CR03151-2019

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   Preliminary Information Statement
   Definitive Information Statement
2. Name of Registrant as specified in its charter
   Top Frontier Investment Holdings, Inc.
3. Province, country or other jurisdiction of incorporation or organization
   Philippines
4. SEC Identification Number
   CS200803939
5. BIR Tax Identification Code
   006-990-128
6. Address of principal office
   5th Floor. ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City
   Postal Code
   1200
7. Registrant's telephone number, including area code
   (02) 632-3481
8. Date, time and place of the meeting of security holders
   July 9, 2019 (Tuesday), 2:00 p.m., Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila
9. Approximate date on which the Information Statement is first to be sent or given to security holders
   Jun 1, 2019
10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor
    Top Frontier Investment Holdings, Inc.
    Address and Telephone No.
    5th Floor. ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City 1200; (02) 632-3481

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	332,886,167
Conso. Total Liab. (as of 3.31.19 in millions Php)	1,292,463

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

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, Inc.; Common Shares

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.

Top Frontier Investment Holdings, Inc.
TFHI

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting
References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	Jul 9, 2019
Type (Annual or Special)	Annual
Time	2:00 p.m.
Venue	Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila
Record Date	May 24, 2019

Inclusive Dates of Closing of Stock Transfer Books

Start Date	May 27, 2019
End date	May 31, 2019

Other Relevant Information

Please see attached Preliminary Information Statement under SEC Form 20-IS of Top Frontier Investment Holdings, Inc. for its 2019 Annual Stockholders Meeting, as filed with the Securities and Exchange Commission on May 16, 2019.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

C S 2 0 0 8 0 3 9 3 9

S. E. C. Registration Number

TOP FRONTIER INVESTMENT HOLDINGS, INC.

(Company's Full Name)

5th Floor ENZO Bldg. 399 Sen. Gil Puyat Ave., Makati City

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

Irene M. Cipriano

Contact Person

Tel. No.: (02) 632-3889
Fax No.: (02) 632-3866

Company Telephone Number

1 2 | 3 1 — Month Day — Fiscal Year

2019 Preliminary Information Statement
SEC Form 20-IS

FORM TYPE

0 7 | 0 9 — Month Day — Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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MAY 16 2019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
July 09, 2019

The Annual Meeting of the Stockholders of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** will be held on **July 09, 2019 (Tuesday) at 2:00 p.m. at the Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.**

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 10, 2018
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

The Minutes of the Annual Stockholders' Meetings held on July 10, 2018, as well as the resolutions of the Board of Directors beginning July 10, 2018 will be available for examination during office hours at the Office of the Corporate Secretary.

The deadline for submission of proxies is on **June 25, 2019**. For corporations, proxies must be accompanied by its Corporate Secretary's sworn certification setting the corporate officer's authority to represent the corporation in the meeting. Proxies need not be notarized. Validation of proxies will be on **July 02, 2019** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.

For your convenience in registering your attendance, please present some form of identification, such as passport, driver's license, or company I.D. Registration will start at 11:30 a.m. and the registration booths will be closed at 2:15 p.m.

Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[√] Preliminary Information Statement

[ ] Definitive Information Statement

2. Name of Registrant as specified in its charter **Top Frontier Investment Holdings, Inc.**

3. Province, country or other jurisdiction of incorporation or organization **Philippines**

4. SEC Identification Number **CS200803939**

5. BIR Tax Identification Number **006-990-128**

6. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
Address of principal office Postal Code

7. Registrant's telephone number, including area code **(02) 632-3481**

8. **July 09, 2019 (Tuesday) at 2:00 p.m.**
Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders **June 1, 2019**

10. Name of Person Filing the Statement: **Top Frontier Investment Holdings, Inc.**
Address: **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City 1200**
Telephone No.: **(02) 632-3481**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding (as of March 31, 2019)
Common Shares	**332,886,167***
Total Liabilities	**P1,292,463 million**

Net of the 157,310,033 common shares held in Treasury

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

Yes [√] No [ ]

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

Philippine Stock Exchange, Inc. – Common Shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, time and place of meeting of security holders.

The Annual Stockholders' Meeting of **Top Frontier Investment Holdings, Inc.** (the "Company", "Top Frontier" or the "Parent Company") will be held at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila** on **July 09, 2019 (Tuesday)** at **2:00 p.m.** The complete mailing address of the principal office of the Company is **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City, Metro Manila**.

This Information Statement and the form of proxy are first to be sent to the stockholders approximately on **June 1, 2019**.

Revocability of Proxies

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

Dissenters' Right of Appraisal

Under Title X of the Revised Corporation Code of the Philippines (the "Revised Corporation Code"), stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the date prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action, namely: (i) any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code; (iii) merger or consolidation; and (iv) investment of corporate funds in another corporation or business or for any other purpose other than the primary purpose for which the corporation was organized, as provided under Section 80 of the Revised Corporation Code.

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under the aforementioned pertinent provisions of Revised Corporation Code.

SOLICITATION INFORMATION

Person Making the Solicitation

This solicitation is being made by the Company.

Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation of approximately P1,000,000.00 will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon

No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or

indirect, by security holdings or otherwise in any matter to be acted upon in the meeting, other than their election to office.

None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of April 30, 2019, the Company has the following outstanding shares:

Title of Class	No. of Shares Outstanding
Common Shares	332,886,167
Preferred Shares	1,904,540
Total	334,790,707

As of April 30, 2019, the following is the breakdown of the foreign and Filipino ownership of the shares of stock of the Company:

Share Class	Number of Foreign-owned Shares	% of Foreign Ownership	Number of Filipino-owned Shares	% of Filipino Ownership	Total Shares Outstanding
Common	52,946,476	15.91%	279,939,691	84.09%	332,886,167
Preferred	-	-	1,904,540	100%	1,904,540
	52,946,476	**15.81%**	**281,844,231**	**84.19%**	**334,790,707**

The record date with respect to this solicitation is **May 24, 2019**. Only stockholders of record at the close of business on **May 24, 2019** will be entitled to vote at the meeting.

Holders of common shares have the right to vote on all matters requiring stockholders' approval.

Holders of the preferred shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code, namely: 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.

Every stockholder entitled to vote shall be entitled to one (1) vote, in person or by proxy, for each share of stock registered in his name in the books of the Company.

With respect to the election of directors, in accordance with Section 23 of the Revised Corporation Code, a stockholder may vote the number of common shares held in his name in the Company's stock books as of **May 25, 2018**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder for the election of directors of the Company is computed as follows: **number of common shares held on record as of record date multiplied by seven (7) directors**.

The deadline for submission of proxies is on **June 25, 2019**. Validation of proxies will be on **July 02, 2019** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.

Beneficial owners of more than five percent (5%) of the Company's voting securities (both common and preferred shares) as of April 30, 2019 are as follows:

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares	% out of Total Outstanding Common Shares
Common	Iñigo U. Zobel (Chairman of the Board) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Iñigo U. Zobel	Filipino	199,601,417	59.62%	59.96%
	Aurora T. Calderon (Director and Treasurer) No. 40 San Miguel Ave., Mandaluyong City	Nominee-director of Mr. Zobel in the Board	Filipino	100		
	Patrick T. Lugue (Former Director) 5th Floor, ENZO Bldg., No. 399 Sen. Gil J. Puyat Ave., Makati City	Nominee of Mr. Zobel	Filipino	100		
				Total: 199,601,617		

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% out of the Total Outstanding Shares	% out of Total Outstanding Common Shares
Common	Master Year Limited Scotia Centre, 4/F P.O. Box 2804, George Town Grand Cayman KYI-1112, Cayman Islands Ramon S. Ang (President and CEO) No. 40 San Miguel Ave., Mandaluyong City Ferdinand K. Constantino (Director) No. 40 San Miguel Ave., Mandaluyong City	Master Year Limited ("MYL") Sole director / shareholder of MYL and Nominee-director of MYL in the Board Nominee-director of MYL in the Board	Caymanian Filipino Filipino	49,799,800 100 100 Total: 49,800,000	14.87 %	14.96%
Common	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Ext., Makati City	Privado Holdings, Corp. (100% owned by Mr. Ramon S. Ang)	Filipino	36,814,051 44,500 [in PCD Nominee Corporation (Filipino)] Total: 36,858,551	11.00%	11.07%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals / entities	Filipino	25,617,650 [inclusive of the 44,500 shares of Privado Holdings, Corp.]	7.65%	7.70%

As regards security ownership of management, the table below sets out the details of the voting securities in the name of the directors, executive officers, and nominees for election as directors, of the Company as of May 10, 2019:

	Name of Record Owner	**Position**	**Name of Beneficial Owner and Relationship with Record Owner**	**Citizenship**	**Total No. of Shares**	**% of Total Outstanding Shares**	**% of Total Outstanding Common Shares**
Common	Iñigo U. Zobel	Chairman of the Board	Iñigo U. Zobel	Filipino	199,601,417	59.62%	59.96%
Common	Aurora T. Calderon	Director and Treasurer	Iñigo U. Zobel; Nominee-director	Filipino	100	0%	0%
			Aurora T. Calderon	Filipino	2,260	0%	0%
Common	Ramon S. Ang	President and CEO	MYL; Nominee-director	MYL - Caymanian	100	0%	0%
			Ramon S. Ang	Filipino	75,787	0.02%	0.02%
Common	Ferdinand K. Constantino	Director	MYL; Nominee-director	MYL - Caymanian	100	0%	0%
			Ferdinand K. Constantino	Filipino	14,750	0%	0%
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	100	0%	0%
Common	Minita V. Chico-Nazario	Independent Director	Minita V. Chico-Nazario	Filipino	100	0%	0%
Common	Teresita J. Leonardo-De Castro	Nominated for election - Independent Director	Teresita J. Leonardo-De Castro	Filipino	100	0%	0%
Common	Bella O. Navarra	Chief Finance Officer	Bella O. Navarra	Filipino	10,260	0%	0%
Common	Virgilio S. Jacinto	Corporate Secretary and Compliance Officer	Virgilio S. Jacinto	Filipino	2,562	0%	0%
Common	Maria Rosario B. Balanza	Investment Relations Officer and Data Protection Officer	Maria Rosario B. Balanza	Filipino	1,307	0%	0%
Common	Irene M. Cipriano	Assistant Corporate Secretary	Irene M. Cipriano	Filipino	1,000	0%	0%

The aggregate number of shares owned of record by the directors and key officers of the Company as a group as of May 10, 2019 is 199,709,943 common shares, which is approximately 59.65% of the total outstanding shares of the Company.

