0.23	0.19
Others	0.19	0.30	0.26

CORPORATE ORGANIZATION

Set forth below is the corporate organizational chart of SMC as of December 31, 2018.

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
(JV) Joint Venture

(a) 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.

(b) 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.

- (c) *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.*
- (d) *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.*
- (e) *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.*
- (f) *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.*
- (g) *San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Infracore, Inc. and subsidiary, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc. and Luzon Clean Water Development Corporation.*
- (h) *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.*
- (i) *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.*
- (j) *SMC Equivest Corporation also owns 4.69% ownership in Bank of Commerce.*

Strengths and Strategies

Strengths

SMC believes that its principal strengths include the following:

Diversified platform with broad exposure to the Philippine economy

The Philippines is one of the fastest growing economies in the Southeast Asia. From 2009 to 2018, the nominal GDP in the Philippines grew from approximately ₱8,017 billion to ₱17,405 billion, according to Economist Intelligence Unit, representing a compound annual growth rate (“CAGR”) of 9.0%. The Philippines has one of the youngest populations in Southeast Asia with a median age of 24 years, and urbanization is expected to remain consistent at around 44% until 2022 according to GlobalData.

SMC is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 5.9% of the Philippine GDP in 2018. The SMC Group is broadly exposed to the Philippine economy through its market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, and property and investments in car distributorship and banking services. This diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

Market leading positions in key Philippine industries

Many of the businesses of SMC are leaders in their respective markets.

Food and Beverage: The domestic beer business of SMC has consistently led the Philippine beer market, with a market share of 92.7% by volume in 2017, according to GlobalData, with no significant change thereafter. SMB has held this position since 1999. Ginebra is the market leader in the gin segment and it also produces some of the most recognizable brands in the Philippine liquor market. SMC also has a growing non-alcoholic beverage business which produces non-carbonated ready to drink tea and fruit juices. According to GlobalData, SMFB held the #1 market position in four out of eight food categories in 2017, contributing over 80% of the total Food Division's revenue. Within the branded and processed meat category, SMFB holds the #1 market position with 35% market share; in butter and spreadable fats, SMFB holds the #1 market position with 47.8% market share; in cheese, SMFB holds the #2 market position with 17% market share and in ice cream, SMFB holds the #2 market position with 11.4% market share. In the animal nutrition and health segment, SMFB holds the #1 market position with 25% market share, while in the protein products segment, SMFB holds the #1 market position with 23.5% market share, according to GlobalData.

Packaging: The Packaging Group has one of the largest packaging operations in the Philippines, producing glass, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products and services such as beverage tolling for PET bottles and aluminum cans. The packaging business 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, and Australasia, as well as to major multinational corporations in the Philippines, including Coca-Cola Beverages Philippines, Inc., Nestle Philippines, Inc. and Pepsi Cola Products Philippines, Inc.

The Packaging Group has 21 international packaging facilities located in China (glass, plastics and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures and wine bottling facilities) 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.

Fuel and Oil: Petron is a leading integrated oil refining and marketing company in the Philippines, with an overall market share of 28.5% of the Philippine oil market for the year ended December 31, 2018, in terms of sales volume based on Petron estimates using its internal assumptions and calculation and industry data from the DOE. In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines. As of June 30, 2019, Petron had approximately 2,400 retail service stations, an increase of approximately 86% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of June 30, 2019, Petron's retail service stations represent approximately 26% of the country's total service station count. In Malaysia, Petron ranked third in the retail market with 20.9% market share in 2018, based on Petron estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data.

Energy: SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,197 MW of combined capacity as of June 30, 2019 and benefits from a portfolio of diversified fuel sources, including natural gas, coal, hydroelectric power and more recently, battery energy storage systems. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.

Infrastructure: SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport, mass rail transit and bulk water. SMHC has rights to approximately 55.45% of the total road length of awarded toll road projects.

Experienced management team

The SMC Group has a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage the SMC Group through periods of crisis and instability in the Philippines. In addition, the management team has successfully directed the diversification strategy of SMC, including retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

Operating businesses provide sustainable stream of income and cash flows

The core businesses of food and beverage and packaging businesses, including the new business of fuel and oil and power, provide SMC with a sustainable stream of income. The core businesses demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy, while the new businesses are the ones providing further growth. For the year ended December 31, 2018, the core businesses provided 32% of consolidated sales and 40% of total EBITDA of SMC. For the six months ended June 30, 2019, core businesses provided 33% of total SMC sales and 38% of total SMC EBITDA.

For the period ended June 30, 2019, SMC generated ₱79,876 million of EBITDA and ₱13,232 million of net income attributable to the Parent Company with ₱27,960 million of capital expenditure. In 2018, SMC generated ₱157,887 million of EBITDA and ₱23,077 million of net income attributable to the Parent Company with ₱47,323 million of capital expenditure. In 2017, it generated ₱147,342 million of EBITDA and ₱28,225 million of net income attributable to the Parent Company with ₱38,693 million of capital expenditure. In 2016, it generated ₱130,875 million of EBITDA and ₱29,289 million of net income attributable to the Parent Company with ₱40,649 million of capital expenditure.

Well-positioned for significant future growth

SMC is well-positioned for significant future growth. The core businesses in food and beverage and packaging continue to provide stable cash flow, while its investments in fuel and oil, energy and infrastructure have grown significantly and have enabled SMC to expand its ability to generate higher returns.

Food and Beverage: SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by the country's sustained economic growth, expanding urbanization, favorable demographic patterns, and rapidly changing consumer tastes and preferences. In addition, the international beer business is experiencing increased sales and brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, United States and Asia-Pacific region. Ginebra is expanding its liquor business throughout the Philippines. Additionally, the Food Division is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meat and flour, maximize synergies across operations, and improve margins by shifting to stable-priced and value-added products. The food and beverage business continue to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

Packaging: The packaging business aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. Increasing environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. The Packaging Group plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

Fuel and Oil: Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, which it believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism ("APM") that provides stable returns to fuel retailers. Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, Petron will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide "value conscious" customers with a one-stop full service experience; and (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support Petron's growing retail business and continuing service station network expansion. In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 650 retail service stations. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians. Petron believes it has a competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses.

Energy: Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW broken down as follows: 25,265 MW

for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya may result in a reduction of energy generated by natural gas power plants by 2024. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity by bidding for selected NPC-owned power generation plants that may be scheduled for privatization as asset sales or under the IPPA framework.

Infrastructure: SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. Since assuming the Philippine presidency in 2016, President Rodrigo R. Duterte and his administration have implemented the “Build, Build, Build Program”, which aims to increase infrastructure spending and build new railways, roads, airports and other key infrastructure at an expected cost of over ₱8 trillion spread over six years. Over the past ten years, SMHC has built the TPLEX, SLEX, Skyway Stages 1, 2 and 3, STAR and NAIAx. It also operates and is currently expanding the Boracay Airport. It is also currently constructing the MRT-7. SMC believes that its operating licenses will provide strong and stable long-term income streams, as well as serve as a barrier to entry of new players to the business.

Synergies across businesses

SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

- **Ancillary business opportunities:** SMC believes it has opportunities within its existing businesses to secure growth in its new businesses by using the relevant areas to conduct business and activities. Initiatives would include building of service stations and retail outlets along toll roads which also serves as an opportunity for its products from various businesses.
- **Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, the network of Petron service stations provides an immediate distribution channel for retail sales for the beverage and food products of SMC. SMC’s infrastructure business also contributes to the efficient delivery system of our products to consumers by providing better road access.
- **Economies of scale:** SMC believes the size and scale of its distribution network operations will provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC should also result in substantial leverage and bargaining power with suppliers and retailers.
- **Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses. SMC’s integration strategies range from supplying the fuel and oil and power requirements to providing a total packaging solution of our various businesses.

Strategies

The principal strategies of SMC include the following:

Enhance value of established businesses

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

Continue to diversify into industries that underpin the development and growth of the Philippine economy

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities to position itself for the economic growth and industrial development of the Philippines.

Identify and pursue synergies across businesses through vertical integration, platform matching and channel management

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC is pursuing plans to integrate its production and distribution facilities for its established and newly acquired businesses to enable additional cost savings and efficiencies.

Invest in and develop businesses with leading market positions

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include building additional service and micro-filling stations and food and beverage facilities, constructing new power plants and infrastructure projects and the continued expansion of our various businesses. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses that it believes have the potential to gain leading positions in their respective markets.

Adopt world-leading practices and joint development of businesses

SMC continues to develop strategic partnerships with global industry leaders. Our current partners are Kirin Holdings Company, Limited (“**Kirin**”) for beer, Hormel Netherlands B.V., (“**Hormel**”) for processed meats, Korea Water Resources Corporation (“**K-Water**”) for power and Nihon Yamamura Glass Company, Ltd. (“**NYG**”), Fuso Machine & Mold Mfg. Co. Ltd. (“**Fuso**”) and Can-Pack S.A. (“**Can-Pack**”) for packaging products. These partnerships provide access to the latest technologies and expertise in these technologies, marketing and expansion opportunities and sharing of best practices.

RECENT DEVELOPMENTS

On April 25, 2019, SMC Global Power issued and listed in the Singapore Exchange Securities Trading Limited (SGX-ST) US\$500,000,000.00 Senior Perpetual Capital Securities (“**SPCS**”) with an initial rate of distribution of 6.5% per annum. The net proceeds will be applied by SMC Global Power for general corporate purposes, investments in power related assets, and repayment of indebtedness.

On May 10, 2019, SMC through its subsidiary First Stronghold Cement Industries Inc. (“**FSCI**”) entered into an agreement to purchase Holcim Philippines, Inc. (“**HPI**”), a leading cement, concrete and aggregates business in the Philippines. As of the date of this Offer Supplement, the acquisition is pending the approval of the Philippine Competition Commission (“**PCC**”). HPI is listed on the PSE under stock code “**HLCM**” and as of June 30, 2019, had a market capitalization of ₱88,394 million, with a common share price of ₱13.70.

On June 25, 2019, Petron issued and listed in the Philippine Stock Exchange 13,403,000 Series 3A Preferred Shares and 6,597,000 Series 3B Preferred Shares at an offer price of ₱1,000.00 per share. The net proceeds from the offer will be used to redeem the Series 2A Preferred Shares on November 3, 2019, repayment of outstanding short-term debt from Bank of the Philippine Islands with an aggregate amount of ₱6.96 Billion, and general corporate purposes (such as, but not limited to, the purchase of crude oil).

On July 3, 2019, SMC Global issued an additional US\$300 million SPCS (the “**Additional Securities**”) at an issue price of 102.052% plus an amount corresponding to accrued distributions from April 25 to July 3, 2019. The Additional Securities will be consolidated into and form a single series with the existing US\$500 million SPCS issued in April 2019 (the “**Original Securities**”), bringing its total securities to US\$800 million (the “**Securities**”). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019.

San Miguel Holdings Corp. (“**SMHC**”) was granted the Original Proponent Status of the proposed New Manila International Airport project in Bulakan, Bulacan. The site of the airport has an aerial distance of 28.5km from NAIA and 61.3km from Clark. Available area for development, airport site and other development, is over 2,500 hectares.

The Swiss Challenge for the project ended last July 31, 2019 with no challenger. On August 14, 2019, the Department of Transportation issued the Notice of Award in favor of SMHC. The signing of the Concession Agreement is expected late third quarter to early fourth quarter of 2019.

COMPLIANCE WITH ENVIRONMENTAL LAWS

The SMC Group is in compliance with environmental laws, except where such non-compliance will not have a material adverse effect on the business of SMC. On an annual basis, operating expenses incurred by the SMC Group to comply with environmental laws are not significant or material relative to its total costs and revenues.

EMPLOYEES

As of June 30, 2019, the SMC Group has 30,057 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of June 30, 2019, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Business	No.
Food and Beverage	10,687
Packaging	4,150
Fuel and Oil	3,243
Energy	1,293
Infrastructure	5,115
Other Operations and Investments	5,569
Total	30,057

As of June 30, 2019, approximately 21% of the employees are parties to various collective bargaining agreements. Employees of SMC are not members of any labor unions. On the other hand, a total of 36 labor unions represent the employees of the subsidiaries of SMC. In the past decade, the SMC Group has not experienced any strikes or work stoppages. The SMC Group considers its relationship with its employees to be harmonious.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees in the following areas: health care, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

Within the ensuing 12 months, SMC may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

FOOD AND BEVERAGE BUSINESS

On June 29, 2018, SMC completed the consolidation of its food and beverage businesses through its subsidiary, SMFB. The brands under which SMFB produces, markets and sells 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 divisions —(i) Beer and NAB Division, (ii) Spirits Division, and (iii) Food Division. The Beer and NAB Division and the Spirits Division comprise the beverage business, which are operated through subsidiaries SMB and GSMI, respectively. The Food Division is managed through a number of other subsidiaries, including San Miguel Foods, Magnolia, Inc., and Purefoods-Hormel.

For each of the years ended December 31, 2016, 2017 and 2018, the food and beverage businesses had sales of ₱227,279 million, ₱251,589 million and ₱286,378 million; gross profit of ₱75,171 million, ₱83,129 million and ₱92,142 million; and net income of ₱24,002 million, ₱28,226 million and ₱30,533 million, respectively.

For the six-month period ended June 30, 2018, SMFB had sales of ₱137,608 million, gross profit of ₱44,833 million and net income of ₱15,370 million compared to sales of ₱151,107 million, gross profit of ₱45,797 million, and net income of ₱14,670 million for the six-month period ended June 30, 2019.

The following table sets forth the contribution of the three divisions to total sales for the periods indicated:

	For the years ended December 31,						For the six-month period ended June 30,			
	2016		2017		2018		2018		2019	
	P	%	P	%	P	%	P	%	P	%
Sales⁽¹⁾	(in millions, except for percentages)									
Beverage Business										
Beer and NAB Division	₱97,156	42.7	₱113,250	45.0	₱129,245	45.1	₱62,509	45.4	₱70,283	46.5
Spirits Division	18,560	8.2	20,891	8.3	24,835	8.7	12,213	8.9	14,695	9.7
Food Division	111,563	49.1	117,448	46.7	132,298	46.2	62,886	45.7	66,129	43.8
Total	₱227,279	100.0	₱251,589	100.0	₱286,378	100.0	₱137,608	100.0	₱151,107	100.0

Notes:

(1) Represents the external sales of each division and excludes inter-division sales.

(2) Translations from Pesos to U.S. dollars are for convenience only and have been made at a rate of \$1.00=₱51.25, the BSP Reference Rate quoted in the BSP's Reference Exchange Rate Bulletin on June 28, 2019 (the last date in June 2018 that such rate was published).

Selected operating data for the SMFB is provided below for the periods indicated:

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(₱ in millions, except percentages)				
Sales.....	227,279	251,589	286,378	137,608	151,107
Gross profit	75,171	83,129	92,142	44,833	45,797
Gross profit margin ¹	33.1%	33%	32.2%	32.6%	30.3%
EBITDA ²	44,795	49,937	54,725	26,569	26,562
EBITDA margin ³	19.7%	19.8%	19.1%	19.3%	17.6%
Net income before tax	34,099	39,861	43,361	21,864	20,836
Net income before tax margin ⁴	15%	15.8%	15.1%	15.9%	13.8%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

Strengths and Strategies

Strengths

One of the largest consumer companies in the Philippines with a rich heritage of 128 years

SMFB is one of the largest consumer companies by revenue and net income among its publicly listed peers in the Philippines with sales and net income of ₱286,378 million and ₱151,107 million; ₱30,533 million and ₱14,670 million in 2018 and June 30, 2019, respectively. The beer business was founded as *La Fabrica de Cerveza de San Miguel* in 1890, a single brewery with a single product and over the years, it has transformed the *San Miguel* brand into a household name that is interwoven with the economic and cultural fabric of the Philippines, supporting Philippine development and economic progress. Its 128 years of heritage has allowed it to develop a deep and unparalleled understanding of consumers, an extensive and efficient nationwide distribution network and deeply entrenched brands that provide it with significant competitive advantage. SMFB believes that it has continuously demonstrated its ability to adapt throughout SMC's history by leveraging extensive operational know-how, market experience and consumer insight to remain at the forefront of new trends and innovations, thereby allowing it to successfully enter new categories and capture incremental market share over the years.

Powerful portfolio of iconic and trusted brands that resonate deeply with our local consumers

SMFB's key brands have a rich history and long track record, catering to consumers for over a century. For example, *Ginebra San Miguel* was launched in 1834, *San Miguel* beer was established in 1890, *Magnolia* in 1925, *B-Meg* in 1953 and *Purefoods* in 1956. SMFB's strength is demonstrated by leading brand rankings in several segments and product categories. Despite the entry of local beer competition in 1981 and the introduction of locally-brewed versions of

foreign brands, craft beers and imported beers, SMFB believes that its brands are top-of-mind and continue to maintain their leading positions across market segments. *Super Dry* is the market leader in the premium segment. *Red Horse*, *San Miguel Pale Pilsen* and *San Mig Light* are the leading brands in the mainstream segment, and *Gold Eagle* leads in the economy segment.

SMFB also employs a variety of marketing formats to establish its food products as the trusted brand of choice. *Monterey*, *Magnolia* and *Purefoods Corned Beef* were recognized as trusted brands by Reader's Digest for 2018 with *Monterey* and *Magnolia Chicken* receiving a platinum award while *Purefoods Corned Beef* garnered a gold award. The *Magnolia* brand was also recognized as the top 24 brand out of the 1,000 most loved brands in the Philippines by Campaign Asia in 2017; recognized in the 2018 Panata Awards, and was awarded the Silver Award for Excellence in Marketing Innovation, Bronze Award for Excellence in Customer Empowerment, Bronze Award for Excellence in Customer Empowerment (People's Choice), and Finalist in Excellence in Brand Positioning. SMFB's beer products have received numerous international awards for product quality and excellence including awards from Monde Selection. Monde Selection is an international institute based in Belgium founded in 1961 which evaluates, tests and awards consumer products with its quality label. Since 2000, *San Miguel* beers have received an aggregate of 270 grand gold, gold, silver and bronze medals including 45 trophies and awards from Monde Selection. In 2017, the Company's beer products received gold medals for *Super Dry*, *Cerveza Negra*, *San Mig Light*, *Red Horse*, and *Anker* and silver medals for *San Miguel Premium All Malt*, *San Miguel Pale Pilsen* and *San Mig Light*. The Spirits Division also received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue*, *Ginebra San Miguel Premium Gin* and *Ginebra San Miguel*, and silver medals for *GSM Blue Flavors Mojito*, *Vino Kulafu* and *Primera Light Brandy*. The Spirits Division also received an Anvil Gold for its internal communications campaign, *One Ginebra, One Goal*, as well as a Quill for its *Ginebra Ako* campaign.

SMFB's diversified brand and product portfolio satisfies multiple consumption occasions and caters to different market segments by addressing varying consumer needs, lifestyles and preferences. *San Mig Light* and *San Mig Zero* were introduced to address the increasing health consciousness of beer drinkers. *Red Horse* was launched in response to the growing demand for higher alcohol content beverages, while *San Miguel Flavored Beer* caters to entry point drinkers. *Ginebra San Miguel* and *Vino Kulafu* target the mature segment, while *GSM Blue* and *GSM Blue Flavors* target the growing younger segment. The Food Division introduced *Magnolia* marinated and choice chicken cut-ups and customized flour premixes to address consumer need for convenience. Each of its brands represents a unique experience for consumers.

SMFB believes that its well-recognized brands, ability to customize products to cater to specific needs, and the sale of a number of products through clean and convenient branded distribution outlets enable SMFB to command favorable pricing. The diversity of the product offering of SMFB reduces its dependence on any single product segment and makes it more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another.

The beer brands of SMFB have significant international brand equity with a global presence in approximately 60 countries. It is one of the leading brands in the market or segment for the countries where it operates. For example, *San Mig Light* is a leading premium beer brand in Thailand, *Anker Bir* is a leading beer brand in Indonesia, and *Blue Star* is a leading beer brand in North China. The food products of SMFB also have a growing international presence in North America, South East Asia, Australia and the Middle East.

Leading market positions in the most attractive consumer categories

The business segments of SMFB hold market-leading positions across the food and beverage categories with large addressable markets and attractive growth prospects. SMFB has created a unique platform offering an extensive complementary product portfolio across beer and NAB, spirits and food and serving the full spectrum of the growing domestic population. SMFB is intimately involved in its consumers' lives at every meal and occasion, guided by the company slogan of "*Celebrating Life*." SMFB believes that its products are part of the daily lives of consumers, providing sustenance and enjoyment to families through its trusted food brands and celebrating friendships and camaraderie with a world-class portfolio of beer and NAB and spirit products. The product portfolio of SMFB is suitable for any occasion throughout the year, whether it be for consumers' everyday consumption or for their most significant life events, and continuously evolves to cater to consumer tastes and preferences.

Strategically located production facilities providing strong competitive advantages

SMFB believes that its production facilities are strategically located throughout the Philippines, providing wide coverage of the population while optimizing distribution costs.

With six beer production facilities strategically located across the Philippines and in close proximity to consumer markets, SMFB is able to serve all regions and transport beer products to market within five to seven days of production, thus ensuring product availability and freshness. Spirits are produced from fine alcohol obtained from a centralized distillery in Negros Occidental, which is the Philippines' largest molasses producing region, and bottled at five domestic facilities located across the country. SMFB also operates a nationwide manufacturing network for food products with 40 feedmills, 40 processing plants, and close to 1,500 breeding and growing farms located across Luzon, Visayas and Mindanao. As a result of such food production facilities' proximity to markets and efficient cold chain, SMFB is able to ensure optimal shelf life and reduce perishability of fresh products. SMFB believes that its facilities are among the most efficient in the country given the use of modern technology. Such production facilities are equipped with automated machines which can manufacture and package products in a variety of formats, while maintaining low production costs. Most of the poultry farms are equipped with tunnel ventilation to produce healthier, higher quality and more cost-efficient meats.

Additionally, the facilities are compliant with the strict international requirements of International Organization for Standardization ("ISO"), Good Manufacturing Practices ("GMP") and Hazard Analysis of Critical Control Points ("HACCP") certifications. The Food Division strictly complies with relevant regulations which mandate recall of food products which may pose a major food safety issue. These stringent safety and quality standards are reflected in the historical track record of SMFB where it has had no major food and beverage safety incident in the last five years.

Extensive distribution network across the Philippines covering diverse channels

The Philippine archipelago consists of 7,641 islands divided into three main regions of Luzon (including Greater Manila), Visayas and Mindanao that have distinct macro and industry dynamics. This creates a unique market and competitive landscape that allows us to significantly benefit from the scale of our extensive nationwide distribution network.

As the leading player in the Philippines, SMFB products occupy prime shelf spaces in groceries, convenience stores, and *mom* and *pop* stores across the country. SMFB believes that it has the largest and most extensive distribution network in the Philippines. The Beer and NAB Division operates over 50 sales offices, having partnerships with approximately 500 dealers with its products present in over 400,000 outlets. The Spirits Division operates 15 sales offices situated strategically across the Philippines and coordinates with a network of 91 dealer sites covering approximately 141,000 outlets.

To service its distribution network, SMFB has established dedicated teams and customized products to target different distribution channels. It believes that the multi-channel distribution platform has allowed it to maximize customer reach and has been one of the key factors to its success in building and developing market-leading positions. SMFB supplies products to *mom* and *pop* stores, wet markets and other traditional retail outlets; modern trade outlets, including supermarkets, hypermarkets, convenience stores and grocery stores; on-premise channels such as hotels, restaurants, cafes and bars; exclusive retail outlets; and franchised stores. In particular, SMFB has a key accounts group within each division, which focuses on maximizing distribution across all channels.

SMFB is able to reach a wide number of consumers through its extensive distribution network. For the Beer and NAB Division, the strong dealership network ensures the availability of products throughout the Philippines. Dealers are provided systems and trainings related to dealer operations. Discounts are given to dealers on a fixed base instead of percentage of sales which ensure that the dealers maintain profit margins while creating a competitive advantage for SMFB offerings as the preferred products. The Returnable Glass Bottle ("RGB") system allows distributors to interact on a regular basis with customers upon collection and return of the RGBs, further fortifying the consumer relationship. A strong aspect of the distribution network is the perennial presence in *mom* and *pop* stores. These *mom* and *pop* stores are difficult for competitors to penetrate as they have limited capital and shelf space, and only carry brands that are fast-moving. SMFB distribution networks also organize dealers by assigned geographic areas ensuring the widest coverage of its products. For the Food Division specifically, efficiency is enhanced by having fewer but larger exclusive dealers for the Prepared and Packaged Food segment.

SMFB has also pioneered the development of innovative formats to sell food products, which has the benefit of growing the market by driving consumer preferences. The Food Division introduced *Monterey Meatshops*, *Magnolia Chicken Stations*, *San Mig Food Ave*, *Kambal Pandesal*, and *Chick 'n Juicy* outlets, as well as other distribution outlets to distribute our Food Division products. SMFB also established Great Food Solutions to manage sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains.

Powerful consumer insights drive growth, innovation, and new product development

The ability of SMFB to successfully introduce new products by leveraging its extensive knowledge of consumer preferences, demographic and market trends, as well as its broad distribution channels, have allowed it to attain market

leadership positions. Through its comprehensive reach and investment in market research and collaboration and feedback from strong relationships with its customers, dealers and distributors, SMFB is able to gain meaningful consumer insights, allowing it to anticipate changes in consumer demand and preferences.

SMFB constantly engages in extensive research for updates on market trends and changes in consumer tastes. It identifies market gaps and develops an optimum yet manageable new product pipeline. This promotes effective resource management and optimizes new product development (“NPD”).

SMFB continuously creates market opportunities and pioneers new product variants to excite the market and address its ever-changing needs and preferences. These new product variants include, among others, flavored beer, flavored gin, unique ice cream flavors, “ready-to-eat” *Purefoods* chicken nuggets and *Magnolia* free range chicken to provide consumers healthier options.

Cost efficiency initiatives and unique elements of business model driving strong profitability

SMFB engages in a variety of initiatives to minimize raw material and other input costs. For example, the Beer and NAB Division employs the RGB system which, with over 90% retrieval in the past five years, provides a significant competitive advantage by allowing us to manage costs. The Spirits Division manages cost by purchasing raw materials such as sugarcane molasses and alcohol from a variety of third party suppliers pursuant to supply contracts in the domestic and foreign open market. SMFB has engaged in successful initiatives such as aggressively promoting bottles recycling for the Spirits Division, with close to 70% second hand bottle usage rate as of June 30, 2019. The climate-controlled facilities used by the Food Division have improved yields and created conducive environment for healthy animal growth. The Food Division continuously explores alternative raw materials from grains and by-products used in our Animal Nutrition and Health segment as well as alternative protein sources and flavors for the Prepared and Packaged Food segment.

Furthermore, the modern production facilities of SMFB drive efficiency. Its best-in-class technologies and processes applied to facilities across the Beer and NAB, Spirits and Food Divisions also help reduce wastage and maximize production yields. Most of the production facilities are fully automated, thereby ensuring consistent quality of products with minimal spoilage. The brewing production processes are regularly reviewed to optimize output and generate cost savings. Additionally, each of the Beer and NAB, Spirits and Food Divisions have their own R&D teams which regularly monitor and conduct tests to ensure that production processes are up-to-date with the relevant industry standards and that high quality products will be sold at the least cost.

SMFB believes that its vertically integrated facilities enable it to better manage raw material costs and extract margins along the entire food chain while ensuring superior food safety, traceability, and supply chain reliability and integrity. The Food Division’s unique “farm-to-plate” business model allows it to derive synergies and extract margins along the entire food production and distribution process as it drives economies of scale from combined raw material sourcing, integrated production functions and shared sales, distribution, marketing and support functions. It also enhances operational flexibility to quickly adapt and augment products to respond to market demand. Finally, cost efficiencies are also realized in unique aspects of the distribution chain. The Golden Bay Grain Terminal, which SMFB owns and which serves both feeds and flour operations, has facilitated the shipment of products through larger vessels thus minimizing intermediate handling and leakage, and resulting in lower freight and handling costs.

Strategies

The principal long-term goal of SMFB is to further strengthen and solidify its position as the leading food and beverage company in the Philippines, and consistently expand its business to meet rapidly growing consumer demand. SMFB aims to achieve this goal by implementing the following strategies:

Continued execution of regionally tailored strategies, leveraging on its unique understanding of consumers

SMFB continues to leverage its extensive knowledge of consumers in executing regionally tailored strategies. The Philippine archipelago has three main regions of Luzon (including Greater Manila), Visayas and Mindanao, each with distinct macro and industry dynamics. SMFB believes that its market-leading positions enable it to leverage differentiated consumer insights specific to each region and execute tailored strategies, thus enhancing its nationwide presence. SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by sustained economic growth, expanding urbanization, favorable demographic patterns, and rapidly changing consumer tastes and preferences.

SMFB will continue to respond and address emerging market trends and changes in consumer preferences in key cities and fast-growing areas to answer the market's demand for authentic experiences, "premiumization" and indulgence, convenience and value, among others.

Maintain market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development

SMFB plans to invest in tailored brand building and marketing campaigns as well as pursue targeted NPD strategies in each product category. Through this, it expects to further reinforce its leadership positions and grow the total addressable market.

SMFB continues to pursue innovative consumer promotions and relevant, consistent and fresh campaigns, on-ground activations as well as occasion-creation programs to strengthen demand for each of its brands and to guard against competition.

SMFB actively taps digital platforms to promote awareness, trial and consumption of its brands and engage customers through various social media platforms including Facebook, Instagram, YouTube, Twitter and Viber. Specific campaigns and relevant activations of brands are promoted online through online contests and *mom* and *pop* store promotions. SMFB likewise leads conversations on social progressiveness through *San Mig Light* digital campaigns and closely monitors digital programs to determine their effectiveness through evaluating various metrics.

SMFB places strong focus on new product rollouts that cater to changing consumer preferences and specific industry trends. Utilizing extensive proprietary consumer data, SMFB identifies market opportunities in existing and adjacent categories and continuously evaluates the need to introduce new products and packaging innovations to capitalize on emerging market trends such as convenience, growth of new consumer segments, and health mindfulness. For example, the Food Division expects to increase the contribution of the increasingly popular "ready-to-eat" and "heat and serve" products to total food sales.

Continue to broaden distribution footprint and enhance penetration across channels throughout the Philippines

SMFB will sustain its strong growth momentum by broadening outlet coverage through promotions and increased market penetration across all channels. Its sales force, together with their dealers and distributors, will put greater focus on serving diverse channels as the number of outlets grows across the Philippines.

SMFB plans to improve sales and distribution capabilities and increase nationwide penetration through product offerings tailored for each channel, and implementing innovative growth strategies. SMFB aims to ensure and increase its presence in the growing modern trade channels, such as supermarkets and convenience stores in urban areas, by expanding its key accounts group, while simultaneously focusing on increasing visibility in selected on-premise outlets.

SMFB continues to develop or tap emerging channels, increase market penetration and capture growth through digital platforms across Beer and NAB, Spirits and Food Divisions. To support distribution programs, SMFB will continue to further improve logistics capabilities and infrastructure through warehouse expansions, additional sales offices, and truck and logistics center enhancement initiatives.

Capacity expansions to support growing consumer demand

Capacity expansion in key regional markets is a critical element of the growth strategy of SMFB to support increasing market demand nationwide, particularly in the provinces. In Luzon, SMFB is expanding production capacities in the beer and food businesses to keep pace with the growing market, as well as launching new product categories to address the consumers' growing demand and preference for convenience. It is also converting its existing beer production facility located in Sta. Rosa, Laguna to a full brewery facility to serve the growing requirements in South Luzon. The Food Division has built four new feed mills. Two facilities are in Luzon, in Bataan and San Ildefonso, and both started commercial operations in 2018. Two other feed mills in Davao and Misamis Oriental are both undergoing commissioning. The Food Division has expanded its poultry breeder farm in Bataan and is constructing new poultry processing plants in Quezon. The construction of another flour mill located in Mabini, Batangas is also ongoing and this will be complemented by additional warehousing facilities. In April 2018, the Food Division started production in our new hotdog plant located in General Trias, Cavite. This is a new state-of-the-art facility located next to existing processed meats plant and aptly supported by cold and dry storage facilities.

In Visayas and Mindanao, SMFB plans to boost production capabilities as economic development in these regions accelerates demand for food and beverage products. A new beer production facility is being built in Tagoloan, Misamis Oriental to serve Northern Mindanao and there are plans to construct a new grain terminal in Northern Mindanao to improve the shipping access of both raw materials for food manufacturing facilities and finished goods such as flour.

SMFB is likewise in various stages of constructing a new poultry and fresh meat processing plant and three new feedmills in the Visayas-Mindanao region.

SMFB is expanding manufacturing facilities to better meet the growing demand in the Animal Nutrition and Health, Protein, and Prepared and Packaged Food segments, and flour milling business. SMFB also plans to transition from tolled to company-owned facilities to meet increasing demand from consumers.

As of June 30, 2019, SMFB believes that the Spirits Division has sufficient capacity to meet growing demand.

Continued enhancement of profitability through cost saving initiatives

Through efficiency and process innovations, productivity enhancements, cost management measures and continuous product portfolio reviews, SMFB is able to rationalize unprofitable products and enhance price stability of our revenue streams. The Beer and NAB Division will continue to broaden its base of suppliers and materials through second supplier program, multi-continent sourcing, evaluation of alternative materials, and undertaking process optimization initiatives. In the Spirits Division, growth in profit margins can come from better operational efficiencies, improvement in second-hand bottle retrieval, higher alcohol yield and strategic sourcing of alternative raw material to complement or replace sugarcane molasses, which is the main input in gin production. The Food Division continues to conduct initiatives that allow the use of alternative, lower-cost raw materials such as cassava as a substitute for corn, a key ingredient in the production of animal feeds. The Food Division also utilizes climate-controlled housing system for hogs and broilers which improves cost efficiency by increasing production cycles per farm per year, improving feeds consumed to weight ratio and deriving better harvest recovery. These, together with selective breeding innovations have resulted in larger chicken size thereby further enhancing cost efficiency. Part of the cost improvement program is reducing freight and handling costs by strengthening logistics capabilities and infrastructure and optimizing the use of grains terminals, silos and warehouses. Through continued cost-efficiency initiatives, SMFB believes that it will be able to sustain high profitability margins across divisions.

Leverage existing platform and brand equity in international markets for further growth

The products of SMFB are exported to approximately 60 countries and territories across the globe. SMFB operates nine international production facilities across China, Hong Kong, Thailand, Vietnam and Indonesia and plans to leverage its international network to export products across divisions to access fast-growing markets in Asia and the rest of the world. As one of the largest integrated food and beverage platforms in the Philippines, SMFB believes that it is well-positioned to expand internationally and build global brand equity to achieve incremental growth, as it carefully plans and implements such international expansion strategies.

Exploit synergies across its combined and diversified consumer platform

SMFB intends to establish a powerful consumer platform with the potential to capture both cost and revenue synergies.

Cost synergies

SMFB believes that the consolidation of the food and beverage businesses will result in greater economies of scale and scope while allowing for increased opportunities to share resources and take advantage of established relationships across the beer and NAB, spirits and food businesses. Sourcing synergies from centralized planning and procurement across business units will reduce purchasing costs. In addition, SMFB will capitalize on extensive and long-standing supplier relationships under each of the divisions to strengthen cooperation and coordination among the divisions. By utilizing strategically located production and distribution centers across the entire footprint, there is scope to reduce overall costs and better optimize logistics across the food and beverage businesses. SMFB can likewise explore the integration and coordination of market research, management and marketing initiatives, and other support systems to reduce corporate overhead costs. As an integrated platform, SMFB will constantly strive to improve management and production efficiency while implementing international best practices.

Revenue synergies

With the combined food and beverage business having access to approximately 700,000 outlets covering all channels throughout the Philippines, there is increased scope for further coordination across the various product lines. Leveraging our extensive distribution network, we expect that new products will quickly reach the market while improving trade efficiencies and customer loyalty through enhanced trade and promotion activities for our existing product portfolio. The various divisions may likewise benefit from enhanced market data sharing where market and consumer insights for each of the businesses can be consolidated to identify consumer trends and preferences. This would ideally minimize

execution risk in the introduction and penetration of regional specific products and initiatives. Utilizing market insight data, SMFB can also identify cross-selling opportunities among the beer and NAB, spirits and food businesses.

Beverage Business

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, NAB and spirits. The beverage business is conducted through SMFB's majority-owned subsidiaries, SMB and its subsidiaries, which comprise the Beer and NAB Division, and GSMI and its subsidiaries, which comprise the Spirits Division. As of June 30, 2019, SMFB holds 51.2% and 67.99% of the outstanding common capital stock of SMB and GSMI, respectively.

SMB is the largest producer of beer in the Philippines and is the largest contributor to the beverage business, accounting for 83.9% and 82.7% of total beverage business sales for the year ended December 31, 2018 and the six-month period ended June 30, 2019, respectively. GSMI is a leading spirits producer in the Philippines and largest gin producer globally by volume for the year 2018, according to GlobalData, accounting for 16.1% and 17.3% of total beverage business sales for the year ended December 31, 2018 and the six-month period ended June 30, 2019, respectively.

The beverage business had combined sales of ₱115,716 million and ₱134,141 million for the years ended December 31, 2016 and 2017. For the year ended December 31, 2018 and the six-month period ended June 30, 2019, the beverage business had consolidated sales of ₱154,080 million and ₱84,978 million, respectively.

Beer and NAB Division

SMB 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. 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.

In 2009, Kirin acquired a 48.39% shareholding in SMB, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer and purchase from public shareholders. SMC retained majority ownership of SMB with shareholding of 51.0%. In 2015, SMB acquired the NAB business from GSMI, which acquisition includes property, plant and equipment, finished goods inventories and other inventories comprising containers on hand, packaging materials, goods-in-process and raw materials used in the NAB business. The acquisition is in line with the multi-beverage strategy of SMB that seeks to expand its product portfolio in the non-alcoholic beverage market, among others. This transfer will also benefit from SMB's RGB system, strong distribution network and competitive positioning.

The Beer and NAB Division operates six production facilities that are strategically located across the Philippines with an aggregate production capacity of 18.8 million HL/year. International operations are conducted through SMB's wholly-owned subsidiary, San Miguel Brewing International Limited ("SMBIL"), which in turn has production facilities located in six sites outside the Philippines (two in China, and one production facility each in Hong Kong, Indonesia, Thailand and Vietnam) with an aggregate production capacity of 7.9 million HL/year. In total, the Beer and NAB Division's beer production capacity is 26.7 million HL/year. In addition to producing the core San Miguel beer brands marketed internationally, the international operations also produce local brands such as *Blue Star*, *Anker* and *Dragon*, which are local brands in various jurisdictions. Beer products are exported to almost 60 countries and territories across the globe. International operations accounted for 10.5% and 9.1% of the total sales of the Beer and NAB Division for the year ended December 31, 2018 and the six-month period ended June 30, 2019, respectively.

Production Facilities and Raw Materials

Production Facilities — Domestic Operations

The Beer and NAB Division maintains a network of production facilities rather than one central consolidated brewing and production facility. Currently, the Beer and NAB Division owns and operates six production facilities in the Philippines with an aggregate production capacity of 18.8 million HL/year located in each of the three main island groups of Luzon, Visayas and Mindanao, namely: (1) the Polo facility located in the National Capital Region and established in 1947; (2) the Sta. Rosa facility located in Laguna Province and established in 2011; (3) the San Fernando facility located in Pampanga Province and established in 1981; (4) the Mandaue facility located in Cebu Province and established in 1968; (5) the Bacolod facility located in Negros Province and established in 1990; and (6) the Davao facility located in Davao Province and established in 1995. The Beer and NAB Division is currently constructing production facilities located in Tagoloan, Misamis Oriental in Northern Mindanao and converting the Sta. Rosa bottling facility to a full brewery. Construction is expected to be completed on fourth quarter of 2019 and first quarter of 2020, respectively.

The Beer and NAB Division employs brewing equipment and technology sourced from leading manufacturers in Germany, the U.S., Japan and Italy. These include modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the production facilities is equipped with automated machines and equipment capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All the production facilities are compliant with certain ISO requirements such as the ISO 9001:2015 and ISO 14001:2015, as assessed by its pool of technical assessors and are also certified by the Food Development Center, an office under the Philippine National Food Authority, as compliant to food safety requirements of current GMP-HACCP.

Production Facilities — International Operations

The Beer and NAB Division owns and operates six production facilities outside of the Philippines – two in China and one each in Hong Kong, Indonesia, Thailand and Vietnam, with an aggregate production of 7.9 million HL/year in 2018. The two facilities in China are located in Baoding City, Hebei Province and Longjiang Town, Shunde District in Guangdong Province and were established in 1994 and 1996, respectively. The Hong Kong facility is located in Yuen Long, Hong Kong and was established in 1996. The Indonesian facility is located in Bekasi Timur, Indonesia and was established in 1993. The Vietnamese facility is located in Khanh Hoa Province, Vietnam and was established in 1995. The Thailand facility is located in Pathum Thani, Thailand and was established in 2004.

Raw Materials

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts can also be used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit juice concentrates, tea extract, flavors, colorants and vitamins. All of these commodities have experienced, and may experience, price fluctuations. The Beer and NAB Division sources its key raw materials for its beer using a set of standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts such as corn and sugar, which are sourced domestically and imported tapioca. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

Terms with key raw material suppliers provide for a supply period of approximately one year to five years with a pre-determined fixed and formula-based price for the duration of the supply relationship. In addition, depending on considerations such as price trends and the quality of raw materials, spot purchases are made in the open market. To ensure the quality of its products, the Beer and NAB Division closely monitors the quality of its raw materials.

Packaging materials are sourced primarily from the Packaging Group. SMB sells most of its beer products in RGBs of varying sizes and shapes, as well as aluminum cans and kegs. For the year ended December 31, 2018 and the six-month period ended June 30, 2019, over 90% of the RGBs used for beer were retrieved, which we believe is the most important and popular packaging for beer in the Philippines. SMB's efficient RGB system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps in management of cost. The durable nature of the RGBs and plastic crates results in an average usage of approximately 40 to 60 cycles over a span of approximately five to 10 years. Retail outlets selling SMB's products collect deposits on these bottles when customers buy the beer. For bottles returned, the corresponding deposit is refunded to the customer. New glass bottles and plastic crates are also purchased to support increasing sales and to replace broken and scuffed bottles.

Deep wells provide the water supply needed for production in domestic production facilities, except for water used at the Polo Brewery, which is supplied by water utility service providers in the Philippines. For international operations, water is sourced through deep wells, water utility service providers or government-owned water facilities.

Sales and Distribution

Domestic Market

The Beer and NAB Division markets, sells and distributes its products principally in the Philippines and maintains an extensive distribution system, which encompasses the six strategically located production facilities across the country, a broad network of sales offices and warehouses supported by dealerships and third party service providers.

The strategic locations of the production facilities reduce overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country, and help ensure that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the six production facilities by contract haulers and, in certain circumstances, by a fleet of boats, to retailers and consumers generally within five to seven

days from production, ensuring quality and sufficient stocks wherever and whenever *San Miguel* beer products are needed. As of June 30, 2019, products of the Beer and NAB Division are distributed and sold at over 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, *mom* and *pop* stores and convenience stores accounting for 91.5% of total outlets and on-premise outlets such as bars, restaurants and hotels accounting for 8.5% of total outlets through over 50 sales offices and approximately 500 dealers throughout the Philippines.

The Beer and NAB Division has also formed a key accounts group to handle accounts management and business development of modern trade accounts such as supermarkets and convenience stores, and to increase visibility in selected on-premise outlets. As of June 30, 2018, the Beer and NAB Division, together with its dealers and account specialists, had a sales force of approximately 1,800 in the Philippines. The Beer and NAB Division continues to implement programs to strengthen its sales capabilities and systems.

SMB also operates a delivery service in Metro Manila and selected cities through its “632-BEER” (632-2337) hotline delivery program that allows customers to place orders by calling, text messaging or ordering online (www.smbdelivers.com). The delivery service taps into emerging segments such as consumers located at home or in other private spaces that prefer to directly place orders for beer.

International Market

International operations are conducted in Hong Kong, Indonesia, Thailand, China and Vietnam through SMBIL, a subsidiary of SMB. Subsidiaries of SMBIL include San Miguel Brewery Hong Kong Limited, which is listed on The Stock Exchange of Hong Kong Limited under stock code 236 and PT Delta Djakarta Tbk, which is listed on the Indonesia Stock Exchange under DLTA.JK.

There are two production facilities in China and one production facility located in each of Indonesia, Vietnam, Thailand and Hong Kong. Third party service providers transport the products produced from these production facilities to customers, consisting of dealers, wholesalers, retail chains, or outlets, depending on the market. A total sales force of approximately 500 employees are maintained in these five countries with 12 sales regions in China, six in Indonesia and Thailand and four in Vietnam. In Thailand, all local sales are done through San Miguel Marketing (Thailand) Limited, a subsidiary of SMBIL.

In addition, SMBIL exports beer products to approximately 60 countries and territories globally in North America, South America, Europe, Africa, the Middle East, Australia and the rest of Asia. Exports are sold under various beer brands as well as under private labels. International operations accounted for 10.5% and 9.1% of the Beer and NAB Division’s total sales for the year ended December 31, 2018 and the six-month period ended June 30, 2019, respectively.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the San Miguel brand for beer in certain Western European and Mediterranean countries and is not affiliated with either SMB or SMC.

Research and Development

The Beer and NAB Division employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence.

Technology and processes are constantly updated and NPD is ensured through the research and development of beer and NAB products. R&D activities are conducted in a technical center and pilot plant located in one of its production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and NAB product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyzer, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It is also tasked with ensuring compliance of all systems with international standards, specifically ISO 17025:2005. To promote technical manpower development, the Beer and NAB Division runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the more than 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over 10 years of on-the-job-training experience with SMB.

The Beer and NAB Division continues to pursue innovation to support growth and market leadership. New products and variants are explored and attuned to the evolving consumer profile and preferences. For example, in 2010, the NPD team formulated the first flavored beer in the market which is the *San Miguel Flavored Beer* in apple and lemon flavors to appeal to younger drinkers. *San Miguel Flavored Beer* has been posting strong growth since its launch.

Marketing

The Beer and NAB Division actively pursues marketing initiatives to promote new products, as well as to maintain and enhance brand awareness of existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, the conduct of various consumer and trade promotions and merchandising activities. Various channels such as television, radio, print and digital platforms are tapped to reach targeted segments. The Beer and NAB Division also utilizes outdoor billboards and posters in off-premise retail outlets, restaurants, bars and other on-premise outlets.

The Beer and NAB Division holds nationwide trademark, signature events and sponsors numerous other events. *San Miguel Beer Oktoberfest* has been the brand's flagship event for over three decades. This beer festival takes place at numerous locations across the Philippines, offers beer and features popular bands, celebrities, games and raffle promos. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition, to gather the best beer drinkers in the Philippines. SMB also holds *San Miguel Pale Pilsen's* nationwide *Sarap Mag Babad* or *Taste of Summer* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines. For *San Mig Light*, SMB conducts electronic dance music-related initiatives such as *Party All Night* and *DJ Spin-Off* events. Aimed at younger drinkers, *San Miguel Flavored Beer* has a school fair event known as *SMFBU Fun Fair ng Barkada* or *Fun Fair with Friends*. Finally, digital placements and targeted visibility program are conducted in upscale outlets to promote specialty brands such as *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

Competition

In the Philippine beer market, the major competitor for beer products is AB Heineken Philippines, Inc. ("ABHP"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc. and Heineken International B.V. ABHP offers a portfolio of local beers, foreign beers, some of which are produced under license from foreign brewers, and alcomix beverage products.

ABHP competes mainly through licensed Colt 45, a strong alcohol brand which is positioned against SMB's strong alcohol beer *Red Horse*, and local Beer na Beer in the economy segment and Brew Kettle in the mainstream segment. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started marketing and selling imported Heineken beer and Tiger beer in the country, competing with SMB's premium and mainstream brands, respectively.

ABHP also offers Tanduay Ice, which is a line of alcopop beverages positioned similar to beer. Competition from imported beers and local craft beers is minimal. These products comprise a small portion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities.

SMB beer products also compete with other alcoholic beverages, primarily brandy, gin, rum and alcopops which are close substitutes to beer. In the beer industry—and more generally the alcoholic beverage industry—competitive factors usually include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMFB believes that the market leadership, size and scale of operations, and extensive distribution network of SMB in the Philippines provides the Beer and NAB Division with significant competitive advantages in the Philippines.

In the non-alcoholic beverage market, competition is from established players and brands in ready-to-drink juice and ready-to-drink tea. For example, Zest-O, Tropicana Twister and C2 compete with *Magnolia Fruit Drink*, while Lipton and Nature's Spring Iced Tea compete with *Magnolia Healthtea*.

In its main international markets, SMB beer products contend with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand and Vietnam), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong and China), Yanjing (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser (Hong Kong and China) Snow (China), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

Taxation

In the Philippines, excise tax represents a significant component of beer production costs. The National Internal Revenue Code of 1997 (“**Tax Code**”) provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the Bureau of Internal Revenue (“**BIR**”) requires establishments subject to such taxes such as SMFB to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Tax Code, excise tax on fermented liquor is determined per liter of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB’s production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per liter on all fermented liquors, except those affected by the “no downward classification clause”, which was a change from the two-tier tax structure imposed in 2013. Several of SMB’s products were affected by the “no downward reclassification” clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress. Thus, as of this writing, the current rate is at ₱25.42, pursuant to the 4% annual increase.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

The Beer and NAB Division’s beer products are also subject to excise tax in the markets in which the international subsidiaries operate.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights used by the Beer and NAB Division in respect of its beer and malt-based beverage products (including *Cali*) are either registered or pending registration in the name of Iconic Beverages, Inc. (“**IBI**”) in the Philippines. The brands, trademarks and patents used by the Beer and NAB Division in respect of its non-alcoholic beverage products (other than *Cali*) are licensed from SMC. Most of the brands, trademarks and other intellectual property rights used in its international operations are registered or pending registration in the name of SMBIL, with certain local brands in the name of SMBIL’s subsidiaries in Hong Kong and Thailand. IBI and SMBIL are wholly-owned subsidiaries of SMB.