Voting Trust

None of the stockholders holding more than five percent (5%) of the voting securities of the Company are under a voting trust or similar agreement.

Changes in Control

The Company is not aware of any change of control or arrangements that may result in a change in control of the Company.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The overall management and supervision of Top Frontier is undertaken by the Board of Directors. The Board is composed of seven (7) members of the Board. Pursuant to Section 2, Article III of the Company's By-laws, the directors are elected at each regular stockholders' meeting by stockholders entitled to vote. The term of a director is one (1) year from date of election and until their successors are elected and qualified.

The incumbent members of the Board of Directors of Company, all of whom are nominees for re-election as directors in the meeting, are as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	62	Filipino	Chairman	2008
Ramon S. Ang	65	Filipino	Director	2010
Ferdinand K. Constantino	67	Filipino	Director	2010
Aurora T. Calderon	64	Filipino	Director	2013
Consuelo M. Ynares-Santiago	79	Filipino	Independent Director	2013
Minita V. Chico-Nazario	79	Filipino	Independent Director	2014

A third Independent Director shall be elected at the Annual Stockholders' Meeting and Justice Teresita J. Leornardo-De Castro (70 years old, Filipino) has been nominated for the aforesaid position. Her profile and qualification as Independent Director are set out in this Information Statement.

The following are the incumbent executive officers of Company:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	62	Filipino	Chairman of the Board	2008
Ramon S. Ang	65	Filipino	President and Chief Executive Officer	2013
Aurora T. Calderon	64	Filipino	Treasurer	2010
Bella O. Navarra	58	Filipino	Chief Finance Officer	2013
Virgilio S. Jacinto	62	Filipino	Corporate Secretary and Compliance Officer	2010 2013
Maria Rosario B. Balanza	56	Filipino	Investment Relations Officer and Data Protection Officer	2014 2017
Irene M. Cipriano	44	Filipino	Assistant Corporate Secretary	2013
Ramon R. Bantigue	57	Filipino	Internal Audit Group Head	2017

The following is the brief description of the academic qualifications and business and professional experience of each of the incumbent directors, the nominees for election to the Board, and executive officers of the Company over the past five (5) years.

Iñigo U. Zobel

Mr. Zobel is the Chairman of Top Frontier (since 2008). He is also the Chairman and President of E. Zobel, Inc. (since 1983), IZ Investment Holdings, Inc. (since 2013) and Zygnet Prime Holdings Inc. (since 2015); Director of San Miguel Corporation (since 2009); Chairman (2015-2016), Vice Chairman (since 2016) and President (2015-2017) of Manila North Harbour Port, Inc.; and a Director of E. Zobel Foundation, Inc., Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly an Independent Director of San Miguel Corporation (1999-2009), San Miguel Brewery Inc. (2007-2010), San Miguel Pure Foods Company, Inc. (2006-2009), San Miguel Properties, Inc. (2009-2010), and Ginebra San Miguel, Inc. (2004-2010); President and Chief Operating Officer of Air Philippines Corporation (2012-2014); and Director of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014). He attended Santa Barbara College, California, U.S.A.

Ramon S. Ang

Mr. Ang is the Director (since 2010) and President and Chief Executive Officer (since 2013) of Top Frontier. He was a member of the Corporate Governance Committee, and the Chairman of the Executive Compensation Committee of Top Frontier (2013-2017). Mr. Ang is the Vice Chairman (since 1999), President and Chief Operating Officer of San Miguel Corporation (since 2002); Chairman and Chief Executive Officer (since 2010) and President and Chief Operating Officer (since 2017) of SMC Global Power Holdings Corp., Chairman of San Miguel Brewery Inc. (since 2007), San Miguel Brewery Hong Kong Limited (since 2005), Sea Refinery Corporation (since 2011), San Miguel Foods, Inc. (since 2006), San Miguel Yamamura Packaging Corporation (since 2006), Anchor Insurance Brokerage Corporation (since 2001), Clariden Holdings, Inc. (since 2012) and Manila North Harbour Port, Inc. (since 2016); Vice Chairman (since 2010), Director (since 2000) and President (since 2017) of Ginebra San Miguel, Inc.; Vice Chairman (since 2011), Director (since 2001) and President and Chief Executive Officer (since 2018) of San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.); President and Chief Executive Officer of Petron Corporation (since 2015), and Integrated Geo Solutions, Inc. (since 2009); President and Chief Executive Officer of Northern Cement Corporation(since 2012); Chairman (since 2002) and President (since 2010) of San Miguel Properties, Inc.; Chairman, President and Chief Executive Officer of Far East Cement Corporation (since 2016); Chairman and President of San Miguel Holdings Corp. (since 2010) and San Miguel Equity Investments Inc. (since 2011); and Chairman of Philippine Diamond Hotel & Resort, Inc. (since 2004). He is also the sole director and shareholder of Master Year Limited (since 2012) and the Chairman of Privado Holdings, Corp (since 2010). He was formerly the Chairman of Liberty Telecoms Holdings Inc. (2008-2016); President and Chief Operating Officer of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014); Vice Chairman and Director of Manila Electric Company (2009-2014); and Director of Air Philippines Corporation (2012-2014). Mr. Ang holds directorships in various subsidiaries of San Miguel Corporation. He holds a degree in B.S. Mechanical Engineering from the Far Eastern University.

Ferdinand K. Constantino

Mr. Constantino is a Director of Top Frontier (since 2010). He is a member of the Audit and Risk Oversight Committee, Related Party Transaction Committee (since 2017), and Corporate Governance Committee (since 2013). He was the Chairman of the Nomination and Hearing Committee and a member of the Audit Committee (2013-2017). He is also the Senior Vice President, Chief Finance Officer and Treasurer (since 2001) and Director (2010-2018) of San Miguel Corporation; President of Anchor Insurance Brokerage Corporation (since 2002); Vice Chairman of SMC Global Power Holdings Corp. (since 2011); a Director and Treasurer of San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.) (since 2018), Director of San Miguel Brewery Inc. (since 2007),

San Miguel Yamamura Packaging Corporation (since 2002), SMC Stock Transfer Service Corporation (since 1993 and Chairman since (2010), San Miguel Holdings Corp. (since 2001), and Clariden Holdings, Inc. (since 2012); and a Director and Treasurer of San Miguel Equity Investments, Inc. (since 2011). Mr. Constantino previously served as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009), San Miguel Properties, Inc. (2001-2009), Bank of Commerce (2008-2010), Ginebra San Miguel, Inc. (2008-2010 and 2012-2015), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014); and Chief Finance Officer of Manila Electric Company (2009). He holds directorships in various subsidiaries of San Miguel Corporation. He holds a degree in A.B. Economics from the University of the Philippines and completed academic requirements for an M.A. Economics degree.

Aurora T. Calderon

Ms. Calderon is a Director of Top Frontier (since 2013), the Treasurer (since 2010) and a member of the Audit and Risk Oversight Committee, and Related Party Transaction Committee (since 2017). She was a member of the Audit Committee and Executive Compensation Committee (2013-2017). She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation (since 2011); a Director of San Miguel Corporation (since 2014), Petron Corporation (since 2010), Petron Marketing Corporation (since 2010), Petron Freeport Corporation (since 2010), Sea Refinery Corporation (since 2010), New Ventures Realty Corporation (since 2010), Las Lucas Construction and Development Corp. (since 2010), Thai San Miguel Liquor Co. (since 2008), SMC Global Power Holdings Corp. (since 2010), San Miguel Equity Investments Inc. (since 2011), and Clariden Holdings, Inc. (since 2012). She was previously a consultant of San Miguel Corporation reporting directly to the President and Chief Operating Officer (1998-2010) and formerly a Director of Manila Electric Company (2009), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014) and Air Philippines Corporation (2012-2014). Ms. Calderon holds directorships in various subsidiaries of San Miguel Corporation. She graduated magna cum laude from the University of the East with a degree in B.S. Business Administration, Major in Accountancy. Ms. Calderon is a Certified Public Accountant.

Consuelo M. Ynares-Santiago

Justice Santiago is an Independent Director of Top Frontier (since 2013), the Chairperson of the Corporate Governance Committee (since 2013) and of the Related Party Transaction Committee (since 2017), and a member of the Audit and Risk Oversight Committee (since 2017). She was a member of the Audit Committee and the Executive Compensation Committee (2013-2017). She is also an Independent Director of SMC Global Power Holdings Corp. (since 2011), Anchor Insurance Brokerage Corporation (since 2012), South Luzon Tollway Corporation (since 2015) and Phoenix Petroleum Phil. Inc. (since 2013). She was formerly an Associate Justice of the Supreme Court (1999-2009), an Associate Justice of the Court of Appeals (1990-1999), and a Regional Trial Court Judge of Makati City (1986-1990). Justice Santiago obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

Minita V. Chico-Nazario

Justice Nazario is an Independent Director of Top Frontier (since 2014), the Chairperson of the Audit and Risk Oversight Committee (since 2017), a member of the Related Party Transaction Committee (since 2017) and Corporate Governance Committee (since 2017), and the Lead Independent Director (since 2018). She was the Chairperson of the Audit Committee and a member of the Nomination and Hearing Committee (2014-2017). She is also an Independent Director of San Miguel Properties, Inc. (since 2012), Ginebra San Miguel Inc. (since 2012) and San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.) (since 2015). She is also currently the Dean of the College of Law of the University of Perpetual Help System DALTA in Las Pinas City (since 2011), Chairperson of Philippine Grain International Corp (since 2010), a Director of Mariveles Grains Corp. (since 2012), and a Legal Consultant of the United Coconut Planters Bank (since 2014). Justice Nazario is formerly an Associate Justice of the Supreme Court (2004-2009), the Presiding Justice of the Sandiganbayan

(2003-2004) and the Chairman of the Board (2010) and Director (2010-2011) of the PNOC Exploration Corporation. Justice Nazario obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

Teresita J. Leonardo-De Castro

Justice De Castro has been nominated for election as an Independent Director of Top Frontier at the Annual Stockholders' Meeting. Justice De Castro served as Chief Justice of the Supreme Court of the Philippines (2018), Associate Justice of the Supreme Court of the Philippines (2007-2008), Presiding Justice of the Sandiganbayan (2004-2007), and Associate Justice of the Sandiganbayan (1997-2004). Justice De Castro obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

Bella O. Navarra

Ms. Navarra is the Chief Finance Officer of Top Frontier (since 2013) and the Vice President, Comptrollership of San Miguel Corporation (since 2000). She is a Director and the Treasurer of Clariden Holdings, Inc. (since 2012) and various subsidiaries of San Miguel Corporation; and a Director of San Miguel Holdings Corp. (since 2007), San Miguel Equity Investments Inc. (since 2011), and SMC Stock Transfer Service Corporation (since 2001). She holds directorships in various subsidiaries of San Miguel Corporation. She is a Certified Public Accountant and holds a degree in B.S. in Business Administration, Major in Accounting from the University of the East.

Virgilio S. Jacinto

Atty. Jacinto is the Corporate Secretary of Top Frontier (since 2010), Compliance Officer (since 2013) and a member of the Corporate Governance Committee (since 2013). He is the Corporate Secretary, Senior Vice-President, General Counsel and Compliance Officer of San Miguel Corporation (since 2010). He is also the Corporate Secretary and Compliance Officer of Ginebra San Miguel, Inc. and a Director of Petron Corporation (since 2010); President of SMC Stock Transfer Service Corporation (since 2011); a Director and Corporate Secretary of SMC Global Power Holdings Corp. (since 2010); and Corporate Secretary of San Miguel Holdings Corp. (since 2010) and various subsidiaries of San Miguel Corporation. He is also an Associate Professor at the University of the Philippines, College of Law (since 1993). Atty. Jacinto was formerly the Vice President and First Deputy General Counsel of San Miguel Corporation (2006-2010). He holds directorships in various subsidiaries of San Miguel Corporation. He is an Associate professor at the University of the Philippines, College of Law. Atty. Jacinto is the class salutatorian and graduated cum laude from the College of Law of the University of the Philippines, and placed 6th in the 1981 Bar Examinations. He also holds a Master of Laws degree from the Harvard Law School.

Irene M. Cipriano

Atty. Cipriano is the Assistant Corporate Secretary of Top Frontier (since 2013) and an Assistant Vice President and Associate General Counsel of San Miguel Corporation. She is also the Corporate Secretary of San Miguel Equity Investments Inc. (since 2011), the Assistant Corporate Secretary of SMC Global Power Holdings Corp. (since 2010), and of various subsidiaries of San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014). She is a Certified Public Accountant and holds a degree in B.S. Accountancy from De La Salle University. Atty. Cipriano holds a degree in Bachelor of Laws from the San Beda College of Law.

Maria Rosario B. Balanza

Ms. Balanza is the Investment Relations Officer of Top Frontier (since 2014) and serves as its Data Protection Officer (since 2017). She is also the Assistant Vice President for the Planning and Research Services Department, Corporate Finance of San Miguel Corporation (since 2007). She was formerly the

Assistant Vice President for Research and Information Management, Corporate Planning of San Miguel Corporation (2004–2007). Ms. Balanza holds a degree in A.B. Economics from the University of the Philippines and has completed the Post Graduate Program in Development Economics from the University of the Philippines. She obtained her Master of Management from the Australian National University.

Ramon R. Bantigue

Mr. Bantigue is the Internal Audit Group Head of Top Frontier (since 2017). He is also a Vice President and Head of the San Miguel Corporation Group Audit (since 2007). Mr. Bantigue is Certified Internal Auditor. He is Certified Public Accountant and holds a degree in Bachelor of Commerce, Major in Accountancy from the University of Sto. Tomas. Mr. Bantigue completed the Management Development Program at the Asian Institute of Management.

Term of Office

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

The nominees for election to the Board of Directors on July 09, 2019 are as follows:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Consuelo M. Ynares-Santiago – Independent Director
6. Minita V. Chico-Nazario – Independent Director
7. Teresita J. Leonardo-De Castro – Independent Director

Independent Directors

The incumbent independent directors of the Company are Consuelo M. Ynares-Santiago and Minita V. Chico-Nazario.

The nominees for election as independent directors of the Board of Directors on July 09, 2019 are as follows:

Nominee for Independent Director (a)	**Person/Group recommending nomination (b)**	**Relation of (a) and (b)**
Consuelo M. Ynares-Santiago	Iñigo U. Zobel	None
Minita V. Chico-Nazario	Iñigo U. Zobel	None
Teresita J. Leornardo-De Castro	Iñigo U. Zobel	None

The above-named nominees for independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code ("SRC"). The Certifications of the Independent Directors of the Company are attached hereto as **Annexes "A-1", "A-2"**, and **"A-3"**, respectively, in accordance with SEC Memorandum Circular No. 5, Series of 2017.

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

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

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

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least one hundred (100) common shares registered in his name may be elected director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors. Additional qualifications required for regular and independent directors are set out in the Amended Manual on Corporate Governance of the Company.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws and the pertinent provisions of the Amended Manual on Corporate Governance of the Company, as determined and evaluated by the Corporate Governance Committee and reported to the Board of Directors during their respective meetings held on May 09, 2019.

Significant Employees

While all employees are expected to make a significant contribution to Top Frontier, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of Top Frontier on his own.

Family Relationship

There are no family relationships up to the fourth civil degree either of consanguinity or affinity among any of the directors and executive officers.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Company have been the subject of any (a) bankruptcy petition, (b) conviction by final judgment in a criminal proceeding, domestic or foreign, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, which is not subsequently reversed, suspended or vacated, or (d) judgment of violation of a securities or commodities law or regulation by a domestic or foreign court of competent jurisdiction (in a civil action), the Securities and Exchange Commission ("SEC") or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, which has not been reversed, suspended or vacated, for the past five (5) years up to the latest date that is material to the evaluation of his ability or integrity to hold the relevant position in the Company.

Certain Relationships and Related Transactions

See Note 33, Related Party Disclosures, of the Notes to the 2018 Audited Consolidated Financial Statements of the Company, hereto attached as **Annex "B-1"**.

No director is engaged in any self-dealing or related party transaction with the Company.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Compensation

The Board may provide, in its discretion, an allowance or per diem to each member of the Board during each regular meeting of the Board, provided that the said director participates in the said meeting. Pursuant thereto, Top Frontier provides each director, who are not officers of SMC, with reasonable per diem of P20,000 and P10,000 for each Board and Committee meeting attended, respectively. Additionally, the By-Laws of Top Frontier provides that as compensation of the directors, the Board at its discretion shall receive and allocate yearly an amount of not more than 10% of the net income before income tax of Top Frontier during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

The By-Laws of Top Frontier further provides that the officers shall receive such remuneration as the Board may determine. A director shall not be precluded from serving Top Frontier in any other capacity as an officer, agent or otherwise, and receiving compensation therefor.

Compensation to executive officers currently comprising of the Chairman, the President and Chief Executive Officer, the Treasurer, the Chief Finance Officer, the Corporate Secretary and Compliance Officer, the Assistant Corporate Secretary, the Investment Relations Officer and Data Protection Officer, and the Internal Audit Group Head amounted to nil for the years ended 2018, 2017, and 2016.

There were no other compensation paid to the directors for the periods indicated.

Employment Contract between the Company and Executive Officers

There are no special employment contracts between Top Frontier and its named executive officers.

Warrants and Options Held by the Executive Officers and Directors

As of December 31, 2018, none of the directors and executive officers of Top Frontier hold any warrants or options in Top Frontier.

Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of the directors and executive officers of Top Frontier were compensated, or is to be compensated, directly or indirectly since the incorporation of Top Frontier on March 11, 2008.

INDEPENDENT PUBLIC ACCOUNTANTS

The accounting firm of R.G. Manabat & Co. served as the Company’s external auditors for the last ten fiscal years. The Board of Directors will again nominate R.G. Manabat & Co. as the Company’s external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the Annual Stockholders' Meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. R.G. Manabat & Co. (then known as Manabat Sanagustin & Co., CPAs) has been the Company’s external auditors since 2009. In 2014, R.G. Manabat & Co. changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of the engagement of R.G. Manabat & Co.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

Top Frontier Investment Holdings, Inc. (the "Company", "Top Frontier" or the "Parent Company") is a Philippine corporation organized on March 11, 2008 as a holding company. Top Frontier is the largest shareholder of San Miguel Corporation ("SMC") in which it holds 1,573,100,340 common shares, or 65.99% of SMC's total outstanding common stock, as of December 31, 2018. On August 30, 2013, Top Frontier acquired 100% of the outstanding common stock of Clariden Holdings, Inc. ("Clariden"), a holding company with interests in exploration, mining and development. Other than its ownership in SMC and Clariden, the Parent Company has no other operations as of December 31, 2018.