Quality Control, Health, Safety and Environmental Matters

The domestic operations of the Beer and NAB Division are subject to various regulations concerning health, safety and protection of the environment.

The FDA, an agency under the DOH, administers and enforces the law, and issues rules and circulars on safety and good quality supply of food, drug and cosmetic to consumers, as well as regulates the production, sale, and traffic of the same to protect the health of the people. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers which provide for the minimum operating standards, procedures and requirements in respect of the operations and facilities of establishments engaged in the manufacture, packing, repacking or holding of food products. The Consumer Act of the Philippines seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer, including means of redress in cases of violations of such rights. For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Beer and NAB Division is also subject to extensive environmental laws and regulations implemented by the DENR, including the Philippine Environmental Impact Statement System, which is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. An entity that undertakes any environmentally critical project or operates in any environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate (“**ECC**”). This ECC requirement applies to all production facilities. Other environmental laws and regulations applicable to domestic operations of the Beer and NAB Division include the Philippine Clean Water Act of 2004, the Philippine Clean Air Act, the Water Code, the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and the Biological Solid Management Act of 2000.

International operations are also regulated by various applicable laws in their respective markets including the regulations on food labeling in China and Hong Kong and environmental regulations, among others.

Spirits Division

The Spirits Division, through GSMI, is a leading spirits producer in the Philippines and the largest gin producer internationally by volume in 2017, according to GlobalData. It is the market leader in gin and Chinese wine in the Philippines having a market share of 95.3% and 64.5%, respectively, as of December 31, 2017, according to GlobalData. GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and other spirits and enjoys 33% market share in spirits as of December 31, 2017, according to GlobalData.

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.* In 2003, the company was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand. For the year ended December 31, 2018 and the six-month period ended June 30, 2019, GSMI's flagship brand, *Ginebra San Miguel*, contributed 88.8% and 87.6%, respectively, to GSMI's total sales.

The Spirits Division operates one distillery and five bottling plants in the Philippines with a combined annual distillation capacity of 80 million liters and bottling capacity of 63.3 million cases. Each case generally contains either 24 units of 350mL each or 12 units of 700mL each. The distillery of Distileria Bago, Inc. ("**DBI**"), which is a wholly-owned subsidiary of GSMI, is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines. Its distribution network has nationwide coverage reaching approximately 141,000 outlets across the archipelago through 94 dealer sites and 15 sales offices as of June 30, 2019.

GSMI is a public company listed on the PSE under the stock symbol "GSMI". The market capitalization of GSMI was ₱18,182 million, with a common share price of ₱63.50 as of June 28, 2019.

For the years ended December 31, 2016, 2017 and 2018, GSMI's sales were ₱18,572 million, ₱20,892 million and ₱24,835 million, respectively, and for the years ended December 31, 2016, 2017 and 2018, the net income was ₱361 million, ₱602 million and ₱1,053 million, respectively.

For the six-month period ended June 30, 2018, sales were ₱12,213 million and net income was ₱506 million compared to sales of ₱14,695 million and net income was ₱980 million for the six-month period ended June 30, 2019.

The Spirits Division is one of the major players in the liquor market, given its diverse portfolio of products with core brands such as *Ginebra San Miguel* and *Vino Kulafu*, which continue to lead in the gin and Chinese wine categories, respectively, according to GlobalData.

The products of GSMI 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.

Over the years, the Spirits Division has received numerous international awards for product quality and excellence. Since 2005, a total of 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue*, *Ginebra San Miguel Premium Gin* and *Ginebra San Miguel*, and silver medals for *GSM Blue Flavors Mojito*, *Vino Kulafu* and *Primera Light Brandy*.

Production Facilities and Raw Materials

Production Facilities

The Spirits Division operates one distillery and five bottling plants. The distillery is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines, and has a distillation capacity of 80.0 million liters per annum while the bottling plants are located across the archipelago with a total annual bottling capacity of 63.3 million cases.

The five bottling plants are located in Luzon and Visayas, namely: (1) the Cauayan plant located in Isabela Province and established in 2010; (2) the Sta. Barbara plant located in Pangasinan Province and established in 1992; (3) the Ligao plant located in Albay Province and established in 2010; (4) the Cabuyao plant located in Laguna Province and established in 1996; and (5) the Mandaue plant located in Cebu Province and established in 1964.

The production facilities located in Sta. Barbara, Pangasinan; Cabuyao, Laguna; Ligao City, Albay; Mandaue City, Cebu; and Bago City, Negros Occidental are compliant with the requirements of ISO 9001:2015. As of the date of this Offer Supplement, the facility located in Cauayan, Isabela is in the process of being certified.

Thai San Miguel Liquor Co. Ltd. (“**TSML**”), a joint venture of GSMI and Thai Life Group of Companies, has a production facility located in Kanchanaburi, Thailand with a 75 KLPD distillery column and a bottling line that has an annual production capacity of 22 million liters and six million cases, respectively.

Raw Materials

Alcohol is the main raw material used for spirits, which is made by converting sugarcane molasses to alcohol at the DBI distillery. To mitigate the impact of the increasing price *vis-à-vis* the foreseen decreasing availability of sugarcane molasses for use in the production of spirits, since it is also used as the main material in the Philippine government’s clean fuel program, the Spirits Division, among others, directly purchases crude and GSMI-spec alcohol from a variety of third party suppliers pursuant to supply contracts in the domestic and foreign open markets. DBI also has a separate facility which can use cassava starch milk as an alternative raw material in the production of alcohol.

Products are packaged in glass bottles, the majority of which are sourced from the Packaging Group. In addition to using new glass bottles, the Spirits Division maintains a network of washed second-hand bottle suppliers in the Philippines. The suppliers retrieve, sort and wash *Ginebra San Miguel* glass bottles, which are bought back by GSMI to be recycled and reused. For the year ended December 31, 2018 and the six-month period ended June 30, 2019, approximately 68% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers. A stringent quality control system is maintained to monitor procedures and address safety concerns in the use of recycled bottles. The Spirits Division believes that bottling costs for any particular product could be sustained over time with the continuous use of second-hand bottles. Thus, the Spirits Division has actively implemented programs to expand its network of second-hand bottle suppliers in the past three years.

Sales and Distribution

The Spirits Division primarily markets, sells and distributes its products in the Philippines to consumers through territorial distributorship made up of a network of 91 dealer sites and 15 sales offices strategically situated across the country as of June 30, 2019. The Spirits Division’s sales team and key accounts group directly serves off-premise outlets such as *mom* and *pop* stores, supermarkets, grocery stores, and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels. Approximately 141,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 89% of total outlets and modern trade outlets, accounting for 11% of total outlets.

At the center of the product distribution and movement is the Spirits Division’s logistics group. It spearheads the planning, coordination and delivery of finished goods from the different plants to various sales offices, warehouses, dealers, wholesalers and select retailers.

While the Spirits Division has already established a good number of dealer sites throughout the country, one of its key distribution strategies is to continuously develop and acquire new dealers in areas with high volume potential, especially in the geographically segmented Southern Philippines.

Research and Development

The Spirits Division continuously develops new products as it seeks to expand its existing product lines and maintains a well-equipped laboratory that provides capabilities to develop innovative product formulations as well as a dedicated technical group focused on NPD. In addition to the popular Mojito that is a variant of GSM Blue Flavors, which was launched in 2012, new variants Margarita and Gin Pomelo as well as new product *Añejo Gold Medium Rum* were developed and launched in 2017.

The *Añejo Gold Medium Rum* was introduced to address the market gap between strong and light spirits products and is geared towards the young adult market. This was specifically formulated to be 67.5% proof for moderate strength and is made from alcohol that has been aged in oak barrels for 12 years blended with high quality ingredients.

The R&D team also develops product formulations for certain toll manufacturing customers, such as the Don Papa Rum and all of its limited-edition variants. These are sold predominantly in Europe, North America, Australia, New Zealand and select Asian countries.

Marketing

The Spirits Division is focused on growing its core gin products. Recent thematic campaigns such as the slogan “*Ginebra Ako*” aid in reinforcing the flagship brand *Ginebra San Miguel* as a leading gin brand in the market. Targeted product launches allow GSMI to capture new drinkers and markets. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the launch of several *GSM Blue Flavor* variants.

As the leading gin player, the *Ginebra San Miguel* brand spearheads the annual commemoration of World Gin Day, which is held in June. The local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide. There is also the widely anticipated GSMI calendar featuring a popular celebrity and “*Ginumanfest*”, a concert series, that is hosted by GSMI to coincide with major provincial *fiestas* and in select barangays across the country.

The Spirits Division has a very popular professional basketball team, the *Barangay Ginebra San Miguel*, whose players are regularly used in its advertising campaigns. This nurtures a preference for the GSMI brands and products because of a strong affinity to the *Barangay Ginebra San Miguel* basketball team as basketball continues to be a well-loved and one of the most watched sport in the Philippines. Product advertisements are commonly streamed through television, radio, print and billboards. The Spirits Division has also explored new marketing channels, utilizing digital advertising, and sponsoring special events and consumer and trade promotions, to create a new generation of gin consumers.

Competition

In the Philippine spirits market, competition among the major players revolves around brand equity through above and below the line advertising activities, price leadership, NPD, raw material security, production efficiency and distribution. GSMI’s major competitor for spirits products are Emperador Distillers, Inc. and Tanduay Distillers Inc. The former is largely known for its Emperador Light Brandy which is popular among the young working class in Greater Manila and most urban cities. Tanduay Distillers, Inc.’s Tanduay Rhum Dark Five Years is a staple hard liquor drink in the Visayas and Mindanao region. The Spirit Division’s *Ginebra San Miguel* is the preferred brand in northern and southern Luzon. As the Chinese wine segment has also seen an increase in consumption in recent years, the Spirits Division’s *Vino Kulafu* has emerged as the top choice in this category according to GlobalData. Patronage mostly comes from various islands in the Visayas and parts of Mindanao.

Intellectual Property

The Spirits Division registers its trademarks, industrial design and copyright used or intended to be used in its products and business with, among others, the Intellectual Property Office of the Philippines and equivalent authorities outside the Philippines. The Spirits Division also ensures that such registrations are maintained and promptly renewed, subject to relevant laws, rules and regulations.

All of Spirits Division’s trademarks for its products sold in the Philippines and in the relevant foreign markets are either registered or have pending registration applications in its name or in the name of SMC. The Spirits Division’s use of the SMC trademarks is duly authorized by SMC. The Spirits Division has also applied for registration or registered in its name, among others, the trademarks *Vino Kulafu* and *Primera Light* and label designs and bottles for *Ginebra San Miguel*, while the trademarks *GSM Blue*, *GSM Blue Flavors*, *Antonov Vodka* and *Don Enrique Mixkila* are registered in the name of SMC. The Spirits Division also has an industrial design registration for its bottle *Ginebra San Miguel* (round/bilog) and has existing copyright certificates of registration over certain pictorial illustrations and radio materials which were used for advertising *Vino Kulafu*.

Trademarks used by the Spirits Division are likewise registered in various countries including Thailand, the U.S., China, Canada, Hong Kong, India, Italy, Kuwait, New Zealand and Taiwan.

Quality Control, Health, Safety and Environmental Matters

The Spirits Division is compliant with applicable statutes and regulations on health, safety and environment and possesses the required permit and licenses to operate its production facilities.

Health and safety programs of the Spirits Division focus on creating a suitable working environment to ensure that its processes result in quality products and services. This suitable working environment is a combination of favorable human and physical factors such as social (e.g., calm, non-discriminatory and non-confrontational), psychological (e.g., stress-reducing, burn-out protection, emotionally protective), and physical (safe, ergonomic, temperature, heat, humidity, light, hygiene, noise and space) factors.

The Spirits Division, in compliance with the DOLE requirement, has established a safety committee headed by a safety officer for each of the Spirits Division production facilities, which is tasked to conduct job hazard analyses and near miss/incident/accident investigation, and regular site inspections. For each of the Spirits Division production facilities, there is also a crisis committee tasked to immediately attend to civil disturbances and natural calamities and fire brigades for fire safety concerns.

All employees undergo annual physical and medical examinations. There are assigned nurses in every production shift, as well as medical doctors where needed. The Spirits Division production facilities also have their pool of first aid providers.

The Spirits Division's manufacturing group also conducts safety audits of the Spirits Division production facilities and recognition and awards are given to outstanding safe plants during the Spirits Division's annual Supply Chain Conference.

As for environmental management, the Spirits Division production facilities have waste water treatment facilities, air pollution abatement devices with CCTV monitors on smoke stacks, material recovery facilities for recycling packaging materials, and control system for hazardous wastes. The Spirits Division has commenced efforts to implement Environmental Management System based on ISO 14001:2015 standard and its production facilities also have self-monitoring activities for their respective environmental programs, which are reported to the DENR on a quarterly basis.

Food Division

SMFB operates the Food Division through a number of other subsidiaries, including San Miguel Foods, Magnolia, Inc., and Purefoods-Hormel. The Food Division 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 breadth of the Food Division ranges from 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 ("**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**").

The Food Division 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 products of the Food Division are produced using both company-owned and tolled facilities. As of June 30, 2019, the Food Division owns 40 production and farm facilities and has contracts with 1,600 tolled facilities and contract farms.

Food Division Products

The Food Division produces a wide range of food products. Its brand portfolio includes some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy*, *Star*, *Dari Crème*, *La Pacita*, *San Mig Super Coffee* and *B-Meg*.

Production Facilities and Raw Materials

The Food Division uses both company-owned and third party owned facilities for production operations. As of June 30, 2019, the Food Division owns over 20 manufacturing facilities and has contracts with about 1,500 tolled manufacturing facilities and contract farms. The Food Division's production facilities are located throughout the Philippines, as discussed further below.

The Food Division is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, except in respect of the coffee business as coffee mixes are provided solely by Super Coffeemix Manufacturing Ltd. (Thailand) Company ("**SCML Thailand**"). The Food Division believes that its operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

Prepared and Packaged Food

Production Facilities

The production facilities of the Prepared and Packaged Food Segment are located in Luzon. Three production facilities are located in Cavite, two of which are for meat processing operations for the manufacture of hotdogs, nuggets, hams, bacon, sausages, meat toppings, and sauces. The third facility manufactures bread spread products through a process that includes pasteurization, blending, chilling and packing for bread spreads, and cooking, filling, pre-packing and end-packing for cheeses. Ice cream and biscuits are manufactured at company-owned facilities located in Sta. Rosa, Laguna and Antipolo City, respectively. Flour mixes under the *Magnolia* brand, on the other hand, are manufactured at company-owned facilities in Mabini, Batangas.

Milk, all-purpose cream, jelly-based snacks and cooking oil products are manufactured in third party-owned plants under tolling arrangements, all of which meet quality standards. Other toll-manufacturing agreements with *Halal*-accredited facilities are also maintained to augment its production capacity, meet periodic volume increases and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

Raw Materials

The primary raw materials used for refrigerated and canned meats are chicken, beef and pork primal cuts, most of which are sourced through the Business Procurement Group (the “**BPG**”) of the Food Division, which strives to secure prices lower than prevailing market or published rates. The BPG maintains a pool of accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team.

All of the procurement, manufacturing and pre-packing of raw materials for coffee products are handled by SMSCCI’s partner in Singapore and Thailand. Coffee mixes are imported through SCML Thailand while re-packing, marketing, selling and distribution are done in the Philippines.

Animal Nutrition and Health

Production Facilities

For the Animal Nutrition and Health segment, compound feeds are manufactured at fourteen company-owned feedmills, seven of which are located in Luzon, three in Visayas and four in Mindanao, plus 26 third party-owned and operated feed plants located throughout the Philippines. Eight out of 14 company-owned feedmills are already operated by O&M subsidiaries, and the remaining six will transition to O&M. Most of these plants are capable of producing pelleted and crumble format feeds and three plants have extrusion capabilities to produce aquatic floating feeds. The feeds business also maintains tolling arrangements for seven rendering facilities that convert animal by-products used as raw materials into some feed types.

The Animal Health and Nutrition segment is building five new feedmills with an estimated capacity of approximately 1,500 thousand metric tons for the period 2018 to 2020, one of which will be equipped with capability to produce aquatic floating feeds. These will increase the Food Division’s capacity for higher margin products and will help supply the Visayas-Mindanao region.

Raw Materials

The largest single cost component for feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. Corn is purchased locally from corn traders and occasionally from suppliers in the U.S., South America and Southeast Asia.

Prices of raw materials are subject to significant volatility due to extreme weather conditions, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rate fluctuations and other factors. [See “*Risk Factors—Our financial performance may be materially and adversely affected by disruptions in the supply of, or price fluctuations in, major raw materials.*”] To minimize the adverse effects of unexpected price increases, the Food Division enters into hedging transactions and maintains strategic buying programs.

Protein

Production Facilities

For the Protein segment's poultry business, company-owned facilities include two poultry processing plants located in Cebu and Davao, two poultry hatcheries located in Laguna and Bukidnon, and one poultry breeder farm located in Bataan. All of these company-owned facilities are operated by third parties.

The poultry business primarily utilizes third party-owned facilities operated under tolling arrangements. As of June 30, 2019, all of the poultry growing output and 97% of processing output were from tolled facilities. Approximately 95% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. Supporting its vertically controlled poultry operations are two company-owned processing plants, 32 processing plants operated under tolling arrangements and an extensive network of third party cold storage warehouses and distribution facilities throughout the Philippines.

For the Protein segment's fresh meats business, company-owned facilities include two hog farms located in Bulacan and Bukidnon, two cattle farms located in Isabela and Laguna and one hog slaughterhouse located in Cavite, which are all operated by third parties. The Protein segment maintains a vertically integrated operations, allowing the business to have control and oversight of the entire value chain from the selection of genetic stocks to growing and processing of hogs, to selling, mainly through the *Monterey Meatshop* network.

Hog raising operations use a two-site system which separates breeding from nursery and growing into isolated facilities to minimize the risk and spread of disease. As of June 30, 2019, more than 90% of the business hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 60% of these employ climate-controlled as well as elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The Protein segment is building three poultry facilities capable of processing approximately 92 million heads for the period 2019 to 2021. Two new fresh meat processing plants are planned with one to be located in Luzon and the other in the Visayas-Mindanao region.

Raw Materials

Breeder flocks (grandparents of birds) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The poultry business imports its breeder stocks primarily from Aviagen and Cobb Vantress Inc., both of which are agri-business firms based in the U.S. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the day-old chicks are sent to the broiler farms where they are cared for and raised by contract growers according to the Food Division's standards until the chicks reach marketable weight. Fully-grown chickens are transported to processing plants, where they are processed into finished products, which are then sent to distribution centers and sold to customers.

For the year ended December 31, 2018 and the six-month period June 30, 2019, the fresh meats business sourced more than 90% of its live hogs from contract growing farms. [See "*Risk Factors—Risks Relating to Outsourcing to Our Businesses and Operations—Our third party contractors may fail to perform their obligations, or if we are unable to find new contractors to meet increased demand, our businesses and results of operations could be materially and adversely affected.*"]

Others

Production Facilities

The flour milling business owns two flour mills, located in Mabini and Tabangao in Batangas, and two flour blending facilities in Mabini, Batangas which produces customized flour products. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets.

Production capabilities are supported by its Flour Technology Center located in Pasig City, Metro Manila, which develops customized flour blends and new flour-based products.

San Miguel Mills owns the Golden Bay Grain Terminal located in Batangas Province, which can accommodate panamax-sized vessels and has an estimated discharge rate of at least 10,000 metric tons per day. The terminal has provided the

flour milling business an advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs as well as generate savings in freight costs from the use of bigger vessels. The terminal is adjacent to the flour mill located in Mabini, Batangas and also services the grain handling requirements of the Animal Nutrition and Health segment. The Golden Bay Grain Terminal also services external customers such as commercial grains traders.

An additional flour milling facility is being constructed in Mabini, Batangas which will have an estimated capacity of 11 million 25 kg bags and is expected to be operational by the fourth quarter of 2019. The Food Division is also constructing a new ready-to-eat production facility with an estimated capacity of 27,000 metric tons per annum.

Raw Materials

Historically, approximately 70% of the wheat requirements of the flour milling business are sourced from the U.S. with the remainder sourced from various countries. World wheat prices are monitored daily by BPG to determine long-term and short-term buying strategies to control costs. For the six-month period ended June 30, 2019, 97% of raw materials were imported from the U.S., Canada, Singapore and India.

Sales and Distribution

The Food Division sells its products through three channels, namely, general trade, modern trade and institutional accounts. General trade channels include traditional trade markets in the Philippines, such as small grocery stores, wholesalers and dealers and bakeries, wet markets and *mom* and *pop* stores. Modern trade channels include hypermarkets, supermarkets and convenience stores. Institutional accounts include quick service restaurants and hotels, bakeshop chains, food manufacturers, large commercial farms, and exports. Products are exported to Asia, North America and Europe mainly to supply Filipino communities abroad.

Prepared and Packaged Food

San Miguel Integrated Sales handles the sale and distribution of products under the Prepared and Packaged Food segment through modern trade channels (e.g., major supermarket chains, hypermarkets, groceries, convenience stores), general trade channels (e.g., market traders and *mom* and *pop* stores), wet market traders and retail outlets. Prepared and Packaged Food segment's products are distributed by Great Food Solutions to institutional and foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts.

Domestic distribution is handled by the outbound logistics group, which manages planning, technical logistics services, warehousing and transportation while the international business handles exports to serve Filipino communities in Asia, North America, the Middle East, and Europe.

Animal Nutrition and Health

As of the period ended December 31, 2017, the Animal Nutrition and Health segment produces for both the Food Division's internal requirements and for the commercial feeds market. As of December 31, 2018, 49% of the production volume was used for the Food Division's internal requirements, while the remaining 51% was sold to the commercial feeds market. As of six-month period ended June 30, 2019, volumes accounted for 53% and 47%, respectively, of the feeds production volumes. Feeds supplied to the Protein segment are not included in the revenue or volume sold of the Animal Nutrition and Health segment.

Approximately 86% of products are sold through authorized distributors within a defined territory, while 14% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 19 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

Protein

The Food Division sells its Protein segment products through a variety of channels. Modern trade channels, which includes *Magnolia Chicken Stations* and *Chick 'n Juicy* for poultry, *Monterey Meatshops* for fresh meats, supermarkets, convenience stores and membership shopping club outlets. General trade channels include wet markets, commissaries, wholesalers, distributors, and buyers of live birds and hogs. Institutional accounts include exports, quick-service restaurants and hotels. In addition, the Protein segment supplies a portion of the requirements of the Prepared and Packaged Food segment.

Protein products are distributed to two market segments through the above-mentioned channels in order to maximize market penetration throughout the Philippines:

- commodity segment (such as wet markets and live chicken and hog buyers); and
- stable-priced segment (such as *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients).

The *Magnolia Chicken Station* was a concept developed by the poultry business to bring the wet market to the supermarket. These stations offer more choices of cuts and better customer service in a clean and hygienic environment. As of June 30, 2019, there are approximately 1,300 *Magnolia Chicken Stations* nationwide, 22% of which are franchisee-owned. The remainder of these outlets are located in supermarkets and are handled by third party operators through a modified consignment arrangement.

The Food Division pioneered in the branding of fresh meats by launching the *Monty's* supermarket meat shop in 1990, which eventually became a network of neighborhood meat shops under the *Monterey* brand. This strategy was successful in differentiating its high-quality meat products from those of competitors. Pork, beef and marinated meats products are sold in hygienic and air-conditioned *Monterey Meatshops* which are manned by well-trained staff. As of June 30, 2019, there were more than 650 *Monterey Meatshops* throughout the Philippines, 60% of which were franchised, with the remainder being third party-operated.

To increase sales volumes and improve profitability, the Protein segment provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Majority of the Protein segment's products are distributed directly from productions facilities to supermarkets and foodservice operators. The distribution infrastructure includes a network of cold storage facilities located throughout the Philippines and a large fleet of third party contracted vehicles.

Others

The flour milling business of the Food Division focuses on offering the widest array of differentiated flour products in the Philippine market. The flour application specialists, in support of the sales team, determine the specific flour product requirements of its customers as well as conduct field baking tests of the products to demonstrate their application. For customized products, the R&D team and the sales team work side by side with the customers to develop formulations specific to their requirements. The Food Division manages a nationwide distribution network that distributes flour and other bakery ingredients to major bakeries and other flour users.

Great Food Solutions, our foodservice business, distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Food Solutions receives a development fee from other Food Division subsidiaries for selling their products to foodservice institutional clients. The key strategies of the food service business include selling customized solutions, direct marketing to customers and focused relationship management.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Food Division's R&D teams engage in continuous activities to identify cost and production process improvements. Among others, cost reductions have been achieved using alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavors in processed meats.

The Food Division owns several R&D facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial feed formulations to minimize costs and maximize animal growth

The R&D team also engages in the development, reformulation and testing of new products and believes that the team's continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, the team regularly conducts consumer surveys and works closely with the Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Aside from product innovations, the R&D teams of the Food Division also look into efficiency improvement for operations through the use of new technology such as climate-controlled housing system for hogs and broilers as a measure of increasing production cycles per farm per year, improving feed consumed to weight ratio and getting

better harvest recovery. The “Big Bird” initiative is the selective breeding innovation that optimizes the growth potential of the breed, resulting in lower cost to produce.

Marketing

The Food Division’s marketing efforts are focused on reaching more consumers and promoting increased consumption of its products through brand-building activities in all forms of media, from television and print ads to digital marketing as well as promotional events and sponsorships. The Food Division develops marketing programs that emphasize quality, freshness and convenience of its products. For example, the flagship hotdog brand, *Purefoods Tender Juicy* uses the experts campaign where “Kids Can Tell” the difference between *Purefoods Tender Juicy* and other hotdog brands. For the blue line of canned meats, the key campaign is “*Pure Sarap Purefoods*” (or Purely Delicious) which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is “*Pambansang Manok*” (or roughly translated to as “*National Chicken*”) with the theme that if you want the best, then *Magnolia Chicken* is the Nation’s Choice. *Magnolia Chicken* is packed with Omega 3, raised in stress-free environments, free from hormones and steroids and free from antibiotic residues. The Food Division taps television and cable commercials, digital presence in both Facebook and YouTube among others, out of home promotions such as billboards, taxi ads and culinary events.

Competition

Prepared and Packaged Food

The Food Division is the market leader in the prepared and packaged food category (excluding coffee), with 15.3% market share in 2017, according to GlobalData.

In recent years, the Prepared and Packaged Food segment has faced increased competition mainly from other local players, which are employing aggressive pricing and promotion schemes. Competitors and competing brands in the branded processed meats category include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Virginia), and Century Pacific Food Inc. (Swift and Argentina). To maintain its leadership position, the Food Division adheres to its very strict quality standards, drives innovation in its portfolio and enhances consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

According to GlobalData as of the year ended December 31, 2017, the Food Division has a 47.8% market share for butter and spreadable fats, competing with Fonterra Cooperative Group Limited and Elle & Vire International (for butter) and CIIF Oil Mills Group (for margarine).

In the cheese category, as of the year ended December 31, 2017, the *Magnolia* brand has a 16.7% market share, which is second to Mondelez International, Inc. (Eden, Cheez Whiz, and Kraft), according to Global Data.

In the ice cream market, Unilever-RFM is the dominant player while Magnolia, Inc. has a 11.4% market share as of the year ended December 31, 2017 according to GlobalData.

As of the year ended December 31, 2017, the Food Division has a 2% market share for coffee based on value sold according to GlobalData. Competitors in the coffee-mix segment include Nestle SA (Nescafe), PT Mayora Indah (Kopiko), and Universal Robina Corporation (Great Taste).

Animal Nutrition and Health

According to GlobalData, the Food Division is the largest producer of commercial feeds in the Philippines, with a market share of 25% of the commercial feeds market by value as of the year ended December 31, 2017. Competitors under the Animal Nutrition and Health segment include major domestic producers such as United Animal Health (JBS United), Aboitiz Equity Ventures (Pilmico), and La Filipina Uy Gongco Corporation (PFMC), as well as numerous regional and local feedmills. There are also foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Protein

Major competitors under the Protein segment include Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and Charoen Pokphand Group. There are also occasional imports from the U.S., Canada and Brazil.

According to GlobalData, the poultry and fresh meats business had a combined market share of 23.5% for the year ended December 31, 2017.

The Philippine fresh meats industry remains highly fragmented consisting mostly of backyard hog raisers. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets.

Others

Major competitors of the flour milling business include General Mills, Inc. and RFM Corporation. Most of its competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. The milling business differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

Local players face competition from imported flour that primarily originates from Turkey, Malaysia and Indonesia. Imported flour has increased its presence through low-cost flour offerings. In order to aggressively compete head-on, the milling business launched “fighting brands” such as *Red Dragon Nova* and *Red Dragon Vega* that match the quality and price of imported flour while maintaining a healthy margin.

Intellectual Property

Brands, trademarks, patents and other related intellectual property rights relating to the Food Division’s principal products in the Philippines and in foreign markets, including processed meats, dairy, coffee, food service and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through *Monterey Meatshops* and *Magnolia Chicken Stations* and other branded distribution outlets, are either registered or pending registration in the name of SMFB or its subsidiaries.

The Food Division owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *San Mig Coffee*, *La Pacita*, *B-Meg* and *Monterey*. Registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms are regularly renewed. Maintenance and protection of these brands and related intellectual property rights are important to ensuring distinctive corporate and market identities.

The Food Division is responsible for defending against any infringements on its brands or other proprietary rights. It monitors products in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the Food Division’s brands and other proprietary rights. It retains independent external counsels to alert it of any such attempts and enjoins third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance of packaging of products, which may constitute trademark infringement and/or unfair competition. To monitor the publication for opposition of new trademark applications that may be confusingly similar to the Food Division’s registered marks, it regularly coordinates with independent counsels and subscribes to an online trademark watch service.

Quality Control, Health, Safety and Environmental Matters

The Food Division conforms to statutory and regulatory requirements in relation to quality assurance and food safety. GMP is observed across all food businesses, based on international hygiene standards, to ensure high quality and safe food products.

The Food Division is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

Quality and food safety standards are applied uniformly across all production facilities, whether company-owned or contracted, through training provided to third party operators before they commence operations. Food Division representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third party operators. Moreover, Food Division quality assurance personnel conduct periodic operational audits of all production facilities. The Food Division has defined quality assurance and food safety policies and guidelines which are cascaded to the tolling partners to serve as their technical references for the food safety programs managed and implemented across company owned and tolled facilities. To ensure compliance with Food Quality and Food Safety Management systems, trained quality and food safety auditors conduct assessments based on a defined frequency set by the regulatory and quality systems certifying body.

Risk of contamination of products is minimized through strict sanitation procedures and constant monitoring and response. In compliance with the HACCP standards, the Food Division has identified specific stages of processing where

preventative measures are undertaken, such as equipment sterilization, hygiene, temperature control and regular equipment testing. The Food Division adheres to a set of systems including proper product storage and handling practices and uses of appropriate facilities and equipment to ensure quality and freshness of products from receipt of raw materials to dispatch of finished goods.

The Food Division is committed to the highest level of food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on HACCP, GMP, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (Republic Act No. 10611) and the requirements of its customers.

As of the date of this Offer Supplement, the Food Division believes that it is in material compliance with all applicable health, safety and environmental laws.

PACKAGING BUSINESS

The packaging business began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. Packaging is comprised of San Miguel Yamamura Packaging Corporation (“**SMYPC**”), a joint venture of SMC and NYG, one of the largest glass and plastic packaging corporations in Japan and its subsidiaries, San Miguel Yamamura Packaging International Limited (“**SMYPIL**”) which holds the international businesses in Malaysia, Vietnam, China, Australia and New Zealand and its subsidiaries, San Miguel Yamamura Asia Corporation (“**SMYAC**”), a domestic glass packaging subsidiary SMC Yamamura Fuso Molds Corp. (“**SMYFC**”), Can Asia, Inc. (“**CAI**”), Mindanao Corrugated Fireboard, Inc. (“**Mincorr**”), a paper corrugated carton manufacturer and Wine Brothers Philippines Corp., involved in the sale and distribution of wine products, are collectively referred to as the Packaging Group.

The Packaging Group has one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal closures, aluminum cans, plastics and pallet/crate leasing, PET beverage packaging and filling, flexibles, paper, as well as other packaging products. The packaging business is the major source of packaging requirements of the other businesses of SMC. It also supplies packaging products to customers in the Asia-Pacific region, U.S., and Australasia, as well as to major multinational corporations across the Philippines, including Coca Cola Beverages Philippines, Inc., Nestle Philippines and Pepsi Cola Products Philippines, Inc.

The Packaging Group holds 21 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.

Philippine Packaging Industry

The usage growth rate for glass containers (which is the largest business of the Packaging Group) for beverage applications has been steadily growing. Glass bottles for beverages accounts for the largest share among the glass packaging format. Most of these are available in traditional *mom* and *pop* stores where carbonated soft drinks, energy drinks and ready-to-drink juices come in returnable glass bottles. Glass packaging also recorded growth in other categories such as food packaging, home care, beauty and personal care because of its ability to portray a premium image while maintaining product quality. Although the growth of glass containers may be tempered by the increasing popularity of lightweight, unbreakable and more affordable packaging types such as PET, the glass packaging industry will likely benefit from creation of a free trade area amongst ASEAN nations. Among the likely positive impact of the free trade area will be the ability for local glass manufacturers, such as the Packaging Group, to further expand their business in the ASEAN economies.

Metal beverage cans saw a flat growth due to tight competition with other beverage packaging formats such as stand-up pouches, glass and rigid plastic bottles.

PET bottles for beverages also recorded growth for the past 5 years due to its aesthetic appeal, light weight and sleek design, which is very convenient for consumers. The Packaging Group has large available capacities and ready know-how to exploit prospects in this packaging format.

Flexible packaging continues to reflect growth due to the several advantages it has, including lower cost, ease of disposing and most importantly, convenience. Flexible packaging is considered to be the most affordable pack type and is therefore used by many consumer products to capture mass markets. It is used extensively in tobacco, confectionery, dried processed food, sweet and savoury snacks and has captured brand manufacturers of canned/preserved food, baby food and agri-chemical products.

Strengths & Strategies

Strengths

The Packaging Group believes that its competitive strengths include the following:

Market leader

The Packaging Group is a market leader in all its product formats in the domestic packaging industry, offering total packaging solutions to clients by providing glass, plastics, metal closures, aluminum cans, PET packaging, flexibles and paper as well as beverage filling for PET bottles and aluminum cans.

State-of-the-art manufacturing facilities

The Packaging Group maintains state-of-the-art manufacturing facilities and best practices in manufacturing and quality procedures.

Compliance with global standards

The Packaging Group complies with global standards, recognized by key multinational and domestic customers, for Food Safety (FSSC 22000), Quality Management (ISO: 9001), Environment Management (ISO 14000), various social accountability standards and other relevant standards. The Packaging Group maintains its presence to relevant organization to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

Synergies from partnerships with key global packaging companies

The Packaging Group gains synergies from its partnerships with global packaging players such as NYG (Japan), Fuso Machine & Mold Mfg. Co. Ltd. (Japan), and Can-Pack S.A. (Poland).

Strategies

The strategies of the Packaging Group include the following:

Total Packaging Solutions

The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling, trading and logistical requirements. The Packaging Group also has put up a can filling facility to provide tolling services to the current non-alcoholic beverage customers. 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. These acquisitions strengthened the Packaging Group'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.

Network and Client Optimization

The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.

Product Diversification

The Packaging Group continuously innovates to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, lug caps, high-impact resistance pallets for cements, agricultural flooring, laminated paper, logistics services and wine closures (cork). In 2015, SMYPIL through its Australian subsidiary, SMYV Pty Ltd, 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. In 2018, SMYA diversified its product portfolio through the acquisition of JMP Holding Pty Ltd, a supplier of retail and online packaging, cargo protection and materials handling.

Marketing Environmentally Friendly Products

The Packaging Group expects the future consumer trend towards environmentally friendly products and sound manufacturing systems. Hence, the Packaging Group is continuously developing eco-friendly processes such as the use of cullets in glass production, toluene-free flexible packaging and accreditation with various international standards and agencies. In recent years, the Packaging Group has been improving and upgrading its manufacturing facilities to a standard higher than established government regulations. Significant investments have been spent on, for example, the Electrostatic Precipitator of the Packaging Group, a pollution-abating device that cost more than ₱100 million.

Selected operating data for the packaging business is provided below for the periods indicated:

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(₱ in millions, except percentages)				
Sales	27,386	32,099	37,325	17,556	17,835
Gross profit	7,912	8,896	9,776	4,621	4,882
Gross profit margin ¹	29%	28%	26%	26%	27%
EBITDA ²	4,633	4,897	5,609	2,612	3,044
EBITDA margin ³	17%	15%	15%	15%	17%
Net income before tax	2,428	2,701	3,107	1,446	1,149
Net income before tax margin ⁴	9%	8%	8%	8%	6%

Notes:

- (1) Calculated as gross profit divided by revenues.
- (2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
- (3) Calculated as EBITDA divided by revenues.
- (4) Calculated as net income before income tax divided by revenues.

Packaging Solutions

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 Packaging Group believes that SMYAC is the country’s most technologically advanced glass manufacturing facility and the largest glass manufacturing facility in the Philippines.

Metal

The metal business is the second largest business in the Packaging Group. It 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 Can Asia Inc. (“**CAI**”) 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.

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.

Composites/Flexible Packaging

The composites/flexible packaging business manufactures flexible packaging, plastic films, industrial laminates, trademarked *Envirothuff* radiant barrier and woven bags. Customers for this segment include companies in the food, beverages, personal care, chemical and healthcare industries. 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.

PET

The PET business produces PET preforms and bottles, plastic caps and handles, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries. Adding to the existing capacity to fill beverages in PET bottles, the beverage filling facility grew its capability to fill aluminum cans for non-alcoholic beverages.

Paper

The paper business produces corrugated cartons and partition boxes. 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.

Plastics

The plastics business produces plastic crates and pallets, plastic poultry flooring, food trays, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets serving companies in industries such as beer and beverages, chicken and agriculture.

Production Facilities

The Packaging Group owns and operates 3 glass plants, 1 glass and PET mold plant, 4 metal packaging plants, 1 plastics packaging plant, 2 PET packaging and filling plants, 1 composite plant, and 1 paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 20 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures, wine filling facilities, retail/online packaging, cargo protection and materials handling) and New Zealand (trading and plastics).

FUEL AND OIL BUSINESS

SMC operates its fuel and oil business through Petron Corporation. As of June 30, 2019, SMC directly and indirectly owned 68.26% of Petron. Petron is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and is engaged in refining crude oil and marketing and distributing refined petroleum products in the Philippines and Malaysia.

In the Philippines, Petron operates the Limay Refinery in Bataan, which supplies approximately 30% of the country's total fuel requirements and has a production capacity of 180,000 barrels per day. Based on estimates using its internal assumptions and calculations and industry data from the DOE for the year 2018, Petron believes that its overall market share in the Philippine oil market in terms of sales volume, was approximately 28.5% for the year ended December 31, 2018. This estimate excludes direct imports of jet fuel by airlines, direct imports of naphtha as feedstock for petrochemical plants, direct imports of condensate as fuel for natural gas power plants, and lubes and greases.

The Limay Refinery processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of phase 2 of the Refinery Master Plan ("**RMP-2**"), a \$2 billion project for the Limay Refinery, enabled Petron to produce diesel, gasoline, jet fuel, kerosene and LPG (collectively, "**White Products**"), which have higher margins. The completion of RMP-2 also increased Petron's production of petrochemicals and made Petron the first oil company in the Philippines capable of producing Euro IV-standard fuels.

From the Limay Refinery, Petron moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 12 terminals in Luzon, eight in the Visayas and eight in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, Petron supplies its various

petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of over 2,400 retail service stations in the Philippines as of June 30, 2019, representing approximately 26% of the country's total service station count, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 30% of service stations are company-owned-dealer-operated service stations ("CODOs") and 70% are dealer-owned-dealer-operated service stations ("DODOs").

As of June 30, 2019, Petron's LPG distribution network includes approximately than 1,100 branch stores as well as 34 car care centers, 11 lube centers, and 10 motorcycle centers. Petron also sells its LPG brands "*Gasul*" and "*Fiesta Gas*" to households and other consumers through its extensive dealership network.

Petron entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. For the year ending 2018, Petron ranked third in the Malaysian retail market with a 20.9% market share based on estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data. Petron also covers the industrial segment in Malaysia, selling diesel and gasoline to unbranded mini-stations and power plants, as well as to manufacturing, plantation, transportation and construction sectors. Petron owns and operates the Port Dickson Refinery in Malaysia, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue ("LSWR"). As of June 30, 2019, Petron had 10 product terminals, a network of approximately 650 retail service stations, and about 275 convenience stores in Malaysia. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport. The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

Petron's products are primarily sold to customers in the Philippines and Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. Petron's revenues from these export sales amounted to ₱51.5 billion, or 9% of total sales, in 2018.

In 2016, 2017 and 2018, Petron's sales were ₱343,840 million, ₱434,624 million and ₱557,386 million, respectively, and net income was ₱10,822 million, ₱14,087 million and ₱7,069 million, respectively. For the six months ended June 30, 2018, Petron's sales and net income were ₱273,498 million and ₱9,502 million, compared to sales and net income of ₱254,807 million and ₱2,620 million for the six months ended June 30, 2019, respectively.

Petron's common shares are listed for trading on the PSE under the symbol "PCOR", while its Series 2 preferred shares are listed and traded on the same exchange under the symbols "PRF2A" and "PRF2B." As of June 28, 2019, PCOR had a market capitalization of ₱54,563 million with a common share price of ₱5.82.

In Malaysia, Petron's common shares for its subsidiary Petron Malaysia Refining & Marketing Bhd. are listed for trading on the Bursa Malaysia under the symbol "PETRONM."

Strengths and Strategies

Strengths

Petron believes that its principal competitive strengths include the following:

Market leadership in the Philippine downstream oil sector

With an overall market share of approximately 28.5% of the Philippine oil market for the year ended December 31, 2018 in terms of sales volume, based on estimates using its internal assumptions and calculations and industry data from the DOE, Petron believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies and other smaller players operating in the Philippines. In particular, Petron believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments.

In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines.

Petron believes that it has the most extensive distribution network for petroleum products in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes 32 terminals and airport

installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in maintaining Petron's leading position in the Philippines. Since 2011, Petron has focused on expanding its distribution network to accommodate the increasing demand across the Philippines, and will continue to invest in the expansion of its distribution network. Petron's strong participation in the different market segments such as retail, LPG and bulk industrial customer operations also plays a large role in its success in the Philippine downstream oil sector. As of June 30, 2019, Petron had over 2,400 retail service stations, an increase of approximately 86% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of June 30, 2019, Petron's retail service stations represent approximately 26% of the country's total service station count. Petron intends to grow this number to utilize the increased production from RMP-2.

Petron believes it is the leader in the LPG segment with approximately 1,100 branch stores as of June 30, 2019. Petron's industrial sales cover approximately 800 direct industrial accounts as of December 31, 2018.

Established position in the Malaysian downstream oil sector

Petron has acquired an established position in the Malaysian downstream oil sector through its acquisition of ExxonMobil's downstream oil business in Malaysia, which has a recognized health, safety and environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

For the year 2018, Petron ranked third in the Malaysian retail market with a 21.1% market share based on estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data. Petron also covers the industrial segment in Malaysia, selling diesel and gasoline to unbranded mini-stations and power plants, as well as to manufacturing, plantation, transportation and construction sectors. Petron owns and operates the Port Dickson Refinery, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. As of June 30, 2019, Petron had 10 product terminals, a network of approximately 650 retail service stations, and about 275 convenience stores in Malaysia. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport. The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

Operating a highly complex refinery

Over the years, Petron has developed and maintained a strong core base of petroleum products, and consistently made significant investments in upgrading its facilities and focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products.

RMP-2, a \$2 billion project completed in the fourth quarter of 2014, enables the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase Petron's production of petrochemical feedstock like propylene, benzene, toluene and xylene. The completion of RMP-2 has made Petron the first oil company in the Philippines capable of producing Euro IV and Euro VI-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved refinery utilization rate to about 95% and increased White Products to Black Products ratio to approximately 100% for the year ended December 31, 2018, compared to previous operating levels of approximately 57% utilization rate and White Products to Black Products ratio of approximately 80% for the year ended December 31, 2014.

Operations in markets with favorable industry dynamics

Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which Petron believes have favorable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers. According to the International Monetary Fund, the Philippine and Malaysian economies are expected to experience stable real GDP growth at annual rates of 6.74% and 4.76%, respectively, from years 2019-2022. This favorable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries. Both the Philippines and Malaysia are importers of finished petroleum products. Petron believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, giving it a significant competitive advantage over its competitors.

Differentiated service experience driving retail volumes

Petron's network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, Petron's service station provides a one-stop service experience to travelers on the road, offering amenities such as *Treats* convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations. As of June 30, 2019, Petron has over 2,400 retail service stations in the Philippines representing approximately 26% of the country's total service station count. As of June 30, 2019, Petron's LPG distribution network includes approximately 1,100 branch stores as well as 34 car care centers, 11 lube centers, and 10 motorcycle centers.

In Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the Petron brand and refurbished the stations. As of June 30, 2019, 275 of Petron's network of approximately 650 service stations in Malaysia have convenience stores. Petron has also partnered with the Royal Malaysia Police to set up "Go-to Safety Points" at selected Petron stations in Malaysia.

Petron also offers loyalty programs that complement its retail business. Petron continues to upgrade existing loyalty programs and offer new and diverse programs to cater to customers' unique needs. Some of the benefits of the program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage (Philippines). As of June 30, 2019, the extent of Petron's programs includes approximately 413,800 fleet cards in the Philippines and 185,000 in Malaysia, approximately 6 million value cards, and approximately 9.4 million Petron Miles Privilege cards.

Experienced management team and employees and strong principal shareholder in San Miguel Corporation

Petron has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, Petron has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Limay Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. Petron is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees in Petron is approximately eight years for the Philippines and 10 years for Malaysia.

Petron believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. Petron also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

Strategies

Petron's principal strategies are set out below:

Maximize production of high margin refined petroleum products and petrochemicals

Over the years, Petron has made significant investments in upgrading its facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene. The RMP-2 program, which exemplifies this strategic focus, increases revenues, reduces costs, and places the Limay Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region, improving its competitiveness. Going forward, Petron expects to continue investing in upgrading its production capability.

In the medium term, Petron will assess the viability of further expanding the Limay Refinery's value generation through upgrading its petrochemicals facilities to increase production of petrochemicals benzene, toluene and mixed xylene, and enable production of higher value para-xylenes.

Further increase market share in the downstream oil markets in the Philippines and in Malaysia

Petron intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue and margin potential.

Petron believes that the downstream oil market in the Philippines is still underserved and has a strong potential for growth. To capture this growth and further strengthen its market position, Petron will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide “value conscious” customers with a one-stop full service experience; and (v) intensifying its dealer and sales personnel training to further improve customer service experience. These initiatives will support Petron’s growing retail business and continuing service station network expansion.

In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 650 retail service stations. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians.

In addition, Petron seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers, by providing differentiated service offerings in its retail service stations and by promoting enhanced loyalty programs in both countries.

Continue investments to improve operational efficiency and profitability and to increase market reach

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at improving operational efficiency and profitability, and increasing market reach through the expansion of Petron’s service station network.

Petron also intends to enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities through a range of initiatives including: (i) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Limay Refinery; (iii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness in the spot market; and (v) reducing distribution costs through rationalization of the terminal network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. Petron also expects to continue utilizing operational synergies by leveraging on SMC’s network, products and services.

Pursue selective synergistic acquisitions

In addition to organic growth, Petron will continue to consider and evaluate selective opportunities to expand both within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business. For example, in March 2010, Petron acquired a 40% stake in Petrochemical Asia (HK) Ltd. (“**PAHL**”), which owned Philippine Polypropylene Inc. (“**PPI**”), through a wholly owned subsidiary RIHL. PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, Petron acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of the petrochemical operations of Petron. As of July 25, 2016, Petron had increased its stake in PAHL to 100%. In addition, on March 30, 2012, Petron completed its acquisition of ExxonMobil’s downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

On December 23, 2016, Petron acquired from SMC Powergen Inc. a 140MW cogeneration power plant located in the Limay Refinery, which supplies the power and steam requirements of the Limay Refinery. The acquisition is expected to lower steam and power costs.

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(P in millions, except percentages)				
Sales	343,840	434,624	557,386	273,498	254,807
Gross profit	37,715	42,655	34,562	23,176	17,301
Gross profit margin ¹	11.0%	9.8%	6.2%	8.47%	6.79%
EBITDA ²	32,189	38,343	31,803	21,515	15,893
EBITDA margin ³	9.36%	8.82%	5.71%	7.87%	6.24%
Net income before tax	14,378	18,842	10,455	12,006	3,261
Net income before tax margin ⁴	4.2%	4.3%	1.9%	4.39%	1.28%

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

Production Facilities - The Philippines

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day. It has its own piers and offshore berthing facilities, one of which can accommodate very large crude oil carriers, or VLCCs.

The Limay Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel, and diesel. In 2000, the Limay Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant, designed to produce 232,000 tons per year of mixed xylene. The Limay Refinery has a propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene and a benzene-toluene extraction unit, designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, PPI commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Limay Refinery's propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually. In July 2014, Petron acquired the polypropylene business of PPI to enhance efficiency. As a result of the acquisition, the operation of the polypropylene plant was integrated into the Limay Refinery's propylene production operation which expanded in 2015 with the commissioning of the second propylene recovery unit, increasing propylene production capacity to 415,000 tons per year. In December 2016, Petron acquired the cogeneration powerplant from SMC Powergen, Inc., which consists of four turbo generators and four fuel fired boilers. This ensures the sufficient and reliable supply of steam, power and other utilities necessary for the continuous and stable operation of the Limay Refinery.

Petron completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 metric tonnes per year, which serves the fuel additive requirements of Innospec's customers in the Asia-Pacific region. Petron is Innospec's exclusive blender in the Asia-Pacific region.

Production Facilities - Malaysia

In Malaysia, Petron owns a petroleum refinery complex located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day.

The Port Dickson Refinery produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. Petron exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil for the Port Dickson Refinery is received by means of a single buoy mooring ("SBM") and crude pipeline facilities that are jointly owned with Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) through an unincorporated joint venture. Under the joint venture, Petron shares all SBM operating and capital costs and also pays a levy of one-third of the overhead and administrative charges incurred in connection with the operation of the SBM.

Refining Process and Quality Improvement Initiatives

The Limay Refinery

The Limay Refinery has implemented various programs and initiatives to achieve key performance indices on reliability, efficiency and safety. These programs include the Reliability Availability Maintenance (“**RAM**”) program and the Profitability Improvement Program (“**PIP**”), which were developed and implemented in coordination with KBC Market Services, an independent consulting group. The RAM program resulted in improved operational availability and lower maintenance cost through higher plant reliability and a longer turnaround cycle of four to five years from the previous two years. The PIP likewise significantly improved White Products recovery, particularly diesel and LPG.

The Limay Refinery achieved its Integrated Management System (“**IMS**”) certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body, in 2009. The IMS is an integration of three management systems: (1) Quality ISO 9001:2008; (2) Environment ISO 14001:2004; and (3) Health and Safety OHSAS 18001:2007. The benefits of an IMS for the Limay Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; hazard and injury free working environment; and environmentally friendly operations. In 2018, Limay Refinery successfully passed its recertification and surveillance audit, making the refinery IMS-certified for 10 consecutive years.

The Port Dickson Refinery

The Port Dickson Refinery utilizes Quality Management Systems (“**QMS**”) in support of its operations. Embedded within the QMS are the Safety, Health and Environmental Management System (“**SMS**”), Control Management System (“**CMS**”), and Product Quality Management System (“**PQMS**”). In addition, the Port Dickson Refinery also practices the Loss Prevention System (“**LPS**”), the Reliability Management System (“**RMS**”) and plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted the QMS in 2016 to align all existing processes under one management system. SMS provides a structured approach to the management of risk related to safety, security, health and the environment (“**SSHE**”) and to comply with local SSHE regulations and laws. CMS provides a process for ensuring Corporate Policies and In-Line Controls are implemented and effectively sustained over time. PQMS provides a work process to ensure high-quality products delivered to customers. Adopting QMS was also part of the initiative to obtain ISO 9001:2015 certification. The Port Dickson Refinery was awarded with the certification on December 16, 2016.

In 2018, Port Dickson Refinery had received the Grand Award, the highest accolade by Malaysian Society for Occupational Safety and Health (“**MSOSH**”) and the Prime Minister’s Hibiscus Award for “Exceptional Achievement in Environmental Performance 2017/2018”.

To increase plant reliability, the Port Dickson Refinery adopted the RMS, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution.

The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, and energy conservation through the use of advanced process computer control and an integrated plant information system.

Raw Materials

Philippine Operations

The main raw material used in the Limay Refinery’s production process is crude oil. Petron acquires crude oil for the Limay Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco’s standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either Petron or Saudi Aramco elects to terminate the contract upon at least 60 days’ written notice prior to its expiration date. As of June 30, 2019, neither Petron nor Saudi Aramco had terminated the contract.

Petron also has a term contract with Kuwait Petroleum Corporation (“**KPC**”) to purchase Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of June 30, 2019, neither Petron nor KPC had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.

The Limay Refinery is capable of processing various types of crude oil. Petron's crude oil optimization strategy includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Limay Refinery had been processing predominantly prior to RMP-2 commissioning, to provide additional value to Petron. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude.

Petron entered into a contract for the 2019 term supply of group I and II base oils (SN500, SN150 and BS150 J500[500N] and J150[150N]) with Shell International Eastern Trading Co. and GS Caltex in December 2018. The term contract is renewable annually, subject to Petron's option, and pricing is calculated using a formula based on an international standard price benchmark for base oils. Group I and II base oils are Petron's main feedstocks for the production of automotive, industrial and marine lubricants.

Petron also imports aviation gas, asphalt and some gasoline blending components. These imports are necessary as Petron does not produce aviation gas and asphalt. Petron ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Imports of LPG, diesel, gasoline and jet fuel may also be necessary during maintenance of the Limay Refinery. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi Aramco contract prices ("**Saudi CP**") for LPG.

Malaysian Operations

The main raw materials used in the Port Dickson Refinery's production process are crude oil and condensate. Petron acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. Petron has a long-term supply contract for Tapis crude oil and Terangganu condensate with Exxon Mobil Exploration and Production Malaysia Inc. ("**EMEPMI**"), supplemented by other short-term supply contracts and spot crude purchases. Currently, Petron purchases about 65% of crude and condensate volume from EMEPMI, while the balance is sourced from other term and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks.

The Port Dickson Refinery is designed to process sweet crude oil. Petron's crude oil optimization strategy includes diversification in processing different types of local as well as regional sweet crude oil.

A portion of Petron's Palm Oil Methyl Ester ("**POME**") requirements for its bio-diesel mix are sourced from the small POME plant acquired by PMRMB last March 1, 2019. The POME plant is located in Lumut, Perak and has an annual capacity of 60,000 metric tonnes. Petron buys the balance of its POME requirements from Malaysian government-approved local suppliers. POME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. Petron produces a biodiesel mix initially comprising 5% POME and 95% diesel. Subsequently, the Malaysian Biofuel Industry Act of 2007 changed the mix to 7% POME and 93% diesel. In October 2014, the Malaysian government announced the implementation of the B7 programme (blending of 7% POME and 93% diesel) for the subsidized sector. Implementation was completed in the second quarter of 2015. In November 2018, the Malaysian government further announced implementation of Euro 2 B10 for transportation and retail sectors effective February 1, 2019 and Euro 2 B7 for industrial sectors effective July 1, 2019.

Petron also imports LPG, diesel, gasoline, jet fuel and some gasoline blending components into Malaysia since the refinery production is not enough to meet the demand. These imports are purchased through term purchase contracts and in the spot market. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline, jet fuel and some gasoline blending components, or Saudi CP for LPG.

Utilities

The principal utilities required for Petron's production process are water, electricity and steam.

Water

Deep wells provide the Limay Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal cooling water source. Water for fire-fighting purposes is sourced from a natural lagoon located within the Port Dickson Refinery complex.

Electricity and Steam

The Limay Refinery's electricity and steam requirements are sourced from the Limay Refinery's existing turbo and steam generators as well as from its cogeneration power plant. The cogeneration power plant was acquired by Petron in

December 2016 from SMC Powergen Inc., a subsidiary of SMC and an affiliate of Petron. The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

Sales and Marketing

The Philippines

In the Philippines, Petron is the leading integrated oil refining and marketing company. Petron had an overall market share of 28.5% of the Philippine oil market for the year ended December 31, 2018 in terms of sales volume based on estimates using its internal assumptions and calculations and industry data from the DOE.

Retail Service Stations

Petron had over 2,400 retail service stations in the Philippines as of June 30, 2019, representing approximately 26% of the country's total service station count, according to Petron's estimates. Most of these stations are located in Luzon, where demand is heaviest.

Petron employs two types of service station operating structures in the Philippines, namely: company-owned-dealer-operated service stations ("**CODO**") and dealer-owned-dealer-operated service stations ("**DODO**"). For CODOs, Petron buys or leases the land and owns the service station structures and equipment, but third party dealers operate the CODOs. For DODOs, third party dealers buy or lease the land, build service station structures according to Petron's specifications, lease the service station equipment from Petron, and operate the DODOs. As of June 30, 2019, approximately 30% of Petron's retail service stations in the Philippines were CODOs, and approximately 70% were DODOs.

In 2009, Petron launched its pioneering Petron Bulilit Stations, which are small service stations that provide the flexibility to establish a presence even in remote rural areas and make Petron's products and services accessible to more Filipinos.

To improve traffic in Petron's service stations and increase potential revenues of Petron's non-fuel business, Petron established Treats convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations nationwide. The Treats convenience stores were rebranded under the brand name San Mig Food Avenue in 2011 pursuant to an agreement with San Miguel Foods Inc. The convenience stores are operated by dealers through a franchise obtained from San Miguel Foods, Inc. In 2014, Petron opened two bakeshops in Manila under the brand name *Treats* with permission from San Miguel Foods, Inc. for the use of the brand name. As of June 30, 2019, there are approximately 14 *Treats* outlets nationwide.

Petron continues to install the point of sale ("**POS**") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of June 30, 2019, Petron had installed POS terminals in more than 1,400 retail service stations in the Philippines.

Industrial Sales

Petron believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. Petron had approximately 800 direct industrial account customers as of June 30, 2019.

LPG

Petron is the leading market participant in the Philippine LPG market in terms of market share. Petron has set up approximately 1,100 branch stores through its Gasul and Fiesta Gas LPG dealers as of June 30, 2019. Petron commissioned eight mini-refilling plants in the Philippines as of June 30, 2019 to broaden the reach of Petron's LPG products and make them accessible to more Filipinos.

Lubricants, Specialties and Petrochemicals

To augment lubricants and greases sales, Petron has a network of approximately 34 Car Care Centers, 11 Lube Centers and 10 Motorcycle Centers throughout the Philippines as of June 30, 2019. Petron capitalizes on its expanded LPG-outlet network by utilizing its LPG branch stores as outlets for Petron's lubricants and specialty products. Petron has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. Petron also provides technical services to Innospec's customers, and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

Petron exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

Loyalty Programs

Petron actively pursues initiatives to improve customer service and promote customer loyalty. In 2004, Petron launched the Petron Fleet Card, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services and provides 24-hour free towing and roadside assistance to cardholders. As of June 30, 2019, approximately 413,800 and 185,800 Petron Fleet Cards had been issued in the Philippines and Malaysia respectively. In 2008, Petron launched Petron e-Fuel Card as a promotional item. To maximize patronage of its service stations and related businesses, Petron launched a loyalty program in October 2011 through its Petron Value Card, which offers 24-hour free towing and roadside assistance, rewards points for every purchase and complimentary annual personal accident insurance coverage. In the fourth quarter of 2014, Petron introduced the Petron Super Driver Card, a variant of the Petron Value Card, to the public utility vehicle sector, specifically targeting the taxi and tricycle markets. As of June 30, 2019, Petron has issued approximately 6 million Petron Value Cards (including Petron Super Driver Cards).

Malaysia

Petron's fuels marketing business in Malaysia is divided into retail business and commercial sales.

Retail Service Stations

The retail business markets fuel and other retail products through a dealer network comprising about 640 retail service stations located throughout Peninsular and East Malaysia. In Malaysia, Petron uses the CODO and DODO operating structures for its retail service stations. As of June 30, 2019, approximately 63% of Petron's retail service stations in Malaysia were CODOs and approximately 37% were DODOs. About 275 of the service station sites had convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

To further enhance the customer service experience in Malaysia, Petron launched the Fuel Happy campaign in March 2015 with many marketing activities and events organized to reward and enchant the customers. Fuel Happy Campaign is on its third year and has continued to successfully deliver the objectives of the campaign.

In January 2016, Petron pioneered the country's first 100 RON fuel with the roll out of the new Blaze 100 to eight pilot sites in Klang Valley. As of June 30, 2019, Blaze 100 is available in about 80 stations, mainly located in Klang Valley and the southern city, Johor Bahru.

Industrial and Wholesale Fuels

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. Petron's sales of RON95 gasoline and diesel to unbranded mini-stations represented approximately 64% of such sales in Malaysia by volume for 2018. Sales to the mini-stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. Petron sells diesel to such power plants on an ad-hoc basis at formulated prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Prices of diesel to the manufacturing, mining, plantation and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand. Sales of diesel to selected transportation sectors are priced according to the APM. Since sales to these transportation sectors are limited to a volume granted by the Ministry, sales in excess of the approved quotas are not entitled to subsidies. Accordingly, when the government-mandated prices are lower than the fuel products' built-up costs per the APM, Petron has to manage its sales of subsidized products to ensure that such sales do not exceed the amount permitted under the approved quotas.

The Malaysian wholesale segment consists of sales, primarily of diesel, to distributors appointed by Petron, which subsequently sell Petron's products to industrial customers. As of June 30, 2019, Petron had about 208 active distributors. The fuel business in Malaysia is regulated by the Malaysian government, and Petron is affected by Malaysian government policies and regulations relating to the marketing of fuel products.

In Malaysia's aviation sector, Petron is one of the three major jet fuel suppliers at KLIA and KLIA 2 pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the KLIA's storage and hydrant facility.

LPG

Petron markets LPG in 12-kg, 14-kg, 14-kg forklift gas and 50-kg cylinders for domestic use through redistribution centers, stockists and dealers. LPG redistribution centers are owned by Petron and distribute bottled LPG to dealers. Stockists are dealer-owned and distribute cylinders to other dealers. Dealers generally collect bottled LPG directly from redistribution centers and stockists for onward sale to domestic consumers. Prices of 12-kg and 14-kg cylinders are regulated under the APM. On April 5, 2018, Petron launched Petron Gasul LPG sales at service stations. It was the first-time customers could purchase their LPG cooking gas at service stations.

Petron also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 14-kg forklift gas, 50-kg and bulk LPG are not covered by the APM. [See “*Sale and Pricing of Refined Petroleum Products — Price Control and Anti Profiteering Act, 2011*” for a more detailed discussion of the APM and the Malaysian quota system.]

Lubricants and Specialties

Petron established a lubricants and specialties segment in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia to various industry segments, namely, car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. Petron’s wide range of automotive lubricants is sold through Petron’s extensive network of service stations in Malaysia.

Petron exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

Loyalty Programs

Since acquiring its Malaysian operations in March 2012, Petron has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. Petron rebranded its loyalty card programs to Petron Miles Privilege Cards in April 2014 as part of its rebranding program in Malaysia. As of June 30, 2019, approximately 9.4 million Petron Miles Privilege Cards had been issued in Malaysia.

Distribution

The Philippines

Petron’s main storage facility in the Philippines was formerly located in Pandacan, Manila. The reclassification by local authorities of the area occupied by the Pandacan terminal prohibited the continued operation of Petron’s facility in Pandacan as a petroleum storage facility and necessitated relocation to other alternative sites in Luzon. Petron ceased its petroleum product storage operations in Pandacan in January 2015.

To serve its domestic markets, Petron maintains 32 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 12 terminals in Luzon, 8 in the Visayas and 8 in Mindanao, as well as two airport installations in Luzon, and two in Mindanao. Terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Limay Refinery, refined products are distributed to the various terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third party ship owners. From the storage terminals, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third party owners of the contracted barges and tankers and tank trucks that are used to haul Petron’s products are liable for losses and environmental issues that may arise while the products are being transported.

In its Philippine LPG business, Petron has a nationwide network of retail dealerships and outlets. Some service stations carry Petron’s LPG products and accessories. Petron has stand-alone LPG operations in its terminals in Pasig City, Legaspi City and San Fernando in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are appointed to sell these products. Petron has a tolling agreement with Innospec for the blending of fuel additive products in its fuel additive blending plant in the Subic Bay Freeport Zone in the Philippines.

Petron has airport installations at the Ninoy Aquino International Airport and three other airports located in major urban centers in the Philippines. These installations provide storage of aviation fuels as well as refuelling services for various aircraft. In addition, Petron has presence in the airports of Puerto Princesa and Clark in Luzon, Mactan, Bohol, Kalibo, Caticlan and Iloilo City in the Visayas, as well as in Zamboanga City in Mindanao via mobile into plane refuelling equipment.

Malaysia

Production from the Port Dickson Refinery is distributed to service stations through tank trucks that lift products via the Port Dickson Terminal's tank truck loading facilities. These loading facilities are connected to the storage tanks inside refinery. Refinery production is also sent to Klang Valley Distribution Terminal (“**KVDT**”) through a pipeline. Tank trucks lift products from KVDT for delivery to Petron stations. The other terminals source product through imports from Singapore. Products are lifted from the terminals via tank trucks and delivered to service stations.

Jet fuel is transported from the Port Dickson Refinery to KLIA through a multi-product pipeline (the “**MPP**”), which is partly owned by Petron through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad (“**PDB**”) and Shell Malaysia Trading Sdn Bhd (“**Shell Malaysia**”), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia. Aside from transfer through the MPP, jet fuel is also transported by truck from KLIA to Subang Airport.

The joint venture through which Petron owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal, where inventory is commingled. Petron has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the Klang Valley Distribution Terminal. In 2015, Petron completed a project linking the Port Dickson Refinery to the MPP in order to improve Petron’s logistics and reduce the cost of delivery to service stations in the Klang Valley area, a major market. Petron commenced the transport of gasoline and diesel through the MPP to the Klang Valley Distribution Terminal in the second quarter of 2015.

LPG is bottled at the Port Dickson and Westport terminals. Most redistribution centers and stockists collect bottled LPG directly from the Port Dickson and Westport terminals. Petron has an LPG storage and bottling facility at West Port (part of Port Klang, the principal port facility serving the Klang Valley), which is a 50-50 joint venture between Petron and Boustead Petroleum Marketing Sdn Bhd. Both terminals also load for Bulk LPG customers. Petron has contracted new third party bottling facilities to expand the reach of its Gasul cylinders. Among these are Siraga in Ipoh and Sikap Mawar.

Contribution of foreign sales to revenues

Petron’s revenues from foreign sales amounted to ₱243,644 million or 44% of total revenues for the year ended December 31, 2018. Petron’s revenues from foreign sales amounted to ₱101,917 million or 40% of total revenues for the period ended June 30, 2019.

Competition

The Philippines

The Philippine downstream oil industry is dominated by three major oil companies: Petron, Shell and Chevron, which, based on estimates of Petron based on its internal assumptions and calculations and industry data from the DOE for the year 2018, together constituted 57.5% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 other industry market participants, rendering the petroleum business more competitive. Petron, with total crude oil distillation capacity of 180,000 barrels per day, and Shell, with total crude oil distillation capacity of 110,000 barrels per day, operate the only petroleum refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, Petron competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

Petron participates in the reseller (service station), industrial, LPG and lube sectors through its network of service stations, terminals, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seaoil and other new participants in major thoroughfares. Petron has approximately 2,400 retail service stations as of June 30, 2019, representing approximately 26% of the country’s total service station count of about 9,300, reaching more customers throughout the Philippines. The small market participants continued to grow, with station count

increasing from 695 in 2001 to more than 2,500 stations as of December 31, 2018. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of major LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among approximately 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues. Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

Petron is the leader in the Philippine downstream oil industry, with an overall market share of 28.5% of the Philippine oil market in the year ended December 31, 2018. The other two major oil companies have a combined market share of about 29.0%, in terms of sales volume based on estimates using its internal assumptions and calculations and industry data from the DOE. Approximately 200 smaller oil market participants, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. Petron believes that it is the leader in terms of sales volume in the retail, industrial and LPG market segments based on estimates using its internal assumptions and calculations and industry data from the DOE in the year ended 2018. Petron's retail sales volumes for the years ended 2016, 2017 and 2018 were approximately 58,000 barrels per day, 63,000 barrels per day, 59,000 barrels per day, respectively. Petron's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2016, 2017 and 2018 were approximately 126,000 barrels per day, 117,000 barrels per day, and 118,000 barrels per day, respectively.

Petron believes that its competitive advantages include organization, technology, assets, resources and infrastructure. Petron continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

Malaysia

In the retail service station business, Petron's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHPetrol. Of these competitors, Petronas also has refinery operations in Malaysia. Market players compete in terms of product quality, customer service, operational efficiency and extent of distribution networks. Pricing of gasoline and diesel at retail service stations is not a competitive factor since the Malaysian government regulates the pricing these products through the APM. [See "Regulatory and Environmental Matters—Malaysia —Sale and Pricing of Refined Petroleum Products— Price Control and Anti Profiteering Act, 2011."]

Despite being the newest participant in the market, Petron continued to grow its retail market share to 20.9%, with approximately 640 service stations in Malaysia as of December 31, 2018. With Petron's customer-centric programs, completion of the rebranding of service stations and facilities, continuous implementation of retail network expansion program, introduction of new product lines, and improvements in logistics and refinery capabilities, Petron believes that it is well positioned to compete in the retail segment.

Petron continues to face intense competition in the industrial, aviation and wholesale market segments from other local and multi-national oil companies. Petron uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Major participants resort to aggressive pricing in these segments in order to expand market share. The aviation market is also very competitive, as the three local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability. In the LPG segment, Petron competes with Petronas and NGC Energy Sdn Bhd, among others. The APM applies only for sales of LPG in domestic cylinders while industrial and bulk LPG are not covered. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. Petron, being well established, remains competitive in this segment. Overall, Petron's commercial sales volume registered significant growth in all sectors as a result of Petron's reliable and steady supply of quality fuel to sectors such as transportation, manufacturing, construction, mining, agriculture, and power generation. Petron's retail sales volumes for the years ended 2016, 2017 and 2018 were approximately 68,000 barrels per day, 73,000 barrels per day, 80,000 barrels per day, respectively.

The lubricants and specialties market is dominated by the traditional global brands as well as established local participants. Petron leverages on its growing network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. Petron believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain, and national consumer promotion through service station and independent workshops.

Health, Safety and Environmental Matters

Petron is guided by its Corporate Health, Safety and Environment Policy (the “**Corporate HSE Policy**”). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of Petron. Petron has a Corporate Technical Services Group (“**CTSG**”) responsible for formulating, implementing and enforcing its employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations in the Philippines.

Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, Petron engages in research and development to identify improvements that can be made to its products and production processes. Petron’s R&D Department engages in various technical research and testing activities to develop and enhance the performance of the products and optimize production processes. In addition to research and product development, it also engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of Petron.

R&D develops revolutionary products that meet and exceed the highest industry quality standards. Petron utilizes appropriate technology in developing new fuel and lubricant products to improve product’s performance, quality level and cost-effectiveness. R&D also continuously seeks ways on developing more eco-friendly petroleum products. Petron remains fully compliant with all government laws and regulations such as the Clean Air Act and the Biofuels Act.

In addition to these regulations, Petron also secures stringent certifications and approvals from global industry certifying institutes and original equipment manufacturers to be more competitive both in local and international markets. These approvals are applicable to specific Petron products in the Philippines, Malaysia, China, Brunei, and Cambodia.

Petron believes that its continued success is influenced in part by its ability to be innovative and attentive to consumer preferences and local market conditions. Expenses relating to research and development amounted to approximately ₱66 million in 2016, approximately ₱75 million in 2017, and approximately ₱86 million in 2018, which are equivalent to about 0.02% of total revenues in 2016, 2017, and 2018. The annual increase of expenses relating to research and development is roughly 12% to 13% in the past 3 years.

As of December 31, 2018, R&D has 33 regular employees. Its testing facilities are ISO/IEC17025 certified – a testament to its ability to perform tests and analyses in accordance with global standards. R&D also has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

Effect of existing or probable government regulations on the business

- Tax Reform for Acceleration and Inclusion (the “**TRAIN Law**”). Republic Act No. 10963 or the TRAIN Law, which took effect on January 1, 2018, imposes a phased increase in excise taxes on petroleum products from 2018 to 2020. The schedule of increase for this three (3)-year period is P2.65-P2-P1 per liter (“/li”) per year for gasoline, P2.50-P2-P1.50/li for diesel and fuel oil, P1-P1-P1/kg for LPG, and P0.33-P0-P0/li for jet fuel. The incremental excise tax is further subject to 12% VAT. Higher excise taxes can potentially constrain demand growth, especially for LPG given there are substitutes such as charcoal, kerosene and electric, and gasoline with public transportation as alternative.

The TRAIN law also mandates the implementation of a fuel marking program to help curb illicit trading of fuel products. While the program is yet to be fully implemented, the cost of the program may also lead to possible increase in fuel prices.

- Biofuels Act of 2006 (the “**Biofuels Act**”). The Biofuels Act and its implementing circulars mandate that gasoline and diesel volumes contain 10% bioethanol and 2% biodiesel/cocomethyl ester (“**CME**”) components, respectively. To produce compliant fuels, the Company invested in CME injection systems at the Petron Bataan Refinery and the depots. On the bioethanol component, the DOE issued in June 2015 its Circular No. 2015-06-0005 entitled “Amending Department Circular No. 2011-02-0001 entitled Mandatory Use of Biofuel Blend” which currently exempts premium plus gasoline from the 10% blending requirement.
- Renewable Energy Act of 2008 (the “**Renewable Energy Act**”). The Renewable Energy Act aims to promote development and commercialization of renewable and environment-friendly energy resources (e.g., biomass, solar, wind, hydro, geothermal) through various tax incentives such as seven (7)-year income tax holiday and duty-free importation of renewable energy equipment and machinery. The sale of power generated from these sources is also

exempt from value-added tax under the TRAIN Law. The growth in renewable energy may displace or reduce use of oil-based power plants affecting the Company's sales to the power sector.

- Clean Air Act of 1999 (the “Clean Air Act”). The Clean Air Act established air quality guidelines and emission standards for stationary and mobile equipment. It also included the required specifications for gasoline, diesel and IFO to allow attainment of emission standards. Petron invested in a gasoil hydrotreater plant and an isomerization plant to enable it to produce diesel and gasoline compliant with the standards set by law.
- Laws on Controlled Chemicals (Presidential Decree No. 1866 as amended by Republic Act No. 9516). The implementing rules and regulations for this amended law were approved on June 9, 2016 and listed the chemicals under the control of the Philippine National Police. These rules reduced the controlled list from 101 to 32 chemicals and further classified 15 chemicals as high-risk and 17 as low-risk substances. The rules also outline the procedures for regulating, storing, handling and transporting chemicals.
- Department Circular 2019-05-008. The Department of Energy issued this circular to require oil companies to submit a detailed computation, with corresponding explanation and supporting documents, of the cost components of liquid fuel and LPG on a per litre and per product basis. The circular has not been implemented following the temporary restraining orders and writs of preliminary injunction issued by the Regional Trial Courts in Taguig and Mandaluyong.
- Compliance with Euro 4 standards. In September 2010, the DENR issued Administrative Order 2010-23 mandating that, by 2016, all new motor vehicles that would be introduced in the market shall comply with Euro 4 emission limits, subject to Euro 4 fuel availability. In June 2015, the DOE issued Circular 2015 - 06-0004 entitled “Implementing the Corresponding Philippine National Standard Specifications (PNS) for the Euro 4/IV PH Fuels Complying with the Euro 4/IV Emissions” directing all oil companies to adopt Euro4-compliant fuels. With its RMP-2, Petron is the first company in the Philippines capable of producing Euro 4-standard fuels. In 2017, Petron launched the country's cleanest and most advanced gasoline that meets Euro 6 standards, the most stringent fuel technology and emission benchmark in the world today.
- Department Circular 2014-01-0001. The DOE issued Department Circular 2014-01-0001 directed at ensuring safe and lawful practices by all LPG industry participants as evidenced by standards compliance certificates. The circular also mandates that all persons engaged or intending to engage as a refiller of LPG shall likewise strictly comply with the minimum standards requirements set by the DTI and the DOE. The circular imposes penalties for, among others, underfilling, illegal refilling and adulteration.
- Laws on Oil Pollution. To address issues on marine pollution and oil spillage, the Maritime Industry Authority (“MARINA”) mandated the use of double-hull vessels for transporting black products beginning end-2008 and white products by 2011. Petron has been using double-hull vessels in transporting all its products.
- Oil Marine Pollution Circulars. The Philippine Coast Guard has memorandum circulars prescribing the rules and regulations on the prevention, containment, abatement and control of oil marine pollution by all marine vessels, coastal and offshore facilities and other facilities utilizing or storing petroleum products. The circulars identify the prohibited acts and provide the penalties.
- Anti-Competition Law (the “Philippine Competition Act”). The Philippine Competition Act, approved in July 2015, prohibits anti-competitive agreements, abuses of dominant positions, and mergers and acquisitions that limit, prevent, and restrict competition. To implement the national competition policy and attain the objectives and purposes of the law, the Philippine Competition Commission (“PCC”) was created. Among the powers of the PCC is the review of mergers and acquisitions based on factors it may deem relevant. The PCC, after due notice and hearing, may impose administrative fines on any entity found to have violated the provisions of the law on prohibited arrangements or to have failed to provide prior notification to the PCC of certain mergers and acquisitions. The PCC is empowered to impose criminal penalties on an entity that enters into any anti-competitive agreement and, when the entities involved are juridical persons, on its officers, directors, or employees holding managerial positions who are knowingly and willfully responsible for such violation.
- Amended Price Freeze Act of 2013. This law mandates the implementation of a 15-day price freeze of basic necessities, including LPG and kerosene, for areas declared under a state of emergency or calamity.
- Executive Order 890: Removing Import Duties on All Crude and Refined Petroleum Products. After the ASEAN Trade in Goods Agreement was implemented in 2010, the tariff rate structure in the oil industry was distorted with crude and product imports from ASEAN countries enjoying zero tariff while crude and product imports from outside the ASEAN were levied 3% tariff. To level the playing field, Petron filed a petition with the Tariff Commission to

apply the same tariff duty on crude and petroleum product imports, regardless of source. In June 2010, the government approved Petron's petition and issued Executive Order 890 which eliminated import duties on all crude and petroleum products regardless of source. The reduction of duties took effect on July 4, 2010.

- Bill LPG Regulatory Framework. The LPG Bill, currently pending in the Philippine Congress, will mandate stricter standards on industry practices.
- Bill to Exempt Petroleum Products from VAT. This bill, currently pending in the Philippine Congress, proposes that the sale of gasoline, oil, LPG, and other petroleum products, among others, be exempt from the imposition of VAT.

ENERGY BUSINESS

SMC operates its energy business through its wholly-owned subsidiary, SMC Global Power.

SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,197 MW of combined capacity as of June 30, 2019 and benefits from a portfolio of diversified fuel sources, including natural gas, coal, hydroelectric power and more recently, battery energy storage systems. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.

SMC entered the power industry in 2009 following the acquisition of rights to administer the output produced by IPPs in privatization auctions conducted by the Government through PSALM. The following companies under the SMC Group became the IPPA of the following plants: (1) SMEC became the IPPA for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) SPDC became the IPPA for the San Roque Power Plant, a hydroelectric power plant located in San Manuel, Pangasinan in January 2010; and (3) SPPC became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010 (the Ilijan Power Plant, Sual Power Plant and San Roque Power Plant are collectively referred to as the IPPA Power Plants).

An IPPA under the relevant IPPA agreement has the right to sell electricity generated by the power plants owned and operated by the relevant IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has 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 WESM.

In September 2010, SMC consolidated its power generation business through the transfer of its equity interests in SMEC, SPDC and SPPC to SMC Global Power. SMC Global Power also became a wholly-owned subsidiary of SMC. Since then, SMC Global Power has controlled the 2,545 MW combined contracted capacity of the IPPA Power Plants through the IPPA agreements executed by SMEC, SPDC and SPPC, respectively.

Building on its experience as an IPPA since SMC's transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant which is owned by SMCP, its wholly-owned subsidiary, and the 4 x 150 MW Limay Greenfield Power Plant which is owned by SCPC, another wholly-owned subsidiary. Units 1, 2 and 3 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017 and March 2018, respectively, while Unit 4 has completed testing and commissioning and is expected to commence commercial operations in the third quarter of 2019 once the ERC issues its certificate of compliance. Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. In November 2014, SMC Global Power, through its subsidiary PVEI, acquired a 60% stake in AHC, the owner and operator of the 218 MW AHEPP. More recently, on March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests in SMCP Masin AES Phil and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy. On September 19, 2018, PEGC, a wholly-owned subsidiary of SMC Global Power, and OPGC purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project under construction comprising the Masinloc Power Plant, and the Masinloc BESS, all located in Masinloc, Zambales, while SMCGP Philippines Energy has commenced pre-construction of the Kabankalan BESS.

As part of the purchase relating to the Masinloc power assets, SMC Global Power also acquired SMCGP Transpower and 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.

In July 2018, PEGC 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 Power 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 Masinloc Power Plant in Zambales Province is located.

In September 2018, PEGC and OPGC, another wholly-owned subsidiary of SMC Global Power, purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCP, SMELC and MPPCL, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

The following table sets forth selected data in respect of SMC Global Power's power generation assets and interests as of the date of this Offer Supplement.

	Operational IPPA Plants			JV Plant	Newly Acquired Plant	Greenfield Plants	
	Sual	Ilijan	San Roque	Angat	Masinloc and Masinloc BESS	Davao	Limay
Type	Coal	Natural Gas	Hydro	Hydro	Coal and Battery	Coal	Coal
Commercial Operations Date ...	1999	2002	2003	1967 (112 MW), 1968 (100 MW), 1978 (6 MW)	1998 (660 MW), 2018 (14 MW), 2018 (10 MW), 2019E (335 MW)	2017 (150 MW), 2018 (150 MW)	2017 (300 MW), 2018 (150 MW), 2019E (150 MW)
Year of Acquisition	2009	2010	2010	2014	2018	—	—
Total Installed Capacity (MW) ⁽¹⁾	1,000	1,200	345	218	1,019	300	600
Technology	Pulverized Coal	Combined Cycle	Storage Hydropower	Storage Hydropower	Pulverized Coal and Battery Energy Storage System	Circulating Fluidized Bed	Circulating Fluidized Bed
Emission Levels							
NOx (ppm)	223.8	—	—	—	97.0	76.1	101.1
Sox (ppm)	390.8	—	—	—	108.1	25.7	70.3
PM (Mg/Nm ³)	15.6	—	—	—	54.4	3.4	6.5
Operator	TeaM Sual Corp.	KEILCO	SRPC	AHC	MPPCL	Safetech	Mantech
Offtakers ⁽²⁾	Meralco, ECs, DUs, DCCs, Third-Party RES, WESM	Meralco, WESM	Intercompany ⁽³⁾ WESM	WESM	Meralco, DUs, CCs, WESM	ECs, DUs, Industrial customers	DCCs, ECs, DUs, CCs
IPPA Expiry / Asset Transfer Date ⁽⁴⁾	2024	2022	2028	N/A	N/A	N/A	N/A

Notes:

- (1) *Includes expected capacity following the expected commencement of commercial operations of (i) Unit 4, Limay Greenfield Power Plant and (ii) Unit 3, Masinloc Power Plant, which are excluded in the calculation of SMC Global Power's combined installed capacity as of [June 30], 2019.*
- (2) *DUs: Distribution Utilities; ECs: Electric Cooperatives; CCs: Contestable Customers; DCCs: Directly Connected Customers.*
- (3) *Within the SMC Global Power group.*
- (4) *Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028, respectively.*

SMC Global Power is also engaged in distribution and retail electricity services. In 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO, which is the franchise holder for the distribution of electricity in the province of Albay in Luzon. SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three RES licenses issued to SMC Global Power, through SMELC, SCPC and MPPCL, allowed it to enter into contracts with contestable customers and expand its customer base.

SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, also owns coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. While SMC Global Power does not intend to develop these sites imminently, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

For the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019, SMC Global Power sold 15,758 GWh, 15,707 GWh, 20,274 GWh, 10,229 GWh and 13,635 GWh of power pursuant to bilateral offtake agreements and 1,588 GWh, 1,520 GWh, 3,590 GWh, 1,174 GWh and 1,000 GWh of power through the WESM, respectively. For the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019, SMC Global Power purchased 767 GWh, 684 GWh, 1,144 GWh, 616 GWh and 759 GWh of power from the WESM, respectively.

For the year ended December 31, 2018, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱120,103 million, ₱8,300 million and ₱10,717 million, respectively. For the six months ended June 30, 2019, the total consolidated revenue, net income and EBITDA of SMC Global Power was ₱72,511 million, ₱7,263 million and ₱4,987 million, respectively. As of June 30, 2019, SMC Global Power had total consolidated assets of ₱532,979 million.

Expansion Projects

SMC Global Power has expansion projects which are nearing completion namely, Unit 4 of the Limay Greenfield Power Plant (150 MW), has commenced commercial operations after receiving the certificate of compliance from the ERC last July 26, 2019 and Unit 3 of the Masinloc Power Plant (335 MW), is expected to commence operations in the fourth quarter of 2019. In addition, SMC Global Power has commenced pre-construction of the Kabankalan BESS (20MW) with one of the leading battery EPC contractors worldwide. The Kabankalan BESS is expected to commence operations in 2020. The expansion of the Masinloc Power Plant (Unit 3) is fully funded and once completed will increase its capacity by approximately 51%. Unit 3 of the Masinloc Power Plant is expected to contribute to SMC Global Power's full year financials for the year 2020. SMC Global Power also owns 73.58% of the equity interests in Mariveles Power Generation Corporation ("MPGC"), which intends to develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB coal-fired power plant and associated facilities in Mariveles, Bataan, expected to commence operations in 2022. SMC Global Power, through its wholly-owned subsidiary, Central Luzon Premiere Power Corp. ("CLPPC"), plans to pursue further expansion of its power portfolio through the development and construction of a new power plant located in Pagbilao, Quezon with a planned installed capacity of 4 x 150 MW and which is expected to commence operations in 2023. MPGC and CLPPC have signed PSAs with Meralco for a combined 1,200 MW, which agreements have been filed with, and are pending approval of, the ERC.

Strengths and Strategies

Strengths

Industry leader with a strong growth platform.

SMC Global Power and its subsidiaries form one of the largest power companies in the Philippines with a combined installed capacity of 4,197 MW as of June 30, 2019 and an attributable installed capacity of 4,110 MW, which SMC Global Power believes is one of the highest among Philippine power producers. SMC Global Power controls the capacities of among the largest baseload plants in the Philippines, including the Sual Power Plant (the largest coal-fired power plant in the Philippines) and the Ilijan Power Plant (the largest natural gas power plant in the Philippines). The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, which have a combined contracted capacity attributable to SMC Global Power of 2,545 MW.

SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC, SMCPC and MPPCL, the owners of the Limay Greenfield Power Plant, the Davao Greenfield Power Plant and the Masinloc Power Plant, respectively. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for power plant construction, or to bear any related development risk or ongoing maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell the power generated by the IPPs either pursuant to bilateral offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

SMC Global Power's experience in acting as IPPA and its history of power plant ownership and operation has enabled it to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power embarked on its own greenfield power projects and pursued strategic acquisitions. It believes that it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity, including NPC-owned power generation plants that are scheduled for privatization as asset sales or under the IPPA framework, cost competitive baseload plants and renewable energy power plants.

To capitalize on changes in the Philippine regulatory structure, SMC Global Power, through SMELC, SCPC and MPPCL, holds RES licenses from the ERC, allowing the entry into offtake agreements with contestable customers. SMC Global Power, through SMEC and its subsidiaries, also maintains coal concession assets which, depending on prevailing global coal prices and the related logistical costs, may be tapped to serve as a back-up fuel source for its greenfield coal-fired power plants.

SMC Global Power is expected to expand its market leadership with its ongoing and future expansion that is anchored on cost competitive baseload plants. In addition, SMC Global Power is actively pursuing battery storage technology investments and initiatives in the Philippines that will help regulate the transmission grid over the Philippine archipelago, which is inherently prone to voltage and frequency instability.

Well-positioned to capture future demand growth.

Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya may result in a reduction of energy generated by natural gas power plants by 2024. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the expected power supply shortage. The latter is exacerbated by an existing base of old Government-owned power plants, which are nearing the end of their useful life, as well as a large base of seasonal power supply, such as hydropower plants in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in battery technology, hydroelectric power and solar power projects.

SMC Global Power's expansion projects under construction and nearing completion include Unit 4 (150 MW) of the Limay Greenfield Power Plant and Unit 3 (335 MW) of the Masinloc Power Plant. In addition, SMC Global Power has commenced pre-construction of the Kabankalan BESS (20 MW) with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 73.58% of the equity interests in MPGC, which plans to develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB coal-fired power plant and associated facilities in Mariveles, Bataan. SMC Global Power is considering the further expansion of its power portfolio through the development and construction of a new power plant located in Pagbilao, Quezon with a planned installed capacity of 600 MW.

In addition, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increase in electricity demand.

Stable and predictable cash flows.

SMC Global Power, through its subsidiaries, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. A substantial portion of the combined installed capacity of SMC Global Power is covered by bilateral contracts that cover the term of the IPPA Agreements, where applicable. Revenue from bilateral contracts with offtakers contributed 95%, 95%, 91%, 93% and 93% of total revenue for the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019, respectively. For the six months ended June 30, 2019, approximately 49% and 44% of SMC Global Power's consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on the publicly available disclosures of Meralco, the largest distribution utility in the Philippines, SMC Global Power believes that it is Meralco's largest power supplier as of June 2019, supplying approximately 33% of Meralco's power purchases. In addition, SMC Global Power is a dominant player in the RES markets where it operates, based on data obtained from the ERC as of June 2019.

These offtake agreements provide SMC Global Power, through its subsidiaries, with stable and predictable cash flow by enabling it to manage both market and price risks. Despite the general volatility in market prices for electric power due to supply and demand imbalances, SMC Global Power has been able to manage such risks through the contracted sale prices with offtakers, which also provide a long-term stable source of demand. Majority of the tariffs under these agreements take into account adjustments for fuel, foreign exchange, and inflation, thereby allowing SMC Global Power to pass through these costs to its offtakers. In addition, SMC Global Power's diversified portfolio of baseload and peaking power plants helps mitigate market risks through long-term, intercompany, replacement power contracts.

Flexible and diversified power portfolio.

SMC Global Power has a portfolio that includes some of the newest and largest power plants in the Philippines. The baseload and peaking plants with diversified fuel sources of SMC Global Power allow it to manage costs and offer more competitive baseload power rates.

As of June 30, 2019, the power portfolio of SMC Global Power consists of (i) the IPPA Power Plants administered by SMC Global Power, through its subsidiaries, as the IPPA (comprised of Sual Power Plant with SMEC as IPPA representing 24% of SMC Global Power's capacity, the San Roque Power Plant with SPDC as IPPA representing 8% of SMC Global Power's capacity and the Ilijan Power Plant with SPPC as IPPA representing 29% of SMC Global Power's capacity), (ii) the AHEPP, through AHC, which represents 5% of the capacity of SMC Global Power, and (iii) the power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 11% of the capacity of SMC Global Power, the Davao Greenfield Power Plant, which represents 7% of the capacity of SMC Global Power, and the Masinloc Power Plant (with the Masinloc BESS), which represents another 16% of the capacity of SMC Global Power.

Power generated by the Sual Power Plant, Ilijan Power Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant, is primarily used as baseload supply and sold to customers pursuant to bilateral offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates. The entire capacity of the 10 MW Masinloc BESS is contracted to the NGCP and provides regulating reserve ancillary services to the Luzon Grid under an Ancillary Services Procurement Agreement.

As of June 30, 2019, SMC Global Power's coal-fired plants accounted for approximately 58% of its capacity. This is guided by the existing energy policy of the Government to provide relatively inexpensive and reliable power to residential and commercial customers without the need for subsidies or escalating tariffs. Feed-in-tariffs for renewable energy projects have been phased out by the Government, which makes it more challenging to embark on large-scale renewable energy projects.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of SMC Global Power and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuels cost competitiveness. SMC Global Power and its subsidiaries can

enter into bilateral contracts and trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA Power Plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

Established relationships with world class partners.

The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

A member of the SMC Group

The principal shareholder of SMC Global Power, SMC, is one of the largest and most diversified conglomerates in the Philippines in terms of revenues and assets and is listed on the PSE. In addition to its power business, SMC has market-leading businesses in vital industries that support the economic development of the country, including food and beverages, packaging, fuel and oil, infrastructure, property and investments in car distributorship and banking.

Under the stewardship of SMC, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period of time. SMC provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior management to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of SMC, SMC Global Power believes that it can benefit from potential revenue and operational synergies and potentially provide a large captive energy demand base for SMC Global Power.

Experienced and highly competent management team

The senior management of SMC Global Power has extensive experience in the Philippine power industry and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, TransCo, NGCP, PEMC and ERC, as well as other government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have an average of more than 25 years of experience in executive management and related government experience in the power industry, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

Strong commitment to stringent environmental policies and pollution controls.

SMC Global Power closely supervises, controls and process improvements in the power plants it owns and operates to ensure that regulated emission are within and below applicable environmental compliance standards. For example, SMC Global Power uses CFB technology in its Limay Greenfield Power Plant and Davao Greenfield Power Plant. CFB technology is a technology employed to transform coal into a fuel source that is relatively low in pollutant emissions. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as burning coal at low temperature and pressure, chemically washing minerals and impurities from the coal, gasification, treating the flue gases with steam to remove sulfur dioxide, carbon capture and storage technologies to capture the carbon dioxide from the flue gas and dewatering lower rank coals (brown coals) to improve the calorific value, thereby improving the efficiency of the conversion into electricity. In addition, CFB plants have other elements that reduce emissions, such as fine coal grinders, limestone injections, and electrostatic precipitators to capture dust particles that escape the boiler. See “*Safety, Health and Environmental Regulation and Initiatives.*”

In 2018, SMC Global Power won the following Asian Power Awards: Environmental Upgrade of the Year (Limay Greenfield Power Plant), Power Utility of the Year (Davao Greenfield Power Plant) and Innovative Power Technology of the Year Philippines (Masinloc Power Plant). The Asian Power Awards recognize ground-breaking projects and trailblazing initiatives in the power sector in Asia.

Moreover, SMC Global Power has dedicated teams who monitor environmental compliance with international standards. For example, the Sual Power Plant has an Environmental and Management System Certificate (ISO 14001), Occupational Standard on Health Safety Certificate (ISO 18001) and Quality Management System Certificate (ISO 9001). The same ISO certifications were received by the Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate (ISO 18001) in 2014.

Strategies

Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins.

SMC Global Power (a) proactively manages its sales in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (ii) engaging in power trading through the WESM, and (b) optimizes the operations of its power plant portfolio through maximizing plant utilization, improving individual account and plant margins and minimizing the impact of supply interruptions. This approach provides SMC Global Power with the certainty and predictability of sales from its contracted capacity while being able to realize trading opportunities from the WESM to enhance its margins. The objective of SMC Global Power is to supply power based on the least cost, and to sell available excess power through the WESM at favorable prices.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of its power plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque Power Plant or with energy purchased from the WESM. In the event of tripping or shutdown of either the Sual Power Plant or Ilijan Power Plant, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

Continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments.

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity. As of the date of this Offer Supplement, SMC Global Power believes that coal remains the most reliable and cost-efficient fuel source for greenfield power projects and is using and will continue to use clean coal technology for its planned and existing greenfield power plants.

In addition to its strategy to grow its power portfolio, SMC Global Power is focused on further investments in battery technology to add to the existing 10 MW Masinloc BESS and the planned 20 MW Kabankalan BESS, currently under pre-construction. SMC Global Power also actively seeks to identify and pursue renewable energy investments such as hydroelectric power and solar power projects, subject to the outcome of viability and feasibility analyses. This is in line with SMC Global Power's objective to operate in an environmentally-responsible manner, while taking into consideration energy security and affordability to its consumers.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon Grid and Visayas Grid, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in areas with the closest proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. See “— Overview — Expansion Projects.” SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power is confident from its experience in building the Limay and Davao Greenfield Power Plants that it will be able to build new cost competitive plants.

Vertically integrate complementary businesses in order to diversify its energy portfolio.

SMC Global Power continues to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained RES licenses, through SMELC, SCPC and MPPCL, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES licenses allow SMC Global Power to enter into retail electricity supply agreements with contestable customers. In addition, SMC Global Power has invested in distribution assets, namely OEDC and APEC, which create a competitive advantage through integrated generation and distribution operations.

Furthermore, depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could initiate coal exploration, development and production rights over approximately 17,000 hectares of land in Mindanao held through SMEC and its subsidiaries. SMC Global Power could develop these assets, which could potentially provide a significant additional source of coal fuel for its planned and existing greenfield power plants. SMC Global Power believes that the successful integration of viable coal mining operations into its power generation business could provide it with an additional competitive advantage over its competitors in the local power industry.

Continue to pursue and develop measures to reduce gas emissions and operate power plants within and below applicable environmental compliance standards.

SMC Global Power intends to continuously supervise, control and improve processes in the power plants it owns and operates to ensure that regulated emission from operations are within and below applicable environmental compliance standards. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards. See “— Safety, Health and Environmental Regulation and Initiatives.”

Leverage operational synergies with the SMC Group

SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with the other subsidiaries and affiliates of SMC for the sale and supply of power. In addition, SMC Global Power, through its subsidiaries, Daguma Agro, Bonanza Energy and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

POWER GENERATION FACILITIES

Sual Power Plant

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999. It is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer (“**BOT**”) scheme that expires on October 24, 2024. In 2007, TeaM Energy, a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

On September 1, 2009, SMEC, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the capacity of the Sual Power Plant in accordance with the provisions of the Sual IPPA Agreement.