SAN MIGUEL CORPORATION

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

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

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

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

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

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

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

Core Businesses

Food and Beverage

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

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

Beer and NAB Segment

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

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

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

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

San Miguel Brewing International Limited and its subsidiaries ("SMBIL") also offers the *San Miguel Pale Pilsen* and *San Mig Light* brands in Hong Kong, China, Thailand, Vietnam, Indonesia and most export markets, *Red Horse* in Thailand, China, Hong Kong, Vietnam and selected export markets, and *Cerveza Negra* in Hong Kong, China, Vietnam, Indonesia, United States, Thailand, South Korea and Taiwan, in addition to locally available brands: *Valor* (Hong Kong), *Blue Ice* (Hong Kong), *Dragon* and *Guang's* (South China), *Blue Star* (North China), *W1N Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

Spirits Segment

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

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

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

Food Segment

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

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

The key operating subsidiaries, products, brands and services for each of the primary businesses of the Food Segment are as follows:

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

Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods*, *Purefoods Tender*

Juicy, *Star*, *Higante*, *Purefoods Beefies*, *Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods*, *Star* and *Ulam King* brands.

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

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

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

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

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

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

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

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

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

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

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

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

Packaging

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Real Estate

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

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

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

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

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

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

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

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

New Businesses

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation ("Petron"), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in

the Philippines. Petron participates in the reseller (service station), industrial, lube and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

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

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

Energy

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

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

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

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

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

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

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

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

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

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

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

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

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

to as “SMCGP Transpower”), and SMCGP Philippines Inc. (formerly, AES Philippines Inc. and hereinafter referred to as “SPHI”). SMCGP Transpower was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while SPHI was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

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

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

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

SMC Global, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc., Daguma Agro Minerals, Inc. and Sultan Energy Phils. Corp., has acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao, which may provide a source of coal fuel supply for its planned and contemplated greenfield power projects. Such assets are in the preparatory stage and no results as to their actual viabilities were available as of December 31, 2018. The mines of SMC Global are envisioned to provide fuel for the two new greenfield projects under construction.

Infrastructure

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

SLEX / Skyway Stage 1 and 2

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

- 80.0% stake in South Luzon Tollway Corporation (“SLTC”), through MTD Manila Expressways, Inc. (“MTDME”), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to operate the 36.1 km SLEX, one of the three major expressways that link Metro Manila to Southern Luzon, and SLEX TR4, extending SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province by 56.862 km; and

- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation (“CMMTC”), through Atlantic Aurum Investments Philippines Corporation (“AAIPC”), a wholly-owned subsidiary of

AAIBV. CMMTC holds a 30-year concession rights to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

STAR Tollway

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

TPLEX

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

NAIAx

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

Skyway Stage 3

On February 28, 2014, SMHC, through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. ("S3HC"), which holds an 80% ownership interest in Citra Central Expressway Corp. ("CCEC"). CCEC holds a 30-year concession to construct, operate and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

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

Skyway Stage 4

Skyway Stage 4 is a proposed 34.81-km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 will serve as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project has a concession period of 30 years (from start of operations), with a target completion date by end of 2022. To date, construction has not yet started.

Boracay Airport

SMC, through the 99.92% interest of SMHC in Trans Aire Development Holdings Corp. ("TADHC"), is undertaking the expansion of Boracay Airport under a 25-year Contract-Add-Operate-

and-Transfer concession granted by the Republic of the Philippines (“ROP”), through the Department of Transportation and Communications (now the Department of Transportation).

MRT-7

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

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

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

MNHPI

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

Bulacan Bulk Water Supply Project

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

Banking

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

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

CLARIDEN HOLDINGS, INC.

Clariden is a holding company incorporated in July 2009. It was acquired by the Parent Company as a wholly owned subsidiary in August 2013.

Clariden holds mining tenements in various areas in the Philippines. These mining tenements, owned by Clariden's various subsidiaries, include Mineral Production Sharing Agreements ("MPSAs") for the Nonoc Nickel Project and Mt. Cadig Nickel Project, Exploration Permits ("Eps") for certain areas under the Bango Gold Project, and pending Application for Production Sharing Agreement ("APSA") and pending Exploration Permit Applications ("ExPAs") for other areas of the Bango Gold Project.

Clariden has a diverse portfolio of high quality mineral properties with high earnings potential that are located in mineral producing districts in the Philippines, as follows:

Nonoc Nickel Project [MPSA No. 072-97-XIII (SMR)]

Clariden, through its indirect beneficial ownership in Philnico Industrial Corporation ("PIC"), Pacific Nickel Philippines, Inc. ("PNPI"), and Philnico Processing Corp. ("PPC"), was granted a contract area of approximately 23,877 hectares located in the islands of Nonoc, Hanigad, and Awasan, Surigao City; and Basilisa and Cagdianao, Dinagat Island Province. The project was granted the fifth renewal of the two-year exploration period by the Mines and Geosciences Bureau last February 10, 2017 covering the period of February 25, 2017 to February 24, 2019 subject to the full implementation of the approved Exploration Work Program and Environmental Work Program, as well as the filing of Declaration of Mining Project Feasibility ("DMPF"). On February 7, 2019, PNPI filed the request for the renewal of the MPSA's exploration period with the MGB. The request is anchored on (1) the need to complete various technical studies; (2) the need to settle the PIC vs PMO case; and (3) PNPI's satisfactory compliance to the terms and conditions of the fifth renewal of the MPSA's exploration period.

Mt. Cadig Nickel Project (MPSA No. 346-2010-IVA)

Clariden, through V.I.L. Mines, Incorporated ("VMI", a wholly-owned subsidiary of Clariden) has the exclusive right to conduct exploration, development and utilization activities for nickel within its 11,126.3576-hectare contract area located in Tagkawayan, Quezon and Labo and Sta. Elena, Camarines Norte pursuant to its MPSA granted on June 25, 2010. In view of the peace and order situation in the contract area, VMI filed with the DENR-MGB a request for suspension of obligations pursuant to the MPSA due to *force majeure*. The request was granted by the Mines and Geosiences Bureau last August 24, 2017 and will be valid for two years or up to August 23, 2019. VMI continues to maintain its good relationship with its host community.

Bango Gold Project (Exploration Permit Nos. 000001-2011-XI and 000002-2011-XI)

Clariden, through Prima Lumina Gold Mining Corp. ("PLGMC"), is the assignee of the two EPs covering certain areas of Compostela Valley and Davao Oriental. These EPs allow PLGMC to conduct exploration activities for gold to determine its existence, extent, quantity and quality. In July 2016, Prima Lumina filed with the MGB a request for extension of its two-year exploration period under the MPSA and is currently awaiting approval. PLGMC continues to implement community development activities for its host communities.

North Davao Project

In 2009, Asia-Alliance Mining Resources Corp. won the bid conducted by the Philippine Mining Development Corporation ("PMDC") to undertake the exploration, development, and utilization of North Davao Mining Property's gold and copper deposits under a Joint Operation Agreement ("JOA") to be executed between the parties.

Dinagat Nickel-Chromite Project

On January 24, 2006, PPC and the PMDC entered into a JOA designating PPC as the project contractor exclusively authorized to explore, develop, and commercially utilize the nickel deposit within a 3,600 hectare area in the municipalities of Cagdianao and Basilisa in Dinagat Island, Surigao del Norte,

adjacent to MPSA No. 072-97-XII (SMR). The JOA was assigned by PPC to PNPI in June 2007. Additional exploration is required to increase the current resources in the area. Discussions between PNPI and PMDC to renegotiate the sharing scheme under the JOA will be re-stated in view of changes in PDMC's Management.

Financial Statements

The following financial statements of the Company, namely:

1. the Audited Consolidated Financial Statements of the Company and its subsidiaries as of December 31, 2018, including the Company's Statement of Management's Responsibility, Notes to the 2018 Audited Consolidated Financial Statements of the Company, and the Report of Independent Auditors on Supplementary Information together with the Supplementary Information mentioned therein, are collectively attached hereto as **Annex "B-1"**; and

2. the Unaudited Consolidated Financial Statements of the Company and its subsidiaries as of and for the period ended March 31, 2019 (with comparative figures as of December 31, 2018 and for the period ended March 31, 2018), comprising of the Interim Unaudited Balance Sheet or Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity, together with the Selected Notes to the Financial Statements, are collectively attached hereto as **Annex "B-2"**.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2018 and March 31, 2019 are attached hereto as **Annexes "C-1"** and **"C-2"**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

Audit and Audit Related Fees

The Company paid the external auditor the amount of P1.8 million in 2018 and 2017, for its audit services rendered in both years. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

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

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

On October 17, 2013, the SMC Board approved the declaration, by way of property dividends, of 240,196,000 common shares of the Company to the SMC common shareholders of record as of November 5, 2013, which dividend declaration was approved by the SEC on November 19, 2013. The Certificate Authorizing Registration was issued by the Bureau of Internal Revenue ("BIR") on December 26, 2013 and the physical distribution of the property dividends commenced on January 2, 2014.

Top Frontier's 490,196,200 common shares, composing the total issued common shares of the Company, were listed by way of introduction in the PSE on January 13, 2014. The percentage of public ownership of the Company as of April 30, 2019 is 11.98%.

The high and low prices of the common shares of Top Frontier for each quarter within the last two (2) fiscal years and for the first quarter of 2019 are as follows:

	2019		**2018**		**2017**	
	Common		**Common**		**Common**	
	High	Low	High	Low	High	Low
1st Quarter	P289.60	P232.00	P288.20	P260.00	P275.00	P260.00
2nd Quarter	-	-	P280.00	P252.00	P310.00	P272.00
3rd Quarter	-	-	P320.00	P251.00	P305.00	P280.00
4th Quarter	-	-	P281.00	P247.00	P302.60	P275.00

The closing price of the Company's common shares as of May 10, 2019, the latest practicable trading date, is P274.80 per share.

The number of shareholders of the Company as of April 30, 2019 is 31,524.

The top twenty (20) stockholders of the Company as of April 30, 2019 are as follows:

Rank	**Name of Stockholders**	**No. of Common Shares**	**No. of Preferred Shares**	**Total No. of Shares**	**% out of Total Outstanding Shares**
1	Iñigo U. Zobel	199,601,417	0	199,601,417	59.6198%
2	Master Year Limited	49,799,800	0	49,799,800	14.8749%
3	Privado Holdings, Corp.	36,814,051	0	36,814,051	10.9961%
4	PCD Nominee Corporation (Filipino)	25,617,650	0	25,617,650	7.6518%
5	San Miguel Corporation	2,561,031	1,904,540	4,465,571	1.3338%
6	PCGG In Trust For The Comprehensive Agrarian Reform Program	2,763,633	0	2,763,633	0.8255%
7	PCD Nominee Corporation (Non- Filipino)	1,906,470	0	1,906,470	0.5694%
8	Millennium Energy, Inc.	1,080,738	0	1,080,738	0.3228%
9	Sysmart Corporation	345,700	0	345,700	0.1033%
10	Marine Shore Investment Holdings, Inc.	258,767	0	258,767	0.0773%
11	Columbus Capitana Corporation	239,233	0	239,233	0.0715%
12	PCD Nominee Corporation	209,003	0	209,003	0.0624%
13	Everett Steamship Corporation	190,333	0	190,333	0.0569%
14	Gingoog Holdings Corporation	183,008	0	183,008	0.0547%
15	El Superior de la Corporacion Filipina de Padres Agustinos Recoletos, Inc.	170,000	0	170,000	0.0508%
16	Eduardo M. Cojuangco, Jr.	127,354	0	127,354	0.0380%
17	Macrina Leyson	114,475	0	114,475	0.0342%
18	Carmel of the Divine Infant Jesus of Prague Inc. A/C No. 2	95,751	0	95,751	0.0286%
19	Pac Rim Realty & Development Corp.	91,205	0	91,205	0.0272%
20	The Roman Catholic Bishop of Tuguegarao	85,663	0	85,663	0.0256%
	TOTAL	322,255,282	1,904,540	324,159,822	96.8246%

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

2018

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 15, 2018	March 15, 2018	March 16, 2018	P279.00
August 9, 2018	August 9, 2018	August 10, 2018	279.00
November 13, 2018	November 13, 2018	November 14, 2018	418.50

2017

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
August 10, 2017	August 10, 2017	August 11, 2017	P418.50
November 10, 2017	November 10, 2017	November 16, 2017	279.00

There were no cash dividends declared and paid by the Parent Company for common shares in 2018 and 2017.

On March 14, 2019, the Board of Directors of the Parent Company declared cash dividends at P279.00 per share to preferred shareholders of record as of March 14, 2019 to be paid on March 15, 2019.

Description of the securities of the Parent Company may be found in Note 24, Equity, of the 2018 Audited Consolidated Financial Statements, attached herein as **Annex "B-1"**.

There were no securities sold by the Parent Company within the past three (3) years which were not registered under the SRC.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. On September 19, 2013, the Board of Directors adopted the Company's Manual of Corporate Governance pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009. On July 31, 2014, the Board approved the adoption of amendments to the Company's Manual of Corporate Governance, incorporating therein, among others, the amendments pursuant to SEC Memorandum Circular 9, Series of 2014. On May 10, 2017, the Board approved to further amend the provisions of the Company's Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016 (the "Amended Manual on Corporate Governance").

In compliance with the provisions of the Amended Manual on Corporate Governance: (i) the members of the Board and officers of the Company have attended corporate governance trainings and seminars for 2018, and (ii) the performance of the Board Committees, the Board of Directors, and Management for 2018 were assessed through self-rating forms approved and accomplished by the Board Committees and the Board of Directors, the results of which have been validated by the Compliance Officer and the Corporate Governance Committee. The details of the foregoing matters, as well as all other disclosures made by the Company pursuant to relevant rules and regulation of the SEC and the PSE are posted in the Company's website www.topfrontier.com.ph.

The Compliance Officer has certified that the Company has substantially adopted all the provisions of its Amended Manual on Corporate Governance. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and

procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company, its stockholders and other stakeholders.

ACTION WITH RESPECT TO REPORTS

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

1. Minutes of the Annual Stockholders' Meeting held on July 10, 2018, with the following items:

    a. Certification of Quorum
    b. Approval of the Minutes of the Annual Stockholders' Meeting held on July 12, 2017
    c. Approval of the Annual Report
    d. Ratification of Acts and Resolutions of the Board of Directors and Corporate Officers
    e. Appointment of External Auditors
    f. Election of the Board of Directors
    g. Other Matters
    h. Adjournment

    A copy of the Minutes of the Annual Stockholders' Meeting held on July 10, 2018 is hereto attached as **Annex "D"**, which contain among others the following matters (with their respective page numbers in the Minutes):
    i. the voting and vote tabulation procedures used during the said meeting (page 2)
    ii. the questions and answers discussed during the open forum (pages 2-3)
    iii. the matters discussed and resolutions reached (pages 2-7)
    iv. the record of voting results for each agenda item (page 8)
    v. the list of directors, officers and stockholders who attended the meeting (page 1)

2. Annual Report of the Company for the year ended December 31, 2018;

3. Ratification of all the acts of the Board of Directors and Officers since the 2018 Annual Stockholders' Meeting which include:

    a. Approval of:
        i. Minutes of Previous Meetings
        ii. Quarterly reports on the financial performance and financial position of the Company
        iii. Declarations of cash dividends to shareholders owning preferred shares
        iv. 2018 Audited Financial Statements of the Company and the Annual Report (SEC Form 17-A);
        v. Self-rating forms of the Board Committees, the Board of Directors and Management
        vi. 2019 Internal Audit Plan
        vii. Record date and other significant dates and details for the 2018 Annual Stockholders Meeting
        viii. Report on the qualifications of the nominees for election to the Board
        ix. Report on the Corporate Governance Committee validation of the results of the performance assessments of the Board Committees, the Board of Directors and Management
        x. Report on the Filing of the 2018 Integrated Annual Corporate Governance Report (I-ACGR) of the Company

    b. Election of officers;
    c. Appointment of the Members of the Board Committees;
    d. Acceptance of the resignation of Atty. Nelly A. Favis-Villafuerte as member of the Board and of the Corporate Governance Committee; and
    e. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits.

The Minutes of the Annual Stockholders' Meeting held on July 10, 2018, as well as the resolutions of the Board of Directors beginning July 10, 2018, will be available for examination during office hours at the Office of the Corporate Secretary.

VOTING PROCEDURES

For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors.

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

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in page 4 of this Information Statement shall be adopted. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors and the Company's stock transfer agent.

UNDERTAKING

The Company will post and make available for download on its website www.topfrontier.com.ph the full version of this 2019 Definitive Information Statement (SEC Form 20-IS), together with all its annexes which includes: (i) the 2018 Audited Consolidated Financial Statements of the Company, and the (ii) 1st Quarter 2019 Unaudited Consolidated Financial Statements of the Company, upon the approval thereof by the Securities and Exchange Commission.

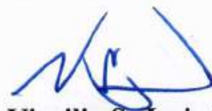
The Company undertakes to provide any requesting stockholder, free of charge, a copy of the 2018 Annual Report (SEC Form 17-A), the 2019 Definitive Information Statement (SEC Form 20-IS), and the 1st Quarter 2019 Unaudited Consolidated Financial Statements (SEC Form 17-Q), upon written request addressed to the Office of the Corporate Secretary and Compliance Officer, 7th Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@sanmiguel.com.ph.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City, Metro Manila on **May 15, 2019**.

TOP FRONTIER INVESTMENT HOLDINGS, INC.

By:



Virgilio S. Jacinto
Corporate Secretary and Compliance Officer

PROXY

I, the undersigned stockholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** (the "Company"), appoint:

The Chairman of the Board of Directors of the Company, or in his absence

The President and Chief Executive Officer of the Company, or in his absence

The Chairman of the July 9, 2019 Annual Meeting of the Stockholders

as my proxy, to represent me at the regular meeting of the stockholders of the Company scheduled for **July 9, 2019** (**Tuesday**) at **2:00 p.m.** at the **Executive Dining Room, 2nd Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines**, and any of its adjournment(s), as fully as I could do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). I direct my proxy to vote shares which I own, or may hereafter own, and such shares as I am authorized to vote in my capacity as Administrator, Executor or Attorney-in Fact, on the agenda items I have indicated with "X" below. **If I fail to indicate my vote on the items specified below, my proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 5.**

PROPOSAL	ACTION		
	FOR ALL	WITHHOLD FOR ALL	EXCEPTION
1. Election of Management's Nominees as Directors			
Management's Nominees for Directors are Iñigo U. Zobel, Ramon S. Ang, Ferdinand K. Constantino, and Aurora T. Calderon. The nominees for Independent Directors are Consuelo M. Ynares-Santiago, Minita V. Chico-Nazario, and Teresita J. Leornardo-De Castro. **INSTRUCTIONS:** *To withhold authority to vote for any individual nominee(s) of Management, please mark Exception box and list the name(s) under.*			
	FOR	AGAINST	ABSTAIN
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 10, 2018			
3. Approval of the Annual Report of the Company for year ended December 31, 2018			
4. Ratification of all the acts and proceedings of the Board of Directors and Officers since the Annual Stockholders' Meeting held on July 10, 2018			
5. Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2019			

Signed this ________ day of ______________ 2019.

_________________________________ PRINTED NAME OF SHAREHOLDER

_________________________________ SIGNATURE OF SHAREHOLDER/ AUTHORIZED SIGNATORY

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

Persons Making the Solicitation. This solicitation is being made by the Company. Solicitation of proxies in the Philippines will be mainly conducted through mail. Proxies will also, however, be solicited in person or through telephone. The cost of solicitation, approximately P1,000,000.00, will be borne by the Company.

Interest of Certain Persons in Matters to be Acted Upon. No director, officer, or nominee for election as director of the Company, or any of their associates, at any time since the beginning of the last fiscal year, has any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office.

Annex "A-1"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CONSUELO M. YNARES-SANTIAGO**, Filipino, of legal age and a resident of No. 4 Queensville cor. Derby Streets, White Plains, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2013 to present.