Sual IPPA

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement. TeaM (Philippines) Energy Corporation, an affiliate of TeaM Energy, is allowed to sell the remaining balance of 200 MW. Accordingly, for purposes of this Offer Supplement, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC. SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

Under the Sual IPPA Agreement, SMEC has the option to acquire the Sual Power Plant in October 2024 without any additional payment by SMEC. SMEC may exercise the option to acquire the Sual Power Plant prior to October 2024 under certain circumstances, such as changes in law or non-performance by TeaM Energy of its obligations under the Sual ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Sual IPPA Agreement.

The Sual IPPA Agreement may be terminated by either SMEC or PSALM due to certain force majeure events. In case of such termination, SMEC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SMEC up to the date of termination less the aggregate capital recovery fees, fixed operating and maintenance fees, infrastructure fees and service fees paid or payable by PSALM up to the termination date of the Sual IPPA Agreement.

Power Offtakers

The capacity of Unit 1 of the Sual Power Plant is fully contracted to (i) Meralco (DU) under a long-term offtake agreement expiring in 2019, subject to extension up to 2024, and (ii) Meralco (RES) under a long-term offtake agreement expiring in 2024, subject to extension upon mutual agreement by the parties. Meanwhile, the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, directly connected customers and third party RES under existing PSCs.

For energy-based contracts entered into by SMEC directly with offtakers on a bilateral basis, pricing is based on a reasonable return over the cost structure of SMEC.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel and variable operating and maintenance expense.

Fuel Supply

SMEC has an existing coal supply agreement with PT Kaltim Prima Coal (“KPC”), which will ensure a steady supply of coal for SMEC. For 2018, KPC supplied 11 panamax shipments which is expected to increase to 12 panamax shipments per year from 2019 to 2021. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by KPC. For the six months ended June 30, 2018, KPC supplied 3 panamax shipments to SMEC. SMEC also has other coal supply contracts with other suppliers.

Operations and Maintenance

The Sual Power Plant is operated by TeaM Energy, the successor-in-interest of CEPA Pangasinan Electric Limited. Under the Sual ECA, TeaM Energy is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

Power Transmission

Power from the Sual Power Plant is transmitted through a 25 km 230 KV transmission line from the Sual Power Plant switchyard to the Kadampat Substation located at Labrador, Pangasinan. The transmission line is owned by the TransCo and operated and maintained by its concessionaire, NGCP.

Ilijan Power Plant

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEILCO pursuant to a 20-year ECA with NPC (“**Ilijan ECA**”) under a BOT scheme that expires on June 4, 2022. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.

NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant can also run on diesel oil stored on site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, entered into an assignment agreement

with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010 in accordance with the Ilijan IPPA Agreement.

Ilijan IPPA

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant. Accordingly, for purposes of this Offer Supplement, the contracted capacity of the Ilijan Power Plant is referred to as 1,200 MW.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC must pay monthly generation payments comprising a “must pay” amount for electricity sold up to a given volume (the “**Must Pay Volume**”) and a variable amount for electricity sold in excess of the Must Pay Volume.

Under the Ilijan IPPA Agreement, SPPC has the option to acquire the Ilijan Power Plant in June 2022 subject to certain conditions under the Ilijan IPPA Agreement but without any additional payment by SPPC. SPPC may exercise the option to acquire the Ilijan Power Plant prior to June 2022 under certain circumstances, such as changes in law or non-performance by KEILCO of its obligations under the Ilijan ECA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the Ilijan IPPA Agreement.

The Ilijan IPPA Agreement may be terminated by either SPPC or PSALM due to certain force majeure events. In case of such termination, SPPC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPPC up to the date of termination less the aggregate capital recovery fees and fixed operating and maintenance fee paid or payable by NPC/PSALM to KEILCO from the effective date of the Ilijan IPPA Agreement up to the termination date of the Ilijan IPPA Agreement.

Power Offtakers

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement expiring in December 2019, which can be extended up to the end of the IPPA Agreement upon mutual agreement between the parties. The renewal of the contract is currently being negotiated.

In the years ended December 31, 2016, 2017 and 2018, and the six months ended June 30, 2018 and 2019, 93%, 92%, 86%, 91% and 89%, respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the years ended December 31, 2016, 2017 and 2018 and the six months ended June 30, 2018 and 2019, 7%, 8%, 14%, 9% and 11% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

Fuel Supply

Under the Ilijan IPPA Agreement, NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Pursuant to a fuel supply and management agreement among Shell Exploration B.V., Occidental Philippines, Inc., and NPC, NPC supplies natural gas to the Ilijan Power Plant through a 480-km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-inch diameter onshore pipeline running 15 km to the power plant.

Operations and Maintenance

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, governing the output of 1,200 MW guaranteed contracted capacity, baseload operation, and spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

Power Transmission

Power from the Ilijan Power Plant is transmitted through a 500 KV transmission line that connects to the Luzon Grid through the Ilijan-Dasmarinas line and Ilijan-Tayabas line. The transmission line is owned by TransCo, and operated and maintained by NGCP.

San Roque Power Plant

The 345 MW San Roque Power Plant in San Manuel, Pangasinan, commenced operations on May 1, 2003, and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited (the “**Consortium**”) pursuant to a power purchase agreement with NPC under a BOT scheme (the “**San Roque PPA**”).

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region, and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 1,065 GWh from the 345 MW hydroelectric power plant, irrigates approximately 34,450 hectares of agricultural land, stores water that would otherwise flood the Pangasinan plains, and improves water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with the IPPA Agreement with PSALM (the “**San Roque IPPA Agreement**”). PSALM remains responsible under the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

San Roque IPPA

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation (“**SRPC**”).

While the contracted capacity of SPDC is 345 MW, it may generate up to 435 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Offer Supplement, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SPDC is responsible for contracting with NGCP to wheel power from the delivery point.

The San Roque PPA requires NPC to take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2017 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to take-or-pay for under the San Roque PPA.

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per KWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

Under the San Roque IPPA Agreement, SPDC has the option to acquire the San Roque Power Plant in May 2028 without any additional payment by SPDC. SPDC may exercise the option to acquire the San Roque Power Plant prior to May 2028 under certain circumstances, such as changes in law or non-performance by SRPC of its obligations under the San Roque PPA. In this case, the transfer price will be the net present value of the sum of the agreed monthly payments remaining unpaid at the date of termination of the San Roque IPPA Agreement.

The San Roque IPPA Agreement may be terminated by either SPDC or PSALM due to certain force majeure events. In case of such termination, SPDC is entitled to receive from PSALM a termination payment equal to the aggregate agreed monthly payments paid by SPDC up to the date of termination less the aggregate capital recovery, operating and watershed management fees paid or payable by NPC/PSALM to SRPC from the effective date of the San Roque IPPA Agreement up to the termination date of the San Roque IPPA Agreement.

Water Rights

The generated output energy of the San Roque Power Plant is limited by the “Irrigation Diversion Requirements” set by the NIA of the Philippines. Water allocation is usually dictated by a rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the needs for which the reservoir is designed. The rule curve must generally be followed except during periods of extreme drought and when public interest requires.

Generally, the output energy of San Roque Power Plant is high during planting seasons which cover the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant, and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SPDC, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the NWRB.

Operations and Maintenance

SRPC, the successor-in-interest of the Consortium, is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni Corporation and Kansai Electric Power Company Ltd. Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SPDC, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the San Roque PPA.

Power Transmission

Power from the San Roque Power Plant is transmitted through a nine km 230 KV transmission line from the San Roque Power Plant switchyard to the San Manuel substation located in Pangasinan. The transmission line is owned by TransCo, and operated and maintained by NGCP.

Angat Hydroelectric Power Plant

The AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. The AHEPP was privatized through an asset purchase agreement between PSALM and Korea Water Resource Corporation (“**K-water**”). K-water assigned its rights in favor of AHC, a joint venture between K-water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprised of four main units of 50 MW capacity each and three auxiliary units of 6 MW capacity each. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The Auxiliary Unit 3 was manufactured by Allis-Chalmers and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which are the most commonly used model in hydroelectric power

generation. In August 2018, AHC completed the rehabilitation of the Angat Dam and Dykes in accordance with the Operations and Maintenance Agreement with PSALM and NPC.

Fuel Supply and Water Rights

The AHEPP utilizes water resources of the Angat reservoir. The Angat reservoir is 35 km long and 3 km wide at its widest points, and has surface of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following two purposes: (i) water discharged through Auxiliary Units and through the spillway that flows to the Ipo reservoir is used to supply 97% of the residential drinking water of Metro Manila; and (ii) water discharged through Main Units that flows downstream to the Bustos reservoir is utilized for irrigation purposes.

Water rights surrounding the AHEPP are co-owned and governed by the following entities, with its respective purposes, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by NWRB as implemented by a Memorandum of Agreement on the Angat Water Protocol between MWSS, NIA, AHC, PSALM, NPC and NWRB: (i) MWSS, for domestic water supply to Metro Manila; (ii) provincial government of Bulacan, for water supply in the Bulacan Province; (iii) NIA, for irrigation diversion requirements; and (iv) AHC (through a lease contract with KWPP), for power generation.

Power Offtakers

AHC sells majority of its generated capacity to the WESM at the prevalent spot price. The Main Units are operated as peaking units. The strategy for the Main Units is to allocate daily water release during peak hours. Auxiliary Units are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation. AHC periodically enters into short-term power supply contracts for the capacity of its auxiliary units and continues to explore options to contract this capacity.

Operations and Maintenance

AHC undertakes the operation and maintenance of AHEPP. The operations and maintenance team consist of the local technical team who have been operating the AHEPP supported by technical experts seconded from K-water.

AHC has entered into technical services agreements with each of K-water and PVEI to ensure that the appropriate level of technical and management support will be provided to support the operation and maintenance requirements of AHC.

Limay Greenfield Power Plant

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW CFB coal-fired power plant located in Limay, Bataan, which commenced construction in October 2013. Units 1, 2 and 3 of the Limay Greenfield Power Plant achieved commercial operations in May 2017, September 2017 and March 2018, respectively. Unit 4 has completed testing and commissioning and is expected to commence commercial operations in the third quarter of 2019, once the ERC issues the certificate of compliance. The engineering, procurement, and construction contractors of the Limay Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. In June 2017, SCPC acquired all of the rights and obligations on the completion of Units 3 and 4 of the Limay Greenfield Power Plant from another wholly-owned subsidiary, Limay Premiere Power Corp. Mantech Power Dynamics Services Inc., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Limay Greenfield Power Plant are fully contracted to various distribution utilities, electric cooperatives, directly connected and contestable customers, including facilities of SMC subsidiaries, under long-term offtake agreements mostly expiring in 10 years from effective date, subject to extension upon mutual agreement between the parties. Units 3 and 4 of the Limay Greenfield Power Plant are also contracted with distribution utilities, directly connected customers and contestable customers. For the six months ended June 30, 2019, 97% of revenues were from bilateral contracts while the remaining 3% was attributable to revenue from WESM. SCPC was granted a RES license on August 24, 2016, which is valid until August 24, 2021. The RES license gave SCPC the ability to directly contract with contestable customers.

Fuel Supply

SCPC has executed two long-term coal supply agreements with Bayan Resources TBK (“**Bayan**”) and KPC, with terms of until 2022 and five years from effectivity date, respectively. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract, with an optional additional quantity of three shipments per year. KPC will supply four panamax shipments per year, with an option on the part of SCPC to add four more shipments per year upon prior notice. SCPC has also executed another long-term supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SCPC has also executed spot coal supply contracts with other suppliers. SCPC also has a three year contract of affreightment with D’Amico Shipping Singapore Pte. Ltd. from January 1, 2017 to December 31, 2019.

Davao Greenfield Power Plant

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCP, is a 2 x 150 MW CFB coal-fired power plant located in Malita, Davao Occidental, which commenced construction in September 2013. Units 1 and 2 of the Davao Greenfield Power Plant achieved commercial operations in July 2017 and February 2018, respectively.

The engineering, procurement, and construction contractors of the Davao Greenfield Power Plant are Formosa Heavy Industries and True North Manufacturing Services Corporation. Safetech Power Services Corp., another wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

Power Offtakers

Units 1 and 2 of the Davao Greenfield Power Plant are substantially contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in 10 years from effective date, subject to extension upon mutual agreement between the parties. Approximately 98% of the customers of the Davao Greenfield Power Plant are distribution utilities and electric cooperatives.

Fuel Supply

SMCP executed a long-term coal supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SMCP also has executed spot coal supply contracts with other suppliers.

Masinloc Power Plant and Masinloc BESS

The Masinloc Power Plant comprises 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plant located in Masinloc, Zambales, and is owned and operated by MPPCL. Units 1 and 2 of the Masinloc Power Plant commenced commercial operations in June 1998 and December 1998, respectively, and were originally developed and owned by NPC. Unit 3, which is envisaged as a brown-field/expansion project within the Masinloc Power Plant site, is 99% complete as of June 30, 2019 and is expected to commence commercial operations in the third quarter of 2019. The engineering, procurement, and construction contractors of Unit 3 of the Masinloc Power Plant are Posco Engineering & Construction and Ventanas Philippine Construction. MPPCL also owns the Masinloc BESS.

The Masinloc Power Plant and Masinloc BESS were acquired by SMC Global Power on March 20, 2018, SMC Global Power completed the acquisition of 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively.

Power Offtakers

Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and contestable customers. For the six months ended June 30, 2019, 89% of revenues were from bilateral contracts while the remaining 11% was attributable to revenue from WESM. The RES license of MPPCL was renewed on June 27, 2016, and is valid until August 1, 2021. The Masinloc BESS provides regulating reserve ancillary services to the Luzon Grid under an Ancillary Services Procurement Agreement with NGCP.

Fuel Supply

MPPCL has coal supply contracts with reputable international companies with durations ranging from six months to three years. All supplies are governed by a five-year master agreement, which terms apply for all contracts to be entered into between MPPCL and a coal supplier.

Distribution and Retail Services

Albay Power and Energy Corp.

On October 29, 2013, after an open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO, which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. Under the concession agreement, there is no transfer of the franchise to operate the distribution system and the ownership of the distribution assets remains with ALECO. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power would pay a concession fee consisting of quarterly payments for the operating expenses of residual ALECO, and 50% of the net cash flow if the net cash flow is positive within five years or earlier. SMC Global Power also paid for the severance pay of ALECO employees dismissed as a result of the concession agreement. SMC Global Power established APEC as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC, a wholly-owned subsidiary. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

Retail Electric Supply

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The three RES licenses issued to SMC Global Power, through SMELC, SCPC and MPPCL, have a term of five years each and are valid until August 20, 2021, August 24, 2021 and August 1, 2021, respectively. The RES licenses allow the relevant subsidiary of SMC Global Power to enter into RSCs with contestable customers and expand its customer base. As of June 30, 2019, SMELC, SCPC and MPPCL supply an equivalent of 1,016 MW to various facilities of SMC subsidiaries. SMC Global Power believes that it is one of the major players in the contestable market, supplying over 161 contestable customers as of June 30, 2019 based on data obtained from the ERC.

Coal Investments

Pursuant to its strategy of integrating viable complementary businesses to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Depending on prevailing coal prices and the related logistical costs, SMC Global Power could develop these assets to provide a significant additional source of coal fuel for its power plants, but such assets remain in the preparatory stage of its mining activities, as of June 30, 2019. SMC Global Power continues to evaluate the viability of these assets.

Competition

SMC Global Power is one of the largest power companies in the Philippines. Based on the total installed generating capacities reported in the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of June 30, 2019. Its main competitors are First Gen Corporation and the Aboitiz Group, which holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of NPC-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

Safety, Health and Environmental Regulation and Initiatives

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 (“**Clean Air Act**”), the Philippine Clean Water Act of 2004 (“**Clean Water Act**”), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and the Department of Labor and Employment Occupational Safety and Health Standard of 1989, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers’ social and economic well-being as well as their physical safety and health.

SMC Global Power complies for its company-owned generation plants, and it believes that the IPPs for each of the IPPA Power Plants managed by SMC Global Power comply, in all material respects with all applicable safety, health and environmental laws and regulations.

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008. The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and the Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate in 2014.

For each of its greenfield power plants, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary environmental compliance certificate (“**ECC**”) in accordance with Philippine law.

SMC Global Power’s coal-fired power plants have maintained levels of emission lower than the standards set by the Department of Environment and Natural Resources (“**DENR**”). The following table sets forth the level of nitrogen oxide (“**NOx**”), sulfur dioxide (“**SO₂**”) and particulate matter (“**PM**”) emissions of the power plants owned and operated by SMC Global Power, as well as the applicable emission control standards, for the six months ended June 30, 2019:

Power Plant	NOx		SO ₂		PM	
	Emission level	DENR Standard	Emission level	DENR Standard	Emission level	DENR Standard
	(ppm)		(ppm)		(Mg/Nm ³)	
Sual Power Plant*	227.2	732.0	390.2	524.0	16.1	200.0
Masinloc Power Plant	103.0	732.0	108.3	524.0	55.6	200.0
Limay Greenfield Power Plant	95.1	487.0	83.2	245.0	6.3	150.0
Davao Greenfield Power Plant	73.3	487.0	52.7	245.0	4.2	150.0

**Operated under IPPA Agreement*

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site clean-up, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations and cash flow of SMC Global Power.

Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the power plants for which SMC Global Power is the IPPA are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is

obligated to maintain insurance. SMC Global Power is not a beneficiary of any of these insurance agreements. SMC Global Power employs risk management for purposes of analyzing the risks faced by its business in the determining the appropriate insurance policies. SMC Global Power does not have business interruption insurance for its IPPA Power Plants and believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. SMC Global Power has procured all the necessary policies to cover all insurable risks for the ownership and operation of the Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant.

Intellectual Property

SMC Global Power owns exclusive rights to its corporate name. Management believes that the business of SMC Global Power as a whole is not materially dependent on any trademark or on any other intellectual property.

INFRASTRUCTURE BUSINESS

SMC has made investments in the infrastructure industry in the Philippines, through its wholly-owned subsidiary, SMHC, consisting of concessions for toll roads, an airport, a bulk water supply and a mass rail transit system. Certain details of these investments are set forth in the table below:

	% SMC Effective Ownership Interest	Expected Project Cost (in millions)	Concession Length
Concession			
TPLEX Tollway	70.11% ⁽¹⁾	₱29,988	35 years
Boracay Airport	99.80% ⁽²⁾	₱13,782	25 years
MRT-7	100.00% ⁽³⁾	₱77,616	25 years
SLEX Toll Road (TR) 1, 2, & 3.....	76.00% ⁽⁴⁾	Completed	25 years
SLEX TR4.....	76.00% ⁽⁴⁾	₱16,690 ⁽⁴⁾	25 years
Skyway Stage 1 & 2.....	87.84% ⁽⁵⁾	Completed	25 years
Skyway Stage 3.....	76.00% ⁽⁶⁾	₱ 51,598	30 years
Skyway Stage 4.....	77.93% ⁽⁷⁾	₱ 52,704	30 years
NAIAx.....	100.00%	Completed	30 years
Star Tollway	100.00% ⁽⁸⁾	Completed	30 years
Manila North Harbor.....	43.33% ⁽⁹⁾	₱ 22,000	30 years
Bulacan Bulk Water Supply Stage 1 & 2.....	90.00% ⁽¹⁰⁾	₱ 7,747	30 years

Notes:

- (1) Ownership through PIDC, through RTI through SMHC equity interest.
- (2) Ownership through TADHC, through SMHC equity interest.
- (3) Ownership through Universal LRT through SMHC equity interest.
- (4) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to MTDME and 80% MTDME to SLTC. All major capex has been completed prior to equity acquisition.
- (5) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to AAIPC and 87.84% AAIPC to CMMTC. All major capex has been completed prior to equity acquisition.
- (6) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to S3HC and 80% S3HC to CCEC. 400,000 worth of shares are reserved for PNCC for future subscription.
- (7) Ownership through SMHC equity interest: 100% SMHC to SMCI, 77.93% SMCI to CITI.
- (8) Ownership through SMHC equity interest: 100% SMHC to Sleep Coop, 40% Sleep Coop to CTCII, 100% CTCII to SIDC and 100% SMHC to Wiselink, 60% Wiselink to CTCII and 100% CTCII to SIDC.
- (9) Ownership through SMHC common equity interest: 43.33% SMHC to MNHPI.
- (10) Ownership through SMHC common equity interest: 90% SMHC to LCWDC.

Strengths and Strategies

Strengths

Project portfolio vital to the growth of the Philippine economy

SMHC has ownership in various companies which hold concession rights in infrastructure projects which are vital to the development and growth of the Philippine economy. These include operating tollways, such as the SLEX TR 1, 2 & 3, Skyway Stages 1 & 2, STAR tollways, TPLEX and NAIAx, serving as the main thoroughfare for motorists. According to the National Statistics and Coordination Board data, in 2017, the gross regional domestic product of Southern Luzon Region is 4.8% which accounts for 16.8% of the total gross domestic product of the country. SMHC is also currently

progressing the development of the following projects: Boracay Airport, Manila North Harbor, Skyway Stages 3 and 4 and SLEX TR4.

SMHC has benefited from this economic growth as evidenced in the increasing traffic volume during the said period as set forth in the table below.

	For the years ended December 31,				For the six months ended June 30,
	2015	2016	2017	2018	2019
Annual Average Daily Traffic ("AADT")					
SLEX TR 1, 2 & 3	277,810	314,279	337,164	355,516	370,612
Skyway Stages 1 & 2	241,906	251,594	256,469	251,361	259,583
STAR	41,148	48,080	51,490	57,472	62,157
TPLEX*	12,750	16,740	18,836	22,272	24,903
NAIAx		10,939	64,288	97,561	109,426

*partial operations - Sections 1, 2 and 3A

SMHC also has ongoing projects such as SLEX TR4, Skyway Stages 3 and 4, Bulacan Bulk Water Supply and MRT-7 which are also projected to further support the growth in areas they will serve.

Highly experienced technical team

The infrastructure business is composed of a highly experienced and qualified technical team, with an extensive knowledge in the Philippine infrastructure industry. In addition, the technical team has gained further expertise in the regulatory, business development and financial aspect of the infrastructure business during construction and operations of various infrastructure projects. Strong professional relationships have also been developed with key industry participants, such as DOTr, DPWH, Civil Aviation Authority of the Philippines ("CAAP"), Philippine National Construction Company ("PNCC") and Toll Regulatory Board ("TRB") as well as reputable construction contractors such as D.M. Consunji, Inc., EEI Corporation and Matière S.A.S.

Strong principal shareholder

With SMC as one of the largest and most diversified conglomerates in the Philippines, the infrastructure business believes that it can increase its leverage and bargaining ability that is vital to the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the infrastructure business whose projects are capital-intensive.

Under the stewardship of SMC, the infrastructure business was able to become one of the major players in the industry in a relatively short period of time. SMHC believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy and expertise of its senior managers to identify and capitalize on growth opportunities.

Strategies

Focusing on the improvement of infrastructure in the Philippines

SMHC believes there are significant opportunities in building and participating in infrastructure projects in the country that has historically under invested in infrastructure. These infrastructure projects will support the continued growth of the Philippine economy. Thus, SMHC believes its long-term concessions will provide strong and stable cash flows.

Potential to extract synergies across businesses

Areas and projects being developed by the infrastructure business present opportunities for the other businesses of SMC. For example, the TPLEX, Boracay Airport, MRT-7 and other road projects are expected to complement and present opportunities for fuel and oil, energy, and other businesses of SMC, as well as further expand the distribution network for food and beverages business of SMC.

Selected financial highlights for the infrastructure business are provided below for the periods indicated:

	For the years ended December 31,			For the six months ended June 30,	
	2016	2017	2018	2018	2019
	(₱ in millions, except percentages)				
Sales.....	19,866	22,497	24,530	12,145	12,315
Gross profit.....	13,139	13,700	14,893	7,631	7,787
Gross profit margin ¹	66%	61%	61%	63%	63%
EBITDA ²	14,026	15,857	17,423	8,877	8,757
EBITDA margin ³	71%	70%	71%	73%	71%
Net income before tax.....	5,656	6,401	8,899	5,032	4,726
Net income before tax margin ⁴	28%	28%	36%	41%	38%

Notes

(1) Gross Profit Margin is calculated by sales less cost of sales divided by sales.

(2) EBITDA is calculated as net income before income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), and depreciation and amortization and impairment losses.

(3) EBITDA margin is calculated by EBITDA divided by sales.

(4) Net income before tax margin is calculated by net income before income tax divided by sales.

Toll road concessions

Presidential Decree No. 1112 was signed authorizing the establishment of toll facilities on public improvements, creating a board for the regulation thereof and for other purposes. It is the same decree that states that the resources of the private sector can be tapped to provide certain infrastructure services to the general public and in return would have the right to collect toll fees in order to get a reasonable rate of return. The TRB (under the DOTr) was established to be the governing authority of all tolled infrastructure facilities in the Philippines. It is also empowered to enter into contracts, determine public improvements that can be operated as tolls, monitor operations and maintenance of tolled facilities, and approve tariff or toll rates for public infrastructure projects.

Currently, there are 9 operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1 and 2, NAIAX, SLEX, STAR, Subic-Clark-Tarlac Expressway (“SCTEX”), North Luzon Expressway (“NLEX”), Manila-Cavite Expressway (“CAVITEX”) and Muntinlupa Cavite Expressway (“MCX”). Out of the 9 operating toll facilities in the country, 5 are owned and controlled by SMHC namely Skyway Stages 1 and 2, SLEX, STAR tollways, TPLEX and NAIAX. Several projects are still under construction while some are still in the design and planning stage. SMC has rights to about 55.45% of the total road length of awarded toll road projects in the country.

TOLL ROAD PROJECT	Length (km)	Status
SMC		
TPLEX	89.21	Section 1, 2 & 3A Operational. Section 3 On going
Skyway (Stage 1 and 2)	29.59	Operational
South Luzon Expressway (SLEX TR1-TR3)	36.13	Operational
Southern Tagalog Arterial Road (STAR)	41.90	Operational
NAIAX	5.40	Operational
Skyway Stage 3 (NLEX-SLEX Link SMC)	17.38	Ongoing construction
Skyway Stage 4/SEMME/ C6 Expressway (Phase 1&2)	56.74	For Implementation upon delivery of ROW
SLEX TR4	56.86	For Implementation upon delivery of ROW
TOTAL SMC.....	333.21	55.45%
Others		

Subic Clark Tarlac Expressway (SCTEX)	93.77	Operational
North Luzon Expressway (NLEX)	89.12	Operational
CAVITEX	13.75	Operational
Cavite Laguna Expressway (CALAX)	45.35	Awarded by DPWH to MPIC
Muntinlupa Cavite Expressway (MCX)	4.00	Operational
NLEX-SLEX Connector Road	8.00	Awarded by DPWH to MPIC
Cebu-Cordova Link Expressway (CCLEX)	8.00	Awarded by City of Cebu and Municipality of Cordova
Harbor Link Segment 10	5.70	On-going construction
TOTAL OTHERS.....	267.69	44.55%
GRAND TOTAL.....	600.90	100%

Tarlac-Pangasinan-La Union Expressway

In August 2009, SMC made its first infrastructure investment by acquiring a 35% (currently 70.11%) stake in PIDC. PIDC holds the 35-year BTO concession for TPLEX. The TPLEX is an 89.21 km toll expressway that connects the northern part of Luzon to Manila. The TPLEX is expected to be integrated with other major expressways (including the NLEX and SCTEX) for seamless toll system management and for the convenience of motorists.

Project cost for the development of TPLEX is estimated at ₱29,627 million, which is funded by a combination of debt, equity and Philippine government subsidy which will be available at the start of construction of Section 3 of TPLEX.

Construction commenced in October 2010. Section 1 (from Tarlac to Carmen) was completed in April 2014. Section 2 (from Carmen to Urdaneta) was completed December 2014. Binalonan exit in Section 2 opened last July 2016. Section 3A until Pozzorubio was completed last December 2018. The remainder of the expressway from Pozzorubio to Rosario is projected to be completed by Q4 2019. In 2018 full year, AADT of TPLEX is around 22,272 vehicles. By June 30, 2019, AADT increased by about 11.81% to 24,903 vehicles.

Construction from Talugtug to Pozorrubio is already completed, while the last leg from Pozorrubio to Rosario is progressing well. Acquisition of ROW for Bued viaduct is ongoing.

South Luzon Expressway

SLTC is the concessionaire of the SLEX which currently spans 36.1 km from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is composed of 4 toll road segments, namely TR1, TR2, TR3 and TR4 which are intended to operate as an integrated expressway. Currently operational are TR1, TR2 and TR3. These were classified into 4 segments to clearly define the scope of work (including rehabilitation and/or construction works) for each.

TR1 involved the rehabilitation and upgrade of the Alabang viaduct which included the widening of the at-grade portion of the roads, retrofitting of the existing structure, and the replacement and expansion of the elevated portion from 6 to 8 lanes. TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from 4 to 8 lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from 4 to 6 lanes. TR3 involved the construction of a 4-lane roadway from Calamba, Laguna to Sto. Tomas Batangas. The construction of this section connected Metro Manila, SLEX, and STAR. In 2018, SLEX had a full year AADT of around 355,516 vehicles. As of June 30, 2019, SLEX registered a strong 4.24% growth in vehicular traffic which is approximately 370,612 per day.

The Detailed Engineering Designs of Sections A to E of TR4 (from Sto. Tomas, Batangas to Lucena City in Quezon, which were submitted last December 2014, were approved by TRB. TR4 is expected to start in Q4 2019 which involves a 56.86 km, 4 lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon. This will shorten the travel time to about an hour from the current 4 hours. It is divided into 5 sections: Sto. Tomas to Makban in Laguna; Makban to San Pablo City; San Pablo to Tiaong, Quezon; Tiaong to Candelaria, Quezon; Candelaria to Lucena City. It will include 7 interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱20,300 million and is set to be finished by year 2022.

Skyway System

Skyway Stage 1 and 2

The Republic of Indonesia was invited by the Philippine government to assist in the realization of the infrastructure development of the Philippines in 1994 through an Indonesian company. As a result of this initiative, a Memorandum of Agreement (“**MOA**”) was signed in Jakarta in 1993 between P.T. Citra Lamtoro Gung Persada (“**Citra**”) and PNCC in the presence of former President Fidel V. Ramos. In 1995, a Business and Joint Venture Agreement (“**BJVA**”) was signed by the said parties to undertake the construction of the Metro Manila Skyway (“**MMS**”) and Metro Manila Expressway (“**MME**”).

On November 27, 1995, CMMTC was incorporated as a stock corporation under the laws of the Republic of the Philippines, as a joint venture between Citra and PNCC, with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 1 and 2 projects.

Skyway Stage 1 consists of the construction of a 9.30 km elevated road from Bicutan, Parañaque City to the Buendia, Makati City as well as the rehabilitation of the 13.43 km at-grade road from Alabang, Muntinlupa to Magallanes, Makati City. Skyway Stage 1 was first opened to traffic in 1999, with an AADT of 160,000 vehicles, broken down into 25,000 and 135,000 of vehicles on the elevated highway and at-grade road, respectively. Skyway Stage 2 consists of a 6.86 km elevated toll road from Bicutan, Parañaque City to Alabang, Muntinlupa, to be integrated with Skyway Stage 1 and operated as 1 sub-system of the MMS.

Originally scheduled for completion in April 2011, Phase 1 of Skyway Stage 2 was completed on November 2010 and opened to the public in December the same year. Phase 2 of Skyway Stage 2 was completed on March 2011. In 2018, the full year AADT of Skyway Stages 1 and 2 is at 251,361 vehicles. As of June 30, 2019, the AADT for Skyway Stage 1 and 2 increased to about 259,583 vehicles, representing a 3.3% increase compared to the AADT last year.

As of June 2019, AAIPC, a 95% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 14.82 km elevated roadway from Buendia, Makati City to Balintawak, Quezon City. Skyway Stage 3 is a priority infrastructure project of the government meant to decongest major thoroughfares within Metro Manila and stimulate growth of trade and industry in Southern, Central and Northern Luzon. The project covers a concession period of 30 years (from start of operations) with an estimated cost of ₱55,240 million. Target completion date is Q4 2019.

On November 16, 2012, CCEC was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 3 project. Subsequently, the Supplemental Toll Operation Agreement (“**STOA**”) covering the Skyway Stage 3 project was signed on September 26, 2013 among TRB, PNCC, and CCEC.

As of June 2019, S3HC, a 95% owned subsidiary of SMC, has an ownership interest of 80% in CCEC.

Skyway Stage 4

Skyway Stage 4 is a 32.67 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 serves 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 covers a concession period of 30 years (from start of operations), with an estimated cost of ₱49,880 million. Target completion date is 2022.

On February 17, 2014, CITI was incorporated as a stock corporation under the laws of the Republic of the Philippines to engage in the construction of toll roads, toll road facilities, including but not limited to the Metro Manila Expressway (MME) or C6 and any of its stages, linkages and extensions pursuant to a build and transfer or other scheme duly approved by the appropriate Philippine authorities. Subsequently, the Supplemental Toll Operation Agreement (“**STOA**”) covering the Skyway Stage 4 project was executed on July 4, 2014 among TRB, PNCC, and CITI.

As of June 2019, SMCI, a 100% owned subsidiary of SMC, has an ownership interest of 77.93% in CITI.

STAR Tollway

In 2013, SMHC acquired equity interest in SIDC which holds the concession over the STAR Tollway, through its 58.31% membership interest in Sleep Coop and 50% shares in Wiselink. Sleep Coop and Wiselink owns 40% and 60% of CTCII, respectively which owns 100% of SIDC.

STAR Tollway is composed of 2 stages - Stage 1 which involves the operation and maintenance of the 22.16 km toll road from Sto. Tomas, Batangas to Lipa City, Batangas and Stage 2 which involves the financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City, Batangas to Batangas City, Batangas. The entire system has a full year AADT of 57,472 vehicles in 2018. As of June 30, 2019, the AADT in STAR Tollway is 62,157, representing an 8% increase compared to 2018 AADT levels.

With the acquisition of Sleep Coop and Wiselink by SMHC, CTCII became a 100% owned subsidiary of SMC.

NAIAx

Vertex, a wholly-owned subsidiary of SMHC, was incorporated on May 31, 2013 for holding the 30-year concession rights (including a 2-year construction period) for the NAIAx project.

The ₱26,540 million NAIAx was the third PPP project awarded under the administration of President Benigno Aquino III. It was awarded by the DPWH through a competitive bidding process to Optimal Infrastructure Development, Inc. (“**Optimal**”) in 2013. Eventually, Optimal nominated Vertex as the concessionaire of the said project. The concession agreement between DPWH and Vertex was finalized and signed on July 8, 2013.

The project covers the financing, design, construction, operation and maintenance of a new tollway system, approximately 5.4 km in length, serving as interface to the Skyway Stage 1 and 2 and CAVITEX. The NAIAx (i) significantly reduces travel time from Skyway Stage 1 and 2 to Roxas Boulevard; (ii) provides easy access to airports in Metro Manila, linking them to Skyway Stages 1 and 2 and the CAVITEX and (iii) boosts tourism by providing access to and from Entertainment City, paving the way for further developments within the PAGCOR Entertainment City.

Partial operations of Phase 2A commenced last September 22, 2016. Meanwhile, Phase 2B was completed and became fully operational last December 2016 with toll collections starting in January 31, 2017. Ramps 1 and 17 opened last June 2, 2017 with toll collections starting in July 15, 2017. The AADT as of June 30, 2019 is at 109,426.

Airport concession

Boracay Airport

In April 2010, SMHC acquired a 93% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC). TADHC holds a 25-year BROT granted by the ROP, through the DOTC, to develop and operate Boracay Airport which shall end by 2038. The remaining 7% interest is held by Akean Resorts Corporation, a non-affiliated entity. As of June 30, 2019, SMHC owns 99.92% of TADHC.

Boracay airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. The airport has seen recent upgrades including a longer runway and accommodation of international flights. With the influx of tourist during the holidays, the Boracay island has welcomed 1.7 million tourists by end of 2016. As of June 2019, approximately 453,371 tourists passed through Boracay Airport.

The planned expansion of the airport is expected to be completed in a number of stages and involves the following: (i) upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,100 meters long and 45 meters wide to accommodate larger international and domestic aircraft; (ii) upgrade of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the CAAP; (iii) replacement of the old 550 square meter terminal with a new world class passenger and cargo terminal and to commence construction of new terminal in 2016; (iv) improvement of road networks around Boracay Airport and its facilities; and (v) upgrade of air navigational systems.

Construction of the interim arrival hall and the new passenger terminal are progressing well. Preparation of the extension of the runway from 1.8 km to 2.1 km is ongoing.

Mass rail transit concession

MRT-7

In October 2010, SMC acquired a 51% stake in Universal LRT, which holds the 25-year concession for the MRT-7 project, a planned expansion of the Metro Manila mass transit rail system, home to over 10 million inhabitants. MRT-7 is a BGTOM project for the development, financing, operation and maintenance of a 22-km light rail transit that will be linked with the existing MRT-3 Line at SM North EDSA, Quezon City. The construction period for the project is about 42 months. The rail component of the MRT-7 is envisioned to have 14 stations plus a depot and will operate 108 rail cars

in a 3-car train configuration, with capacity of 448,000 to as many as 850,000 passengers daily. The project also includes an Intermodal Transport Terminal that can accommodate up to 60 buses and other public utility vehicles, and a 22-km 6-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

SMC fully acquired 100% stake in Universal LRT, effective July 1, 2016.

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.

On December 17, 2015, Luzon Clean Water Development Corporation (“**LCWDC**”) was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design, construct, maintain, and operate water treatment and conveyance facilities. LCWDC and MWSS officially signed the Concession Agreement on January 15, 2016.

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 Bulacan municipalities as of June 2019.

Ports concession

Manila North Harbor

MNHPI is the terminal operator of Manila North Harbor, a 70-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.

To ensure fast, efficient and effective delivery of port services, MNHPI has increased its cargo handling capacity which now boasts of major equipment such as 6-ship-to-shore quay container cranes and 20 rubber-tyred gantry cranes, all part of the plans and programs of MNHPI to transform Manila North Harbor into a premier and modern port.

On October 19, 2013, MNHPI formally inaugurated the North Passenger Terminal Complex, a passenger terminal facility which boasts of facilities designed to provide utmost safety, security and comfort to passengers and is the first of its kind in the Philippines, able to accommodate 2,000 passengers at any given time.

The ownership of SMC in MNHPI through San Miguel Holdings, Corp. as of June 2019 is 43.33%.

PROPERTIES BUSINESS

Established in 1990 as the corporate real estate arm of SMC, SMPI is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.94% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC.

Cavite Projects

SMPI offers a diverse portfolio of mid-range homes in General Trias, Cavite, namely Bel Aldea, Maravilla, and Asian Leaf, offering townhouse units and single attached house-and-lots, with floor areas ranging from 41.75 to 132 square meters.

Wedge Woods is located west of Sta. Rosa, Laguna – in Silang, Cavite, offering prime lots on a rolling terrain, with a majestic view of Mount Makiling.

Bel Aldea

Bel Aldea, located in General Trias, Cavite, is a 17-hectare development which serves the economic housing segment, offers smartly designed townhouse units, with an average floor area of 42 square meters.

Maravilla

Spanning 24 hectares, Maravilla is a mid-range residential community located at General Trias, Cavite, offering Spanish Mediterranean houses, which currently offers new house models to suit the changing needs of the market.

Asian Leaf

Launched in 2011, Asian Leaf is a 7-hectare premier residential community in the heart of General Trias, Cavite, composed of single attached house-and-lots, with floor areas ranging from 88.50 to 108.30 square meters. Fusing modern Asian architecture and vibrant landscaping, Asian Leaf is perfect for homeowners looking for a tranquil and ideal haven.

Metro Manila Projects

The first project of SMPI is the SMC Head Office Complex, now considered as a landmark, which has served as a catalyst in transforming the area now known as 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.

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

Dover Hill

A 93-unit luxury townhouse development in Addition Hills, San Juan that offers 3 to 5-bedroom units ranging from 202 up to 355 square meters. Each multi-level unit affords ample space for family and friends. A three-car parking area located directly below each unit ensures maximum convenience. Within the Dover Hill compound is Dover Club, a 5-storey amenity building which includes a fully-equipped, state-of-the-art fitness gym, and a party venue with its own kitchen and dining area good for up to 30 guests. Dover Hill also has a swimming pool and playground.

One Dover View & Two Dover View

Both located along Lee St., Mandaluyong, One Dover View and Two Dover View are exclusive and premier condominium-townhouse projects, offering 3 and 4 bedrooms, with only 23 and 8 units, respectively, with floor areas ranging from 222.80 to 327.10 square meters.

Emerald 88

Located along Dr. Sixto Avenue, Pasig City, Emerald 88 is a 14-unit townhouse development, with floor areas ranging from 187.48 to 216.94 square meters.

OTHER OPERATIONS AND INVESTMENTS

BANKING

SMC through SMPI made a series of acquisitions of Bank of Commerce (“**BOC**”) shares in 2007 and 2008 and has a current ownership of 39.93%. BOC is a commercial bank licensed to engage in banking operations in the Philippines. On December 17, 2018, SMC through SMC Equivest Corporation acquired an additional 5,258,956 common shares of BOC representing 4.69% ownership interest.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN RECORD AND BENEFICIAL OWNERS

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of more than 5% of the company's voting² securities as of June 30, 2019:

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 5th 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 26.02% 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	158,353,831	24.02%
Series "2" Preferred Shares.....	PCD Nominee Corporation (Filipino) Makati City	Various individuals/Entities	Filipino	760,449,794	
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	9.69%
Common.....	PCD Nominee Corporation Makati City	Various individuals/Entities	Filipino	38,331,458	8.18%
Series "2" Preferred Shares.....	PCD Nominee Corporation Makati City	Various individuals/Entities	Filipino	277,256,376	

²Common 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 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.

³The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of June 30, 2019, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,133,358.42 shares of the Company which represent about 65.99% of the outstanding common capital stock of the Company.

⁴As of June 30, 2019, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier.

⁵As of June 30, 2019.

The following are the number of shares comprising the capital stock of the Company (all of which are voting shares) owned of record by Chief Executive Officer, the directors, key officers of the Company, and nominees for election as director, as of June 30, 2019:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred (2B, 2C, 2D, 2E, 2F, 2G, 2H & 2I)		
Eduardo M. Cojuangco, Jr.....	3,828,702 (D)		Filipino	3,828,702 (0.10%)
Ramon S. Ang.....	1,345,429 (D)		Filipino	374,969,225 (17.21%)
	368,140,516 (I) ⁶			
	5,483,280 (I) ⁷			
Leo S. Alvez.....	19,326 (D)		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 de Venecia.....	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan.....	5,000 (D)	400,000 (D)	Filipino	405,000 (0.00%)
Margarito B. Teves.....	5,000 (D)		Filipino	5,000 (0.00%)
Ramon F. Villavicencio.....	35,000 (D)		Filipino	44,000 (0.00%)
	9,000 (I)			
Iñigo U. Zobel.....	16,171 (D)		Filipino	943,247,135 (24.46%)
	943,230,964 (I) ⁸			
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%)

Voting Trust Holders of 5% or more

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 in control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

⁶ Through his 100% shareholdings in Privado Holdings Corp.

⁷ Through his 100% shareholdings in Privado Holdings Corp., which shares are lodged with the PDTC.

⁸ Through his 59.96% shareholdings in Top Frontier Investment Holdings, Inc.

OWNERSHIP AND CAPITALIZATION

Share Capital

As of June 30, 2019, the Company had a total of 3,855,957,855 shares issued, of which 2,383,896,588 are outstanding common shares; 279,406,667 issued and outstanding Series “1” Preferred Shares; and 1,192,654,600 issued and outstanding Series “2” Preferred Shares.

Top 20 Shareholders (as of June 30, 2019)

#	Name of Stockholders	Common	Series “1” Preferred Shares	Series “2-B” Preferred Shares	Series “2-C” Preferred Shares	Series “2-D” Preferred Shares	Series “2-E” Preferred Shares	Series “2-F” Preferred Shares	Series “2-G” Preferred Shares	Series “2-H” Preferred Shares	Series “2-I” Preferred Shares	Total No. of Shares	% of outstanding
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	0	0	0	0	0	0	0	0	0	1,573,100,340	40.80%
2	PCD NOMINEE CORPORATION (FILIPINO)	158,353,831	0	0	46,520	82,496,580	121,392,412	200,399,982	60,650,420	157,065,190	145,681,247	926,086,182	24.02%
3	PRIVADO HOLDINGS CORP.	373,623,796	0	0	0	0	0	0	0	0	0	373,623,796	9.69%
4	PCD NOMINEE CORPORATION	38,331,458	0	54,726,530	222,283,715	52,400	188,138	2,828	2,765	0	0	315,587,834	8.18%
5	METROPLEX HOLDINGS CORPORATION	0	106,174,534	0	0	0	0	0	0	0	1,578,000	107,752,534	2.79%
6	LUCENA HOLDINGS CORPORATION	0	89,410,133	0	0	0	0	0	0	0	1,332,000	90,742,133	2.35%
7	GINGOOG HOLDINGS CORPORATION	1,830,082	83,822,000	0	0	0	0	0	0	0	1,590,000	87,242,082	2.26%
8	PCD NOMINEE CORPORATION (NON-FILIPINO)	49,958,216	0	287,660	1,307,920	427,270	790,070	1,758,150	409,990	1,259,910	2,070,910	58,270,096	1.51%
9	PCGG IN TRUST FOR THE COMPREHEN-SIVE AGRARIAN REFORM PROGRAM	27,636,339	0	0	0	0	0	0	0	0	0	27,636,339	0.72%
10	SAN MIGUEL CORPORATION RETIREMENT PLAN	15,001	0	20,600,000	0	0	0	0	0	0	0	20,615,001	0.53%
11	SAN MIGUEL BREWERY INC. RET. PLAN	0	0	53,000	0	2,666,700	1,333,400	8,000,000	0	0	6,153,600	18,206,700	0.47%
12	G & E SHAREHOLDINGS INC.	0	0	0	15,000,000	0	0	0	0	0	0	15,000,000	0.39%
13	PETRON CORPORATION EMPLOYEES’ RETIREMENT PLAN	12,237,100	0	2,000,000	0	0	0	0	0	0	0	14,237,100	0.37%
14	MILLENIUM ENERGY, INC.	10,807,380	0	0	0	0	0	0	0	0	0	10,807,380	0.28%

#	Name of Stockholders	Common	Series "1" Preferred Shares	Series "2-B" Preferred Shares	Series "2-C" Preferred Shares	Series "2-D" Preferred Shares	Series "2-E" Preferred Shares	Series "2-F" Preferred Shares	Series "2-G" Preferred Shares	Series "2-H" Preferred Shares	Series "2-I" Preferred Shares	Total No. of Shares	% of outstanding
15	SAN MIGUEL CORP. RET. PLAN - FIP	0	0	1,094,800	0	0	0	5,333,400	0	1,113,500	2,900,000	10,441,700	0.27%
16	SAN MIGUEL CORP. RET. PLAN - STP	0	0	560,000	0	0	0	0	2,266,500	0	4,326,100	7,152,600	0.19%
17	GSIS PROVIDENT FUND	0	0	1,300,000	2,666,700	0	0	0	0	0	0	3,966,700	0.10%
18	EDUARDO M. COJUANGCO JR.	3,828,702	0	0	0	0	0	0	0	0	0	3,828,702	0.10%
19	PRYCE CORPORATION	0	0	247,840	2,803,230	124,650	271,250	212,630	130,000	0	0	3,789,600	0.10%
20	SYSMART CORPORATION	3,457,000	0	0	0	0	0	0	0	0	0	3,457,000	0.09%
	TOTAL	2,253,179,245	279,406,667	80,869,830	244,108,085	85,767,600	123,975,270	215,706,990	63,459,675	159,438,600	165,631,857	3,671,544,819	95.22%
	OTHER STOCK- HOLDERS	130,717,343	0	9,558,370	11,451,315	3,565,800	10,024,830	7,626,510	3,206,925	4,561,400	3,701,543	184,414,036	4.78%
	TOTAL	2,383,896,588	279,406,667	90,428,200	255,559,400	89,333,400	134,000,100	223,333,500	66,666,600	164,000,000	169,333,400	3,855,957,855	100.00000%

MARKET PRICE OF AND DIVIDENDS ON THE EQUITY OF SMC AND RELATED SHAREHOLDER MATTERS

Market Information

The common equity of SMC is listed on the PSE. The high and low sales prices for each period are indicated in the table below.

The common, Series “1”, and Series “2” preferred equity of SMC are traded on the PSE. The high and low closing prices for each quarter from 2012 to 2018 and for the first 2 quarters of 2019 are as follows.