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

Company/Organization	*Position/Relationship*	*Period of Service*
SMC Global Power Holdings Corp.	Independent Director	2011 to present
Anchor Insurance Brokerage Corporation	Independent Director	2012 to present
South Luzon Tollway Corporation	Independent Director	2015 to present
Phoenix Petroleum Phil. Inc.	Independent Director	2013 to present
National Sandigan Foundation of the Philippines	Legal Consultant	2009 to present
Tahanan Outreach Program Services (TOPS)	Member, Board of Directors	2014 to present
UP Women Lawyers' Circle (WILOCI)	Consultant	2002 to present
Women's Lawyers' Association of the Philippines	Member	1990 to present
Federacion International de Abogadas	Member	1990 to present
Apostleship of Prayer Association	Member	2002 to present
Retired Supreme Court Justices Association of the Philippines	Member	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.

4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.

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

6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).

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

8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 9 May 2019 at Mandaluyong City.

CONSUELO M. YNARES-SANTIAGO
Affiant

SUBSCRIBED AND SWORN to before me this 9 May 2019 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Philippine Passport with No. EC2448352 issued on 17 October 2014 at DFA NCR East.

MA. KRISTINA S. ZAMORA
Commission No. 0513-18
Notary Public for Mandaluyong City
Until Dec. 31, 2019
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 61379
PTR No. 3824024; 01/03/19; Mandaluyong City
IBP Lifetime Member No. 018307; 12/14/17; RSM
MCLE Compliance No. V-0025364; 07/19/17; Pasig City

Doc. No.: 24;
Page No.: 10;
Book No.: III;
Series of 2019.

Annex "A-2"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age and a resident of 299 Gov. A. Santos St., BF Homes, Parañaque City after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2014 to present.

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

Company/Organization	*Position/Relationship*	*Period of Service*
San Miguel Properties, Inc.	Independent Director	2012 to present
Ginebra San Miguel Inc.	Independent Director	2012 to present
San Miguel Food and Beverage, Inc. (*formerly*, San Miguel Pure Foods Company, Inc.)	Independent Director	2015 to present
Tan Acut Lopez & Pison Law Offices	Of Counsel	2016 to present
University of Perpetual Help System DALTA in Las Pinas City	Dean, College of Law	2011 to present
Mariveles Grains Corp.	Member, Board of Directors	2011 to present
Philippine Grains International Corp.	Chairman	2011 to present
United Coconut Planters Bank	Legal Consultant	2014 to present
State of New York Bar	Member	Up to present
Integrated Bar of the Philippines, Manila IV	Member	Up to present
Women Lawyers Association of the Philippines	Member	Up to present
U.P. Women's Club	Member	Up to present
U.P. Women Lawyers' Circle (WILOCI)	Member	Up to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.

4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.

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

6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).

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

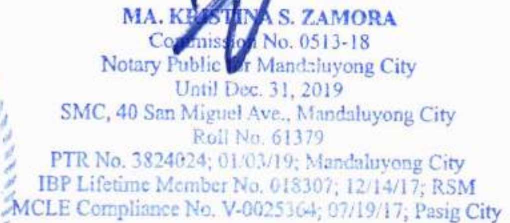
8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 09 May 2019 at Mandaluyong City.

MINITA V. CHICO-NAZARIO
Affiant

SUBSCRIBED AND SWORN to before me this 09 May 2019 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Philippine Passport with No. EC3431212 issued on 11 February 2015 at DFA NCR South.

Doc. No.: 45;
Page No.: 10;
Book No.: III;
Series of 2019.



Annex "B-1"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2018, 2017 and 2016

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of Top Frontier Investment Holdings, Inc. (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.

IÑIGO U. ZOBEL
Chairman of the Board

RAMON S. ANG
President and Chief Executive Officer

BELLA O. NAVARRA
Chief Finance Officer

Signed this 14th day of March 2019

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG) S.S

BEFORE ME, a Notary Public for and in the City of Mandaluyong, Philippines on this MAR 14 2019, personally appeared the following with his identification, to wit:

Name	Passport No.	Date of issue	Place of Issue
Iñigo U. Zobel	P2624337A	April 07, 2017	DFA Manila
Ramon S. Ang	P4589066A	October 02, 2017	DFA Manila
Bella O. Navarra	P1969090A	February 18, 2017	DFA NCR East

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

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

Doc. No.: 391;
Page No.: 80;
Book No.: II;
Series of 2019.

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.

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Top Frontier Investment Holdings, Inc.
5th Floor, ENZO Building
399 Sen. Gil J. Puyat Avenue, Makati City

Opinion

We have audited the consolidated financial statements of Top Frontier Investment Holdings, Inc. 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.

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

PRC-BOA Registration No. 0003, valid until March 15, 2020
SEC Accreditation No. 0004-FR-5, Group A, valid until November 15, 2020
IC Accreditation No. F-2017/010-R, valid until August 26, 2020
BSP - Selected External Auditors, Category A, valid for 3-year audit period (2017 to 2019)

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 (P1,024,915 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 (P120,867 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 (P253,534 million).
Refer to Notes 4, 5 and 17 of the consolidated financial statements.

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

Our response

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

- We evaluated and assessed management's methodology in identifying any potential indicators of impairment.
- We assessed management's determination of the recoverable amounts based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.
- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.
- We performed our own sensitivity analyses on the key assumptions used in the models.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

R.G. MANABAT & CO.

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

March 14, 2019
Makati City, Metro Manila

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.

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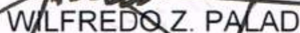
R.G. MANABAT & CO.



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TOP FRONTIER INVESTMENT HOLDINGS, INC. 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*	**P243,545**	P206,556
Trade and other receivables - net	*4, 5, 9, 33, 35, 40, 41*	**125,042**	111,370
Inventories	*4, 5, 10*	**125,145**	102,581
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*	**92,261**	78,435
Total Current Assets		**590,238**	502,364
Noncurrent Assets			
Investments and advances - net	*4, 12*	**50,754**	35,768
Investments in equity and debt instruments	*4, 13, 40, 41*	**6,069**	5,922
Property, plant and equipment - net	*4, 5, 14, 34*	**651,408**	582,566
Investment property - net	*4, 15*	**33,635**	9,048
Biological assets - net of current portion	*4, 16*	**2,844**	2,695
Goodwill	*4, 5, 17, 38*	**120,867**	50,429
Other intangible assets - net	*4, 5, 17*	**253,534**	241,469
Deferred tax assets	*4, 5, 23*	**19,663**	18,866
Other noncurrent assets - net	*4, 5, 18, 33, 34, 35, 40, 41*	**62,180**	47,672
Total Noncurrent Assets		**1,200,954**	994,435
		P1,791,192	P1,496,799
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*5, 19, 30, 33, 38, 40, 41*	**P192,968**	P158,064
Accounts payable and accrued expenses	*4, 5, 20, 33, 34, 35, 40, 41*	**162,435**	149,226
Finance lease liabilities - current portion	*4, 5, 30, 34, 38, 40, 41*	**22,529**	20,010
Income and other taxes payable	*5*	**19,937**	16,669
Dividends payable	*33, 36, 38*	**3,491**	3,878
Current maturities of long-term debt - net of debt issue costs	*5, 21, 30, 33, 38, 40, 41*	**55,872**	37,058
Total Current Liabilities		**457,232**	384,905
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*5, 21, 30, 33, 38, 40, 41*	**561,673**	362,653
Deferred tax liabilities	*5, 23*	**65,297**	62,874
Finance lease liabilities - net of current portion	*4, 5, 30, 34, 38, 40, 41*	**130,010**	148,378
Other noncurrent liabilities	*4, 5, 22, 33, 34, 35, 40, 41*	**39,848**	39,960
Total Noncurrent Liabilities		**796,828**	613,865

Forward

	Note	2018	2017
Equity	*24, 36, 37, 39*		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		**P490**	P490
Capital stock - preferred		**260**	260
Additional paid-in capital		**120,501**	120,501
Convertible perpetual securities		**25,158**	25,158
Equity reserves	*5*	**10,923**	(6,211)
Retained earnings:			
Appropriated		**29,655**	25,742
Unappropriated		**48,583**	46,474
Treasury stock		**(76,780)**	(76,780)
		158,790	135,634
Non-controlling Interests	*2, 5*	**378,342**	362,395
Total Equity		**537,132**	498,029
		P1,791,192	P1,496,799

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Millions, Except Per Share Data)

	Note	**2018**	2017	2016
SALES	*7, 25, 33*	**P1,024,915**	P826,058	P685,303
COST OF SALES	*26, 34*	**827,343**	646,010	515,912
GROSS PROFIT		**197,572**	180,048	169,391
SELLING AND ADMINISTRATIVE EXPENSES	*27, 34*	**(82,908)**	(71,575)	(72,742)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*19, 21, 30, 33, 34*	**(42,766)**	(32,505)	(32,417)
INTEREST INCOME	*31, 33, 35*	**7,211**	4,532	3,695
GAIN ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	*5, 6, 12, 13, 14, 15, 18*	**252**	879	155
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	*12*	**(289)**	297	203
OTHER CHARGES - Net	*32, 40, 41*	**(9,497)**	(1,360)	(14,158)
INCOME BEFORE INCOME TAX		**69,575**	80,316	54,127
INCOME TAX EXPENSE	*23, 42*	**24,715**	27,066	17,240
INCOME FROM CONTINUING OPERATIONS		**44,860**	53,250	36,887
INCOME AFTER INCOME TAX FROM DISCONTINUED OPERATIONS	*6*	**-**	-	12,248
NET INCOME		**P44,860**	P53,250	P49,135
Attributable to:				
Equity holders of the Parent Company		**P7,000**	P12,318	P11,413
Non-controlling interests	5	**37,860**	40,932	37,722
		P44,860	P53,250	P49,135
Basic and Diluted Earnings Per Common Share from Continuing Operations Attributable to Equity Holders of the Parent Company	37	**P16.29**	P32.39	P7.72

See Notes to the Consolidated Financial Statements.

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TOP FRONTIER INVESTMENT HOLDINGS, INC. 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		**P44,860**	P53,250	P49,135
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*	**136**	-	-
Income tax expense		**(2)**	-	-
Share in other comprehensive income (loss) of associates and joint ventures - net	*12*	**2**	44	(18)
		(234)	(1,166)	2,558
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**1,157**	3,731	(652)
Net loss on financial assets at fair value through other comprehensive income	*13*	**(9)**	-	-
Net gain (loss) on available-for-sale financial assets	*13*	**-**	26	(13)
Income tax benefit		**-**	1	1
Net loss on cash flow hedges	*41*	**(280)**	-	-
Income tax benefit		**84**	-	-
		952	3,758	(664)
OTHER COMPREHENSIVE INCOME - Net of tax		**718**	2,592	1,894
TOTAL COMPREHENSIVE INCOME - Net of tax		**P45,578**	P55,842	P51,029
Attributable to:				
Equity holders of the Parent Company		**P6,684**	P12,847	P11,264
Non-controlling interests	*5*	**38,894**	42,995	39,765
		P45,578	P55,842	P51,029

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Millions)

		Equity Attributable to Equity Holders of the Parent Company															
						Equity Reserves											
		Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	Common	Preferred								Appro-priated	Unappro-priated	Common	Preferred	Total		
As of January 1, 2018, As previously reported (Audited)		**P490**	**P260**	**P120,501**	**P25,158**	**(P1,685)**	**P -**	**P1,226**	**(P1,693)**	**(P4,059)**	**P25,742**	**P46,474**	**(P28,457)**	**(P48,323)**	**P135,634**	**P362,395**	**P498,029**
Adjustments due to Philippine Financial Reporting Standards 9 and 15	3	-	-	-	-	-	-	169	-	-	-	(212)	-	-	(43)	49	6
As of January 1, 2018, As adjusted		**P490**	**260**	**120,501**	**25,158**	**(1,685)**	**-**	**P1,395**	**(1,693)**	**(4,059)**	**25,742**	**46,262**	**(28,457)**	**(48,323)**	**135,591**	**362,444**	**498,035**
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	-	38	-	-	-	-	-	38	1,119	1,157
Share in other comprehensive income (loss) of associates and joint ventures - net	12	-	-	-	-	6	-	(35)	14	-	-	-	-	-	(15)	17	2
Net loss on cash flow hedges, net of tax	41	-	-	-	-	-	(114)	-	-	-	-	-	-	-	(114)	(82)	(196)
Net gain on financial assets at fair value through other comprehensive income	13	-	-	-	-	-	-	84	-	-	-	-	-	-	84	41	125
Equity reserve for retirement plan	35	-	-	-	-	(309)	-	-	-	-	-	-	-	-	(309)	(61)	(370)
Other comprehensive income (loss)		-	-	-	-	(303)	(114)	49	52	-	-	-	-	-	(316)	1,034	718
Net income		-	-	-	-	-	-	-	-	-	-	7,000	-	-	7,000	37,860	44,860
Total comprehensive income (loss)		-	-	-	-	(303)	(114)	49	52	-	-	7,000	-	-	6,684	38,894	45,578
Net addition (reduction) to non-controlling interests and others	5, 12	-	-	-	-	89	-	-	(21)	17,213	(863)	97	-	-	16,515	4,123	20,638
Appropriations - net	24	-	-	-	-	-	-	-	-	-	4,776	(4,776)	-	-	-	-	-
Cash dividends and distributions:	36																
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,252)	(11,252)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,812)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,177)	(6,177)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(878)	(878)
As of December 31, 2018	24	**P490**	**P260**	**P120,501**	**P25,158**	**(P1,899)**	**(P114)**	**P1,444**	**(P1,662)**	**P13,154**	**P29,655**	**P48,583**	**(P28,457)**	**(P48,323)**	**P158,790**	**P378,342**	**P537,132**

Forward

		Equity Attributable to Equity Holders of the Parent Company														
						Equity Reserves										
		Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Reserve for Retirement Plan	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock			Non-controlling Interests	Total Equity
	Note	Common	Preferred							Appro-priated	Unappro-Priated	Common	Preferred	Total		
As of January 1, 2017		P490	P260	P120,501	P25,158	(P1,086)	P1,225	(P2,820)	(P4,599)	P19,148	P40,908	(P28,457)	(P48,323)	P122,405	P341,572	P463,977
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	1,090	-	-	-	-	-	1,090	2,641	3,731
Share in other comprehensive income (loss) of associates and joint ventures - net	*12*	-	-	-	-	(3)	(17)	37	-	-	-	-	-	17	27	44
Net gain on available-for-sale financial assets	*13*	-	-	-	-	-	18	-	-	-	-	-	-	18	9	27
Equity reserve for retirement plan	*35*	-	-	-	-	(596)	-	-	-	-	-	-	-	(596)	(614)	(1,210)
Other comprehensive income (loss)		-	-	-	-	(599)	1	1,127	-	-	-	-	-	529	2,063	2,592
Net income		-	-	-	-	-	-	-	-	-	12,318	-	-	12,318	40,932	53,250
Total comprehensive income (loss)		-	-	-	-	(599)	1	1,127	-	-	12,318	-	-	12,847	42,995	55,842
Net addition (reduction) to non-controlling interests and others	*5, 12*	-	-	-	-	-	-	-	540	-	(158)	-	-	382	3,086	3,468
Appropriations - net	*24*	-	-	-	-	-	-	-	-	6,594	(6,594)	-	-	-	-	-
Cash dividends and distributions:	*36*						-									
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	(9,348)	(9,348)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	(8,812)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
As of December 31, 2017	*24*	P490	P260	P120,501	P25,158	(P1,685)	P1,226	(P1,693)	(P4,059)	P25,742	P46,474	(P28,457)	(P48,323)	P135,634	P362,395	P498,029

Forward

	Note	Capital Stock: Common	Capital Stock: Preferred	Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves: Reserve for Retirement Plan	Equity Reserves: Fair Value Reserve	Equity Reserves: Translation Reserve	Equity Reserves: Other Equity Reserve	Retained Earnings: Appro- priated	Retained Earnings: Unappro- priated	Treasury Stock: Common	Treasury Stock: Preferred	Total	Non- controlling Interests	Total Equity
		Equity Attributable to Equity Holders of the Parent Company														
As of January 1, 2016		P490	P260	P120,501	P -	(P2,271)	P1,256	(P1,517)	(P1,184)	P13,874	P36,759	(P28,457)	(P48,323)	P91,388	P297,200	P388,588
Gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	-	-	(1,322)	-	-	-	-	-	(1,322)	670	(652)
Share in other comprehensive income (loss) of associates and joint ventures - net	*12*	-	-	-	-	21	(48)	19	-	-	-	-	-	(8)	(10)	(18)
Net gain (loss) on available-for-sale financial assets	*13*	-	-	-	-	-	17	-	-	-	-	-	-	17	(29)	(12)
Equity reserve for retirement plan	*35*	-	-	-	-	1,164	-	-	-	-	-	-	-	1,164	1,412	2,576
Other comprehensive income (loss)		-	-	-	-	1,185	(31)	(1,303)	-	-	-	-	-	(149)	2,043	1,894
Net income		-	-	-	-	-	-	-	-	-	11,413	-	-	11,413	37,722	49,135
Total comprehensive income (loss)		-	-	-	-	1,185	(31)	(1,303)	-	-	11,413	-	-	11,264	39,765	51,029
Issuance of convertible perpetual securities	*24*	-	-	-	25,158	-	-	-	-	-	-	-	-	25,158	-	25,158
Net addition (reduction) to non-controlling interests and others	*5, 12*	-	-	-	-	-	-	-	(3,415)	-	(1,990)	-	-	(5,405)	28,739	23,334
Appropriations - net	*24*	-	-	-	-	-	-	-	-	5,274	(5,274)	-	-	-	-	-
Cash dividends and distributions:	*36*															
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	(9,086)	(9,086)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	(8,334)	(8,334)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(6,712)	(6,712)
As of December 31, 2016	*24*	P490	P260	P120,501	P25,158	(P1,086)	P1,225	(P2,820)	(P4,599)	P19,148	P40,908	(P28,457)	(P48,323)	P122,405	P341,572	P463,977

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(In Millions)

	Note	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax from continuing operations		**P69,575**	P80,316	P54,127
Income before income tax from discontinued operations	*6*	**-**	-	13,195
Income before income tax		**69,575**	80,316	67,322
Adjustments for:				
Depreciation, amortization and others - net	*6, 28*	**55,129**	37,649	54,486
Interest expense and other financing charges	*6, 30*	**42,766**	32,505	32,423
Equity in net losses (earnings) of associates and joint ventures	*6, 12*	**289**	(297)	(203)
Interest income	*6, 31*	**(7,211)**	(4,532)	(3,709)
Gain on sale of investments and property and equipment	*5, 6, 12, 13, 14, 15, 18*	**(252)**	(879)	(155)
Gain from disposal of discontinued operations	*6*	**-**	-	(14,002)
Operating income before working capital changes		**160,296**	144,762	136,162
Changes in noncash current assets, certain current liabilities and others	*38*	**(40,892)**	(19,365)	(12,143)
Cash generated from operations		**119,404**	125,397	124,019
Interest and other financing charges paid		**(39,008)**	(26,842)	(26,398)
Income taxes paid		**(22,983)**	(20,100)	(19,461)
Net cash flows provided by operating activities		**57,413**	78,455	78,160
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*	**(47,325)**	(38,694)	(40,692)
Increase in other noncurrent assets and others		**(38,993)**	(30,095)	(15,571)
Additions to investments and advances and investment in debt instruments	*12, 13*	**(20,024)**	(2,911)	(8,042)
Interest received		**6,556**	4,269	3,482
Proceeds from sale of investments and property and equipment	*5, 12, 13, 14, 15, 18*	**1,139**	1,930	1,114
Dividends received	*12, 13*	**46**	26	19
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		**(196,658)**	(55,023)	(24,420)