2012

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	123.00	110.00	80.00	76.60	N/A	N/A	N/A	N/A	N/A	N/A
2nd	117.00	111.00	79.10	74.50	N/A	N/A	N/A	N/A	N/A	N/A
3rd	115.00	110.00	78.10	73.00	75.10	74.90	80.00	74.50	76.00	75.00
4th	111.00	100.00	75.50	75.50	75.20	74.50	81.50	74.00	77.90	74.50

2013

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	125.00	103.20	N/A	N/A	75.00	74.65	77.00	74.50	79.25	74.50
2nd	125.00	83.00	N/A	N/A	80.50	74.95	82.00	75.75	84.00	77.50
3rd	94.50	65.50	N/A	N/A	77.75	74.50	79.60	75.00	81.50	74.95
4th	88.00	57.30	N/A	N/A	77.30	75.60	77.50	75.40	79.80	76.80

2014

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	76.00	54.50	N/A	N/A	77.00	75.00	78.95	76.00	81.00	77.50
2nd	87.00	74.65	N/A	N/A	76.10	74.30	78.90	74.90	81.85	75.00
3rd	83.00	76.90	N/A	N/A	76.00	74.20	76.50	74.50	78.00	75.00
4th	78.95	72.00	N/A	N/A	96.90	75.30	79.00	76.00	82.50	77.00

2015

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-A”</u>		<u>Series “2-B”</u>			
	High	Low	High	Low	High	Low	High	Low		
1st	81.00	66.70	N/A	N/A	76.80	75.00	89.50	78.00		
2nd	71.80	59.30	-	-	76.85	75.00	85.60	80.00		
3rd	60.60	43.50	-	-	76.00	74.00	85.05	76.00		
4th	52.00	44.05	-	-	N/A	N/A	85.00	77.00		

	<u>Series “2-C”</u>		<u>Series “2-D”</u>		<u>Series “2-E”</u>		<u>Series “2-F”</u>			
	High	Low	High	Low	High	Low	High	Low		
1st	84.50	78.00	N/A	N/A	N/A	N/A	N/A	N/A		
2nd	90.00	83.05	N/A	N/A	N/A	N/A	N/A	N/A		
3rd	89.00	79.00	80.00	76.00	78.80	76.50	80.00	77.10		
4th	84.00	81.00	85.00	78.00	80.10	76.00	80.90	78.50		

2016

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>		<u>Series “2-D”</u>	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.20	47.50	-	-	81.00	76.00	83.00	78.50	79.00	75.35
2nd	82.80	65.00	-	-	80.50	76.45	82.00	75.00	80.00	75.50
3rd	86.10	77.50	-	-	79.90	75.00	83.00	78.00	78.80	75.80
4th	101.60	79.05	-	-	80.00	76.40	83.00	80.00	79.00	75.10

	<u>Series “2-E”</u>		<u>Series “2-F”</u>		<u>Series “2-G”</u>		<u>Series “2-H”</u>		<u>Series “2-I”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	79.50	75.50	80.00	75.80	76.00	75.05	75.50	75.00	75.30	71.50
2nd	78.50	75.00	78.90	75.90	78.15	75.00	77.50	74.95	77.10	74.90
3rd	80.50	76.05	80.85	77.50	80.05	77.05	79.00	76.00	79.15	76.00
4th	79.50	77.30	81.00	78.00	79.95	77.00	78.30	76.00	78.55	75.00

2017

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>		<u>Series “2-D”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	108.00	92.30	-	-	78.30	76.00	83.50	79.70	78.50	75.50
2nd	111.20	101.50	-	-	78.00	76.00	83.00	80.00	78.00	76.00
3rd	104.00	96.60	-	-	77.00	74.00	82.00	79.40	77.75	75.85
4th	124.50	97.10	-	-	78.05	74.50	82.95	80.00	78.50	75.10

	<u>Series “2-E”</u>		<u>Series “2-F”</u>		<u>Series “2-G”</u>		<u>Series “2-H”</u>		<u>Series “2-I”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	79.10	76.40	81.10	78.10	79.50	77.00	79.50	76.60	80.00	77.20
2nd	81.60	77.00	81.30	79.00	79.50	77.00	79.00	77.50	79.50	77.60
3rd	80.00	76.55	82.00	80.00	79.95	78.00	79.70	77.30	80.90	76.55
4th	80.00	76.25	82.70	79.50	79.95	76.50	79.50	76.15	81.70	77.25

2018

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>		<u>Series “2-D”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	152.00	111.60	-	-	77.50	75.00	81.50	75.00	77.00	74.50
2nd	145.40	134.00	-	-	78.00	75.20	79.95	77.00	76.90	74.90
3rd	180.10	134.00	-	-	91.00	75.00	80.90	77.50	76.00	72.00
4th	175.40	139.00	-	-	76.45	75.00	78.10	75.75	75.40	70.00

	<u>Series “2-E”</u>		<u>Series “2-F”</u>		<u>Series “2-G”</u>		<u>Series “2-H”</u>		<u>Series “2-I”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	79.00	75.00	81.50	77.30	78.50	75.00	79.60	75.00	79.80	76.80
2nd	76.95	75.05	79.50	76.00	76.80	75.00	78.00	75.00	78.90	75.10
3rd	77.00	73.35	77.50	74.50	76.50	74.60	77.50	72.50	77.00	74.50
4th	75.45	71.95	75.35	70.05	75.20	70.30	75.00	71.85	75.00	70.05

2019

	<u>Common</u>		<u>Series “1”</u>		<u>Series “2-B”</u>		<u>Series “2-C”</u>		<u>Series “2-D”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	180.00	144.80	-	-	75.90	74.00	77.40	75.00	74.45	71.40
2nd	195.90	171.90	-	-	75.95	73.15	78.00	75.20	73.85	71.05

	<u>Series “2-E”</u>		<u>Series “2-F”</u>		<u>Series “2-G”</u>		<u>Series “2-H”</u>		<u>Series “2-I”</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st	75.00	71.30	76.80	72.00	74.90	71.20	74.50	71.00	75.00	71.05
2nd	74.25	71.50	75.00	73.00	74.50	72.50	74.00	70.00	74.95	40.80

The closing prices as of July 31, 2019, the latest practicable trading date, are as follows:

Common	₱178.00
Series 1 Preferred	not applicable
Series “2-A” Preferred	not applicable
Series “2-B” Preferred	₱75.50
Series “2-C” Preferred	₱77.20
Series “2-D” Preferred	₱74.80
Series “2-E” Preferred	₱75.00
Series “2-F” Preferred	₱75.50
Series “2-G” Preferred	₱75.00
Series “2-H” Preferred	₱75.50
Series “2-I” Preferred	₱75.00

The number of shareholders as of July 31, 2019 is 35,438.

Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC to common shareholders amounted to ₱1.40 per share in 2018.

Cash dividends declared by the Board of Directors of SMC to all Series “2” – Subseries “2-B” Subseries “2-C”, Subseries “2-D”, Subseries “2-E”, Subseries “2-F”, Subseries “2-G”, Subseries “2-H” and Subseries “2-I” preferred shareholders amounted to ₱5.71875, ₱6.00, ₱4.457325, ₱4.744125, ₱5.1054, ₱4.934475, ₱4.74165 and ₱4.751625 per share, respectively, in 2018.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors the Board of Directors may deem relevant.

The table below sets forth the amount of dividends declared and paid since 2012.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012	Cash	0.35	January 20	February 6	February 20
	Cash	0.35	April 18	May 4	May 28
	Cash	0.35	July 24	August 10	September 3
	Cash	0.35	October 11	October 26	November 9
	Cash	0.35	December 13	January 4, 2013	January 30, 2013
Total:		1.75			
2013	Cash	0.35	April 11	April 26	May 6
	Cash	0.35	June 11	June 28	July 15
	Cash	0.35	September 19	October 18	November 8
	Property*	1 for 10	October 17	November 5	January 2
	Cash	0.35	December 12	January 17, 2014	February 7, 2014
Total:		1.40			
2014	Cash	0.35	April 10	April 29	May 16
	Cash	0.35	June 10	June 27	July 21
	Cash	0.35	September 18	October 17	November 7
	Cash	0.35	December 11	January 7, 2015	February 2, 2015
Total:		1.40			
2015	Cash	0.35	April 22	May 8	May 20
	Cash	0.35	July 14	July 31	August 14
	Cash	0.35	September 17	October 9	November 4
	Cash	0.35	December 10	January 8, 2016	February 2, 2016
Total:		1.40			
2016	Cash	0.35	March 17	April 8	May 4
	Cash	0.35	June 14	July 1	July 27
	Cash	0.35	September 15	October 7	November 4
	Cash	0.35	December 8	January 2, 2017	January 25, 2017
Total:		1.40			

2017.....	Cash	0.35	March 16	April 7	May 4
	Cash	0.35	June 13	June 30	July 25
	Cash	0.35	September 14	October 9	November 6
	Cash	0.35	December 7	January 2, 2018	January 24, 2018
Total:		1.40			
2018.....	Cash	0.35	March 15	April 6	May 4
	Cash	0.35	June 14	July 2	July 25
	Cash	0.35	September 13	October 5	October 30
	Cash	0.35	December 6	January 2, 2019	January 24, 2019
Total:		1.40			
2019.....	Cash	0.35	March 14	April 5	May 3
	Cash	0.35	June 11	July 5	July 30
Total:		0.70			

Preferred Shares - Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2012	Cash	1.50	March 28	April 17	May 11
	Cash	1.50	June 14	June 29	July 23
	Cash	1.50	August 13	August 31	September 10
	Cash	1.50	August 13	September 11	October 5
Total:		6.00			
2015	Cash	1.0546	June 9	June 26	July 8
	Cash	1.0565625	August 20	September 11	September 21
	Cash	1.0565625	November 10	December 17	December 29
Total:		3.167725			
2016	Cash	1.0565625	January 15	March 21	April 5
	Cash	1.0565625	May 12	June 21	July 6
	Cash	1.0565625	August 10	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2017
Total:		4.22625			
2017.....	Cash	1.0565625	January 12	March 21	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 10	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2018
Total:		4.22625			
2018.....	Cash	1.0565625	January 25	March 8	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 9	September 21	October 5
	Cash	1.0565625	November 13	December 21	January 11, 2019
Total:		4.22625			
2019.....	Cash	1.0565625	January 24	March 22	April 5
	Cash	1.0565625	May 9	June 21	July 5
Total:		2.113125			

Preferred Shares - Series 2A

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.40625	January 17	March 20	April 4
	Cash	1.40625	May 10	June 18	July 3
	Cash	1.40625	August 12	September 16	October 1
	Cash	1.40625	November 11	December 13	December 27
	Cash	1.40625	November 11	March 14, 2014	April 10, 2014
Total:		7.03125			
2014.....	Cash	1.40625	May 12	June 13	June 27
	Cash	1.40625	May 12	September 11	September 26
	Cash	1.40625	November 10	November 28	December 23
	Cash	1.40625	November 10	February 27, 2015	March 25, 2015
Total:		5.625			
2015.....	Cash	1.40625	May 14	May 29	June 11
	Cash	1.40625	August 20	September 11	September 21
Total:		2.8125			

Preferred Shares - Series 2B

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.4296875	January 17	March 20	April 4
	Cash	1.4296875	May 10	June 18	July 3
	Cash	1.4296875	August 12	September 16	October 1
	Cash	1.4296875	November 11	December 13	December 27
	Cash	1.4296875	November 11	March 14, 2014	April 10, 2014
Total:		7.1484375			
2014.....	Cash	1.4296875	May 12	June 13	June 27
	Cash	1.4296875	May 12	September 11	September 26
	Cash	1.4296875	November 10	November 28	December 23
	Cash	1.4296875	November 10	February 27, 2015	March 25, 2015
Total:		5.71875			
2015	Cash	1.4296875	May 14	May 29	June 11
	Cash	1.4296875	August 20	September 11	September 21
	Cash	1.4296875	November 10	December 17	December 29
Total:		4.2890625			
2016	Cash	1.4296875	January 15	March 21	April 5
	Cash	1.4296875	May 12	June 21	July 6

	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2017
Total:		5.71875			
2017	Cash	1.4296875	January 12	March 21	April 5
	Cash	1.4296875	May 10	June 21	July 6
	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2018
Total:		5.71875			
2018	Cash	1.4296875	January 25	March 8	April 5
	Cash	1.4296875	May 10	June 21	July 6
	Cash	1.4296875	August 9	September 21	October 6
	Cash	1.4296875	November 13	December 21	January 11, 2019
Total:		5.71875			
2019.....	Cash	1.4296875	January 24	March 22	April 5
	Cash	1.4296875	May 9	June 21	July 5
Total:		2.859375			

Preferred Shares - Series 2C

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2013	Cash	1.50	January 17	March 20	April 4
	Cash	1.50	May 10	June 18	July 3
	Cash	1.50	August 12	September 16	October 1
	Cash	1.50	November 11	December 13	December 27
	Cash	1.50	November 11	March 14, 2014	April 10, 2014
Total:		7.50			
2014	Cash	1.50	November 10	February 27, 2015	March 25, 2015
	Cash	1.50	May 12	June 13	June 27
	Cash	1.50	May 12	September 11	September 26
	Cash	1.50	November 10	November 28	December 23
Total:		6.00			
2015	Cash	1.50	May 14	May 29	June 11
	Cash	1.50	August 20	September 11	September 21
	Cash	1.50	November 10	December 17	December 29
Total:		4.50			
2016	Cash	1.50	January 15	March 21	April 5
	Cash	1.50	May 12	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2017
Total:		6.00			
2017	Cash	1.50	January 12	March 21	April 5
	Cash	1.50	May 10	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2018

Total:		6.00			
2018.....	Cash	1.50	January 25	March 8	April 5
	Cash	1.50	May 10	June 21	July 6
	Cash	1.50	August 9	September 21	October 5
	Cash	1.50	November 13	December 21	January 11, 2019
Total:		6.00			
2019.....	Cash	1.50	January 24	March 22	April 5
	Cash	1.50	May 9	June 21	July 5
Total:		3.00			

Preferred Shares - Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015	Cash	1.11433125	November 10	December 17	December 29
Total:		1.11433125			
2016	Cash	1.11433125	January 15	March 21	April 5
	Cash	1.11433125	May 12	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2017
Total:		4.457325			
2017	Cash	1.11433125	January 12	March 21	April 5
	Cash	1.11433125	May 10	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2018
Total:		4.457325			
2018.....	Cash	1.11433125	January 25	March 8	April 5
	Cash	1.11433125	May 10	June 21	July 6
	Cash	1.11433125	August 9	September 21	October 5
	Cash	1.11433125	November 13	December 21	January 11,2019
Total:		4.457325			
2019.....	Cash	1.11433125	January 24	March 22	April 5
	Cash	1.11433125	May 9	June 21	July 5
Total		2.2286625			

Preferred Shares - Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015	Cash	1.18603125	November 10	December 17	December 29
Total:		1.18603125			
2016	Cash	1.18603125	January 15	March 21	April 5
	Cash	1.18603125	May 12	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2017

Total:		4.744125			
2017	Cash	1.18603125	January 12	March 21	April 5
	Cash	1.18603125	May 10	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2018
Total:		4.744125			
2018	Cash	1.18603125	January 25	March 8	April 5
	Cash	1.18603125	May 10	June 21	July 6
	Cash	1.18603125	August 9	September 21	October 5
	Cash	1.18603125	November 13	December 21	January 11, 2019
Total:		4.744125			
2019	Cash	1.18603125	January 24	March 22	April 5
	Cash	1.18603125	May 9	June 21	July 5
Total:		2.3720625			

Preferred Shares - Series 2F

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2015	Cash	1.27635	November 10	December 17	December 29
Total:		1.27635			
2016	Cash	1.27635	January 15	March 21	April 5
	Cash	1.27635	May 12	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2017
Total:		5.1054			
2017	Cash	1.27635	January 12	March 21	April 5
	Cash	1.27635	May 10	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2018
Total:		5.1054			
2018.....	Cash	1.27635	January 25	March 8	April 5
	Cash	1.27635	May 10	June 21	July 6
	Cash	1.27635	August 9	September 21	October 5
	Cash	1.27635	November 13	December 21	January 11, 2019
Total:		5.1054			
2019.....	Cash	1.27635	January 24	March 22	April 5
	Cash	1.27635	May 9	June 21	July 5
Total:		2.5527			

Preferred Shares - Series 2G

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016	Cash	1.23361875	May 12	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2017
Total:		3.70085625			
2017	Cash	1.23361875	January 12	March 21	April 5
	Cash	1.23361875	May 10	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2018
Total:		4.934475			
2018	Cash	1.23361875	January 25	March 8	April 5
	Cash	1.23361875	May 10	June 21	July 6
	Cash	1.23361875	August 9	September 21	October 5
	Cash	1.23361875	November 13	December 21	January 11, 2019
Total		4.934475			
2019	Cash	1.23361875	January 24	March 22	April 5
	Cash	1.23361875	May 9	June 21	July 5
Total		2.4672375			

Preferred Shares - Series 2H

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2016	Cash	1.1854125	May 12	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2017
Total:		3.5562375			
2017	Cash	1.1854125	January 12	March 21	April 5
	Cash	1.1854125	May 10	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2018
Total:		4.74165			
2018.....	Cash	1.1854125	January 25	March 8	April 5
	Cash	1.1854125	May 10	June 21	July 6
	Cash	1.1854125	August 9	September 21	October 5
	Cash	1.1854125	November 13	December 21	January 11, 2019
Total:		4.74165			
2019.....	Cash	1.1854125	January 24	March 22	April 5
	Cash	1.1854125	May 9	June 21	July 5
Total:		2.370825			

Preferred Shares - Series 2I

Per Share

Year	Type	Amount (₱)	Date Declared	Record Date	Payment Date
2016	Cash	1.18790625	May 12	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2017
Total:		3.56371875			
2017	Cash	1.18790625	January 12	March 21	April 5
	Cash	1.18790625	May 10	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2018
Total:		4.751625			
2018	Cash	1.18790625	January 25	March 8	April 5
	Cash	1.18790625	May 10	June 21	July 6
	Cash	1.18790625	August 9	September 21	October 5
	Cash	1.18790625	November 13	December 21	January 11, 2019
Total:		4.751625			
2019	Cash	1.18790625	January 24	March 22	April 5
	Cash	1.18790625	May 9	June 21	July 5
Total:		2.3758125			

Similarly, the subsidiaries of SMC may declare dividends at the discretion of their respective boards of directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from their respective subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors their respective boards of directors may deem relevant.

Sale of Unregistered or Exempt Securities Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past 3 years which were not registered under the SRC, except for the following:

Name of Security Sold	Underwriters	Date of Sale	Amount of Securities	Basis for Exemption
Series "1" Preferred Shares.....	N/A	March 30, 2015	₱1,397,033,335.00 at par value; ₱ 20,955,500,025.00 at issue price of ₱75.00	Section 10 (k) and (l) of the SRC
2-year Fixed Rate Notes due 2020	BDO Capital and Investment Corporation BPI Capital Corporation	May 25, 2018	₱10,000,000,000.00	Section 10.1 (l) of the SRC

Other securities issued by SMC within the same period are common shares under the Long-Term Incentive Plan for Stock Options pursuant to Section 10.2 of the SRC.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

SMC has filed a notice with the SEC and has not obtained a written confirmation for the foregoing exempt transactions.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Party Transactions

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

The following are the transactions with related parties and the outstanding balances as of June 30, 2019 and December 31, 2018:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	June 30, 2019	₱2	₱-	₱6,707	₱551	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2018	8	-	6,803	551		
Retirement Plans	June 30, 2019	154	-	9,674	-	On demand; interest bearing	Unsecured; no impairment
	December 31, 2018	399	-	9,516	-		
Associates	June 30, 2019	1,499	23	1,691	136	On demand; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,905	251	1,564	193		
	June 30, 2019	-	-	-	23,311	Less than 1 to 10 years; interest bearing	Unsecured and secured
	December 31, 2018	-	-	-	21,425		
Joint Ventures	June 30, 2019	179	644	747	85	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	76	1,181	684	64		
Shareholders in Subsidiaries	June 30, 2019	14	34	95	2,453	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	125	103	29	2,515		
Others	June 30, 2019	1,425	1,592	648	7,788	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,235	1,499	600	7,878		
Total	June 30, 2019	₱3,273	₱2,293	₱19,562	₱34,324		
Total	December 31, 2018	₱5,748	₱3,034	₱19,196	₱32,626		

Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

Amounts owed to related parties consist of trade payables and professional fees. The amount owed to the Ultimate Parent Company pertains to dividend payable.

The amounts owed to associates include interest bearing loans payable to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation (“SMC” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as of and for the period ended June 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended June 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2019, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2019 SIGNIFICANT TRANSACTIONS

INVESTMENT

Deconsolidation of Manila North Harbour Port, Inc. (MNHPI)

On March 14 and April 26, 2019, respectively, the Philippine Competition Commission (PCC) and the Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI). With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.’s (SMHC) shares remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to ₱2,600 million. As a result, the Group recognized a gain amounting to ₱727 million, included as part of “Other income (charges) - net” account, in the consolidated statements of income.

LONG-TERM DEBT

SMC

On June 24, 2019, the Parent Company availed of a ₱16,000 million fixed-rate seven-year term loan for general corporate purposes.

Petron Corporation (Petron)

In May 2019, Petron drew a total of US\$536 million from its US\$800 million term loan facility to refinance dollar-denominated bilateral short-term loans and to partially prepay its existing US\$1,000 million term loan facility. The loan is subject to floating interest rate. Repayment of principal will be made in seven (7) equal semi-annual amortizations beginning May 15, 2021. The maturity date of the loan is on May 15, 2024.

As of June 30, 2019, US\$264 million remains undrawn from the facility.

Masinloc Power Partners Co. Ltd. (MPPCL)

On January 11, 2019, MPPCL drew a total of US\$35 million from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (Unit 3) coal-fired power plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche of 5.5959% per annum and a floating interest tranche based on a 6-month LIBOR plus margin, with maturities up to December 2030.

Citra Central Expressway Corp. (CCEC)

On March 27, 2019, CCEC drew ₱1,000 million from the ₱31,000 million Omnibus Loan and Security Agreement with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

FIXED-RATE PESO-DENOMINATED BONDS

Shelf-Registration of ₱60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global Power Holdings Corp. (SMC Global) and Issuance of ₱30,000 Million Bonds

On March 29, 2019, the Philippine Securities and Exchange Commission approved the shelf registration of up to ₱60,000 million worth of fixed-rate peso-denominated bonds of SMC Global.

On April 24, 2019, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. the first tranche of the fixed-rate peso-denominated bonds amounting to ₱30,000 million.

The bonds are comprised of the three-year Series H Bonds due 2022.

The Series H, I and J Bonds have fixed interest rates per annum equivalent to 6.8350%, 7.1783% and 7.6000%, respectively.

The net proceeds were used by SMC Global for payment of maturing long-term debt and short-term loan and in investments in power-related assets, and payment of transaction-related fees, costs and expenses.

Redemption of Fixed-Rate Peso-Denominated Bonds by San Miguel Brewery Inc. (SMB)

On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate peso-denominated bonds amounting to ₱10,000 million and ₱2,810 million, respectively. The Series E and C bonds were part of the ₱20,000 million and ₱38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

Issuance of US\$500 Million SPCS by SMC Global

On April 25, 2019, SMC Global issued US\$500 million SPCS at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019.

The net proceeds of the securities will be used and applied by SMC Global for the redemption of US\$300 million Undated Subordinated Capital Securities (USCS) in November 2019 and for the capital expenditures in power-related assets. As of June 30, 2019, the net proceeds are still part of the cash and cash equivalents balance.

PREFERRED SHARES

Issuance of 20,000,000 Series 3 Perpetual Preferred Shares by Petron

On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of ₱20,000 million.

Dividends are 6.8713% and 7.1383% per annum for Series 3A and Series 3B, respectively.

The net proceeds were used for the repayment of maturing short-term loans and general corporate purposes. The remaining balance which is allocated for the redemption of the Series 2A Preferred Shares in November 2019, is still in the cash and cash equivalents balance of Petron as of June 30, 2019.

PAYMENT OF MATURING OBLIGATIONS

In the first semester of 2019, the Group paid ₱11,246 million of maturing obligations funded by cash generated from operations.

The Infrastructure business, Petron and Energy business paid a total of ₱4,270 million, ₱4,072 million and ₱2,190 million, respectively, of their maturing long-term debt.

While, San Miguel Yamamura Packaging Corporation, Can Asia, Inc. and San Miguel Yamamura Asia Corporation (SMYAC) paid a total amount of ₱714 million of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group's consolidated sales revenue for the first semester of 2019 amounted to ₱509,495 million, 2% higher than 2018, mainly driven by strong performance of the Energy business and San Miguel Food and Beverage. This was driven mainly by higher volumes for most of the major businesses.

Cost of sales increased by 4% from ₱392,855 million in 2018 to ₱408,618 million in 2019. The increase primarily resulted from the full six months operations of Masinloc Power Plant, Unit 2 of Davao Power Plant and Unit 3 of Limay Power Plant, higher energy fees of Ilijan and Sual Power Plants, higher average natural gas price for Ilijan and increased average spot prices of the Energy business. The increase was also due to the volume growth of San Miguel Food and Beverage and higher prices of major raw materials of the Food business.

Selling and administrative expenses increased mainly due to higher distribution costs, advertising and promotions, taxes and licenses and amortization expenses of SMB, higher logistics costs and personnel expenses of the Food business, and higher taxes and licenses, personnel expenses, fuel and oil, travel and transportation, utilities and supplies expenses of the Energy business.

The Group's consolidated operating income amounted to ₱57,616 million, 14% lower than last year, mainly due to Petron, which continue to be weighed down by the prevailing volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery of Petron was temporarily shutdown for the scheduled major maintenance and additional repair works needed after the April 22, 2019 earthquake. San Miguel Food and Beverage, particularly the Food business, also continues to be affected by rising raw material costs and low chicken prices due to higher inventory coming from imports. The decline was partly offset by the higher operating income of Beer, Spirits and Energy businesses.

The higher interest expense and other financing charges was mainly due to the higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net earnings mainly represents the share of SMC Global on Angat Hydropower Corporation's (Angat Hydro) lower net losses in 2019 as compared to 2018.

The gain on sale of property and equipment in 2019 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for various projects, while 2018 pertains mainly to the sale by San Miguel Properties, Inc. (SMPI) of its investment in Legacy Homes, Inc.

The other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine peso in June 2019 compared to the depreciation of the Philippine peso in June 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses, (b) higher taxable income of Beer and South Premiere Power Corp. (SPPC), and (c) recognition by the Parent Company of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018.

Consolidated net income amounted to ₱26,152 million in 2019.

Share of non-controlling interests (NCI) decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in the share of NCI on SMB's higher net income.

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

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated revenue for the first semester reached ₱151,107 million, 10% higher than ₱137,608 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volumes. Consolidated operating income, however, ended 6% lower at ₱21,568 million on account of the decline in the Food business' performance.

Net income stood at ₱14,670 million.

a. Beer and Non-Alcoholic Beverages (NAB) Segment

SMB's consolidated volumes and revenues for the first semester reached 151.4 million cases and ₱70,283 million, 10% higher and 12% higher than same period last year respectively.

Domestic operations posted an 11% volume growth from last year, as consumption continued to be robust in all key areas around the country. This has been boosted by SMB's new sales and marketing campaigns initiatives, consistent consumer penetration via trade programs and various activities which proved to further strengthen its brand equity, with Red Horse and San Miguel Pale Pilsen maintaining its position as the top selling brands for SMB.

SMB's international operations, meanwhile, posted a slight decline in volumes due to the slowdown in sales of its local mainstream brands which has been partly offset by the healthy growth of San Miguel brands.

As a result, SMB's consolidated operating income rose to ₱18,933 million, up 9%, while net income grew to ₱13,258 million, 12% higher from last year.

b. Spirits Segment

Ginebra San Miguel Inc. (GSMI) concluded the first semester with strong volume growth of 18.3 million cases, 17% higher than last year's level led by its core brands Ginebra San Miguel and Vino Kulafu, the result of the business' relentless sales efforts to expand more through distribution and support from its continuous consumer promos and advertising campaigns such as the highly anticipated jersey collection, 'Dosenang Lakas May Instant Pa-Buenas' under-the cap-promo and numerous on-ground Ginumanfest activations across the country.

Along with price adjustments implemented during the second quarter, revenues grew 20% to ₱14,695 million from last year. Operating income hit ₱1,596 million, 85% higher than last year's levels, the result of strong volumes, higher revenues and lower costs.

Net income ended at ₱980 million, 94% higher from the previous year.

c. Food Segment

The Food segment's consolidated revenues for the first semester amounted to ₱66,129 million, 5% higher than last year with all its businesses posting revenue growth boosted by higher volumes and better selling prices from almost all categories.

Protein business revenues grew 3%, driven mainly by poultry's 9% volume growth, backed by higher chicken sales from its stable-priced channels.

Animal Nutrition & Health business revenue also grew 3% due to favorable market prices and higher sales from high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

Prepared and Packaged Food, meanwhile, provided double-digit revenue growth of 13%, driven mainly by value-added meats' and butter, margarine and cheese' 4% and 6% volume growth coupled with better

selling prices from its core products - Tender Juicy, Purefoods Corned Beef, Nuggets, Luncheon Meat, and Magnolia breadfill and spreads.

Flour revenues, on the other hand, grew 10% on a 3% volume growth and higher selling prices.

The Food segment's operating income, however, ended significantly lower than last year at ₱1,063 million mainly due to the prevailing rising cost of raw materials and the effect of the oversupply of poultry which dragged down selling prices during the first quarter.

Poultry prices, while still lower compared to last year's figures, have shown some recovery during the second quarter.

Similarly, net income ended lower at ₱428 million.

2. PACKAGING

The Packaging business delivered sales revenues of ₱17,835 million during the first semester, 2% higher vs. last year mainly from increased sales from glass, plastics, metal, flexibles and Malaysian operations.

Operating income amounted to ₱1,697 million, 3% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 14,635 gigawatt hours (gwh) during the first semester, 28% higher than the same period last year from new bilateral contracts obtained from both the regulated and contestable power markets. These were supplied through the additional power generated from the Masinloc, Limay and Malita power plants, combined with the improved plant capacity factors from the Sual and Ilijan power plants. These resulted to a 26% increase in consolidated revenues to ₱72,511 million from ₱57,430 million last year.

Consequently, consolidated operating income increased by 8% to ₱18,384 million, while consolidated net income of ₱7,263 million grew significantly higher vs. the same period last year.

4. FUEL AND OIL

Petron's performance for the first semester continued to be affected by the volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery was temporarily shutdown for its scheduled major maintenance and additional repair works needed following the April 22, 2019 earthquake. Demand in the Philippine market also slowed down due to the effect of the second tranche of the excise tax increase under the Train Law. This resulted to lower consolidated volumes of 51.9 million barrels, even with Malaysia's higher volumes. Consolidated revenues reached ₱254,807 million, down by 7% during the first half.

Consolidated operating income and net income settled at ₱9,787 million and ₱2,620 million, 37% and 72% decline from 2018 respectively.

5. INFRASTRUCTURE

SMC Infrastructure's operating toll roads vehicular traffic volumes continue to grow posting a combined 6% increase during the first half this year. Consolidated revenues amounted to ₱12,315 million.

Operating income reached ₱6,030 million.

2018 vs. 2017

The Group's consolidated sales revenue for the first semester of 2018 amounted to ₱499,000 million, 27% higher than 2017 mainly driven by higher volumes of San Miguel Food and Beverage and favorable selling prices of Petron. Most businesses increased their revenues with Petron, Energy and the core beverage and food businesses posting double-digit growth.

Cost of sales increased by 29% to ₱392,855 million mainly due to the increase in crude prices and effect of excise tax of Petron; higher sales volume of Petron and San Miguel Food and Beverage; higher excise tax of the domestic

operations of SMB, operations of MPPCL and the coal-fired power plant in Malita, Davao, higher cost of coal and fuel consumed by Sual Power Plant, and increase in cost of major raw materials of the Food business, particularly in feeds, dairy and processed meats, as well as the impact of Philippine peso depreciation.

Selling and administrative expenses increased mainly due to higher personnel expenses of San Miguel Food and Beverage, freight, trucking and handling costs, distribution costs, contracted services costs and advertising and promotions of SMB, expenses of MPPCL, higher liquefied petroleum gas cylinder purchases, repairs and maintenance and increase in terminalling fees and rent expense of Petron, and logistics costs of the Food business.

The Group's consolidated operating income reached ₱67,006 million, 25% higher than 2017, as a result of better margins.

The increase in interest expense and financing charges was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017 from the issuance by the Parent Company of the ₱50,000 million (Series A, B, C, D, E, F and G) bonds in 2017 and 2018, and availment of US\$400 million and US\$400 million long-term debt in 2017 and March 2018, respectively, issuance by SMC Global of ₱20,000 million bonds in December 2017 and additional loan availed in 2018 by SMC Global to finance the acquisition of the Masinloc Group.

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

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

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

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

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

Consolidated net income of ₱27,585 million was 6% higher than 2017.

Consolidated recurring net income, excluding the effect of foreign exchange translation amounted to ₱35,536 million in 2018, 29% higher than 2017.

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

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

1. FOOD AND BEVERAGE

The combined sales revenues of SMFB for the first half of 2018 amounted to ₱137,608 million, 15% higher than ₱119,130 million in 2017. Similarly, operating income of ₱22,889 million grew 20% from same period in 2017.

a. Beer and NAB Segment

SMB continued its solid performance with consolidated volumes reaching 138 million cases, 11% higher than 2017. Strong volumes were mainly driven by increased consumption of its beer products nationwide and boosted by the implementation of new campaigns and consumer and trade programs that continued to further strengthen the equity of SMB brands. These generated consolidated revenues of ₱62,510 million in 2018, 18% higher vs. 2017.

Together with the contribution from its international operations, SMB's operating income of ₱17,311 million in 2018 grew 23% from 2017.

b. Spirits Segment

GSMI likewise recorded a strong first semester performance in 2018. Sales volumes grew 15% to 15.6 million cases. The core brands Ginebra San Miguel and Vino Kulafu continued to drive growth momentum, benefitting from new thematic campaigns launched early 2018 and ongoing consumer promotions.

Revenues rose 19% to ₱12,213 million while operating income reached ₱862 million in 2018, 57% higher than 2017.

c. Food Segment

The Food segment's consolidated revenues for the first half of 2018, reached ₱62,886 million, 12% higher than 2017 mainly driven by the strong performance of the Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses.

Income from operations, on the other hand, grew 6% to ₱4,712 million in 2018, on the back of the businesses' overall higher revenues and improved operational efficiencies. This was tempered, however, by increasing cost of raw materials particularly in Animal Nutrition and Health and Prepared and Packaged Food businesses, as well as the impact of Philippine peso depreciation.

Revenues from the combined Protein businesses grew 12.6% to ₱44,466 million in 2018, driven by better sales mix, higher sales volume and favorable selling prices of chicken and fresh meats products.

Meanwhile, revenues of the Milling business increased by 6.5% in 2018 boosted by higher volume, a good recovery from a sluggish first quarter of 2018.

Revenues of the Prepared and Packaged Food business, comprised of Processed Meats, Dairy, Spread and Biscuits, and Coffee, grew 14.6% higher to ₱14,494 million in 2018. Volume growth, as well as higher selling prices of dairy products, cushioned the significant increases in processed meats and dairy raw material prices.

The Food Service business under Great Foods Solutions, continued to grow, posting double digit revenue growth in 2018.

2. PACKAGING

The Packaging business' total sales revenues reached ₱17,556 million in 2018, 25% higher from 2017. Strong sales from the glass, plastics, metal and Australian operations continues to drive growth.

Operating income amounted to ₱1,647 million in 2018, 17% higher than 2017.

3. ENERGY

SMC Global posted consolidated off-take volume of 11,406 gwh during the first half of 2018, 36% higher than 2017 mainly from the higher contribution of the Limay, Malita and Masinloc power plants. This was partly offset by the decline in Sual, Ilijan and San Roque power plants' net generation due to longer outages and low water level during the period.

Consolidated revenues grew 41% to ₱57,430 million in 2018 on account of the additional revenues from Masinloc, Limay and Malita power plants; higher off-take volume of San Miguel Electric Corp. - Retail Electricity Supplier from the additional external customers and increase in electricity requirements; higher average realization prices for Sual's bilateral and spot sales; and higher spot sales from Ilijan power plant.

As a result, operating income reached ₱17,043 million in 2018, 28% higher than in 2017 at ₱13,315 million.

4. FUEL AND OIL

Petron sustained its strong performance in the first half of 2018. Consolidated revenues grew 32% to ₱273,498 million in 2018, compared to ₱206,958 million in 2017, mainly driven by sustained sales volumes of its

Philippine and Malaysian operations and higher prices of crude oil and finished products. Benchmark Dubai crude oil price averaged USD68 per barrel in the first six months of 2018, 32% higher over the same period in 2017. Volumes grew to 54.4 million barrels, 3% higher than 2017. Philippine operations continued to focus on other high-margin products resulting in petrochemicals generating strong sales, surpassing volumes in 2017 by 14%. Gasoline and aviation fuels sales likewise grew 8% and 4%, respectively. In Malaysia, sales volumes were boosted by stronger retail sales.

Consolidated operating income amounted to ₱15,562 million in 2018, higher by 7% than 2017. Robust growth in revenues of 32% was mitigated by increase in cost of crude outpacing the increase in prices of finished goods.

Petron continues its network expansion. Philippines has over 2,400 gasoline stations while Malaysia has over 620 service stations as of June 2018.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenues of ₱12,145 million in 2018, 11% higher than 2017 on the back of continuous growth in traffic volume at all operating tollroads. Operating income grew 19% to ₱6,223 million in 2018.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of June 30, 2019 amounted to ₱1,731,281 million, ₱54,639 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from issuance of SPCS by SMC Global in April 2019 and the recognition of right-of-use (ROU) assets with the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*.

The increase in trade and other receivables was mainly attributable to the: (a) higher bilateral and spot sales of SPPC and San Miguel Energy Corporation (SMEC), and from the new power plants in Limay and Masinloc, and (b) increase in trade customer balances of Petron attributable to higher fuel prices, partly offset by the decrease in Petron Malaysia's Government subsidy receivable.

The decrease in prepaid expenses and other current assets was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and also utilization of input tax for the period, and (b) decrease in CCEC's restricted cash balance.

The increase in investments and advances was attributable to the reclassification of SMHC's investment in MNHPI.

The decrease in property, plant and equipment by ₱156,687 million, the balance of the ROU assets of ₱176,634 million and the increase in investment property by ₱17,386 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion was caused by the increase in production cost, mainly due to higher feed costs.

The decrease in other intangible assets was mainly due to the deconsolidation of MNHPI's port concession rights, offset by the recognition of additional concession rights for the various infrastructure projects.

The increase in other noncurrent assets was mainly due to advances of Mariveles Power Generation Corporation to suppliers and contractors for the construction of its power plant, capitalized costs on the construction of Metro Rail Transit Line 7 (MRT 7) Project and purchase of new containers by SMB.

Consolidated total liabilities as of June 30, 2019 amounted to ₱1,168,269 million, ₱3,574 million higher than last year. The increase was primarily due to the increase in long-term debt and lease liabilities, partly offset by the decrease in loans payable.

The decrease in loans payable was mainly due to the net repayment of US dollar and peso short-term loans by Petron, settlement of US\$120 million short-term loan by SMC Global, offset by net availment by the Parent Company of short-term peso loans for general corporate purposes.

The increase in lease liabilities - current portion pertains to the recognition of current lease liabilities for ROU assets due to the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under Independent Power Producer Administration agreements due up to June 30, 2020 by the Energy business.

The increase in dividends payable primarily represents the dividends declared by PT. Delta Djakarta Tbk. on June 19, 2019, which was paid on July 18, 2019 to its minority shareholders.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of ₱30,000 million fixed-rate peso-denominated bonds by SMC Global, (b) total drawdown of US\$536 million from US\$800 million long-term loan facility by Petron, and (c) availment of ₱16,000 million long-term corporate notes by the Parent Company, (d) offset by the redemption of Series C and E bonds of SMB and partial prepayment of US dollar and refinancing of Philippine peso loans by Petron.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI, net of the increase in derivative liability of the Parent Company due to foreign exchange and fair valuation.

The decrease in reserves pertains to the currency translation adjustments for the period resulting from the appreciation of Philippine peso against the US dollar.

The decrease in appropriated retained earnings was attributable to the reversals made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and Strategic Power Devt. Corp. (SPDC), and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings was primarily due to the reversal of appropriations and net income for the period, net of cash dividends.

The increase in non-controlling interest pertains to the issuance of SPCS by SMC Global and preferred shares by Petron.

2018 vs. 2017

Consolidated total assets as of June 30, 2018 amounted to ₱1,611,185 million, ₱231,542 million higher than December 31, 2017. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents was mainly due to the: (a) proceeds from the issuance by the Parent Company of ₱10,000 million fixed-rate corporate notes on May 25, 2018, (b) net proceeds from short-term loans of Petron, and (c) net cash generated from operations of SMB. This was partially offset by the decrease in cash and cash equivalents of the Food business primarily due to payments made for raw materials importation and capital expenditures.

The increase in trade and other receivables is mainly attributable to the higher bilateral sales of SMEC, SPPC, and the consolidation of the balance of MPPCL, and increase in trade customer balances of Petron, offset by the decrease in receivable balances of the Food business due to higher collection and lower credit sales in June 2018 as compared to December 2017.

Inventories increased by ₱24,445 million due to the: (a) higher prices of crude oil and finished products including excise taxes of Petron, (b) consolidation of the materials and supplies of MPPCL, (c) combined impact of higher prices of raw materials and higher level of inventory of San Miguel Foods, Inc. (SMFI) to support expected volume growth, and (d) higher inventory levels of finished goods and raw materials and purchase of containers in preparation for higher product demand of SMB.

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

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

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

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

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

The increase in goodwill by ₱71,255 million mainly represents the goodwill recognized as a result of the consolidation of Masinloc Group.

Deferred tax assets increased by ₱1,005 million mainly due to the effect of recognition by the Parent Company of higher unrealized foreign exchange loss on the revaluation of foreign currency-denominated long-term debt and loans payable as a result of the depreciation of the Philippine peso against the US dollar in June 2018 compared to December 2017.

Other noncurrent assets increased by ₱8,510 million mainly due to the: (a) reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited, (b) project costs incurred for the TPLEX Project and capitalized expenditures on the construction of the MRT 7 Project, and (c) purchase of new bottles and shells by SMB.

Loans payable increased by ₱27,990 million mainly due to net availment of working capital loans by Petron and net availment of peso loans for general corporate purposes by the Parent Company, SMHC and MPPCL.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of SPPC, SMEC, and SPDC which are payable up to June 30, 2019 and the assumed finance lease liability of MPPCL.

Income and other taxes payable increased by ₱2,653 million mainly due to higher Value-Added Tax (VAT) payable of SMC Global and SL Harbour Bulk Terminal Corporation (SLHBTC), the income tax payable of MPPCL and higher income tax payable of SMEC and SLHBTC.

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

The higher amount of long-term debt by ₱176,396 million resulted from the: (a) availments made by SMC Global of US\$1,200 million and SMC's availment of US\$400 million loan to finance the acquisition of Masinloc Power, (b) consolidation of the long-term debt of MPPCL, (c) SMC's issuance of Series E, F and G Bonds, availment of US\$300 million loan for investment and general corporate purposes, and issuance of ₱10,000 million fixed-rate corporate notes, and (d) foreign exchange adjustment on the US dollar denominated loans.

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

NCI increased by ₱13,045 million mainly due to issuance of SPCS net of partial redemption of USCS by Petron, share of non-controlling stockholders in the higher net income of SMB, Petron, SMC Global and Infrastructure business, and translation adjustments, net of dividends declared to the non-controlling stockholders of SMB, Petron, SMCSL and distribution of USCS of SMC Global and the effect of the Share Swap transaction which resulted to the increase in ownership of SMC in SMFB from 85.37% to 95.87%.

Equity

The increase in equity is due to:

<i>(In millions)</i>	June 30	
	2019	2018
Net income during the period	₱26,152	₱27,585
Net addition to non-controlling interests and others	42,819	2,779
Issuance of common shares	-	33
Adjustments due to PFRS 16	(1,611)	-
Other comprehensive income (loss)	(2,125)	4,521
Cash dividends and distributions	(14,170)	(15,461)
	₱51,065	₱19,457

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2019	2018
Net cash flows provided by operating activities	₱47,082	₱21,857
Net cash flows used in investing activities	(46,471)	(139,435)
Net cash flows provided by financing activities	26,768	133,081

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

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	June 30	
	2019	2018
Additions to property, plant and equipment	(₱27,960)	(₱17,174)
Increase in other noncurrent assets and others	(23,167)	(11,024)
Additions to investments and advances	(862)	(17,758)
Cash and cash equivalents of a deconsolidated subsidiary	(621)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(97,985)
Proceeds from sale of investments and property and equipment	406	1,005
Dividends received	1,067	568
Interest received	4,675	2,933

Net cash flows provided by financing activities included the following:

<i>(In millions)</i>	June 30	
	2019	2018
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	₱25,803	₱24,882
Proceeds from long-term debt - net	21,867	132,505
Net proceeds from issuance of preferred shares of a subsidiary	19,858	-
Payment of lease liabilities	(10,969)	(12,685)
Payment of cash dividends and distributions	(13,845)	(14,434)
Proceeds (payment) from short-term loans - net	(15,904)	25,156
Proceeds from issuance of capital stock	-	33
Increase in non-controlling interests	(42)	(1,067)
Redemption of undated subordinated capital securities of a subsidiary	-	(21,309)

The effect of exchange rate changes on cash and cash equivalents amounted to (₱3,104 million) and ₱962 million for the periods ended June 30, 2019 and 2018, respectively.

V. OTHER MATTER

On May 10, 2019, the Parent Company, through First Stronghold Cement Industries, Inc., a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by LafargeHolcim. The acquisition is subject to the approval of the PCC.

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” for the discussion of certain Key Performance Indicators.

	June 2019	December 2018
<u>Liquidity:</u>		
Current Ratio	1.54	1.37
<u>Solvency:</u>		
Debt to Equity Ratio	2.08	2.28
Asset to Equity Ratio	3.08	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.92%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
	Period Ended June 30	
	2019	2018
<u>Operating Efficiency:</u>		
Volume Growth	3%	10%
Revenue Growth	2%	27%
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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
KPI	Formula
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting

Subject to the adoption by the Company of the Financial Ratios as provided in the section on the “Description of the Bonds” on page [37] of this Prospectus, the following are the major performance measures that the Group will use. Analyses are employed by comparisons and measurements based on the financial data as of 30 June 2019:

	June 30, 2019
<u>Interest Coverage</u>	
EBITDA (trailing; excluding ring-fenced subsidiaries)	141,340
Interest expense and other financing charges (trailing; excluding ring-fenced subsidiaries)	46,657
EBITDA to Interest Expense and Other Financing Charges	3.03
<u>Net Debt to Equity</u>	
Total loans	
Loans payable	164,183
Current maturities of long-term debt	35,433
Long-term debt	598,328
	797,944
Less: Debt of ring-fenced subsidiaries	122,615
	675,329
Cash and cash equivalents	267,425
Less: Cash and cash equivalents of ring-fenced subsidiaries	15,948
	251,477
Net debt (excluding ring-fenced subsidiaries)	423,852
Total equity	563,012
Less: Equity reserves, retained earnings and non-controlling interests of ring-fenced subsidiaries	30,050
Total equity (excluding ring-fenced subsidiaries)	532,962
Net Debt to Equity	0.80

LEGAL PROCEEDINGS

Except as disclosed elsewhere in this Offer Supplement, neither SMC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on each Offer and on the results of the financials and the operations of SMC.

SEC Case

On September 10, 2018, the SEC served SMC, SMFB and GSMI with summons in respect of a petition (the “**Petition**”) filed by Josefina Multi-Ventures Corporation (the “**Petitioner**”). The Petition questions the validity of the share swap transaction between SMFB and SMC and the approval of the increase in the authorized capital stock of SMFB or, asks the SEC to compel SMFB to conduct a mandatory tender offer to the remaining shareholders of GSMI.

The Petition was initiated upon the allegation that the share swap transaction between SMC and SMFB, wherein SMC transferred its common shares in GSMI in exchange for new common shares of SMFB (the “**GSMI Share Swap**”), required the conduct of a mandatory tender offer under the rules of the SRC. Specifically, the Petition questions the GSMI Share Swap and the corresponding increase in SMFB’s authorized capital stock for failing to comply with the SRC’s implementing rules and regulations. In the alternative, the Petitioner requests the SEC to direct SMFB to conduct a mandatory tender offer for GSMI’s minority shareholders to swap their shares for SMFB shares under the terms of the GSMI Share Swap.

The Company believes that there is no basis for the Petition. Significantly, prior to the execution of the Deed of Exchange and the filing of the application for SEC approval of the capital increase of SMFB, SMC and SMFB obtained a written confirmation from the SEC dated March 19, 2018 stating that the SEC *En Banc* in its meeting on March 13, 2018 confirmed that the Share Swap was not subject to the mandatory tender offer rules of the SRC and the SRC’s implementing rules and regulations.

On September 25, 2018, SMC, SMFB and GSMI filed their respective answers to the Petition with the SEC.

On February 19, 2019, the special hearing panel of the SEC dismissed the Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied by the special hearing panel on June 10, 2019. An appeal memorandum was filed by the Petitioner with the SEC *En Banc* on July 4, 2019. SMC, SMFB and GSMI were directed to file their comments on the appeal. The case remains pending with the Philippine SEC.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to notes [25] and [45] of the audited financial statements of the Company for the period ended December 31, 2018.

REGULATORY FRAMEWORK

This section outlines new legislation relevant to the Company and which were not discussed in the Prospectus and the Offer Supplements for the preceding tranches. For further discussion on regulatory and environmental considerations applicable to the Company, please see *Regulatory Framework* on page 139 of the Prospectus. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.

The Data Privacy Act

The Data Privacy Act and its Implementing Rules and Regulations ensure the security of personal data and information and impose certain requirements and obligations to entities involved in the processing of personal data. Companies involved in the processing of personal data were required to appoint a Data Protection Officer and adopt a Personal Data Privacy Policy by September 1, 2017. The National Privacy Commission is tasked to administer and implement the provisions of the law and its rules and regulations.

Considering that the Company and its operating subsidiaries are involved in the processing of personal data, be it from customers, suppliers and employees, the Company and its operating subsidiaries appointed a Data Protection Officer and adopted a Personal Data Privacy Policy within the prescribed period. The policy provides for organizational, physical and technical security measures geared towards data protection. It likewise recognizes the rights of the data subject to information, access and rectification of his personal information, among others. It also provides for the procedure to be undertaken in the event of data breaches or security incidents. The policy further requires that all outsourcing arrangements of the group involving personal data collection, be compliant with the requirements of the law.

Philippine Competition Act

On July 21, 2015, the President of the Philippines signed into law Republic Act No. 10667 or the Philippine Competition Act, which became effective on August 8, 2015. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. Although the Philippine Competition Act is silent on its applicability specifically to the electric power industry, Section 55(c) of the Philippine Competition Act provides that insofar as Section 43(u) of the EPIRA is inconsistent with provisions of the Philippine Competition Act, it shall be repealed. In view of this, the Philippine Competition Commission (“PCC”) now has the original and exclusive jurisdiction over anti-competitive cases in the energy sector.

On May 31, 2016, the PCC promulgated rules and regulations in order to effectively carry out the provisions of the Philippine Competition Act. Under the Rules, parties to a merger or acquisition are required to provide notification to the PCC when the following thresholds are met: (i) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent company of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent company controls, directly or indirectly (“**Size of Party/Person**”), exceeds ₱1,000,000,000.00; and (ii) the value of the transaction (“**Size of Transaction**”) exceeds ₱1,000,000,000.00. Under PCC Advisory 2019-001, effective March 1, 2019, the threshold in relation to the Size of Person was increased to ₱5,600,000,000.00, and the threshold for the Size of Transaction was increased to ₱2,200,000,000.00. However, these revised threshold amounts do not apply to mergers or acquisitions pending review by the PCC, notifiable transactions consummated before March 1, 2019, and transactions already subject of a decision by the PCC.

In addition, beginning on March 1, 2019, and for every subsequent year, the notification thresholds will be indexed based on the official estimates by the Philippine Statistics Authority of the nominal GDP growth for the previous calendar year rounded up to the nearest hundred million.

Energy Efficiency and Conservation Act

The Energy Efficiency and Conservation Act institutionalizes energy efficiency and conservation as a national way of life and the promotion and encouragement of the development of efficient renewable energy technologies

and systems to ensure optimal use and sustainability of the Philippines' energy resources. To this end, the DOE is mandated to plan, formulate and develop energy management policies.

The law also establishes a certification system for a certified energy conservation officer and certified energy manager, both of which shall be developed by the DOE and Technical Education and Skills Development Authority. Further, a certification system for an energy service company is also established. This law also imposes labeling requirements for all energy-consuming products and equipment to show an energy efficiency rating to be developed by the DOE.

Revised Corporation Code of the Philippines

On February 20, 2019, the Revised Corporation Code of the Philippines was signed into law. It introduces various amendments to the then-prevailing Corporation Code, Batas Pambansa Blg. 68. Among the changes introduced were the conversion of the corporate term of existing corporations to perpetual unless the corporation notifies the SEC otherwise, the acceptance of the holding of the stockholders meeting remotely (*e.g.*, via teleconferencing or videoconferencing) or in absentia, as well as the voting of a stockholder remotely or in absentia.

Further, for corporations vested with public interest, there must be independent directors constituting at least 20% of the composition of the board of directors, as well as a compliance officer. Also, corporations are now required to present various reports during the annual stockholders meeting in order to apprise the stockholders of the current state of the corporation, such as a detailed, descriptive, balanced and comprehensive assessment of the corporation's performance, and appraisals and performance reports.

Lastly, the law also expands the penal provisions for violations of its provisions. The Revised Corporation Code of the Philippines now explicitly penalizes certain acts, such as collusion with an independent auditor. Also, administrative penalties have been increased, with the SEC now empowered to issue cease and desist orders.



108142019003680

**SECURITIES AND EXCHANGE COMMISSION**

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

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Company Name SAN MIGUEL CORP.

Industry Classification

Company Type Stock Corporation

Document Information

Document ID 108142019003680

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

Document Code 17-Q

Period Covered June 30, 2019

No. of Days Late 0

Department CFD

Remarks

COVER SHEET

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(Company's Full Name)

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P	H	I	L	I	P	P	I	N	E	S									

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1	2
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Month

3	1
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Day

SEC FORM (2nd Quarter-2019)

		1	7	-	Q		
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FORM TYPE

2nd Tuesday of June

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

1. For the quarterly period ended June 30, 2019
2. Commission identification number PW00000227
3. BIR Tax Identification No. 000-060-741-000
4. Exact name of issuer as specified in its charter SAN MIGUEL CORPORATION
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. No. 40 San Miguel Avenue,
Mandaluyong City, Metro Manila 1550
Address of issuer's principal office Postal Code
8. (632) 632-3000
Issuer's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

	Number of Shares of Stock and debt Outstanding as of June 30, 2019	
Common Shares	2,383,896,588	
SUB-TOTAL (Common Shares)		2,383,896,588
Series 1 Preferred	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	169,333,400	
(SUB-TOTAL (Preferred Shares)		1,472,061,267
TOTAL Outstanding Shares		3,855,957,855

Total Liabilities P1,168,269 million

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

Yes [☒] No [☐]

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

Philippine Stock Exchange

- (a) Common Shares
- (b) Series "1" Preferred Shares
- (c) Series "2" Preferred Shares - Subseries 2-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

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.

Yes [☒] No [☐]

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

Yes [☒] No [☐]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended June 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended June 30, 2018) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

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

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

PART II--OTHER INFORMATION

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

NONE

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

SIGNATURES

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

Issuer **SAN MIGUEL CORPORATION**

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

Date August 14, 2019

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

Date August 14, 2019

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2018
(In Millions)

ANNEX "A"

ASSETS

	2019 Unaudited	2018 Audited
Current Assets		
Cash and cash equivalents (Notes 2, 9 and 10)	P 267,425	P 243,150
Trade and other receivables - net (Notes 1, 2, 5, 9 and 10)	139,629	129,893
Inventories (Note 2)	120,930	125,139
Current portion of biological assets - net	4,144	4,245
Prepaid expenses and other current assets (Notes 1, 2, 5, 9 and 10)	75,588	92,043
Total Current Assets	607,716	594,470
Noncurrent Assets		
Investments and advances - net (Note 2)	52,811	50,519
Investments in equity and debt instruments (Notes 9 and 10)	42,135	42,126
Property, plant and equipment - net (Notes 1, 2 and 6)	437,685	594,372
Right-of-use assets - net (Note 1)	176,634	-
Investment property - net (Note 1)	49,215	31,829
Biological assets - net of current portion	3,107	2,844
Goodwill - net (Note 2)	130,272	130,852
Other intangible assets - net (Notes 1 and 2)	138,920	146,608
Deferred tax assets (Notes 1 and 2)	19,696	19,249
Other noncurrent assets - net (Notes 1, 2, 5, 9 and 10)	73,090	63,773
Total Noncurrent Assets	1,123,565	1,082,172
	P 1,731,281	P 1,676,642

LIABILITIES AND EQUITY

	2019 Unaudited	2018 Audited
Current Liabilities		
Loans payable (Notes 2, 5, 9 and 10)	P 164,183	P 184,024
Accounts payable and accrued expenses (Notes 1, 2, 5, 9 and 10)	148,041	149,764
Lease liabilities - current portion (Notes 1, 2, 9 and 10)	23,420	19,699
Income and other taxes payable (Note 2)	20,065	19,901
Dividends payable (Notes 5 and 8)	4,368	4,042
Current maturities of long-term debt - net of debt issue costs (Notes 2, 5, 9 and 10)	35,433	55,697
Total Current Liabilities	395,510	433,127
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	598,328	561,918
Deferred tax liabilities (Note 1)	23,926	22,899
Lease liabilities - net of current portion (Notes 1, 2, 9 and 10)	127,760	122,367
Other noncurrent liabilities (Notes 1, 2, 5, 9 and 10)	22,745	24,384
Total Noncurrent Liabilities	772,759	731,568
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	16,443	16,443
Capital stock - preferred	10,187	10,187
Additional paid-in capital	177,938	177,938
Equity reserves (Note 2)	19,594	21,513
Retained earnings:		
Appropriated	50,314	72,820
Unappropriated (Note 1)	177,541	148,345
Treasury stock	(109,501)	(109,501)
	342,516	337,745
Non-controlling Interests (Notes 1 and 2)	220,496	174,202
Total Equity	563,012	511,947
	P 1,731,281	P 1,676,642

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

CERTIFIED CORRECT:


 BELVA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018
(In Millions, Except Per Share Data)

	2019	2018	For the Quarter Ended	
	Unaudited	Unaudited	2019 Unaudited	2018 Unaudited
SALES (Note 3)	P 509,495	P 499,000	P 258,571	P 264,653
COST OF SALES	408,618	392,855	208,823	209,180
GROSS PROFIT	100,877	106,145	49,748	55,473
SELLING AND ADMINISTRATIVE EXPENSES	(43,261)	(39,139)	(23,238)	(21,154)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(28,166)	(20,162)	(14,499)	(11,210)
INTEREST INCOME	5,576	3,072	2,857	1,699
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	171	(90)	(37)	(136)
GAIN ON SALE OF PROPERTY AND EQUIPMENT	65	337	32	329
OTHER INCOME (CHARGES) - Net (Notes 2 and 4)	3,531	(10,906)	3,964	(6,689)
INCOME BEFORE INCOME TAX	38,793	39,257	18,827	18,312
INCOME TAX EXPENSE	12,641	11,672	5,500	6,336
NET INCOME	P 26,152	P 27,585	P 13,327	P 11,976
Attributable to:				
Equity holders of the Parent Company	P 13,232	P 12,780	P 7,523	P 5,445
Non-controlling interests	12,920	14,805	5,804	6,531
	P 26,152	P 27,585	P 13,327	P 11,976
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	P 4.02	P 3.83	P 2.39	P 1.52

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

CERTIFIED CORRECT:

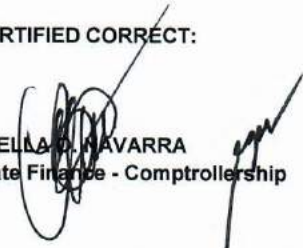

BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited	For the Quarter Ended 2019 Unaudited	2018 Unaudited
NET INCOME	P 26,152	P 27,585	P 13,327	P 11,976
OTHER COMPREHENSIVE INCOME (LOSS)				
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS				
EQUITY RESERVE FOR RETIREMENT PLAN	8	35	8	34
INCOME TAX EXPENSE	(2)	(7)	(2)	(7)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	73	(21)	40	8
INCOME TAX EXPENSE	(11)	(5)	(3)	(4)
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	127	(119)	38	20
	<u>195</u>	<u>(117)</u>	<u>81</u>	<u>51</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS				
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(1,965)	4,642	(2,774)	(380)
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8	(6)	3	(3)
INCOME TAX BENEFIT	-	2	-	1
NET LOSS ON CASH FLOW HEDGES	(518)	-	(353)	-
INCOME TAX BENEFIT	155	-	106	-
	<u>(2,320)</u>	<u>4,638</u>	<u>(3,018)</u>	<u>(382)</u>
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	<u>(2,125)</u>	<u>4,521</u>	<u>(2,937)</u>	<u>(331)</u>
TOTAL COMPREHENSIVE INCOME - Net of tax	<u>P 24,027</u>	<u>P 32,106</u>	<u>P 10,390</u>	<u>P 11,645</u>
Attributable to:				
Equity holders of the Parent Company	P 11,761	P 15,298	P 5,607	P 5,410
Non-controlling interests	12,266	16,808	4,783	6,235
	<u>P 24,027</u>	<u>P 32,106</u>	<u>P 10,390</u>	<u>P 11,645</u>

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

CERTIFIED CORRECT:


BELLA NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity													
	Equity Reserves																													
	Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock		Total																	
	Common	Preferred							Appropriated	Unappropriated	Common	Preferred																		
As of January 1, 2019, As previously reported (Audited)	P	16,443	P	10,187	P	177,938	P	(2,990)	P	(173)	P	514	P	3,239	P	20,923	P	72,820	P	148,345	P	(67,093)	P	(42,408)	P	337,745	P	174,202	P	511,947
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 (Note 1)		-		-		-		-		-		-		-		-		-		(1,099)		-		-		(1,099)		(512)		(1,611)
As of January 1, 2019, As adjusted		16,443		10,187		177,938		(2,990)		(173)		514		3,239		20,923		72,820		147,246		(67,093)		(42,408)		336,646		173,690		510,336
Loss on exchange differences on translation of foreign operations		-		-		-		-		-		-		(1,341)		-		-		-		-		-		(1,341)		(624)		(1,965)
Share in other comprehensive income of associates and joint ventures - net		-		-		-		-		-		119		4		-		-		-		-		-		123		4		127
Net loss on cash flow hedges, net of tax		-		-		-		-		(321)		-		-		-		-		-		-		-		(321)		(42)		(363)
Equity reserve for retirement plan		-		-		-		1		-		-		-		-		-		-		-		-		1		5		6
Net gain on financial assets at fair value through other comprehensive income		-		-		-		-		-		67		-		-		-		-		-		-		67		3		70
Other comprehensive income (loss)		-		-		-		1		(321)		186		(1,337)		-		-		-		-		-		(1,471)		(654)		(2,125)
Net income		-		-		-		-		-		-		-		-		13,232		-		-		-		13,232		12,920		26,152
Total comprehensive income (loss)		-		-		-		1		(321)		186		(1,337)		-		13,232		-		-		-		11,761		12,266		24,027
Net addition (reduction) to non-controlling interests and others		-		-		-		(14)		-		-		-		(434)		(116)		-		-		-		(564)		43,383		42,819
Reversal of appropriations - net		-		-		-		-		-		-		-		-		(22,506)		22,506		-		-		-		-		-
Cash dividends (Note 8):		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		-		(1,669)		-		-		(1,669)		(5,643)		(7,312)
Preferred		-		-		-		-		-		-		-		-		-		(3,658)		-		-		(3,658)		(747)		(4,405)
Distributions paid		-		-		-		-		-		-		-		-		-		-		-		-		-		(2,453)		(2,453)
As of June 30, 2019 (Unaudited)	P	16,443	P	10,187	P	177,938	P	(3,003)	P	(494)	P	700	P	1,902	P	20,489	P	50,314	P	177,541	P	(67,093)	P	(42,408)	P	342,516	P	220,496	P	563,012
As of January 1, 2018 (Audited)	P	16,435	P	10,187	P	177,750	P	(2,664)	P	-	P	533	P	2,748	P	(5,160)	P	66,890	P	143,014	P	(67,093)	P	(42,408)	P	300,232	P	170,836	P	471,068
Gain on exchange differences on translation of foreign operations		-		-		-		-		-		-		2,663		-		-		-		-		-		2,663		1,979		4,642
Share in other comprehensive income (loss) of associates and joint ventures - net		-		-		-		-		-		(137)		14		-		-		-		-		-		(123)		4		(119)
Equity reserve for retirement plan		-		-		-		7		-		-		-		-		-		-		-		-		7		21		28
Net loss on financial assets at fair value through other comprehensive income		-		-		-		-		-		(29)		-		-		-		-		-		-		(29)		(1)		(30)
Other comprehensive income (loss)		-		-		-		7		-		(166)		2,677		-		-		-		-		-		2,518		2,003		4,521
Net income		-		-		-		-		-		-		-		-		12,780		-		-		-		12,780		14,805		27,585
Total comprehensive income (loss)		-		-		-		7		-		(166)		2,677		-		12,780		-		-		-		15,298		16,808		32,106
Issuance of common shares		1		-		32		-		-		-		-		-		-		-		-		-		33		-		33
Net addition (reduction) to non-controlling interests and others		-		-		-		-		-		-		28		(2,469)		(72)		(1,021)		-		-		(3,534)		6,313		2,779
Appropriations - net		-		-		-		-		-		-		-		-		2,245		(2,245)		-		-		-		-		-
Cash dividends (Note 8):		-		-		-		-		-		-		-		-		-		-		-		-		-		-		-
Common		-		-		-		-		-		-		-		-		-		(1,668)		-		-		(1,668)		(5,835)		(7,503)
Preferred		-		-		-		-		-		-		-		-		-		(3,658)		-		-		(3,658)		(751)		(4,409)
Distributions paid		-		-		-		-		-		-		-		-		-		-		-		-		-		(3,549)		(3,549)
As of June 30, 2018 (Unaudited)	P	16,436	P	10,187	P	177,782	P	(2,657)	P	-	P	367	P	5,453	P	(7,629)	P	69,063	P	147,202	P	(67,093)	P	(42,408)	P	306,703	P	183,822	P	490,525

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

CERTIFIED CORRECT:

BELINDA M. VILLARRA
VP, Corporate Finance & Comptroller's Office

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 38,793	P 39,257
Adjustments for:		
Depreciation, amortization and others - net	14,908	34,327
Interest expense and other financing charges	28,166	20,162
Interest income	(5,576)	(3,072)
Equity in net losses (earnings) of associates and joint ventures	(171)	90
Gain on sale of investments and property and equipment	(65)	(337)
Operating income before working capital changes	76,055	90,427
Changes in noncash current assets, certain current liabilities and others	11,575	(41,518)
Cash generated from operations	87,630	48,909
Interest and other financing charges paid	(29,564)	(16,187)
Income taxes paid	(10,984)	(10,865)
Net cash flows provided by operating activities	47,082	21,857
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	4,675	2,933
Dividends received	1,067	568
Proceeds from sale of investments and property and equipment	406	1,005
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(97,985)
Cash and cash equivalents of a deconsolidated subsidiary	(621)	-
Additions to investments and advances	(862)	(17,758)
Increase in other noncurrent assets and others	(23,167)	(11,024)
Additions to property, plant and equipment	(27,960)	(17,174)
Net cash flows used in investing activities	(46,471)	(139,435)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	705,779	490,204
Long-term borrowings	76,503	140,969
Payments of:		
Short-term borrowings	(721,683)	(465,048)
Long-term borrowings	(54,636)	(8,464)
Payments of lease liabilities	(10,969)	(12,685)
Cash dividends and distributions paid to non-controlling shareholders	(8,553)	(9,136)
Cash dividends paid	(5,292)	(5,298)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	25,803	24,882
Net proceeds from issuance of preferred shares of a subsidiary	19,858	-
Redemption of undated subordinated capital securities of a subsidiary	-	(21,309)
Proceeds from issuance of capital stock	-	33
Increase in non-controlling interests and others	(42)	(1,067)
Net cash flows provided by financing activities	26,768	133,081
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,104)	962
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,275	16,465
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	243,150	206,073
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 267,425	P 222,538

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

CERTIFIED CORRECT:


BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
JUNE 30, 2019
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	83,176	61,406	7,386	2,045	12,339
Non-trade	52,513	27,077	1,499	725	23,212
Others	16,738	15,544	474	4	716
Total	152,427	104,027	9,359	2,774	36,267
Less allowance for impairment losses	12,798				
Net	139,629				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended June 30, 2019 and comparative financial statements for the same period in 2018 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

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

Adoption of New and Amended Standards and Interpretation

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

New and Amended Standards and Interpretation Adopted in 2019

The Group has adopted the following PFRS effective January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- 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.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as of January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 3.9% to 10.3% as of January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- o applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- o excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- o used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as of January 1, 2019 is as follows:

ASSETS	
Trade and other receivables - net	P97
Prepaid expenses and other current assets	(608)
Property, plant and equipment - net	(170,672)
Right-of-use assets - net	179,502
Investment property - net	13,237
Other intangible assets - net	(1,160)
Deferred tax assets	498
Other noncurrent assets - net	(2,888)
	P18,006
LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	(P973)
Lease liabilities - current portion	1,822
Lease liabilities - net of current portion	18,931
Deferred tax liabilities	(37)
Other noncurrent liabilities	(126)
Total Liabilities	19,617
Retained earnings	(1,099)
Non-controlling interests	(512)
Total Equity	(1,611)
	P18,006

The operating lease commitments as of December 31, 2018 are reconciled as follows to the recognized lease liabilities as of January 1, 2019:

Operating lease commitments as of December 31, 2018	P34,166
Recognition exemption for short-term leases	(236)
Extension and termination options reasonably certain to be exercised	2,019
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(15,196)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	P20,753
Finance lease liabilities recognized as of December 31, 2018	142,066
Lease liabilities recognized as of January 1, 2019	P162,819

- 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.
- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, 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.
- 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 financial assets at fair value through other comprehensive income (FVOCI) irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for the early termination.

- 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.
- 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.

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

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- 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 International Accounting Standards Board (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, *Insurance Contracts*, 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, *Revenue from Contracts with Customers*, 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.

2. Business Combination

On March 14 and April 26, 2019, the Philippine Competition Commission and Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in Manila North Harbour Port, Inc. (MNHPI) to International Container Terminal Services, Inc. (ICTSI), respectively. With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.'s (SMHC) shares remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to P2,600. As a result, the Group recognized a gain amounting to P727, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 4).

The following summarizes the derecognized accounts at the deconsolidation date:

Cash and cash equivalents	P621
Trade and other receivables - net	548
Inventories	280
Prepaid expenses and other current assets	169
Property, plant and equipment - net	38
Goodwill	325
Other intangible assets - net	11,214
Deferred tax assets	56
Other noncurrent assets - net	103
Loans payable	(3,568)
Accounts payable and accrued expenses	(1,493)
Income and other taxes payable	(100)
Lease liabilities (including current portion)	(44)
Long-term debt	(300)
Other noncurrent liabilities	(2,499)
Non-controlling interest	(2,847)
Equity reserves	(630)
Total	P1,873

3. Segment Information

Operating Segments

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

The Group's reportable segments are food and beverage, packaging, 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, jellybased 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, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

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

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

Inter-segment Transactions

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

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Others		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sales																
External sales	P150,939	P137,561	P12,598	P11,410	P70,757	P55,889	P251,623	P271,374	P12,312	P12,145	P11,266	P10,621	P-	P-	P509,495	P499,000
Inter-segment sales	168	47	5,237	6,146	1,754	1,541	3,184	2,124	3	-	9,008	7,538	(19,354)	(17,396)	-	-
Total sales	P151,107	P137,608	P17,835	P17,556	P72,511	P57,430	P254,807	P273,498	P12,315	P12,145	P20,274	P18,159	(P19,354)	(P17,396)	P509,495	P499,000
Results																
Segment results	P21,568	P22,889	P1,697	P1,647	P18,384	P17,043	P9,597	P18,695	P6,030	P6,223	P887	P1,709	(P547)	(P1,200)	P57,616	P67,006

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Timing of revenue recognition														
Sales recognized at point in time	P150,893	P137,498	P12,280	P11,078	P-	P-	P251,623	P271,374	P-	P-	P8,980	P8,746	P423,776	P428,696
Sales recognized over time	46	63	318	332	70,757	55,889	-	-	12,312	12,145	2,286	1,875	85,719	70,304
Total external sales	P150,939	P137,561	P12,598	P11,410	P70,757	P55,889	P251,623	P271,374	P12,312	P12,145	P11,266	P10,621	P509,495	P499,000

4. Other Income (Charges)

Other income (charges) consists of:

		June 30	
	Note	2019	2018
Construction revenue		P7,327	P5,984
Gain (loss) on foreign exchange - net		3,656	(12,070)
Dividend income		1,067	556
Gain on fair valuation of investment	2	727	-
Gain (loss) on derivatives - net		(2,281)	748
Construction costs		(7,327)	(5,984)
Others		362	(140)
		P3,531	(P10,906)

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

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

5. Related Party Disclosures

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

The following are the transactions with related parties and the outstanding balances as of June 30, 2019 and December 31, 2018:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	June 30, 2019	P2	P-	P6,707	P551	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2018	8	-	6,803	551		
Retirement Plans	June 30, 2019	154	-	9,674	-	On demand; interest bearing	Unsecured; no impairment
	December 31, 2018	399	-	9,516	-		
Associates	June 30, 2019	1,499	23	1,691	136	On demand; interest and non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,905	251	1,564	193		
	June 30, 2019	-	-	-	23,311	Less than 1 to 10 years; interest bearing	Unsecured and secured
	December 31, 2018	-	-	-	21,425		
Joint Ventures	June 30, 2019	179	644	747	85	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	76	1,181	684	64		
Shareholders in Subsidiaries	June 30, 2019	14	34	95	2,453	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	125	103	29	2,515		
Others	June 30, 2019	1,425	1,592	648	7,788	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,235	1,499	600	7,878		
Total	June 30, 2019	P3,273	P2,293	P19,562	P34,324		
Total	December 31, 2018	P5,748	P3,034	P19,196	P32,626		

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

6. Property, Plant and Equipment

Property, plant and equipment consist of:

June 30, 2019 and December 31, 2018

	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, 2018 (Audited)	P35,935	P50,635	P268,318	P167,417	P17,440	P136,160	P3,677	P69,102	P748,684
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	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 (Audited)	29,580	42,916	350,924	169,973	17,968	152,469	5,501	85,298	854,629
Adjustment due to adoption of PFRS 16	(1,248)	(917)	(214,348)	(1,816)	(176)	-	(1)	8	(218,498)
December 31, 2018 (as adjusted)	28,332	41,999	136,576	168,157	17,792	152,469	5,500	85,306	636,131
Additions	102	360	44	697	1,577	2,128	4	23,048	27,960
Disposals/retirement	(3)	(17)	(2)	-	(263)	(486)	(13)	(172)	(956)
Reclassifications	875	2,607	166	105	262	2,633	(354)	(7,784)	(1,490)
Acquisition of subsidiaries	16	50	-	-	-	29	-	-	95
Currency translation adjustments	(348)	(435)	(1,240)	(120)	(209)	(879)	(8)	(796)	(4,035)
June 30, 2019 (Unaudited)	28,974	44,564	135,544	168,839	19,159	155,894	5,129	99,602	657,705
Accumulated Depreciation and Amortization									
January 1, 2018 (Audited)	3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	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	-	75	17,973	-	31	732	32	-	18,843
Currency translation adjustments	13	234	126	257	126	358	(2)	-	1,112
December 31, 2018 (Audited)	2,760	16,116	71,665	51,639	12,602	91,042	1,528	-	247,352
Adjustment due to adoption of PFRS 16	-	(450)	(46,938)	(193)	(63)	-	(108)	-	(47,752)
December 31, 2018 (as adjusted)	2,760	15,666	24,727	51,446	12,539	91,042	1,420	-	199,600
Depreciation and amortization	101	659	2,672	3,143	509	4,017	163	-	11,264
Disposals/retirement	(3)	(5)	-	-	(248)	(419)	(13)	-	(688)
Reclassifications	(18)	657	189	-	(171)	(1,874)	(42)	-	(1,259)
Acquisition of subsidiaries	-	7	-	-	-	23	-	-	30
Currency translation adjustments	(67)	(97)	(512)	(210)	(112)	(428)	(4)	-	(1,430)
June 30, 2019 (Unaudited)	2,773	16,887	27,076	54,379	12,517	92,361	1,524	-	207,517

Forward

	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, 2018 (Audited)	P266	P2,703	P-	P-	P-	P9,418	P28	P -	P12,415
Impairment	-	454	-	-	-	163	-	-	617
Disposals/retirement	-	-	-	-	-	(13)	-	-	(13)
Reclassifications	(266)	(16)	-	-	-	26	-	-	(256)
Currency translation adjustments	-	(2)	-	-	-	145	(1)	-	142
December 31, 2018 (Audited)	-	3,139	-	-	-	9,739	27	-	12,905
Adjustment due to adoption of PFRS 16	-	(74)	-	-	-	-	-	-	(74)
December 31, 2018 (as adjusted)	-	3,065	-	-	-	9,739	27	-	12,831
Reclassifications	3	-	-	-	-	-	-	-	3
Currency translation adjustments	-	(85)	-	-	-	(245)	(1)	-	(331)
June 30, 2019 (Unaudited)	3	2,980	-	-	-	9,494	26	-	12,503
Carrying Amount									
December 31, 2018 (Audited)	P26,820	P23,661	P279,259	P118,334	P5,366	P51,688	P3,946	P85,298	P594,372
June 30, 2019 (Unaudited)	P26,198	P24,697	P108,468	P114,460	P6,642	P54,039	P3,579	P99,602	P437,685

June 30, 2018

	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, 2018 (Audited)	P35,935	P50,635	P268,318	P167,417	P17,440	P136,160	P3,677	P69,102	P748,684
Additions	983	62	69	152	107	732	55	15,014	17,174
Disposals/retirement	-	(177)	(31)	(2)	(242)	(412)	(38)	(2)	(904)
Reclassifications	245	1,489	28,001	84	(163)	2,952	1,086	(32,860)	834
Acquisition of subsidiaries	873	974	53,382	-	-	2,382	38	23,483	81,132
Currency translation adjustments	621	1,267	1,129	893	590	1,989	6	686	7,181
June 30, 2018 (Unaudited)	38,657	54,250	350,868	168,544	17,732	143,803	4,824	75,423	854,101
Accumulated Depreciation and Amortization									
January 1, 2018 (Audited)	3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	115	874	4,733	3,105	487	3,550	129	-	12,993
Disposals/retirement	-	(173)	(7)	(2)	(234)	(362)	(33)	-	(811)
Reclassifications	25	254	(1)	-	(269)	38	(10)	-	37
Acquisition of subsidiaries	-	75	18,004	-	-	724	32	-	18,835
Currency translation adjustments	36	626	415	639	326	1,040	4	-	3,086
June 30, 2018 (Unaudited)	3,839	24,499	66,723	48,832	12,518	89,021	1,391	-	246,823

Forward

	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, 2018 (Audited)	P266	P2,703	P-	P-	P-	P9,418	P28	P-	P12,415
Reclassifications	-	(17)	-	-	-	25	-	-	8
Currency translation adjustments	-	148	-	-	-	523	-	-	671
June 30, 2018 (Unaudited)	266	2,834	-	-	-	9,966	28	-	13,094
Carrying Amount									
June 30, 2018 (Unaudited)	P34,552	P26,917	P284,145	P119,712	P5,214	P44,816	P3,405	P75,423	P594,184

Depreciation and amortization charged to operations amounted to P11,264 and P12,993 for the periods ended June 30, 2019 and 2018, respectively.

7. Basic and Diluted Earnings Per Share (EPS)

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

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

Basic and diluted EPS is computed as follows:

	June 30	
	2019	2018
Income attributable to equity holders of the Parent Company	P13,232	P12,780
Less dividends on preferred shares for the period	3,658	3,658
Net income attributable to common shareholders of the Parent Company (a)	P9,574	P9,122
Weighted average number of common shares outstanding (in millions) - basic (b)	2,384	2,382
Effect of dilution - common	-	2
Weighted average number of common shares outstanding (in millions) - diluted (c)	2,384	2,384
Earnings per common share attributable to equity holders of the Parent Company		
Basic (a/b)	P4.02	P3.83
Diluted (a/c)	P4.02	P3.83

8. Dividends

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

2019

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	March 14, 2019	April 5, 2019	May 3, 2019	P0.35
	June 11, 2019	July 5, 2019	July 30, 2019	0.35
Preferred				
SMCP1	January 24, 2019	March 22, 2019	April 5, 2019	1.0565625
	May 9, 2019	June 21, 2019	July 5, 2019	1.0565625
SMC2B	January 24, 2019	March 22, 2019	April 5, 2019	1.4296875
	May 9, 2019	June 21, 2019	July 5, 2019	1.4296875
SMC2C	January 24, 2019	March 22, 2019	April 5, 2019	1.50
	May 9, 2019	June 21, 2019	July 5, 2019	1.50
SMC2D	January 24, 2019	March 22, 2019	April 5, 2019	1.11433125
	May 9, 2019	June 21, 2019	July 5, 2019	1.11433125
SMC2E	January 24, 2019	March 22, 2019	April 5, 2019	1.18603125
	May 9, 2019	June 21, 2019	July 5, 2019	1.18603125
SMC2F	January 24, 2019	March 22, 2019	April 5, 2019	1.27635
	May 9, 2019	June 21, 2019	July 5, 2019	1.27635
SMC2G	January 24, 2019	March 22, 2019	April 5, 2019	1.23361875
	May 9, 2019	June 21, 2019	July 5, 2019	1.23361875
SMC2H	January 24, 2019	March 22, 2019	April 5, 2019	1.1854125
	May 9, 2019	June 21, 2019	July 5, 2019	1.1854125
SMC2I	January 24, 2019	March 22, 2019	April 5, 2019	1.18790625
	May 9, 2019	June 21, 2019	July 5, 2019	1.18790625

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
Preferred				
SMCP1	January 25, 2018	March 8, 2018	April 5, 2018	1.0565625
	May 10, 2018	June 21, 2018	July 6, 2018	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
SMC2C	January 25, 2018	March 8, 2018	April 5, 2018	1.50
	May 10, 2018	June 21, 2018	July 6, 2018	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
SMC2E	January 25, 2018	March 8, 2018	April 5, 2018	1.18603125
	May 10, 2018	June 21, 2018	July 6, 2018	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
SMC2G	January 25, 2018	March 8, 2018	April 5, 2018	1.23361875
	May 10, 2018	June 21, 2018	July 6, 2018	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
SMC2I	January 25, 2018	March 8, 2018	April 5, 2018	1.18790625
	May 10, 2018	June 21, 2018	July 6, 2018	1.18790625

On August 8, 2019, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as of September 20, 2019 on the following shares to be paid on October 4, 2019, as follows:

Class of Shares	Dividend 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

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, financial assets at 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, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

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

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

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

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

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:

June 30, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P25,071	P32,546	P79,041	P38,270	P87,787	P131,084	P393,799
Interest rate	5.25% - 8.6615%	4.9925% - 9.8754%	4.0032% - 9.885%	5.375% - 9.885%	4.5219% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	1,972	2,526	2,657	33,130	1,012	12,935	54,232
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	946	1,438	1,700	2,289	292	-	6,665
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	-	
Foreign currency-denominated (expressed in Philippine peso)	7,984	33,757	23,376	78,221	33,811	8,870	186,019
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P35,973	P70,267	P106,774	P151,910	P122,902	P152,889	P640,715

December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P29,436	P28,159	P51,765	P49,110	P49,465	P161,404	P369,339
Interest rate	5.4583% - 10.50%	4.9925% - 8.6615%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	1,949	2,477	2,607	1,838	33,965	12,222	55,058
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	1,239	985	1,503	2,347	726	-	6,800
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	-	
Foreign currency-denominated (expressed in Philippine peso)	23,558	20,051	26,404	14,956	99,541	8,756	193,266
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P56,182	P51,672	P82,279	P68,251	P183,697	P182,382	P624,463

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 P1,927 and P2,001 for the period ended June 30, 2019 and for the year ended December 31, 2018, 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:

	June 30, 2019		December 31, 2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$3,039	P155,799	US\$2,444	P128,529
Trade and other receivables	633	32,513	842	44,237
Prepaid expenses and other current assets	11	556	17	926
Noncurrent receivables	75	3,850	87	4,552
	3,758	192,718	3,390	178,244
Liabilities				
Loans payable	194	9,953	696	36,574
Accounts payable and accrued expenses	1,215	62,284	1,156	60,808
Long-term debt (including current maturities)	4,688	240,251	4,722	248,324
Lease liabilities (including current portion)	1,464	74,984	1,499	78,799
Other noncurrent liabilities	172	8,805	166	8,722
	7,733	396,277	8,239	433,227
Net foreign currency-denominated monetary liabilities	(US\$3,975)	(P203,559)	(US\$4,849)	(P254,983)

The Group reported net gains (losses) on foreign exchange amounting to P3,656 and (P12,070) for the period ended June 30, 2019 and 2018 respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
June 30, 2019	51.24
December 31, 2018	52.58
June 30, 2018	53.34
December 31, 2017	49.93

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
June 30, 2019				
Cash and cash equivalents	(P2,585)	(P2,248)	P2,585	P2,248
Trade and other receivables	(278)	(570)	278	570
Prepaid expenses and other current assets	(8)	(9)	8	9
Noncurrent receivables	(19)	(70)	19	70
	(2,890)	(2,897)	2,890	2,897
Loans payable	80	170	(80)	(170)
Accounts payable and accrued expenses	658	1,232	(658)	(1,232)
Long-term debt (including current maturities)	3,966	3,498	(3,966)	(3,498)
Lease liabilities (including current portion)	1,429	1,035	(1,429)	(1,035)
Other noncurrent liabilities	165	169	(165)	(169)
	6,298	6,104	(6,298)	(6,104)
	P3,408	P3,207	(P3,408)	(P3,207)
	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)

Exposures to foreign exchange rates vary during the period 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 under normal and stress circumstances.

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

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

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

June 30, 2019	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	P267,425	P267,425	P267,425	P -	P -	P -
Trade and other receivables - net	139,629	139,629	139,629	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	1,357	1,357	929	150	278	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	268	268	268	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	42,021	42,037	7	95	75	41,860
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	226	243	119	30	94	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	23,619	23,793	-	558	17,674	5,561
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	9,299	9,299	4,224	5,075	-	-
Financial Liabilities						
Loans payable	164,183	164,695	164,695	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	144,759	144,759	144,759	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,289	3,289	2,021	259	1,009	-
Long-term debt (including current maturities)	633,761	802,353	71,190	102,753	446,806	181,604
Lease liabilities (including current portion)	151,180	189,158	30,572	31,988	78,723	47,875
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO) and other noncurrent non-financial liabilities)	11,023	11,023	-	858	9,235	930

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

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.

	June 30, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand)	P264,416	P239,619
Trade and other receivables - net	139,629	129,893
Derivative assets	1,357	1,545
Investment in debt instruments at FVOCI	161	206
Investment in debt instruments at amortized cost	226	226
Noncurrent receivables and deposits - net	23,619	21,158
Restricted cash	9,299	14,005
	P438,707	P406,652

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 expected credit loss (ECL) or lifetime ECL. Assets that are credit-impaired are separately presented.

June 30, 2019						
	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)	P264,416	P -	P -	P -	P -	P264,416
Trade and other receivables	139,629	-	12,798	-	-	152,427
Derivative assets	-	-	-	1,357	-	1,357
Investment in debt instruments at FVOCI	-	-	-	-	161	161
Investment in debt instruments at amortized cost	111	115	-	-	-	226
Noncurrent receivables and deposits	-	23,619	474	-	-	24,093
Restricted cash	4,224	5,075	-	-	-	9,299

December 31, 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:

June 30, 2019	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P61,406	P27,077	P15,544	P104,027
Past due:				
1 - 30 days	7,386	1,499	474	9,359
31 - 60 days	2,045	725	4	2,774
61 - 90 days	1,021	604	4	1,629
Over 90 days	11,318	22,608	712	34,638
	P83,176	P52,513	P16,738	P152,427

December 31, 2018	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
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

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. There are no significant changes in the credit quality of the counterparties during the period.

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 Bangko Sentral ng Pilipinas, is not subject to externally imposed capital requirements.

10. Financial Assets and Financial Liabilities

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

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.

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 statements 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.

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.

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.

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, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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.

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.

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

	June 30, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P267,425	P267,425	P243,150	P243,150
Trade and other receivables - net	139,629	139,629	129,893	129,893
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,357	1,357	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	268	268	254	254
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	42,021	42,021	41,994	41,994
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	226	226	226	226
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	23,619	23,619	21,158	21,158
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	9,299	9,299	14,005	14,005
Financial Liabilities				
Loans payable	164,183	164,183	184,024	184,024
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	144,759	144,759	145,758	145,758
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,289	3,289	2,495	2,495
Long-term debt (including current maturities)	633,761	673,777	617,615	623,959
Lease liabilities (including current portion)	151,180	151,180	142,066	142,066
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,023	11,023	13,217	13,217

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, 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 4.2% to 5.1% and 5.2% to 7.1% as of June 30, 2019 and December 31, 2018, respectively. The discount rates used for foreign currency-denominated loans range from 1.7% to 2.3% and 2.5% to 3.0% as of June 30, 2019 and December 31, 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

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.

Embedded Derivatives

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

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, 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.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

June 30, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount	US\$61	US\$211	US\$236	US\$508
Average strike rate	P52.87 to P55.58	P52.83 to P56.15	P52.83 to P56.15	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US\$10	US\$20	US\$240	US\$270
Strike rate	P47.00 to P57.50	P47.00 to P57.50	P47.00 to P57.50	
Fixed interest rate	5.75%	5.75%	4.50% to 5.80%	

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:

June 30, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P216	P -	(P125)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	631	(805)	371
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:

June 30, 2019	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: Call spread swaps	US\$508	P450	P549	Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	(P216)	(P221)	P-	P153	Interest expense and other financing charges, and Other income (charges)
Foreign currency and interest rate risk: Cross currency swap	270	10	1,080	Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities	(631)	(85)	325	16	Interest expense and other financing charges, and Other income (charges)
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 2019 and 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.

	June 30, 2019		December 31, 2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Balance, beginning	(P538)	P342	P -	P -
Changes in fair value:				
Foreign currency risk	-	(221)	(11)	(187)
Foreign currency risk and interest rate risk	(706)	(85)	(1,020)	598
Amount reclassified to profit or loss	325	169	263	77
Tax effect	114	41	230	(146)
Balance, ending	(P805)	P246	(P538)	P342

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 June 30 and March 31, 2019 and December 31, 2018, 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 P565, P427 and P1,104 as of June 30 and March 31, 2019 and December 31, 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$523, US\$387 and US\$912 as of June 30 and March 31, 2019 and December 31, 2018, respectively, and with various maturities in 2019. The negative fair value of these currency forwards amounted to P192, P38 and P297 as of June 30 and March 31, 2019 and December 31, 2018, respectively.

Currency Options

As of June 30 and March 31, 2019 and December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US\$1,205, US\$498 and US\$370, respectively, and with various maturities in 2019. The net positive (negative) fair value of these currency options amounted to (P445), P71 and (P10) as of June 30 and March 31, 2019 and December 31, 2018, respectively.

Call Spread Swaps

As of June 30, 2019, the Group has outstanding call spread swaps with a notional amount of US\$15 million maturing on December 2019. The negative fair value of these call spread swaps amounted to P3.

The Group has no outstanding call spread swaps as of March 31, 2019 and December 31, 2018.

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 1,000, as of June 30 and March 31, 2019 and 1,500 metric tons as of December 31, 2018, respectively. The negative fair value of these swaps amounted to P7, P2 and P10 as of June 30 and March 31, 2019 and December 31, 2018, respectively.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019. 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 12.2, 13.7 and 17.0 million barrels as of June 30 and March 31, 2019 and December 31, 2018, respectively. The positive fair value of these swaps amounted to P166, P687 and P489 as of June 30 and March 31, 2019 and December 31, 2018, 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 358,000 metric tons as of June 30, 2019 and 60,000 metric tons as of March 31, 2019 and December 31, 2018. The net positive (negative) fair value of these swaps amounted to (P138), P45 and P96 as of June 30 and March 31, 2019 and December 31, 2018, respectively.

Commodity Options

As of June 30, 2019 and December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 1.5 and 0.15 million barrels, respectively. The positive fair value of these commodity options amounted to P228 and P137 as of June 30, 2019 and December 31, 2018, respectively.

The Group has no outstanding commodity options as of March 31, 2019.

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\$176, US\$171 and US\$187 as of June 30 and March 31, 2019 and December 31, 2018, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related

to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to P193, (P27) and P87 as of June 30 and March 31, 2019 and December 31, 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P2,281), P748, (P1,270), and P1,254 for the periods ended June 30, 2019 and 2018, and March 31, 2019 and 2018, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	June 30, 2019	December 31, 2018
Balance, beginning	(P950)	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	(1,080)	(453)
Not designated as accounting hedge	(2,158)	853
	(4,188)	(2,754)
Less fair value of settled instruments	(2,256)	(1,804)
Balance, ending	(P1,932)	(P950)

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

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

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

	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P1,357	P1,357	P -	P1,545	P1,545
Financial assets at FVPL	-	268	268	-	254	254
Financial assets at FVOCI	1,087	40,934	42,021	1,019	40,975	41,994
Financial Liabilities						
Derivative liabilities	-	3,289	3,289	-	2,495	2,495

The Group has no financial instruments valued based on Level 3 as of June 30, 2019 and December 31, 2018. For the period ended June 30, 2019 and for the year ended December 31, 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

11. Subsequent Event

SMC Global Power Holdings Corp. (SMC Global)

On July 3, 2019, SMC Global issued an additional US\$300 million SPCS (the "Additional Securities") at an issue price of 102.052% plus an amount corresponding to accrued distributions from April 25 to July 3, 2019. The Additional Securities will be consolidated into and form a single series with the existing US\$500 million SPCS issued in April 2019 (the "Original Securities"), bringing its total securities to US\$800 million (the "Securities"). The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price. The Additional Securities was also listed in the Singapore Stock Exchange on July 4, 2019.

12. Other Matters

- a. 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.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. 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.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 6, Note 24 (c) and Note 43 (a) of the 2018 Audited Consolidated Financial Statements, that remain outstanding as of June 30, 2019. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. Except for the Prepared and Packaged Food, and Protein businesses of San Miguel Food and Beverage, Inc., which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period ended June 30, 2019.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as of end of June 30, 2019. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of June 30, 2019 and December 31, 2018 for liquidity, solvency and profitability ratios and for the periods ending June 30, 2019 and 2018 for operating efficiency ratios.

	June 30, 2019	December 31, 2018
<u>Liquidity:</u>		
Current Ratio	1.54	1.37
<u>Solvency:</u>		
Debt to Equity Ratio	2.08	2.28
Asset to Equity Ratio	3.08	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.92%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
	Period Ended June 30	
	2019	2018
<u>Operating Efficiency:</u>		
Volume Growth	3%	10%
Revenue Growth	2%	27%
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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.



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

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended June 30, 2019 (with comparative figures as of December 31, 2018 and for the period ended June 30, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of June 30, 2019, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards have been omitted.

I. 2019 SIGNIFICANT TRANSACTIONS

INVESTMENT

- Deconsolidation of Manila North Harbour Port, Inc. (MNHPI)

On March 14 and April 26, 2019, respectively, the Philippine Competition Commission (PCC) and the Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI). With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while San Miguel Holdings Corp.'s (SMHC) shares remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as of April 26, 2019, and recognized the investment at fair market value amounting to P2,600 million. As a result, the Group recognized a gain amounting to P727 million, included as part of "Other income (charges) - net" account, in the consolidated statements of income.

LONG-TERM DEBT

- SMC

On June 24, 2019, the Parent Company availed of a P16,000 million fixed-rate seven-year term loan for general corporate purposes.

- Petron Corporation (Petron)

In May 2019, Petron drew a total of US\$536 million from its US\$800 million term loan facility to refinance dollar-denominated bilateral short-term loans and to partially prepay its existing US\$1,000 million term loan facility. The loan is subject to floating interest rate.

Repayment of principal will be made in seven (7) equal semi-annual amortizations beginning May 15, 2021. The maturity date of the loan is on May 15, 2024.

As of June 30, 2019, US\$264 million remains undrawn from the facility.

- **Masinloc Power Partners Co. Ltd. (MPPCL)**

On January 11, 2019, MPPCL drew a total of US\$35 million from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 300MW (Unit 3) coal-fired power plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche of 5.5959% per annum and a floating interest tranche based on a 6-month LIBOR plus margin, with maturities up to December 2030.

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

On March 27, 2019, CCEC drew P1,000 million from the P31,000 million Omnibus Loan and Security Agreement with various local banks dated December 15, 2014 for the project cost of the North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3).

FIXED-RATE PESO-DENOMINATED BONDS

- **Shelf-Registration of P60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global Power Holdings Corp. (SMC Global) and Issuance of P30,000 Million Bonds**

On March 29, 2019, the Philippine Securities and Exchange Commission approved the shelf registration of up to P60,000 million worth of fixed-rate peso-denominated bonds of SMC Global.

On April 24, 2019, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. the first tranche of the fixed-rate peso-denominated bonds amounting to P30,000 million.

The bonds are comprised of the three-year Series H Bonds due 2022, five-year Series I Bonds due 2024 and seven-year Series J Bonds due 2026.

The Series H, I and J Bonds have fixed interest rates per annum equivalent to 6.8350%, 7.1783% and 7.6000%, respectively.

The net proceeds were used by SMC Global for payment of maturing long-term debt and short-term loan and in investments in power-related assets, and payment of transaction-related fees, costs and expenses.

- **Redemption of Fixed-Rate Peso-Denominated Bonds by San Miguel Brewery Inc. (SMB)**

On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate peso-denominated bonds amounting to P10,000 million and P2,810 million, respectively. The Series E and C bonds were part of the P20,000 million and P38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

- Issuance of US\$500 Million SPCS by SMC Global

On April 25, 2019, SMC Global issued US\$500 million SPCS at an issue price of 100%, with an initial rate of distribution of 6.5% per annum. The SPCS was listed in the Singapore Stock Exchange on April 26, 2019.

The net proceeds of the securities will be used and applied by SMC Global for the redemption of US\$300 million Undated Subordinated Capital Securities (USCS) in November 2019 and for the capital expenditures in power-related assets. As of June 30, 2019, the net proceeds are still part of the cash and cash equivalents balance.

PREFERRED SHARES

- Issuance of 20,000,000 Series 3 Perpetual Preferred Shares by Petron

On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of P20,000 million.

Dividends are 6.8713% and 7.1383% per annum for Series 3A and Series 3B, respectively.

The net proceeds were used for the repayment of maturing short-term loans and general corporate purposes. The remaining balance which is allocated for the redemption of the Series 2A Preferred Shares in November 2019, is still in the cash and cash equivalents balance of Petron as of June 30, 2019.

PAYMENT OF MATURING OBLIGATIONS

In the first semester of 2019, the Group paid P11,246 million of maturing obligations funded by cash generated from operations.

The Infrastructure business, Petron and Energy business paid a total of P4,270 million, P4,072 million and P2,190 million, respectively, of their maturing long-term debt.

While, San Miguel Yamamura Packaging Corporation, Can Asia, Inc. and San Miguel Yamamura Asia Corporation (SMYAC) paid a total amount of P714 million of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group's consolidated sales revenue for the first semester of 2019 amounted to P509,495 million, 2% higher than 2018, mainly driven by strong performance of the Energy business and San Miguel Food and Beverage. This was driven mainly by higher volumes for most of the major businesses.

Cost of sales increased by 4% from P392,855 million in 2018 to P408,618 million in 2019. The increase primarily resulted from the full six months operations of Masinloc Power Plant, Unit 2

of Davao Power Plant and Unit 3 of Limay Power Plant, higher energy fees of Ilijan and Sual Power Plants, higher average natural gas price for Ilijan and increased average spot prices of the Energy business. The increase was also due to the volume growth of San Miguel Food and Beverage and higher prices of major raw materials of the Food business.

Selling and administrative expenses increased mainly due to higher distribution costs, advertising and promotions, taxes and licenses and amortization expenses of SMB, higher logistics costs and personnel expenses of the Food business, and higher taxes and licenses, personnel expenses, fuel and oil, travel and transportation, utilities and supplies expenses of the Energy business.

The Group's consolidated operating income amounted to P57,616 million, 14% lower than last year, mainly due to Petron, which continue to be weighed down by the prevailing volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery of Petron was temporarily shutdown for the scheduled major maintenance and additional repair works needed after the April 22, 2019 earthquake. San Miguel Food and Beverage, particularly the Food business, also continues to be affected by rising raw material costs and low chicken prices due to higher inventory coming from imports. The decline was partly offset by the higher operating income of Beer, Spirits and Energy businesses.

The higher interest expense and other financing charges was mainly due to the higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net earnings mainly represents the share of SMC Global on Angat Hydropower Corporation's (Angat Hydro) lower net losses in 2019 as compared to 2018.

The gain on sale of property and equipment in 2019 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for various projects, while 2018 pertains mainly to the sale by San Miguel Properties, Inc. (SMPI) of its investment in Legacy Homes, Inc.

The other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine peso in June 2019 compared to the depreciation of the Philippine peso in June 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses, (b) higher taxable income of Beer and South Premiere Power Corp. (SPPC), and (c) recognition by the Parent Company of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018.

Consolidated net income amounted to P26,152 million in 2019.

Share of non-controlling interests (NCI) decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in the share of NCI on SMB's higher net income.

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

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated revenue for the first semester reached P151,107 million, 10% higher than P137,608 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volumes. Consolidated operating income, however, ended 6% lower at P21,568 million on account of the decline in the Food business' performance.

Net income stood at P14,670 million.

a. Beer and Non-Alcoholic Beverages (NAB) Segment

SMB's consolidated volumes and revenues for the first semester reached 151.4 million cases and P70,283 million, 10% higher and 12% higher than same period last year respectively.

Domestic operations posted an 11% volume growth from last year, as consumption continued to be robust in all key areas around the country. This has been boosted by SMB's new sales and marketing campaigns initiatives, consistent consumer penetration via trade programs and various activities which proved to further strengthen its brand equity, with Red Horse and San Miguel Pale Pilsen maintaining its position as the top selling brands for SMB.

SMB's international operations, meanwhile, posted a slight decline in volumes due to the slowdown in sales of its local mainstream brands which has been partly offset by the healthy growth of San Miguel brands.

As a result, SMB's consolidated operating income rose to P18,933 million, up 9%, while net income grew to P13,258 million, 12% higher from last year.

b. Spirits Segment

Ginebra San Miguel Inc. (GSMI) concluded the first semester with strong volume growth of 18.3 million cases, 17% higher than last year's level led by its core brands Ginebra San Miguel and Vino Kulafu, the result of the business' relentless sales efforts to expand more through distribution and support from its continuous consumer promos and advertising campaigns such as the highly anticipated jersey collection, 'Dosenang Lakas May Instant Pa-Buenas' under-the cap-promo and numerous on-ground Ginumanfest activations across the country.

Along with price adjustments implemented during the second quarter, revenues grew 20% to P14,695 million from last year. Operating income hit P1,596 million, 85% higher than last year's levels, the result of strong volumes, higher revenues and lower costs.

Net income ended at P980 million, 94% higher from the previous year.

c. Food Segment

The Food segment's consolidated revenues for the first semester amounted to P66,131 million, 5% higher than last year with all its businesses posting revenue growth boosted by higher volumes and better selling prices from almost all categories.

Protein business revenues grew 3%, driven mainly by poultry's 9% volume growth, backed by higher chicken sales from its stable-priced channels.

Animal Nutrition & Health business revenue also grew 3% due to favorable market prices and higher sales from high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

Prepared and Packaged Food, meanwhile, provided double-digit revenue growth of 13%, driven mainly by value-added meats' and butter, margarine and cheese' 4% and 6% volume growth coupled with better selling prices from its core products - Tender Juicy, Purefoods Corned Beef, Nuggets, Luncheon Meat, and Magnolia breadfill and spreads.

Flour revenues, on the other hand, grew 10% on a 3% volume growth and higher selling prices.

The Food segment's operating income, however, ended significantly lower than last year at P1,063 million mainly due to the prevailing rising cost of raw materials and the effect of the oversupply of poultry which dragged down selling prices during the first quarter.

Poultry prices, while still lower compared to last year's figures, have shown some recovery during the second quarter.

Similarly, net income ended lower at P447 million.

2. PACKAGING

The Packaging business delivered sales revenues of P17,835 million during the first semester, 2% higher vs. last year mainly from increased sales from glass, plastics, metal, flexibles and Malaysian operations.

Operating income amounted to P1,697 million, 3% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 14,635 gigawatt hours (gwh) during the first semester, 28% higher than the same period last year from new bilateral contracts obtained from both the regulated and contestable power markets. These were supplied through the additional power generated from the Masinloc, Limay and Malita power plants, combined with the improved plant capacity factors from the Sual and Ilijan power plants. These resulted to a 26% increase in consolidated revenues to P72,511 million from P57,430 million last year.

Consequently, consolidated operating income increased by 8% to P18,384 million, while consolidated net income of P7,263 million grew significantly higher vs. the same period last year.

4. FUEL AND OIL

Petron's performance for the first semester continued to be affected by the volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery was temporarily shutdown for its scheduled major maintenance and additional repair works needed following the April 22, 2019 earthquake. Demand in the Philippine market also

slowed down due to the effect of the second tranche of the excise tax increase under the Train Law. This resulted to lower consolidated volumes of 51.9 million barrels, even with Malaysia's higher volumes. Consolidated revenues reached P254,807 million, down by 7% during the first half.

Consolidated operating income and net income settled at P9,787 million and P2,620 million, 37% and 72% decline from 2018 respectively.

5. INFRASTRUCTURE

SMC Infrastructure's operating toll roads vehicular traffic volumes continue to grow posting a combined 6% increase during the first half this year. Consolidated revenues amounted to P12,315 million.

Operating income reached P6,030 million.

2018 vs. 2017

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

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

Selling and administrative expenses increased mainly due to higher personnel expenses of San Miguel Food and Beverage, freight, trucking and handling costs, distribution costs, contracted services costs and advertising and promotions of SMB, expenses of MPPCL, higher liquefied petroleum gas cylinder purchases, repairs and maintenance and increase in terminalling fees and rent expense of Petron, and logistics costs of the Food business.

The Group's consolidated operating income reached P67,006 million, 25% higher than 2017, as a result of better margins.

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

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

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

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

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

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

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

Consolidated recurring net income, excluding the effect of foreign exchange translation amounted to P35,536 million in 2018, 29% higher than 2017.

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

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

1. FOOD AND BEVERAGE

The combined sales revenues of SMFB for the first half of 2018 amounted to P137,608 million, 15% higher than P119,130 million in 2017. Similarly, operating income of P22,889 million grew 20% from same period in 2017.

a. Beer and NAB Segment

SMB continued its solid performance with consolidated volumes reaching 138 million cases, 11% higher than 2017. Strong volumes were mainly driven by increased consumption of its beer products nationwide and boosted by the implementation of new campaigns and consumer and trade programs that continued to further strengthen the equity of SMB brands. These generated consolidated revenues of P62,510 million in 2018, 18% higher vs. 2017.

Together with the contribution from its international operations, SMB's operating income of P17,311 million in 2018 grew 23% from 2017.

b. Spirits Segment

GSMI likewise recorded a strong first semester performance in 2018. Sales volumes grew 15% to 15.6 million cases. The core brands Ginebra San Miguel and Vino Kulafu continued to drive growth momentum, benefitting from new thematic campaigns launched early 2018 and ongoing consumer promotions.

Revenues rose 19% to P12,213 million while operating income reached P862 million in 2018, 57% higher than 2017.

c. Food Segment

The Food segment's consolidated revenues for the first half of 2018, reached P62,886 million, 12% higher than 2017 mainly driven by the strong performance of the Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses.

Income from operations, on the other hand, grew 6% to P4,712 million in 2018, on the back of the businesses' overall higher revenues and improved operational efficiencies. This was tempered, however, by increasing cost of raw materials particularly in Animal Nutrition and Health and Prepared and Packaged Food businesses, as well as the impact of Philippine peso depreciation.

Revenues from the combined Protein businesses grew 12.6% to P44,466 million in 2018, driven by better sales mix, higher sales volume and favorable selling prices of chicken and fresh meats products.

Meanwhile, revenues of the Milling business increased by 6.5% in 2018 boosted by higher volume, a good recovery from a sluggish first quarter of 2018.

Revenues of the Prepared and Packaged Food business, comprised of Processed Meats, Dairy, Spread and Biscuits, and Coffee, grew 14.6% higher to P14,494 million in 2018. Volume growth, as well as higher selling prices of dairy products, cushioned the significant increases in processed meats and dairy raw material prices.

The Food Service business under Great Foods Solutions, continued to grow, posting double digit revenue growth in 2018.

2. PACKAGING

The Packaging business' total sales revenues reached P17,556 million in 2018, 25% higher from 2017. Strong sales from the glass, plastics, metal and Australian operations continues to drive growth.

Operating income amounted to P1,647 million in 2018, 17% higher than 2017.

3. ENERGY

SMC Global posted consolidated off-take volume of 11,406 gwh during the first half of 2018, 36% higher than 2017 mainly from the higher contribution of the Limay, Malita and Masinloc power plants. This was partly offset by the decline in Sual, Ilijan and San Roque power plants' net generation due to longer outages and low water level during the period.

Consolidated revenues grew 41% to P57,430 million in 2018 on account of the additional revenues from Masinloc, Limay and Malita power plants; higher off-take volume of San Miguel Electric Corp. - Retail Electricity Supplier from the additional external customers and increase in electricity requirements; higher average realization prices for Sual's bilateral and spot sales; and higher spot sales from Ilijan power plant.

As a result, operating income reached P17,043 million in 2018, 28% higher than in 2017 at P13,315 million.

4. FUEL AND OIL

Petron sustained its strong performance in the first half of 2018. Consolidated revenues grew 32% to P273,498 million in 2018, compared to P206,958 million in 2017, mainly driven by sustained sales volumes of its Philippine and Malaysian operations and higher prices of crude oil and finished products. Benchmark Dubai crude oil price averaged USD68 per barrel in the first six months of 2018, 32% higher over the same period in 2017. Volumes grew to 54.4 million barrels, 3% higher than 2017. Philippine operations continued to focus on other high-margin products resulting in petrochemicals generating strong sales, surpassing volumes in 2017 by 14%. Gasoline and aviation fuels sales likewise grew 8% and 4%, respectively. In Malaysia, sales volumes were boosted by stronger retail sales.

Consolidated operating income amounted to P15,562 million in 2018, higher by 7% than 2017. Robust growth in revenues of 32% was mitigated by increase in cost of crude outpacing the increase in prices of finished goods.

Petron continues its network expansion. Philippines has over 2,400 gasoline stations while Malaysia has over 620 service stations as of June 2018.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenues of P12,145 million in 2018, 11% higher than 2017 on the back of continuous growth in traffic volume at all operating tollroads. Operating income grew 19% to P6,223 million in 2018.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of June 30, 2019 amounted to P1,731,281 million, P54,639 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from issuance of SPCS by SMC Global in April 2019 and the recognition of right-of-use (ROU) assets with the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*.

The increase in trade and other receivables was mainly attributable to the: (a) higher bilateral and spot sales of SPPC and San Miguel Energy Corporation (SMEC), and from the new power plants in Limay and Masinloc, and (b) increase in trade customer balances of Petron attributable to higher fuel prices, partly offset by the decrease in Petron Malaysia's Government subsidy receivable.

The decrease in prepaid expenses and other current assets was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and also utilization of input tax for the period, and (b) decrease in CCEC's restricted cash balance.

The increase in investments and advances was attributable to the reclassification of SMHC's investment in MNHPI.

The decrease in property, plant and equipment by P156,687 million, the balance of the ROU assets of P176,634 million and the increase in investment property by P17,386 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion was caused by the increase in production cost, mainly due to higher feed costs.

The decrease in other intangible assets was mainly due to the deconsolidation of MNHPI's port concession rights, offset by the recognition of additional concession rights for the various infrastructure projects.

The increase in other noncurrent assets was mainly due to advances of Mariveles Power Generation Corporation to suppliers and contractors for the construction of its power plant, capitalized costs on the construction of Metro Rail Transit Line 7 (MRT 7) Project and purchase of new containers by SMB.

Consolidated total liabilities as of June 30, 2019 amounted to P1,168,269 million, P3,574 million higher than last year. The increase was primarily due to the increase in long-term debt and lease liabilities, partly offset by the decrease in loans payable.

The decrease in loans payable was mainly due to the net repayment of US dollar and peso short-term loans by Petron, settlement of US\$120 million short-term loan by SMC Global, offset by net availment by the Parent Company of short-term peso loans for general corporate purposes.

The increase in lease liabilities - current portion pertains to the recognition of current lease liabilities for ROU assets due to the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under Independent Power Producer Administration agreements due up to June 30, 2020 by the Energy business.

The increase in dividends payable primarily represents the dividends declared by PT. Delta Djakarta Tbk. on June 19, 2019, which was paid on July 18, 2019 to its minority shareholders.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of P30,000 million fixed-rate peso-denominated bonds by SMC Global, (b) total drawdown of US\$536 million from US\$800 million long-term loan facility by Petron, and (c) availment of P16,000 million long-term corporate notes by the Parent Company, (d) offset by the redemption of Series C and E bonds of SMB and partial prepayment of US dollar and refinancing of Philippine peso loans by Petron.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI, net of the increase in derivative liability of the Parent Company due to foreign exchange and fair valuation.

The decrease in reserves pertains to the currency translation adjustments for the period resulting from the appreciation of Philippine peso against the US dollar.

The decrease in appropriated retained earnings was attributable to the reversals made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and Strategic Power Devt. Corp. (SPDC), and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings was primarily due to the reversal of appropriations and net income for the period, net of cash dividends.

The increase in non-controlling interest pertains to the issuance of SPCS by SMC Global and preferred shares by Petron.

2018 vs. 2017

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

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

The increase in trade and other receivables is mainly attributable to the higher bilateral sales of SMEC, SPPC, and the consolidation of the balance of MPPCL, and increase in trade customer balances of Petron, offset by the decrease in receivable balances of the Food business due to higher collection and lower credit sales in June 2018 as compared to December 2017.

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

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

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

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

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

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

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

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

Other noncurrent assets increased by P8,510 million mainly due to the: (a) reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited, (b) project costs incurred

for the TPLEX Project and capitalized expenditures on the construction of the MRT 7 Project, and (c) purchase of new bottles and shells by SMB.

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

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities of SPPC, SMEC, and SPDC which are payable up to June 30, 2019 and the assumed finance lease liability of MPPCL.

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

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

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

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

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

Equity

The increase in equity is due to:

<i>(In millions)</i>	June 30	
	2019	2018
Net income during the period	P26,152	P27,585
Addition to non-controlling interests and others	42,819	2,779
Issuance of common shares	-	33
Adjustments due to PFRS 16	(1,611)	-
Other comprehensive income (loss)	(2,125)	4,521
Cash dividends and distributions	(14,170)	(15,461)
	P51,065	P19,457

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	June 30	
	2019	2018
Net cash flows provided by operating activities	P47,082	P21,857
Net cash flows used in investing activities	(46,471)	(139,435)
Net cash flows provided by financing activities	26,768	133,081

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

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	June 30	
	2019	2018
Additions to property, plant and equipment	(P27,960)	(P17,174)
Increase in other noncurrent assets and others	(23,167)	(11,024)
Additions to investments and advances	(862)	(17,758)
Cash and cash equivalents of a deconsolidated subsidiary	(621)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(97,985)
Proceeds from sale of investments and property and equipment	406	1,005
Dividends received	1,067	568
Interest received	4,675	2,933

Net cash flows provided by financing activities included the following:

<i>(In millions)</i>	June 30	
	2019	2018
Net proceeds from issuance of senior perpetual securities of a subsidiary	P25,803	P24,882
Proceeds from long-term debt - net	21,867	132,505
Net proceeds from issuance of preferred shares of a subsidiary	19,858	-
Payment of lease liabilities	(10,969)	(12,685)
Payment of cash dividends and distributions	(13,845)	(14,434)
Proceeds (payment) from short-term loans - net	(15,904)	25,156
Redemption of undated subordinated capital securities of a subsidiary	-	(21,309)

The effect of exchange rate changes on cash and cash equivalents amounted to (P3,104 million) and P962 million for the periods ended June 30, 2019 and 2018, respectively.

V. OTHER MATTER

On May 10, 2019, the Parent Company, through First Stronghold Cement Industries, Inc., a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by LafargeHolcim. The acquisition is subject to the approval of the PCC.

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” for the discussion of certain Key Performance Indicators.

	June 2019	December 2018
<u>Liquidity:</u>		
Current Ratio	1.54	1.37
<u>Solvency:</u>		
Debt to Equity Ratio	2.08	2.28
Asset to Equity Ratio	3.08	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.92%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
	Period Ended June 30	
	2019	2018
<u>Operating Efficiency:</u>		
Volume Growth	3%	10%
Revenue Growth	2%	27%
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	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

KPI	Formula
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.

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





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REPORT OF INDEPENDENT AUDITORS

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

Opinion

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

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

Basis for Opinion

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



Key Audit Matters

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

Revenue recognition (P1,024,943 million).

Refer to Notes 7, 25 and 33 of the consolidated financial statements.

The risk

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

Our response

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

- We evaluated and assessed the revenue recognition policies in accordance with PFRS 15, *Revenue from Contracts with Customers*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- 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.

ANNEX "B-1"



WILFREDO Z. PALAD
Partner

CRA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

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

PTR No. MKT 7333629

Issued January 3, 2019 at Makati City

March 14, 2019
Makati City, Metro Manila

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

	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 8, 40, 41	P243,150	P206,073
Trade and other receivables - net	4, 5, 9, 33, 35, 40, 41	129,893	116,040
Inventories	4, 5, 10	125,139	102,575
Current portion of biological assets - net	4, 16	4,245	3,422
Prepaid expenses and other current assets	4, 5, 11, 13, 33, 34, 40, 41	92,043	78,228
Total Current Assets		594,470	506,338
Noncurrent Assets			
Investments and advances - net	4, 12	50,519	35,537
Investments in equity and debt instruments	4, 13, 40, 41	42,126	42,069
Property, plant and equipment - net	4, 5, 14, 34	594,372	523,586
Investment property - net	4, 15	31,829	7,162
Biological assets - net of current portion	4, 16	2,844	2,695
Goodwill - net	4, 5, 17, 38	130,852	60,124
Other intangible assets - net	4, 5, 17	146,608	134,438
Deferred tax assets	4, 5, 23	19,249	18,412
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 40, 41	63,773	49,282
Total Noncurrent Assets		1,082,172	873,305
		P1,676,642	P1,379,643
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 19, 30, 33, 38, 40, 41	P184,024	P149,863
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 40, 41	149,764	136,993
Finance lease liabilities - current portion	4, 5, 30, 34, 38, 40, 41	19,699	16,889
Income and other taxes payable	5	19,901	16,653
Dividends payable	33, 36, 38	4,042	4,429
Current maturities of long-term debt - net of debt issue costs	5, 21, 30, 33, 38, 40, 41	55,697	36,944
Total Current Liabilities		433,127	361,771
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 21, 30, 33, 38, 40, 41	561,918	362,548
Deferred tax liabilities	5, 23	22,899	20,674
Finance lease liabilities - net of current portion	4, 5, 30, 34, 38, 40, 41	122,367	138,008
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 40, 41	24,384	25,580
Total Noncurrent Liabilities		731,568	546,810

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)

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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

Forward

Equity Attributable to Equity Holders of the Parent Company

Note		Equity Reserves											Non-controlling Interests	Total Equity	
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock				
		Common	Preferred						Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2017		P 16,425	P 10,187	P 177,641	(P 1,756)	P 214	(P 180)	(P 5,978)	P 56,906	P 135,984	(P 67,093)	(P 42,408)	P 279,942	P 156,839	P 436,781
	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	-	-	-	(3)	(25)	56	-	-	-	-	-	28	16	44
12	Net gain on available-for-sale financial assets	-	-	-	-	88	-	-	-	-	-	-	88	-	88
35	Equity reserve for retirement plan	-	-	-	(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
24	Issuance of common shares	10	-	109	-	-	-	-	-	-	-	-	119	-	119
5, 12	Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	818	-	(239)	-	-	579	2,789	3,368
24	Appropriations - net	-	-	-	-	-	-	-	9,984	(9,984)	-	-	-	-	-
36	Cash dividends and distributions:	-	-	-	-	-	-	-	-	(3,334)	-	-	(3,334)	(8,216)	(11,550)
	Common	-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
	Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
24	As of December 31, 2017	P 16,435	P 10,187	P 177,750	(P 2,664)	P 277	P 2,748	(P 5,160)	P 66,890	P 143,335	(P 67,093)	(P 42,408)	P 300,297	P 170,765	P 471,062

Forward

Equity Attributable to Equity Holders of the Parent Company															
	Note	Equity Reserves										Non-controlling Interests	Total Equity		
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Other			Retained Earnings		Treasury Stock				
		Common	Preferred			Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common			Preferred	
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	-	-	-	-	-	-	-	-	(3,332)	-	-	(3,332)	(7,956)	(11,288)
Common		-	-	-	-	-	-	-	-	(6,839)	-	-	(6,839)	(1,495)	(8,334)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

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

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

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

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

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

2. Basis of Preparation

Statement of Compliance

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

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

Basis of Measurement

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation
	2018	2017	
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 (NVR) 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 GSML were consolidated to SMFB effective June 29, 2018 (Note 5).

(c) Incorporated on July 12, 2018 (Note 5).

(d) Consolidated to SMYPIL effective June 30, 2017 (Note 5).

(e) Consolidated to SMYPIL effective February 1, 2017 (Note 5).

(f) Consolidated to SMYPIL effective November 1, 2017 (Note 5).

(g) Consolidated to SMYPIL effective June 1, 2018 (Note 5).

(h) Consolidated to SMC Global effective March 20, 2018 (Note 5).

(i) On August 31, 2017, the SEC approved the change in company name to San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (formerly: San Miguel Holdings Corp.).

(j) Incorporated on October 2, 2017 (Note 5).

(k) Incorporated on July 17, 2017 (Note 5).

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group adopted PFRS 9 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the ECL model in estimating impairment which resulted to the decrease in the allowance for the impairment losses on receivables by P179 and increase in retained earnings and non-controlling interests by P61 and P63, respectively, as of January 1, 2018 (Note 9). Also, the adoption of PFRS 9 resulted to the decrease in the Group's share in equity in net earnings of an associate amounting to P147, with corresponding decrease in retained earnings by P403 and increase in fair value reserve by P256 as of January 1, 2018 (Note 12).

The following table shows the original classification categories under PAS 39 and the new classification categories under PFRS 9 for each class of the Group's financial assets as of January 1, 2018.

	Classification under PAS 39	Classification under PFRS 9	Carrying Amount under PAS 39	Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortized cost	P206,073	P206,073
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	116,040	116,219
Derivative assets	Financial assets at FVPL	Financial assets at FVPL	333	333
Investments in equity instruments	Financial assets at FVPL	Financial assets at FVPL	170	170
Investments in equity instruments	AFS financial assets	Financial assets at FVOCI	41,737	41,737
Investments in debt instruments	AFS financial assets	Financial assets at FVOCI	330	330
Investments in debt instruments	AFS financial assets	Financial assets at amortized cost	201	201
Noncurrent receivables and deposits, and restricted cash - net	Loans and receivables	Financial assets at amortized cost	23,177	23,177

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

- Cash and cash equivalents and receivables previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost beginning January 1, 2018.
- Investments in equity instruments that were designated as at FVPL under PAS 39 have been classified as mandatorily measured at FVPL under PFRS 9, as these financial assets were managed on a fair value basis and the performance was monitored on this basis.
- Investments in equity and debt instruments previously classified as AFS financial assets are designated as financial assets at FVOCI at the date of initial application. These equity instruments represent investments that the Group intends to hold for strategic purposes.
- Certain investments in debt instruments with carrying amount of P201 as of January 1, 2018 were reclassified from AFS financial assets to financial assets at amortized cost. The Group intends to hold the assets to maturity to collect contractual cash flows, and the cash flows consist solely of payments of principal and interest on the principal amount outstanding. The fair value of P201 as of January 1, 2018 was equivalent to the amortized cost for these financial assets. There was no impact on retained earnings as of January 1, 2018.

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

- Applying PFRS 9, with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4). The amendments permit an entity to defer application of PFRS 9 in 2018 and continue to apply PAS 39, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is held for an activity that is connected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if the entity restates comparative information when applying PFRS 9.

- Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, *Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e., the modified grant date method; (b) Classification of awards settled net of withholding tax. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory withholding tax requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment; and (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in the consolidated statements of income.
- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new and more comprehensive revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer.

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

The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The impact of adoption increased retained earnings and non-controlling interests by P21 and P8, respectively, as of January 1, 2018. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

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

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

	Consolidated Statement of Comprehensive Income		
	As Reported	Adjustments	Amounts Without Adoption of PFRS 15
Sales	P1,024,943	(P219)	P1,024,724
Cost of Sales	825,748	(150)	825,598
Gross Profit	199,195	(69)	199,126
Selling and Administrative Expenses	(82,110)	3	(82,107)
Other Charges - net	(5,628)	(4)	(5,632)
Income Before Income Tax	73,116	(70)	73,046
Income Tax Expense	24,468	(5)	24,463
Net Income	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:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.

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

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

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

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

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must

be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

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

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

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

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

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

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

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

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

Current versus Noncurrent Classification

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

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

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

Financial Instruments

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group's derivative assets and investments in equity instruments at FVPL are classified under this category (Notes 11, 18, 40 and 41).

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

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

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

The Group's cash and cash equivalents, trade and other receivables, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 8, 9, 11, 18, 40 and 41).

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

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

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

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:

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying

amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*

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

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

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

Business Combinations under Common Control

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

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

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

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

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

Non-controlling Interests

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

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less

accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

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

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

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

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

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

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

Intangible Assets

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

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

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the

amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

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

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

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

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

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

Service Concession Arrangements

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

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

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

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

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

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

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

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

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

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

- *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:
 - South Luzon Expressway (SLEX);
 - Ninoy Aquino International Airport (NAIA) Expressway;
 - Metro Manila Skyway (Skyway);
 - Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
 - Southern Tagalog Arterial Road (STAR); and
 - North Luzon Expressway (NLEX) - SLEX Link (Skyway Stage 3).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mineral Rights and Evaluation Assets

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

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

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

The amortization of mining rights will commence upon commercial operations.

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

Deferred Exploration and Development Costs

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any

such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

Cylinder Deposits

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

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

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

Contract Liabilities

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

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

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

Additional Paid-in Capital

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

Retained Earnings

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

Treasury Shares

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

Revenue

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

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

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

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

Revenue from Sale of Food and Beverage, Packaging, and Petroleum Products

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

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

Revenue from Power Generation and Trading

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

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

Revenue from Sale of Real Estate (Upon Adoption of PFRS 15)

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

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

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

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

Revenue from Sale of Real Estate (Prior to the Adoption of PFRS 15)

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

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

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

Revenue from Service Concession Arrangements

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

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

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

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

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

Revenue from Sale of Other Services

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

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

Revenue from Other Sources

Revenue from Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest.

Fair value is based on the relevant market price at the point of harvest.

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

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

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

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

Costs and Expenses

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

Share-based Payment Transactions

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

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

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

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

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

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

Leases

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

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

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

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

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

Retirement Costs

The net defined benefit retirement liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning projected salaries of employees. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Defined benefit costs comprise the following:

- Service costs;
- Net interest on the defined benefit retirement liability or asset; and
- Remeasurements of defined benefit retirement liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statements of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit retirement liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement liability or asset. Net interest on the net defined benefit retirement liability or asset is recognized as expense or income in the consolidated statements of income.

Remeasurements of net defined benefit retirement liability or asset comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statements of income in subsequent periods.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Non-monetary assets and non-monetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of financial assets at FVOCI, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes

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

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

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

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

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

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

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

Non-cash Distribution to Equity Holders of the Parent Company and Assets Held for Sale

The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision on distribution or sale will be withdrawn. Management must be committed to the sale or distribution within one year from date of classification.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in the consolidated statements of income.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued Operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as "Income after income tax from discontinued operations" in the consolidated statements of income.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

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

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 7 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

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

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

In the process of applying the accounting policies, the Group has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the consolidated financial statements:

Measurement of Biological Assets. Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, cattle and poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

Determining whether an Arrangement Contains a Lease. The Group uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership to the customers.

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MNHPI and MPPCL also entered into leases of equipment and land, respectively, needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants, land and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and equipment and finance lease liabilities at the present value of the agreed monthly payments (Notes 14 and 34).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P142,066 and P154,897 as of December 31, 2018 and 2017, respectively (Note 34).

The combined carrying amounts of power plants, land and equipment under finance lease amounted to P168,404 and P172,739 as of December 31, 2018 and 2017, respectively (Notes 14 and 34).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties are retained by the lessors.

Rent income recognized in the consolidated statements of income amounted to P785, P1,307 and P1,378 in 2018, 2017 and 2016, respectively (Note 34).

Rent expense recognized in the consolidated statements of income amounted to P5,244, P4,992 and P2,895 in 2018, 2017 and 2016, respectively (Notes 26, 27 and 34).

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide, at what prices these services will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 34).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, may either be an intangible asset in the form of a right (license) to charge fees to users or financial asset in the form of an unconditional right to receive cash or another financial asset. Judgment was further exercised by management in determining the cost components of acquiring the right. Further reference to the terms of the Concession Agreement (Note 34) was made to determine such costs.

- a. *Airport Concession Right.* The Group's airport concession right consists of:
- (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.
 - (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost to cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.
 - (ii) The present value of the IRO is recorded under construction in progress (CIP) - airport concession arrangements and transferred to the related intangible assets upon completion of the Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time will significant maintenance of the Boracay Airport would commence.
 - (iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

- b. *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway; (iii) Skyway; (iv) TPLEX; (v) STAR; and (vi) Skyway Stage 3.

Pursuant to the Concession Agreements, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

- c. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor.
- d. *Water Concession Right.* The Group's water concession right represents the right to collect charges from water service providers and third party purchasers availing of a public service, grant control or regulate the price and transfer significant residual interest of the water treatment facilities at the end of the Concession Agreement.
- e. *Power Concession Right.* The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.
- f. *MRT 7 Project.* The Concession Agreement related to the MRT 7 Project does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the obligation under the Concession Agreement, is a financial asset in the form of an unconditional right to receive cash or another financial asset.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property

generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares of TADHC, particularly mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of “Other noncurrent liabilities” account in the consolidated statements of financial position (Note 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group owns less than 50% of the voting rights of BPI and MNHPI in 2018 and 2017 and NVRC in 2017 (Note 5), management has determined that the Group controls these entities by virtue of its exposure and rights to variable returns from its involvement in these investees and its ability to affect those returns through its power over the investees.

The Group receives substantially all of the returns related to BPI’s operations and net assets and has the current ability to direct BPI’s activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

The Group has the power, in practice, to govern the financial and operating policies of NVRC, to appoint or remove the majority of the members of the BOD of NVRC and to cast majority votes at meetings of the BOD of NVRC. The Group controls NVRC since it is exposed and has rights to variable returns from its involvement with NVRC and has the ability to affect those returns through its power over NVRC.

The Group assessed that it still controls MNHPI, even after the sale of Petron’s 34.83% equity interest in 2017 (Note 5), because it has the power to govern the financial and operating policies, appoint or remove the majority members of the BOD and cast majority votes at BOD meetings given that it is the single largest stockholder at 43.33% equity interest. Also, the Group established that it has: (i) power over MNHPI; (ii) it is exposed and has rights to variable returns from its involvement with MNHPI; and (iii) it has ability to use its power over MNHPI to affect the amount of MNHPI’s returns. Accordingly, MNHPI remained to be a subsidiary of the Group and still consolidated as of December 31, 2018 and 2017.

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP) as joint ventures (Note 12).

Adequacy of Tax Liabilities. The Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Classification of Financial Instruments. The Group exercises judgments in classifying financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 41.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 43).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon the Group's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Assessment of ECL on Trade Receivables (Upon Adoption of PFRS 9). The Group, in applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables for at least two years. The Group also uses appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customers. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer to reflect the effects of current and forecasted economic conditions.

The Group has assessed that the forward-looking default rate component of its ECL on trade receivables is not material because substantial amount of trade receivables are normally collected within one year. Moreover, based on management's assessment, current conditions and forward-looking information does not indicate a significant increase in credit risk exposure of the Group from its trade receivables.

Trade receivables written off amounted to P56 in 2018 (Note 9). The allowance for impairment losses on trade receivables amounted to P4,610 as of December 31, 2018. The carrying amount of trade receivables amounted to P72,849 as of December 31, 2018 (Note 9).

Assessment of ECL on Other Financial Assets at Amortized Cost (Upon Adoption of PFRS 9). The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets at day one to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	2018
Other Financial Assets at Amortized Cost		
Cash and cash equivalents (excluding cash on hand)	8	P239,619
Other current receivables - net (included under "Trade and other receivables - net" account)	9	57,044
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	18	21,158

The allowance for impairment losses on other current receivables, included as part of "Trade and other receivables - net" account and noncurrent receivables and deposits included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position, amounted to P8,586 and P493, respectively, as of December 31, 2018 (Notes 9 and 18).

Allowance for Impairment Losses on Trade and Other Receivables and Noncurrent Receivables and Deposits (Prior to the Adoption of PFRS 9). Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded costs and expenses and decrease current and noncurrent assets.

The allowance for impairment losses on trade and other receivables and noncurrent receivables and deposits, included as part of "Trade and other receivables - net" and "Other noncurrent assets - net" accounts in the consolidated statements of financial position, amounted to P13,987 as of December 31, 2017 (Notes 9 and 18).

The carrying amount of trade and other receivables and noncurrent receivables and deposits amounted to P130,583 as of December 31, 2017 (Notes 9, 18, 40 and 41).

Impairment of AFS Financial Assets (Prior to the Adoption of PFRS 9). AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized in 2017.

The carrying amount of AFS financial assets amounted to P42,268 as of December 31, 2017 (Notes 11, 13, 40 and 41).

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 10, 11, 12, 13, 15, 16, 17, 18, 20, 35 and 41.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P2,747 and P2,069 as of December 31, 2018 and 2017, respectively (Note 10).

The carrying amount of inventories amounted to P125,139 and P102,575 as of December 31, 2018 and 2017, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P607,277 and P536,001 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P247,352 and P212,683 as of December 31, 2018 and 2017, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P31,837 and P7,170 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of investment property amounted to P10,996 and P1,110 as of December 31, 2018 and 2017, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P11,414 and P7,949 as of December 31, 2018 and 2017, respectively. Accumulated amortization of deferred containers amounted to P17,624 and P15,720 as of December 31, 2018 and 2017, respectively (Note 18).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P143,765 and P131,721 as of December 31, 2018 and 2017, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P37,532 and P31,958 as of December 31, 2018 and 2017, respectively (Note 17).

Estimated Useful Lives of Intangible Assets - Concession Rights. The Group estimates the useful lives of airport, toll road, port, power and water concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as of the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power, port and water concession rights amounted to P138,794 and P127,132 as of December 31, 2018 and 2017, respectively (Note 17).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P130,852 and P60,124 as of December 31, 2018 and 2017, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,843 and P2,717 as of December 31, 2018 and 2017, respectively (Note 17).

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

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

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P70,384 and P1,162 in 2018 and 2017, respectively (Notes 5, 17 and 38).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”.

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into (i) positive, (ii) probable and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group’s assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities are all in the exploratory stages as of December 31, 2018. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2018 and 2017.

Deferred exploration and development costs included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position amounted to P705 and P699 as of December 31, 2018 and 2017, respectively (Notes 18 and 34).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P19,249 and P18,412 as of December 31, 2018 and 2017, respectively (Note 23).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment and investment property amounted to P12,913 and P12,423 as of December 31, 2018 and 2017, respectively (Notes 14 and 15).

The combined carrying amounts of investments and advances, property, plant and equipment, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P836,605 and P710,597 as of December 31, 2018 and 2017, respectively (Notes 12, 14, 15, 16, 17 and 18).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 35 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P32,779 and P32,209 as of December 31, 2018 and 2017, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from refinery, power plants, leased service stations, terminals, blending plant and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 6.659% to 9.055% depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,879 and P2,838 as of December 31, 2018 and 2017, respectively (Note 22).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as of December 31, 2018 and 2017 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P138 and P132 as of December 31, 2018 and 2017, respectively (Note 17).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P5 and P74 in 2018 and P2 and P74 in 2017, respectively (Notes 20 and 22).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period. Construction revenue and construction costs, reported as part of "Other income (charges) - net" account in the consolidated statements of income, amounted to P23,062, P18,089 and P12,623 as of December 31, 2018, 2017 and 2016, respectively (Notes 17 and 32).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P814 and P732 as of December 31, 2018 and 2017, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P207 and P188 as of December 31, 2018 and 2017, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments:

Food and Beverage

- SMFB

On November 3, 2017, the BOD of the Parent Company approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to: (a) result in synergies in the food and beverage business units of the Group; (b) unlock greater shareholder value by providing a sizeable consumer vertical market under SMC; and (c) provide investors direct access to the consumer business of the Group through SMFB. On the same day, the BOD of the Parent Company approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

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

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

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

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

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

As a result, the Group's non-controlling interests decreased by P2,336 with a corresponding increase in other equity reserve.

On October 12, 2018, the Bureau of Internal Revenue (BIR) issued BIR Certification No. SN: 010-2018 which confirmed the tax-free transfer by the Parent Company of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

In 2018, the Parent Company completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083.

With the completion of the follow-on offering, the total number of common shares held by the Parent Company in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

As a result, the Group's non-controlling interests increased by P4,761 equivalent to the carrying amount of the share in the net assets sold. The difference between the carrying amount of the share in the net assets sold and the consideration received was recognized in other equity reserve.

Energy

- SMC Global

- a) Acquisition of MAPL, ATPL and API (the "Masinloc Group")

On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US\$1,900 (P98,990). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd.) ("SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 megawatts (MW) and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 640 MW capacity to the existing portfolio of SMC Global.

As part of the acquisition, SMC Global also acquired ATPL and API. ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

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

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

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

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

	<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:

	Note	2018
Assets		
Cash		P32
Trade and other receivables		165
Inventories		199
Prepaid expenses and other current assets		2
Property, plant and equipment	14	15
Deferred tax assets		4
Liabilities		
Accounts payable and accrued expenses		(261)
Other noncurrent liabilities		(6)
Total Identifiable Net Assets at Fair Value	38	P150

The fair value of trade and other receivables amounted to P165. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P440 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

SMYA is currently completing the purchase price allocation exercise on the acquisition. The identifiable assets and liabilities are based on 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:

	Note	2017
Assets		
Cash		P13
Trade and other receivables - net		573
Inventories		107
Prepaid expenses and other current assets		19
Property, plant and equipment - net	14	452
Deferred tax assets		47
Liabilities		
Accounts payable and accrued expenses		(856)
Income and other taxes payable		(56)
Total Identifiable Net Assets at Fair Value	38	P299

The fair value of trade and other receivables amounted to P573. The gross amount of the receivables is P615, of which P42 is expected to be uncollectible as at the acquisition date.

The recognized goodwill amounting to P463 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

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

- **WBPC**

On July 12, 2018, the Parent Company through SMYPC incorporated WBPC, a wholly-owned subsidiary, with an authorized capital stock of P10 divided into 100,000 shares with a par value of P100.00 per share. The Parent Company, through SMYPC, subscribed to the initial authorized capital stock of WBPC for a total subscription price of P10 or P100.00 per share.

WBPC was incorporated primarily to carry on an enterprise, business, trade or operation as manufacturer, buyer, importer, exporter, contractor, dealer, broker, commission, merchant, agent or representative of wine products; to engage in the hauling services and transporting said wines for its clients and customers including picking up, unpacking, unloading, carrying, consolidating, packing, crating, hauling, loading, transporting, delivering the wines of its clients and customers and operating a warehouse facility engaged in handling, distribution and maintenance of wines and other operation services; and to engage in any and all business activities incidental or related to carrying out this objective.

Real Estate

- SMPI

On June 29, 2017, the Parent Company and SMPI executed a Subscription Agreement to subscribe to an additional 27,985,000 common shares of SMPI for a total subscription price of P560 or P20.00 per common share. The subscription price was fully paid in 2017.

On February 19, 2018, SMPI and the Parent Company executed a Subscription Agreement to subscribe to an additional 62,500,000 common shares of SMPI for a total subscription price of P1,250 or P20.00 per common share. The subscription price was fully paid in 2018.

- DHDC

On May 22, 2017, the Parent Company incorporated DHDC, a wholly-owned subsidiary, with an authorized capital stock of P100 divided into 100,000,000 shares with a par value of P1.00 per share. The Parent Company subscribed and paid in full the initial authorized capital stock of DHDC for a total subscription price of P100 or P1.00 per share.

DHDC was incorporated primarily to purchase, acquire, own, lease, hold, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

On September 12, 2017, the BOD and stockholders of DHDC resolved and approved the increase in authorized capital stock from P100 divided into 100,000,000 common shares to P2,100 divided into 2,100,000,000 common shares, both with a par value of P1.00 per share.

On September 18, 2017, the Parent Company and DHDC executed a Subscription Agreement to subscribe to an additional 500,000,000 common shares from the increase in authorized capital stock, for a total subscription price of P750 or P1.50 per common share. The Parent Company has paid P625 of the subscription price as of December 31, 2018 and 2017.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of DHDC was filed with the SEC on November 2, 2017 and was approved on November 22, 2017.

Others

▪ SMHL

On July 30, 2018, the BOD and stockholders of SMHL resolved and approved to increase its authorized capital stock from US\$150 divided into 5,000,000 common shares of par value US\$10.00 per share and 10,000,000 preferred shares of par value US\$10.00 per share to US\$700 divided into 5,000,000 common shares of par value US\$10.00 per share and 65,000,000 preferred shares of par value US\$10.00 per share. The application of the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMHL was filed with the BVI Company Registry on December 14, 2018 and was approved on December 17, 2018.

On December 14, 2018, SMHL issued to the Parent Company an additional 17,800,000 preferred shares from the increase in authorized capital stock, for a total subscription price of US\$178 (P9,413) or US\$10.00 per preferred share. In 2018, the Parent Company paid US\$175 (P9,243) of the subscription price.

▪ SMCSLC

On July 20, 2018, the BOD and stockholders of SMCSLC resolved and approved to increase its authorized capital stock from P150 divided into 15,000,000 common shares to P5,650 consisting of 565,000,000 common shares, both with a par value of P10.00 per share. The Parent Company, in a Subscription Agreement executed on July 23, 2018, subscribed to 245,000,000 common shares for a total subscription price of P3,675 or P15.00 per common share. The subscription price was paid in full in 2018. The application for Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on August 8, 2018 and was approved on December 19, 2018.

▪ SMNCI

On October 2, 2017, SMNCI was incorporated with an authorized capital stock of P10,000 divided into 10,000,000,000 shares, with a par value of P1.00 per share. As of December 31, 2017, the Parent Company through SMEII has investments in SMNCI representing 70% equity interest.

SMNCI is engaged in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

On November 28, 2018, SMEII acquired 104,500,000 common shares of NCC, which has 30% equity interest in SMNCI, for a total consideration of P5,000 (Note 12). With the acquisition, effective ownership interest of SMEII in SMNCI increased from 70% to 80.5%.

On January 3 and February 6, 2019, SMEII subscribed to a total additional 1,720,000,000 common shares out of unissued capital stock of SMNCI for a total subscription price of P2,580 or P1.50 per share, increasing effective ownership interest in SMNCI from 80.5% to 88.45%.

- SMCACDC

On July 17, 2017, SMCACDC was incorporated with an authorized capital stock of P1,000 divided into 10,000,000 shares with a par value of P100.00 per share. As of December 31, 2017, the investment of the Parent Company in SMCACDC amounted to P325, representing 65% equity interest.

SMCACDC was organized primarily to import, buy, sell, distribute, deal in and conduct a general sales agency in all kinds of automobiles and all other kinds of motor vehicles and means of transportation, including spare parts, accessories, tires, tubes, batteries and other supplies, materials and appliances used in motor vehicles.

On August 7, 2017, the BOD and stockholders of SMCACDC resolved and approved to increase its authorized capital stock from P1,000 divided into 10,000,000 common shares with a par value of P100.00 per share to P6,000 divided into 10,000,000 common shares with a par value of P100.00 per common share and 5,000,000 preferred shares with a par value of P1,000.00 per preferred share. Out of the increase in authorized capital stock, the Parent Company shall subscribe to 3,500,000 preferred shares at the subscription price of P1,000.00 per preferred share or a total subscription amount of P3,500.

SMCACDC commenced operations as the sole importer and distributor of BMW vehicles, spare parts and accessories in the Philippines on December 1, 2017.

- South Western Cement Corporation (SWCC)

On December 23, 2016, SMEII and Eagle Cement Corporation (ECC) entered into a Deed of Absolute Sale of Shares whereby ECC acquired the entire ownership interest of SMEII in SWCC. On the same date, SMEII and ECC executed the Deed of Assignment of Receivables covering the receivables of SMEII from SWCC amounting to P209.

The Group recognized a gain amounting to P56 from the sale of SMEII's 100% ownership interest in SWCC to ECC.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2018		December 31, 2017	
	Petron	SMFB	Petron	SMFB
Percentage of non-controlling interests	31.74%	11.24%	31.74%	14.63%
Carrying amount of non-controlling interests	P55,600	P62,191	P63,207	P52,612
Net income attributable to non-controlling interests	P5,902	P14,011	P8,619	P12,549
Other comprehensive income attributable to non-controlling interests	P256	P695	P1,117	P200
Dividends paid to non-controlling interests	P5,169	P7,636	P5,153	P6,634

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

	December 31, 2018		December 31, 2017	
	Petron	SMFB	Petron	SMFB
Current assets	P162,022	P107,034	P145,490	P90,429
Noncurrent assets	196,132	131,470	192,540	114,674
Current liabilities	(156,018)	(83,905)	(124,495)	(53,426)
Noncurrent liabilities	(115,950)	(24,484)	(113,916)	(37,056)
Net Assets	P86,186	P130,115	P99,619	P114,621
Sales	P557,386	P286,378	P434,624	P251,589
Net income	P7,069	P30,533	P14,087	P28,226
Other comprehensive income	494	1,412	2,506	417
Total Comprehensive Income	P7,563	P31,945	P16,593	P28,643
Cash flows provided by operating activities	P5,047	P36,827	P15,753	P40,898
Cash flows used in investing activities	(11,141)	(26,013)	(11,211)	(20,410)
Cash flows provided by (used in) financing activities	5,949	(7,378)	(4,715)	(15,307)
Effect of exchange rate changes on cash and cash equivalents	536	449	(145)	27
Net Increase (Decrease) in Cash and Cash Equivalents	P391	P3,885	(P318)	P5,208

6. Discontinued Operations

On May 30, 2016, the Parent Company entered into agreements with Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe) for the sale of 100% ownership interest in Vega for a total amount of P30,004. Vega Telecoms, Inc. (Vega), through its subsidiaries holds the telecommunications assets of the Parent Company. In addition, advances by the Parent Company to Vega amounting to P22,077 was also assigned to PLDT and Globe. In 2016, the Parent Company received P39,061 or 75% of the proceeds from the sale of shares and assignment of advances. The remaining balance of P13,020 was paid on May 30, 2017.

On May 30, 2016, the Parent Company, PLDT and Globe filed a notice with the Philippine Competition Commission (PCC) to inform them of the execution of the agreement among the parties (the Notice). The Notice was filed pursuant to memorandum circulars issued by the PCC that transactions of which the PCC is notified during the period prior to the adoption of the implementing rules and regulations of the Philippine Competition Act shall be deemed approved. On June 7, 2016, the PCC required the Parent Company, PLDT and Globe to provide additional information regarding the transaction and advised them that the notice which they filed are insufficient and thus have to be re-filed with the PCC. Consequently, the PCC advised the Parent Company, PLDT and Globe that the transaction is not deemed approved by the PCC.

Both PLDT and Globe filed their respective petitions for certiorari and prohibition with the Court of Appeals to enjoin the PCC from proceeding with the evaluation of the transaction and not considering the transaction to be deemed approved.

An application for a Temporary Restraining Order (TRO) against the PCC made by Globe was denied by the 6th Division of the appellate court. The two petitions have since been consolidated.

On August 26, 2016, the Court of Appeals 12th Division issued a writ of preliminary injunction barring the PCC and its agents from conducting the review. After the PCC filed its Comment to the petitions on October 4, 2016, the Court of Appeals, in its Order dated October 19, 2016, directed all parties to submit their respective memoranda within a non-extendible 15-day period from notice. Thereafter, the petitions shall be deemed submitted for resolution.

On April 21, 2017, PCC filed a Petition for Certiorari with prayer for a TRO and/or writ of preliminary injunction against the Court of Appeals 12th Division and PLDT. The petition asks the Supreme Court to: (a) issue a TRO or writ of preliminary injunction to (i) restrain the Court of Appeals from consolidating the case in the Court of Appeals 12th Division with the case filed by Globe, (ii) restrain the Court of Appeals from enforcing the preliminary injunction issued against the PCC which prevents it from proceeding with the pre-acquisition review of the acquisition by PLDT and Globe of the telecommunications business of the Parent Company, and (iii) restrain PLDT from consummating and implementing the acquisition; (b) dissolve the writ of preliminary injunction issued by the Court of Appeals against PCC; and (c) make permanent the writ of preliminary injunction restraining PLDT from further proceeding with the final payment or performing any action of consummation of the acquisition while the case before the Court of Appeals and the pre-acquisition review and investigation by PCC of the acquisition are pending.

The Parent Company is not a party nor is it impleaded in the case filed by the PCC before the Supreme Court, and neither is it a party in the case pending before the Court of Appeals.

On October 23, 2017, the Court of Appeals denied the petition for certiorari and application for the issuance of an injunction filed by the PCC, upholding the acquisition by PLDT and Globe of the telecommunications business of the Parent Company.

As of December 31, 2018, the Supreme Court has not issued a TRO or a writ of preliminary injunction in relation to the case.

As required by PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, the financial performance of Vega and its subsidiaries for the period January 1 to May 30, 2016 were presented as a separate item under "Income after income tax from discontinued operations" account in the consolidated statements of income.

The result of discontinued operations is presented below:

	Note	2016
Net sales		P818
Cost of sales		389
Gross profit		429
Selling and administrative expenses		(1,380)
Interest expense and other financing charges	30	(6)
Interest income	31	14
Other income - net		136
Loss before income tax		(807)
Income tax expense		175
Loss from discontinued operations		(982)
Gain on sale of investment - net of tax of P772		12,800
Net income from discontinued operations		P11,818
Attributable to:		
Equity holders of the Parent Company	37	P11,756
Non-controlling interests		62
		P11,818

Basic and diluted earnings per common share from discontinued operations, attributable to shareholders of the Parent Company, are presented in Note 37.

Cash flows provided by (used in) discontinued operations are presented below:

	2016
Net cash flows used in operating activities	(P419)
Net cash flows provided by investing activities	33,512
Net cash flows used in financing activities	(1,220)
Net cash flows provided by discontinued operations	P31,873

The effect of disposal on the statement of cash flows follows:

	2016
Cash consideration received	P39,061
Transaction cost	(9)
Cash and cash equivalents disposed of	(1,877)
Net cash flows	P37,175

7. Segment Information

Operating Segments

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

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

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

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

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

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

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

The telecommunications business was previously presented as one of the reportable segments of the Group. As a result of the completion of the sale of Vega and its subsidiaries on May 30, 2016, the line by line consolidation of the results of operations of Vega and its subsidiaries were excluded in the consolidated statements of income for the year ended December 31, 2016 and presented under "Income after income tax from discontinued operations" account (Note 6).

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2018	2017
Cash in banks and on hand		P38,716	P33,021
Short-term investments		204,434	173,052
	4, 40, 41	P243,150	P206,073

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

9. Trade and Other Receivables

Trade and other receivables consist of:

	Note	2018	2017
Trade		P76,494	P67,996
Non-trade		50,257	41,317
Amounts owed by related parties	33, 35	16,338	19,693
		143,089	129,006
Less allowance for impairment losses	4, 5	13,196	12,966
	4, 40, 41	P129,893	P116,040

Trade receivables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade receivables consist primarily of claims from the Government, interest receivable, claims receivable, contracts receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims, subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism and due from PSALM pertaining to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015 (Note 43).

The movements in the allowance for impairment losses are as follows:

	Note	2018	2017
Balance at beginning of year		P12,966	P13,656
Adjustment due to adoption of PFRS 9	3	(179)	-
Balance at beginning of year, as adjusted		12,787	13,656
Charges (reversals) for the year	27, 32	353	(63)
Amounts written off	4	(474)	(226)
Translation adjustments and others		530	(401)
Balance at end of year		P13,196	P12,966

10. Inventories

Inventories consist of:

	2018	2017
At net realizable value:		
Finished goods and goods in process (including petroleum products)	P77,231	P66,301
Materials and supplies (including coal)	37,568	30,506
Containers	6,260	1,552
At cost:		
Raw land inventory and real estate projects	4,080	4,216
	P125,139	P102,575

The cost of finished goods and goods in process amounted to P78,371 and P66,684 as of December 31, 2018 and 2017, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have decreased by P942 and increased by P61 as of December 31, 2018 and 2017, respectively.

The cost of materials and supplies amounted to P38,596 and P31,780 as of December 31, 2018 and 2017, respectively.

Containers at cost amounted to P6,839 and P1,964 as of December 31, 2018 and 2017, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P128 and P442 as of December 31, 2018 and 2017, respectively, with corresponding costs at point of harvest amounting to P135 and P405, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to (P7), P37 and (P2) in 2018, 2017 and 2016, respectively (Note 16).

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2018 and 2017, based on management's assessment.

The fair value of raw land inventory amounted to P10,218 and P10,221 as of December 31, 2018 and 2017, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<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 SMCPD in 2018, maintained with a local Trust Company as required in their respective Omnibus Loan and Security Agreements (OLSA).

"Others" consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM (Note 34) and contract assets pertaining to the Group's right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

"Advances to contractors and suppliers" include amounts owed by related parties amounting to P15 as of December 31, 2017 (Note 33).

The methods and assumptions used to estimate the fair values of restricted cash, financial assets at FVPL, derivative assets and financial assets at FVOCI are discussed in Note 41.

12. Investments and Advances

Investments and advances consist of:

	Note	2018	2017
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P21,242	P21,242
Additions		1,077	-
Balance at end of year		22,319	21,242
Accumulated Equity in Net Earnings			
Balance at beginning of year		1,013	678
Adjustment as a result of PFRS 9	3	(147)	-
Balance at beginning of year, as adjusted		866	678
Equity in net earnings (losses)		(289)	297
Share in other comprehensive income		2	44
Dividends		(16)	(6)
Balance at end of year		563	1,013
		22,882	22,255
Advances		27,637	13,282
	4	P50,519	P35,537

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		NCC		BOC		MPGC	
	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Total
Country of incorporation	60.00%		35.00%		44.62%		60.00%		39.93%		49.00%	
Percentage of ownership	(P481)		P203		P20		(P16)		P292		(P5)	P297
Share in net income (loss)	-		(4)		(12)		-		(28)		-	44
Share in other comprehensive income (loss)												
Share in total comprehensive income (loss)	(P481)		P199		P8		(P16)		P264		(P5)	P341
Dividends received	P -		P -		P -		P -		P -		P -	P6
Carrying amount of investments in shares of stock of associates and joint ventures	P6,044		P4,617		P10,397		P6,525		P9,460		P954	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		NCC		BOC		MPGC	
	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Philippines	Others
Current assets	P2,886		P2,597		P76,946		P2,879		P63,559		P122	P3,667
Noncurrent assets	18,075		8,654		76,997		18,799		76,897		1,847	2,741
Current liabilities	(1,061)		(1,876)		(133,577)		(1,699)		(121,513)		(22)	(2,393)
Noncurrent liabilities	(11,996)		(925)		(2,386)		(11,273)		(1,141)		-	(1,728)
Net assets	P7,904		P8,450		P17,980		P8,706		P17,802		P1,947	P2,287
Sales	P1,575		P8,455		P5,218		P2,185		P4,270		P -	P4,215
Net income (loss)	(P751)		P761		P50		(P28)		P731		(P10)	(P663)
Other comprehensive income (loss)	-		(11)		(30)		-		(70)		-	149
Total comprehensive income (loss)	(P751)		P750		P20		(P28)		P661		(P10)	(P514)

13. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	Note	2018	2017
Equity securities		P41,407	P41,464
Government and other debt securities		432	531
Proprietary membership shares and others		381	273
	4, 40, 41	42,220	42,268
Less current portion	11	94	199
		P42,126	P42,069

Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P36,057 and P36,147 as of December 31, 2018 and 2017, respectively.

Government Securities

- a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 3.88% to 7.02% in 2018 and 2.13% to 5.30% in 2017 (Note 31).
- b) Ovinco's outstanding corporate bond is maintained at the Bank of N.T. Butterfield and carried at fair value with fixed annual interest rate at 6.75% (Note 31).

The movements in investments in equity and debt instruments are as follows:

	Note	2018	2017
Balance at beginning of year		P42,268	P42,139
Additions		54	131
Disposals		(203)	(73)
Amortization of premium		(2)	(6)
Fair value gain		37	91
Acquisition of Subsidiaries		55	-
Currency translation adjustments and others		11	(14)
Balance at end of year	4, 11, 40, 41	P42,220	P42,268

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Note 41.

The investments in equity and debt instruments previously presented and classified as financial assets under PAS 39 are now presented and classified as follows:

	2018
Noncurrent	
Financial assets at FVOCI	P41,940
Financial assets at amortized cost	186
	42,126
Current	
Financial assets at FVOCI	54
Financial assets at amortized cost	40
	94
	P42,220

14. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2017		P32,585	P47,042	P242,054	P145,069	P16,172	P127,779	P2,958	P93,340	P706,999
Additions		1,722	243	112	1,307	405	2,813	9	32,082	38,693
Disposals/retirement		(390)	(472)	-	(5)	(1,106)	(2,736)	(18)	(7)	(4,734)
Reclassifications		820	2,563	26,152	19,940	1,269	4,842	669	(56,456)	(201)
Acquisition of subsidiaries	38	371	-	-	-	-	814	1	-	1,186
Currency translation adjustments		827	1,259	-	1,106	700	2,648	58	143	6,741
December 31, 2017		35,935	50,635	268,318	167,417	17,440	136,160	3,677	69,102	748,684
Additions		1,699	481	67	426	424	5,193	71	38,962	47,323
Disposals/retirement		(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	(2)	(2,728)
Reclassifications		(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	(46,469)	(22,571)
Acquisition of subsidiaries	38	906	975	53,226	-	156	2,382	37	23,484	81,166
Currency translation adjustments		302	534	408	370	246	683	(9)	221	2,755
December 31, 2018		29,580	42,916	350,924	169,973	17,968	152,469	5,501	85,298	854,629
Accumulated Depreciation and Amortization										
January 1, 2017		3,741	20,765	36,567	38,251	11,987	78,554	1,055	-	190,920
Depreciation and amortization	7, 28	242	1,632	7,012	5,994	869	6,773	219	-	22,741
Disposals/retirement		(147)	(383)	-	(4)	(1,058)	(2,258)	(18)	-	(3,868)
Reclassifications		(212)	171	-	29	(6)	(879)	-	-	(897)
Currency translation adjustments		39	658	-	820	416	1,841	13	-	3,787
December 31, 2017		3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	7, 28	176	1,214	9,995	6,308	1,141	7,465	274	-	26,573
Disposals/retirement		(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	-	(2,390)
Reclassifications		(1,034)	(7,828)	-	-	(246)	(349)	(12)	-	(9,469)
Acquisition of subsidiaries	38	-	75	17,973	-	31	732	32	-	18,843
Currency translation adjustments		13	234	126	257	126	358	(2)	-	1,112
December 31, 2018		2,760	16,116	71,665	51,639	12,602	91,042	1,528	-	247,352

Forward

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects In Progress	Total
Accumulated Impairment Losses										
January 1, 2017		P266	P2,412	P -	P -	P -	P8,665	P25	P -	P11,368
Impairment		-	127	-	-	-	407	-	-	534
Disposals/retirement		-	-	-	-	-	(22)	-	-	(22)
Currency translation adjustments		-	164	-	-	-	368	3	-	535
December 31, 2017		266	2,703	-	-	-	9,418	28	-	12,415
Impairment	32	-	454	-	-	-	163	-	-	617
Disposals/retirement		-	-	-	-	-	(13)	-	-	(13)
Reclassifications		(266)	(16)	-	-	-	26	-	-	(256)
Currency translation adjustments		-	(2)	-	-	-	145	(1)	-	142
December 31, 2018		-	3,139	-	-	-	9,739	27	-	12,905
Carrying Amount										
December 31, 2017		P32,006	P25,089	P224,739	P122,327	P5,232	P42,711	P2,380	P69,102	P523,586
December 31, 2018		P26,820	P23,661	P279,259	P118,334	P5,366	P51,688	P3,946	P85,298	P594,372

“Equipment, furniture and fixtures” includes machinery, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P27,190, P23,275, and P21,281 in 2018, 2017 and 2016, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P542, P492, and P488 in 2018, 2017 and 2016, respectively.

The Group has interest amounting to P2,003 and P1,425 which was capitalized in 2018 and 2017, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 2.29% to 7.99% and 2.75% to 6.54% in 2018 and 2017, respectively. The unamortized capitalized borrowing costs amounted to P14,159 and P12,698 as of December 31, 2018 and 2017, respectively.

The combined carrying amounts of power plants, land and equipment under finance lease amounted to P168,404 and P172,739 as of December 31, 2018 and 2017, respectively (Notes 4 and 34).

15. Investment Property

The movements in investment property are as follows:

	Note	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Total
Cost						
January 1, 2017		P6,747	P1,210	P421	P203	P8,581
Additions		278	16	1	58	353
Reclassifications		(645)	-	-	-	(645)
Acquisition of subsidiary	38	707	-	-	-	707
Disposals		(586)	(123)	-	(1)	(710)
Currency translation adjustments		(3)	(3)	-	-	(6)
December 31, 2017		6,498	1,100	422	260	8,280
Additions		6,969	332	-	155	7,456
Reclassifications		11,717	15,369	15	(127)	26,974
Acquisition of subsidiary	38	90	-	-	-	90
Disposals		(3)	-	-	-	(3)
Currency translation adjustments		-	36	-	-	36
December 31, 2018		25,271	16,837	437	288	42,833
Accumulated Depreciation and Amortization						
January 1, 2017		212	645	421	-	1,278
Depreciation and amortization		2	20	1	-	23
Reclassifications		(183)	-	-	-	(183)
Disposals		-	(5)	-	-	(5)
Currency translation adjustments		(2)	(1)	-	-	(3)
December 31, 2017		29	659	422	-	1,110
Depreciation and amortization		60	664	1	-	725
Reclassifications		1,060	8,085	1	-	9,146
Currency translation adjustments		-	15	-	-	15
December 31, 2018		1,149	9,423	424	-	10,996
Accumulated Impairment Losses						
December 31, 2017 and 2018		8	-	-	-	8
Carrying Amount						
December 31, 2017		P6,461	P441	P -	P260	P7,162
December 31, 2018		P24,114	P7,414	P13	P288	P31,829

The Group's investment property includes land, land and leasehold improvements, buildings and related improvements and facilities leased out for its service stations which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 14). The carrying amount and fair value of these assets as of December 31, 2017 amounted to P16,308 and P30,104, respectively.

No impairment loss was recognized in 2018, 2017 and 2016.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2018, 2017 and 2016.

The fair value of investment property amounting to P49,093 and P11,255 as of December 31, 2018 and 2017, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Group's investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

16. Biological Assets

Biological assets consist of:

	Note	2018	2017
Current:			
Growing stocks		P3,572	P2,848
Goods in process		673	574
		4,245	3,422
Noncurrent:			
Breeding stocks - net		2,844	2,695
	4	P7,089	P6,117

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P2,801, P2,161 and P1,947 in 2018, 2017 and 2016, respectively (Note 28).

Growing stocks pertain to growing broilers, hogs and cattle, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	2018	2017
Cost			
Balance at beginning of year		P7,549	P6,654
Increase (decrease) due to:			
Production		47,501	41,012
Purchases		901	1,106
Mortality		(613)	(677)
Harvest		(43,947)	(38,476)
Retirement		(2,755)	(2,070)
Balance at end of year		8,636	7,549
Accumulated Amortization			
Balance at beginning of year		1,432	1,269
Additions	28	2,801	2,161
Retirement		(2,686)	(1,998)
Balance at end of year		1,547	1,432
Carrying Amount		P7,089	P6,117

The Group harvested approximately 582.5 million and 523.6 million kilograms of grown broilers in 2018 and 2017, respectively, and 0.40 million and 0.59 million heads of marketable hogs and cattle in 2018 and 2017, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P42,116 and P42,971 in 2018 and 2017, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2018	2017
Goodwill	P130,852	P60,124
Other intangible assets	146,608	134,438
	P277,460	P194,562

The movements in goodwill are as follows:

	Note	2018	2017
Balance at beginning of year		P60,124	P58,113
Additions	4, 5, 38	70,384	1,162
Cumulative translation adjustments and others		344	849
Balance at end of year	4	P130,852	P60,124

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2017	P1,829	P909	P2,738
Additions	-	27	27
Currency translation adjustments	183	-	183
December 31, 2017	2,012	936	2,948
Currency translation adjustments	123	26	149
December 31, 2018	2,135	962	3,097
Accumulated Impairment Losses			
January 1 and December 31, 2017	-	231	231
Currency translation adjustments	-	23	23
December 31, 2018	-	254	254
Carrying Amount			
December 31, 2017	P2,012	P705	P2,717
December 31, 2018	P2,135	P708	P2,843

The movements in other intangible assets with finite useful lives are as follows:

	Note	Toll Road	Airport	Concession Rights Power	Port	Water	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
Cost										
January 1, 2017		P123,418	P5,574	P770	P12,061	P824	P1,828	P1,734	P2,807	P149,016
Additions		8,528	663	122	1,700	2,114	-	-	519	13,646
Disposals and reclassifications		(47)	(1)	2	-	-	650	-	300	904
Currency translation adjustments		-	-	-	-	-	55	-	58	113
December 31, 2017		131,899	6,236	894	13,761	2,938	2,533	1,734	3,684	163,679
Additions		10,145	504	140	98	3,581	51	-	650	15,169
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	89	89
Disposals and reclassifications		2,005	296	-	(21)	-	-	-	(5)	2,275
Currency translation adjustments		-	-	-	-	-	64	-	21	85
December 31, 2018		144,049	7,036	1,034	13,838	6,519	2,648	1,734	4,439	181,297
Accumulated Amortization										
January 1, 2017		22,459	85	81	971	-	622	-	2,140	26,358
Amortization	28	3,939	287	30	745	-	62	-	301	5,364
Disposals and reclassifications		(2)	-	1	-	-	183	-	(26)	156
Currency translation adjustments		-	-	-	-	-	24	-	56	80
December 31, 2017		26,396	372	112	1,716	-	891	-	2,471	31,958
Amortization	28	3,976	325	41	742	-	65	-	331	5,480
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	9	9
Disposals and reclassifications		-	-	-	2	-	-	-	43	45
Currency translation adjustments		-	-	-	-	-	21	-	19	40
December 31, 2018		30,372	697	153	2,460	-	977	-	2,873	37,532
Carrying Amount										
December 31, 2017		P105,503	P5,864	P782	P12,045	P2,938	P1,642	P1,734	P1,213	P131,721
December 31, 2018		P113,677	P6,339	P881	P11,378	P6,519	P1,671	P1,734	P1,566	P143,765

Goodwill, licenses and trademarks and brand names with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2018		2017	
	Goodwill	Licenses, Trademarks and Brand Names	Goodwill	Licenses, Trademarks and Brand Names
Energy	P69,944	P -	P -	P -
Fuel and oil	30,882	-	30,627	-
Infrastructure	21,950	-	21,950	-
Packaging	4,376	-	3,757	-
Food and Beverage	3,639	2,843	3,729	2,717
Others	61	-	61	-
Total	P130,852	P2,843	P60,124	P2,717

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 0.3% to 5% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 13% in 2018 and 2017. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for goodwill in 2018 and 2017. Impairment loss recognized in 2016 amounted to P298 (Note 32).

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 15.1% and 6.4% to 18.8% in 2018 and 2017, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for licenses, trademarks and brand names in 2018, 2017 and 2016.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	<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
	<i>40, 41</i>	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 SMCPD on August 17, 2018 from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

The proceeds were used by SMCPD 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:

	Note	2018	2017
Amounts owed to related parties	33	P7,873	P6,975
Retirement liabilities	35	5,342	8,783
ARO	4	3,879	2,838
Obligation to ROP - service concession agreement	4, 34	2,449	2,444
IRO	4	888	806
Cylinder deposits		573	577
Derivative liabilities - noncurrent	4, 40, 41	566	-
Cash bonds		434	400
Concession liabilities		98	100
Redeemable preferred shares	4	18	17
Others		2,264	2,640
	40, 41	P24,384	P25,580

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year BVAL). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

“Others” include amounts owed to a supplier for the purchase of equipment.

23. Income Taxes

The components of income tax expense are shown below:

	2018	2017	2016
Current	P22,733	P20,510	P19,529
Deferred	1,735	5,859	(2,476)
	P24,468	P26,369	P17,053

The movements of deferred tax assets and liabilities are accounted for as follows:

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,779	P41	P -	(P72)	P4,748
MCIT	118	(3)	-	-	115
NOLCO	2,013	89	-	-	2,102
Undistributed net earnings of foreign subsidiaries	(1,025)	(5)	(67)	(32)	(1,129)
Leases	(5,343)	(2,440)	-	36	(7,747)
Unrealized intercompany charges and others	(2,804)	583	315	167	(1,739)
	(P2,262)	(P1,735)	P248	P99	(P3,650)

2017	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,757	P22	P -	P -	P4,779
MCIT	227	(109)	-	-	118
NOLCO	2,146	(133)	-	-	2,013
Undistributed net earnings of foreign subsidiaries	(898)	(127)	-	-	(1,025)
Leases	(2,194)	(3,149)	-	-	(5,343)
Unrealized intercompany charges and others	(1,000)	(2,363)	507	52	(2,804)
	P3,038	(P5,859)	P507	P52	(P2,262)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2018	2017
Deferred tax assets	4	P19,249	P18,412
Deferred tax liabilities		(22,899)	(20,674)
		(P3,650)	(P2,262)

As of December 31, 2018, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2016	December 31, 2019	P6,074	P74
2017	December 31, 2020	220	39
2018	December 31, 2021	712	2
		P7,006	P115

The reconciliation between the statutory income tax rate on income from continuing operations before income tax and the Group's effective income tax rate is as follows:

	2018	2017	2016
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(2.95%)	(1.67%)	(1.93%)
Equity in net loss (earnings) of associates and joint ventures	0.12%	(0.11%)	(0.11%)
Gain on sale of investments subject to final or capital gains tax	(0.10%)	(0.32%)	(0.08%)
Others, mainly income subject to different tax rates - net	6.39%	4.58%	1.79%
Effective income tax rate	33.46%	32.48%	29.67%

24. Equity

a. Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares, consisting of 691,099,686 Series "1" preferred treasury shares to Series "2" preferred treasury shares and 118,900,314 Series "1" preferred unissued shares to Series "2" preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" preferred shares and 1,910,000,000 for Series "2" preferred shares. The stockholders also approved the issuance of the Series "2" preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series “1” preferred shares to Series “2” preferred shares was approved by the SEC on July 14, 2015.

b. Capital Stock

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:

	Note	2018	2017	2016
Salaries and wages		P20,970	P17,877	P15,539
Retirement costs - net	35	2,002	1,832	1,742
Other employee benefits	39	18,123	14,960	12,957
		P41,095	P34,669	P30,238

Personnel expenses are distributed as follows:

	Note	2018	2017	2016
Cost of sales	26	P11,250	P9,195	P7,567
Selling expenses	27	11,302	8,612	7,724
Administrative expenses	27	18,543	16,862	14,947
		P41,095	P34,669	P30,238

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	2018	2017	2016
Interest expense		P41,518	P31,220	P30,567
Other financing charges	21	3,978	4,494	4,236
		P45,496	P35,714	P34,803

Amortization of debt issue costs included in "Other financing charges" amounted to P1,386, P2,778 and P2,174 in 2018, 2017 and 2016, respectively (Note 21).

Interest expense on loans payable, long-term debt and finance lease liabilities is as follows:

	Note	2018	2017	2016
Loans payable	19	P7,141	P5,513	P4,343
Long-term debt	21	25,983	16,623	16,548
Finance lease liabilities	34	8,394	9,084	9,676
		P41,518	P31,220	P30,567

Interest expense from discontinued operations amounted to P6 in 2016. (Note 6).

31. Interest Income

Interest income consists of:

	<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 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
 - *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.

- *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.

- *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.

- *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.

- *Coal Supply Agreements*

SMEC, SMCP, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

- *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".

- *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.

○ *Coal Operating Contract (COC)*

DAMI's coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 93 million metric tons as of December 31, 2018.

SEPC has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2018, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE, is located in Sarangani and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 24 million metric tons as of December 31, 2018.

Status of Operations

The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2006	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another ten-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which will expire on February 23, 2019. This application was accompanied by a new five-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the

submission of a new five-year WPB, initially with a deadline on January 25, 2019 but was extended until February 20, 2019 which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring instead of considering another moratorium extension, the submission of a five-year WPB initially with a deadline of January 25, 2019 but extended into February 20, 2019 which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a ten-year extension of its COC No. 138 which will expire on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a five-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new 5-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first two years of the 5-year WPB submitted by DAMI, SEPC and BERI, focuses on the “removal of tension cracked materials to prevent landslide” within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

- a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;
- b. The mining method is “contour stripping and progressive rehabilitation” and not the banned “open-pit mining”;
- c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and
- d. The ban could be lifted as a result of court cases filed against it.

As of December 31, 2018, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

Based on management’s assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as of December 31, 2018.

- Fuel and Oil

- *Supply Agreements*

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron’s crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter’s standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase

Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 65% of crude and condensate volume processed are from EMEPMI with balance of around 35% from spot purchases.

Outstanding liabilities of Petron for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as of December 31, 2018 and 2017 (Note 20).

- *Lease Agreement with Philippine National Oil Company (PNOC)*

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as of December 31, 2018 and 2017, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 43).

- **Infrastructure**

- *Airport Concession Agreement*

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the DOTr and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.
2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As of December 31, 2018, TADHC has yet to pay the OMPS as the Airport Project has not yet entered the In-Service Date.
3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.
4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to a loan with BOC. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained (Notes 21 and 33).
5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC of the works required to be carried out in connection with the construction and completion of civil, structural, sanitary, mechanical, electrical and architectural infrastructure. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium in 2017, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 11).
6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal is currently ongoing and is expected to be completed in the first quarter of 2019.

○ *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.

- Skyway Stage 3

The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate for the entire Skyway Stage 3 Project to CCEC and/or CMMSC. As of December 31, 2018, the Skyway Stage 3 Project is in the construction stage.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

- Skyway Stage 4

On July 14, 2014, the Stage 4 STOA was executed by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator.

CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the Toll Operation Certificate by the TRB to CITI and/or MOMCO.

As of December 31, 2018, the Skyway Stage 4 Project is in the pre-construction stage.

iv. *TPLEX*

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 88.85 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each segment of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, PIDC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 30.31-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14.91-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting March 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 6, 2017, while Segment 8 (Pozorrubio to Rosario) is expected to be completed on June 30, 2019.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

Stage	Project Description
Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II (Phases I and II)	Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

o *Port Concession Agreements*

On November 19, 2009, MNHPI entered into a Contract for the Development, Operation and Maintenance of the Manila North Harbor (the Contract) with the PPA. Under the Contract, the PPA grants MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations, and renewable for another 25 years under such terms and conditions as the parties may agree.

MNHPI shall provide services and development based on the operation and volume requirement of the port and shall be allowed to collect fees and charges, as approved by the PPA.

In consideration thereof, MNHPI shall remit a fixed fee every quarter and performance security every year to the PPA after the date of takeover of operations of the Manila North Harbor until the end of the concession period.

On April 12, 2010, the PPA turned over the operations of the Manila North Harbor to MNHPI.

On March 21, 2011, MNHPI and the PPA entered into a Clarificatory Agreement to the Contract related to the implementation of some terms and conditions as follows: (a) the fixed fee is exclusive of VAT; (b) the performance security shall be equivalent to 60% of the annual fixed fee, which shall be reckoned from April 12, 2010; (c) establishment of the Port Worker's Retirement and Separation Fund shall be within one year from April 12, 2010; (d) all rentals within the area of management, operation, development and maintenance of MNHPI from April 12, 2010 and thereafter shall accrue to MNHPI; and (e) applicable terms and conditions of the Contract shall become operative on April 12, 2010.

Upon the expiration of the Contract or in the event of its termination or cancellation prior to its expiration, all existing improvements, structures, building and facilities at the Manila North Harbor, permanent or semi-permanent, constructed by or belonging to MNHPI shall automatically become the property of the PPA without any obligation to reimburse therefore, except for port equipment purchased five years prior to expiration or termination of the Contract wherein the PPA has option to either purchase or lease the same from MNHPI.

MNHPI completed the construction of Phase 1 of the port facility on August 30, 2017. Proposed development plant for the succeeding phases has been submitted and is pending approval from the PPA.

o *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement. The Bulacan Bulk Water Supply Project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the province of Bulacan.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay water right fee to the Provincial Government of Bulacan amounting to an aggregate amount of P25 for the first five years of operation and a certain percentage of annual gross revenue from the sixth year until the transfer date.
2. The Bulacan Bulk Water Supply Project will be implemented in three stages in different localities around the Province of Bulacan. The Water Service Providers (WSPs) entered into separate Memoranda of Understanding (MOU) with MWSS pursuant to which they agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Supply Project. Each MOU also provides that MWSS, respective WSP, and LCWDC will enter into a MOA simultaneous with the execution of the Concession Agreement.

3. LCWDC can use the National Housing Authority (NHA) site for the water treatment facility. The NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC can either pay in staggered cash or in installment. Ownership of NHA site shall be and shall remain with MWSS at all times.

LCWDC may also opt to acquire an alternative site, including all land rights, and rights of way (whether permanent or temporary) required and otherwise necessary to access the alternative site and carry out the works for the water treatment facility. Ownership of alternative site, land rights and right of way required shall be with LCWDC and shall continue to be so until transfer date.

4. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.

- Food and Beverage

- *Toll Agreements*

The significant subsidiaries of SMFB have entered into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the “Parties”). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses included as part of “Cost of sales” account in the consolidated statements of income amounted to P8,889, P7,970 and P7,525 in 2018, 2017 and 2016, respectively (Note 26).

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:

		2018		2017	
	Note	Number of Share Stock Options	Weighted Average Price	Number of Share Stock Options	Weighted Average Price
Class “A”					
Number of shares at beginning of year		1,782,790	P120.33	3,712,210	P89.33
Exercised during the year	24	(1,630,873)	120.33	(1,753,747)	58.05
Expired during the year		(151,917)	120.33	(175,673)	87.08
Number of shares at end of year		-	-	1,782,790	120.33
Class “B”					
Number of shares at beginning of year		-	-	316,095	63.35
Exercised during the year	24	-	-	(303,718)	58.05
Expired during the year		-	-	(12,377)	58.05
Number of shares at end of year		-	-	-	-

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and considered as common shares without distinction. However, as of December 31, 2017, the number of the outstanding share stock options and related weighted average price under LTIP were presented as Class "A" and Class "B" common shares to recognize the average price of stock options granted prior to August 26, 2010.

The fair value of equity-settled share options granted is estimated as of the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The price for options outstanding as of December 31, 2017 was P120.33.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P29, P44 and P29 in 2018, 2017 and 2016, respectively (Notes 27 and 29).

40. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated 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							
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):

December 31, 2018	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
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)

December 31, 2017	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
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 Assets	Liabilities	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 Comprehensive Income	Cost of Hedging Recognized in Comprehensive Income	Other	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
Foreign currency risk:										
Currency forwards	US\$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	(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)	(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	598	252	-	Interest expense and other financing charges, and Other income (charges)

No ineffectiveness was recognized in the 2018 consolidated statement of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	Hedging Reserve	Cost of Hedging Reserve
Balance as of January 1, 2018	P -	P -
Changes in fair value:		
Foreign currency risk	(11)	(187)
Foreign currency risk and interest rate risk	(1,020)	598
Amount reclassified to profit or loss	263	77
Tax effect	230	(146)
Balance as of December 31, 2018	(P538)	P342

The Group has no outstanding derivative instruments accounted as cash flow hedges as of December 31, 2017.

Derivative Instruments Not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

As of December 31, 2018 and 2017, the Group has outstanding interest rate swap with notional amount of US\$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,104 and P1,563 as of December 31, 2018 and 2017, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$912 and US\$1,283 as of December 31, 2018 and 2017, and with various maturities in 2019 and 2018, respectively. The negative fair value of these currency forwards amounted to P297 and P445 as of December 31, 2018 and 2017, respectively.

Currency Options

As of December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US\$370, and with various maturities in 2019. The negative fair value of these currency options amounted to P10 as of December 31, 2018.

The Group has no outstanding currency options as of December 31, 2017.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,500 metric tons as of December 31, 2018. The negative fair value of these swaps amounted to P10 as of December 31, 2018.

The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2017.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019 and 2018. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 17.0 and 42.6 million barrels as of December 31, 2018 and 2017, respectively. The net positive (negative) fair value of these swaps amounted to P489 and (P1,177) as of December 31, 2018 and 2017, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 60,000 metric tons as of December 31, 2018 and 2017. The positive fair value of these swaps amounted to P96 and P62 as of December 31, 2018 and 2017, respectively.

Commodity Options

As of December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as of December 31, 2018.

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

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$187 and US\$169 as of December 31, 2018 and 2017, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The positive fair value of these embedded currency forwards amounted to P87 and P93 as of December 31, 2018 and 2017, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P805, (P3,665) and (P616) in 2018, 2017 and 2016, respectively (Note 32).

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2018	2017
Balance at beginning of year	(P3,154)	(P2,391)
Net change in fair value of derivatives:		
Designated as accounting hedge	(453)	-
Not designated as accounting hedge	853	(3,665)
	(2,754)	(6,056)
Less fair value of settled instruments	(1,804)	(2,902)
Balance at end of year	(P950)	(P3,154)

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

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

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P1,545	P1,545	P -	P333	P333
Financial assets at FVPL	-	254	254	-	170	170
Financial assets at FVOCI	1,019	40,975	41,994	-	-	-
AFS financial assets	-	-	-	1,002	41,266	42,268
Financial Liabilities						
Derivative liabilities	-	2,495	2,495	-	3,487	3,487

The Group has no financial instruments valued based on Level 3 as of December 31, 2018 and 2017. In 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

42. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCP 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 SMCP 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. SMCPG has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017 and September 26, 2017, respectively. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LPPC was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LPPC's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LPPC to SCPC. On July 13, 2018, BOI granted the SCPC's request to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 commenced on March 26, 2018.

On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPG, 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 SMCPG and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMC Global for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.

- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-Pioneer Status.
- On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 300 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for three years from December 2018 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On June 25, 2015, BOI approved the amendments on the registration which includes the downgrade of registered capacity from 600MW to 300MW and the extension of start of commercial operation date to December 2019. However, the ITH reckoning date remains to be the same (December 2018).

On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10MW BESS Project. The BESS Facility provides 10MW of interconnected capacity and enhances the reliability of the Luzon grid using the Advancion energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for six years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration.

- On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20MW Kabankalan Advancion Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for six years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.

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 MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMFB

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:

- *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.
- *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts. The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

Because of the significant changes and developments in the capacity requirements of both plants, as well as the change of project site for the proposed Quezon Poultry Project, the original project proposals are no longer feasible, thus the need to revise the business plans. On September 19, 2018, SMFI submitted to the BOI request for the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082 and voluntarily surrendered the above BOI Certificates of Registration.

On October 10, 2018, the BOI approved the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082.

On February 15, 2019, SMFI submitted its new applications for registration of the Davao and Quezon Poultry Projects reflecting the revised project proposals. The applications are currently subject to the evaluation and approval of the BOI.

- *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Great Food Solutions project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the Authority of Freeport Area of Bataan (AFAB) as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057 valid for the year 2017. On March 6, 2018, the AFAB issued its Certificate of Registration No. 2018-096 for Bataan Feedmill Project, valid for the year 2018.

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

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:

- ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- Exemption from real property tax on production equipment or machinery.
- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH in 2016, 2017 and 2018.

On August 11, 2017, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2016 Income Tax Return. On June 20, 2018, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2017 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Yearly certificates of entitlement have been timely obtained by Petron to support its ITH credits in 2018, 2017 and 2016.

d. SMCSLC

SMCSLC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga).* The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the revenue generated by the registered project.
 - *Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentives shall be limited only to the sales/revenue generated by the registered project.
- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Additional Deduction for Labor Expense.* For the first five years from registration, SMCSLC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, SMCSLC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products in its Main Office located at Tondo, Manila was granted with Registration No. 2013-068. In 2015, SLHBTC also registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations, whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier, but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Tondo and Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

ii. *Additional Deduction from Taxable Income.* SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.

iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment.* Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:

- they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
- the equipment is reasonably needed and will be exclusively used in the registered activity; and
- prior BOI approval is obtained for the importation as endorsed by the DOE.

iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.

- vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:
 - at least 70% of production is imported;
 - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
 - all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.
- vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.
- viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.
- ix. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operation and/or start of date of registration.

f. MTC

MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

- i. *ITH*
 - 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*

- *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT).* The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT).* The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT).* The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT).* The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional deduction for labor expense.* For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*
- vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

h. NTC

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. ITH

New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT). The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional deduction for labor expense.* For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

i. SMNCI

On January 15, 2018, SMNCI was registered with the BOI as a new producer of cement on a non-pioneer status. SMNCI's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

- i. ITH for four years from January 2023 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 22 and its Implementing Rules and Regulation.
- iii. Additional deduction from taxable income of 50% of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the requirements as stated in the BOI Certificate.
- iv. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.
- v. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.

- vi. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration.
- vii. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.
- viii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

43. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

▪ SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock; and, (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motion while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner. On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. On March 14, 2019, counsels for SMC, GSMI and SMFB received a copy of the Motion for Reconsideration of the decision of the SEC Special Hearing Panel dated March 6, 2019. SMC, GSMI and SMFB will file their respective comments on the Motion for Reconsideration no later than March 29, 2019.

- Penalties for Late Filing

On March 20, 2012, the Parent Company was assessed by the Corporate Finance Department of the SEC (SEC-CFD) for a penalty amounting to P769, in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) relating to the purchase by the Parent Company of the shares in Manila Electric Company. The Parent Company filed an appeal from the order of the SEC-CFD to the SEC *En Banc* on April 17, 2012.

On November 21, 2017, the SEC *En Banc* rendered a Decision denying the appeal of the Parent Company.

On December 7, 2017, the Parent Company filed a petition for review of the Decision of the SEC *En Banc* to set aside the imposition of the penalty, with an urgent application for issuance of ex parte temporary restraining order and/or writ of preliminary injunction to enjoin the SEC from enforcing the said Decision.

In a Decision dated December 20, 2018, the Court of Appeals ruled in favor of the Parent Company that the penalty imposed by the SEC was in violation of Section 54.1 (ii) of the Securities Regulation Code.

The issue in the petition filed by the Parent Company is whether the SEC *En Banc* erred in affirming the respondent Corporate Finance Department's imposition upon petitioner SMC of the fine of P769 for late filing of SEC Forms 23-A and B, and in not applying the limitation prescribed under Section 54.1 (ii) of the SEC.

In view of the favorable decision, the penalty was reduced to P3. The SEC has filed a manifestation in the Court of Appeals that it will no longer appeal the said Decision, and accordingly the decision of the Court of Appeals became final and executory.

- Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

On April 12, 2004 and May 26, 2004, the Parent Company was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. The Parent Company contested the assessments before the Court of Tax Appeals (CTA) (1st Division) under CTA Case Nos. 7052 and 7053.

In relation to the aforesaid contested assessments, the Parent Company, on January 31, 2006, filed with the CTA (1st Division), under CTA Case No. 7405, a claim for refund of taxes paid in excess of what it believes to be the excise tax rate applicable to it.

The above assessment cases (CTA Case Nos. 7052 and 7053) and claim for refund (CTA Case No. 7405), which involve common questions of fact and law, were subsequently consolidated and jointly tried.

On November 27, 2007, the Parent Company filed with the CTA (3rd Division), under CTA Case No. 7708, a second claim for refund, also in relation to the contested assessments, as it was obliged to continue paying excise taxes in excess of what it believes to be the applicable excise tax rate.

On January 11, 2008, the BIR addressed a letter to the Parent Company, appealing to the Parent Company to settle its alleged tax liabilities subject of CTA Case Nos. 7052 and 7053 “in order to obviate the necessity of issuing a Warrant of 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.



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**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

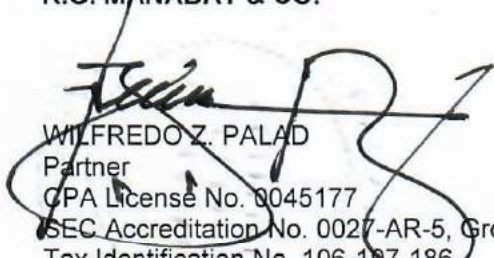
We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2018, on which we have rendered our report dated March 14, 2019.

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

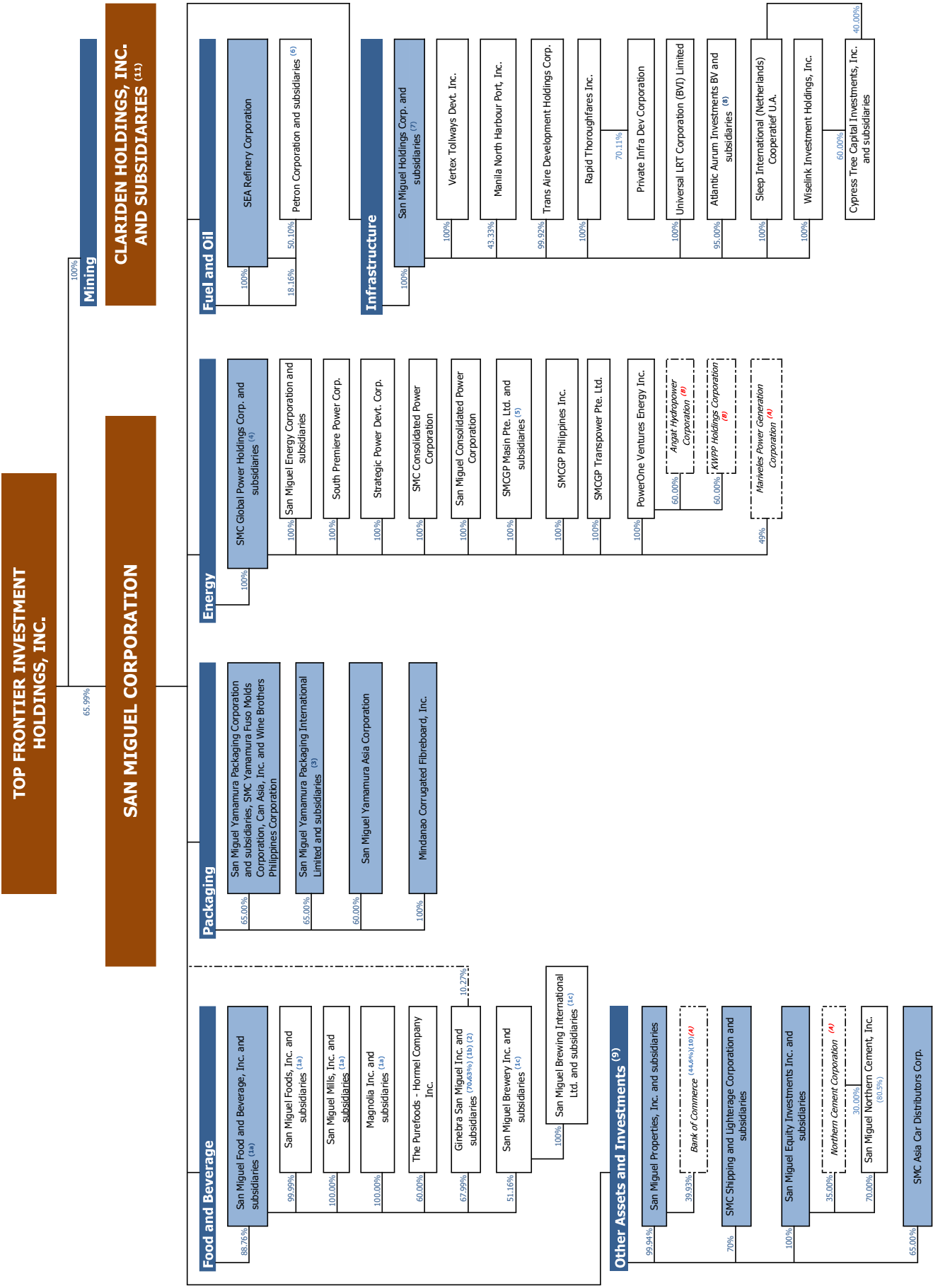
Issued November 29, 2018; valid until November 28, 2021

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:
(1a) Associate
(6) 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).



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**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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March 14, 2019
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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 452,225	P 42,220 P	9,968

* 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 (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	88,998	75,052	(69,537)	-	94,513	84,163	10,350	94,513

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	- 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	
	P	P	P	P	P	P	P	P	P	P	P	P
Goodwill	P	60,124	P	70,384	P	-	P	-	P	344	P	130,852
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
	P	166,627	P	15,258	P	2,275	P	-	P	234	P	184,394
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
	P	32,189	P	9	P	45	P	5,480	P	63	P	37,786
Net Book Value:	P	134,438	P	15,249	P	2,230	P	(5,480)	P	171	P	146,608

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	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 49,282	P 18,737	(3,293) P	(1,156) P	203 P	63,773

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													
<i>Peso denominated:</i>													
Fixed	Philippine Depository and Trust Corp.	P 50,000	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, March 2027 and March 2028
Fixed	Philippine Depository and Trust Corp.	10,000	-	-	-	10,000	(84)	9,916	9,916	5.25%	Bullet	Quarterly	May 2020
<i>Foreign currency - denominated:</i>													
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
Floating	Sumitomo Mitsui Banking Corporation	15,774	-	-	-	15,774	(272)	15,502	15,502	LIBOR + margin	Bullet	1/3/6 months	September 2023
Floating	Singapore Branch	10,516	-	-	-	10,516	(180)	10,336	10,336	LIBOR + margin	Bullet	1/3/6 months	November 2023
Floating	Mizuho Bank, Ltd.	5,258	5,258	-	5,258	-	-	-	5,258	LIBOR + margin	Bullet	1/3/6 months	May 2019
Floating	DBS Bank Ltd.	5,258	5,258	(6)	5,252	-	-	-	5,252	LIBOR + margin	Bullet	1/3/6 months	May 2019
Floating	Various foreign banks	176,537	10,516	(6)	10,510	166,021	(1,998)	164,023	174,533				
Subsidiaries													
<i>Peso denominated:</i>													
<u>Petrone 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
Fixed	Philippine Depository and Trust Corp.	40,000	-	-	-	40,000	(362)	39,638	39,638				
<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
Fixed	Philippine Depository & Trust Corp.	17,000	10,000	(5)	9,995	7,000	(28)	6,972	16,967				
<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
Fixed	Philippine Depository & Trust Corp.	15,000	-	-	-	15,000	(61)	14,939	14,939				
<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
Fixed	Philippine Depository & Trust Corp.	15,000	-	-	-	15,000	(111)	14,889	14,889				
<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%, 9.0260%, 9.4679%, 9.8080 % and 9.8754%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	18,100	-	-	-	18,100	(234)	17,866	17,866		Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	30,000	-	-	-	30,000	(358)	29,642	29,642				
<u>San Miguel Consolidated Power Corporation</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

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
<u>SMC Global Power Holdings Corp.</u> Fixed BDO Unibank, Inc.	P	14,850	150	(20)	130	14,700	(104)	14,596	P	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		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	-	-	-		6.52%	Amortized	Semi-annual	September 2019
Fixed Philippine National Bank as Trustee		9,805	584	(34)	550	9,221	(113)	9,108		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		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		5.7584%	Amortized	Quarterly	December 2022
<u>Vertex Tollways Debt, Inc.</u> Fixed Philippine National Bank as Trustee		6,518	699	(13)	686	5,819	(40)	5,779		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		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		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		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		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		6.6583%	Amortized	Quarterly	June 2023
<u>SMC Shipping and Linhterac Corporation</u> Fixed Union Bank of the Philippines		1,500	-	-	-	1,500	(4)	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		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	-	-	-		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		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		BVAL + margin	Amortized	Quarterly	October 2022
<u>San Miguel Yamamura Packaging Corporation</u> Floating Bank of Commerce		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		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		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)

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
<u>SMC Global Power Holdings Corp.</u>													
Floating	Winrock Special Opportunities I Limited	P 44,693	P -	P -	-	P 44,693	P (893)	P 43,800	P 43,800	LIBOR + margin	Bullet	Quarterly	March 2023
<u>Masindag 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		<u>P 624,463</u>	<u>P 56,182</u>	<u>P (485)</u>	<u>P 55,697</u>	<u>P 568,281</u>	<u>P (6,363)</u>	<u>P 561,918</u>	<u>P 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
	6,000,000,000	5,326,155,478	1,470,197,623	3,855,957,855	134,641,564	10,016,395		9,670,029

* 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				