Forward

	Note	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		**P1,032,344**	P881,046	P694,423
Long-term borrowings		**242,405**	203,714	98,130
Payments of:				
Short-term borrowings		**(999,627)**	(920,745)	(645,947)
Long-term borrowings		**(65,591)**	(135,975)	(182,221)
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**	-	-
Increase (decrease) in non-controlling interests and others		**105**	1,880	(5,443)
Redemption of undated subordinated capital securities of a subsidiary	*5*	**(39,769)**	-	-
Cash dividends and distributions paid to non-controlling shareholders		**(27,503)**	(24,820)	(22,135)
Payments of finance lease liabilities		**(25,698)**	(24,924)	(23,907)
Net proceeds from issuance of convertible perpetual securities	*24*	**-**	-	25,158
Proceeds from reissuance of treasury shares of a subsidiary	*24*	**-**	-	29,707
Net cash flows provided by (used in) financing activities		**176,630**	(19,824)	(32,235)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(396)**	(298)	607
NET INCREASE IN CASH AND CASH EQUIVALENTS		**36,989**	3,310	22,112
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*8*	**206,556**	203,246	181,134
CASH AND CASH EQUIVALENTS AT END OF YEAR	*8*	**P243,545**	P206,556	P203,246

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. Reporting Entity

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 2008. On December 18, 2013, The Philippine Stock Exchange, Inc. (PSE) approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

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

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

The registered office address of the Parent Company is 5th Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati 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 Board of Directors (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 Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2018		2017		
San Miguel Corporation (SMC) and subsidiaries, namely:	**65.99**		66.03		Philippines
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 Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2018		2017		Incorporation
Packaging Business:					
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries, SMC Yamamura Fuso Molds Corporation, Can Asia, Inc. (CAI) and Wine Brothers Philippines Corporation (WBPC) [(c)]	**65.00**		65.00		Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited[(a)], Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd., Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, SMYV Pty Ltd, SMYB Pty Ltd (SMYB)[(d)], SMYP Pty Ltd (SMYP)[(e)], Cospak Ltd (New Zealand), SMYBB Pty Ltd (SMYBB)[(f)], SMYJ Pty Ltd (SMYJ) [(g)] and Wine Brothers Australian Pty Ltd}, and San Miguel Yamamura Glass (Vietnam) Limited and subsidiary]	**65.00**		65.00		British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	**100.00**		100.00		Philippines
San Miguel Yamamura Asia Corporation (SMYAC)	**60.00**		60.00		Philippines
Energy Business:					
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI) and subsidiary, SMC Power Generation Corp., PowerOne Ventures Energy Inc. (PVEI), Albay Power and Energy Corp. (APEC), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), Limay Premiere Power Corp. (LPPC), Prime Electric Generation Corporation (PEGC), SMCGP Masin Pte. Ltd., (SMCGP Masin; formerly Masin-AES Pte. Ltd. {MAPL}) and subsidiaries[(h)] including Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Alpha Water and Realty Services Corp. (Alpha Water), SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. {ATPL}) and subsidiary[(h)], and SMCGP Philippines Inc. (formerly AES Philippines, Inc. {API})[(h)]]	**100.00**		100.00		Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of
	2018		2017		Incorporation
Fuel and Oil Business:					
SEA Refinery Corporation and subsidiary; Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor)[(a)], Limay Energen Corporation, New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited, Petron Oil & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (PMRMB) (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited[(a)] and subsidiaries]		**100.00**		100.00	Philippines
Infrastructure Business:					
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC)[(i)] and subsidiaries[(a)] [including Rapid Thoroughfares Inc. and subsidiary, Private Infra Dev Corporation (PIDC), Trans Aire Development Holdings Corp. (TADHC), Optimal Infrastructure Development, Inc., Vertex Tollways Devt. Inc. (Vertex), Universal LRT Corporation (BVI) Limited (ULC BVI), SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc., Terramino Holdings, Inc. and subsidiary, Manila North Harbour Port, Inc. (MNHPI), Luzon Clean Water Development Corporation (LCWDC) and Sleep International (Netherlands) Cooperatief U.A and Wiselink Investment Holdings, Inc. {collectively own Cypress Tree Capital Investments, Inc. and subsidiaries including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}, Atlantic Aurum Investments B.V. (AAIBV) and subsidiaries {including Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, Citra Central Expressway Corp. (CCEC) and Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corporation (SOMCO), MTD Manila Expressways Inc. (MTDME) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC)}]		**100.00**		100.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				
	Parent Company	**Subsidiaries**	Parent Company	Subsidiaries	Country of Incorporation
	2018		2017		
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
Mining Business:					
Clariden Holdings, Inc. (Clariden) and subsidiaries, namely: V.I.L. Mines, Incorporated (VMI), Asia-Alliance Mining Resources Corp.(AAMRC), Prima Lumina Gold Mining Corp. (PLGMC), Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited[(a)] and subsidiaries [including Pacific Nickel Philippines, Inc. (PNPI), Philnico Industrial Corporation (PIC) and Philnico Processing Corp. (PPC) (collectively the Philnico Group)]	**100.00**		100.00		Philippines

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

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

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

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

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

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

Non-controlling interests include the interests not held by the Parent Company in SMC, and 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) and Clariden's subsidiaries: PPC and AAMRC in 2018 and 2017.

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 P40 and P84, 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 and non-controlling interests by P266 and P50, respectively, and increase in fair value reserve by P169 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	P206,556	P206,556
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	111,370	111,549
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	5,590	5,590
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	21,266	21,266

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 P14 and P15, 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	P125,042	P56	P125,098
Inventories	125,145	(4,979)	120,166
Prepaid expenses and other current assets	92,261	(88)	92,173
Deferred tax assets	19,663	(5)	19,658
	P362,111	(P5,016)	P357,095
Current Assets	P590,238	(P5,011)	P585,227
Noncurrent Assets	1,200,954	(5)	1,200,949
Total Assets	P1,791,192	(P5,016)	P1,786,176
Liabilities			
Accounts payable and accrued expenses	P162,435	(P4,894)	P157,541
Deferred tax liabilities	65,297	(28)	65,269
	P227,732	(P4,922)	P222,810
Current Liabilities	P457,232	(P4,894)	P452,338
Noncurrent Liabilities	796,828	(28)	796,800
Total Liabilities	P1,254,060	(P4,922)	P1,249,138
Equity			
Retained earnings	P78,238	(P65)	P78,173
Equity Attributable to Equity Holders of the Parent Company	P158,790	(P65)	P158,725
Non-controlling Interests	378,342	(29)	378,313
Total Equity	P537,132	(P94)	P537,038
Total Liabilities and Equity	P1,791,192	(P5,016)	P1,786,176

	Consolidated Statement of Comprehensive Income		
	As Reported	**Adjustments**	**Amounts Without Adoption of PFRS 15**
Sales	P1,024,915	(P219)	P1,024,696
Cost of Sales	827,343	(150)	827,193
Gross Profit	197,572	(69)	197,503
Selling and Administrative Expenses	(82,908)	3	(82,905)
Other Charges - net	(9,497)	(4)	(9,501)
Income Before Income Tax	69,575	(70)	69,505
Income Tax Expense	24,715	(5)	24,710
Net Income	44,860	(65)	44,795
Total Comprehensive Income - net of tax	P45,578	(P65)	P45,513

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.
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
Mine and mining properties	5 - 30

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.

Convertible Perpetual Securities (CPS)

CPS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.
Incremental costs directly attributable to the issuance of CPS are recognized as a deduction from equity, net of tax. The proceeds received, net of any directly attributable transaction costs, are credited to CPS.

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 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 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 SMC's Long-term Incentive Plan for Stock Options (LTIP) and the Group's Employee Stock Purchase Plan (ESPP), executives and employees of SMC 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 SMC. Such transactions are handled centrally by SMC.

Share-based transactions in which SMC grants option rights to its equity instruments directly to the employees of SMC 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 SMC. 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 SMC'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.

<u>Non-cash Distribution to Equity Holders of the Parent Company and Assets Held for Sale</u>
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.

<u>Discontinued Operations</u>
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 and distribution to holders of CPS, 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 P152,539 and P168,388 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 P192,787 and P197,868 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 P5,253, P5,002 and P2,904 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 P4,637 as of December 31, 2018. The carrying amount of trade receivables amounted to P72,846 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*	**P240,014**
Other current receivables - net (included under "Trade and other receivables - net" account)	*9*	**52,196**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	*18*	**19,221**

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 P14,014 as of December 31, 2017 (Notes 9 and 18).

The carrying amount of trade and other receivables and noncurrent receivables and deposits amounted to P123,975 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 P6,121 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 P2,948 and P2,271 as of December 31, 2018 and 2017, respectively (Note 10).

The carrying amount of inventories amounted to P125,145 and P102,581 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 P663,695 and P594,363 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P268,413 and P231,798 as of December 31, 2018 and 2017, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P33,643 and P9,056 as of December 31, 2018 and 2017, respectively. Accumulated depreciation and amortization of investment property amounted to P11,454 and P1,488 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 P159,017 and P147,078 as of December 31, 2018 and 2017, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P37,637 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 P140,560 and P129,003 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 P120,867 and P50,429 as of December 31, 2018 and 2017, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P94,517 and P94,391 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 Mineral Reserves and Resources. 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.

Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holders and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than

estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revisions once additional information becomes available.

Pursuant to the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves which was adopted by the PSE and SEC and Department of Environment and Natural Resources (DENR) Administrative Order No. 2010-09 (Providing for the Classification and Reporting Standards of Exploration Results, Mineral Resources and Ore Reserves), all mineral resource and mineral/ore reserves report shall be prepared and signed by a person accredited by the relevant professional organization as a Competent Person.

Exploration activities are currently on-going in different projects of Clariden. Exploration drilling planned in PNPI aims to upgrade the mineral resource and reserves previously identified, while in other areas, the objective to define the quality and quantity of the mineral deposits.

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 P1,017 and P993 as of December 31, 2018 and 2017, respectively (Notes 18 and 34).

Accrual for Mine Rehabilitation and Decommissioning. The cost of mine rehabilitation and decommissioning is based on the estimated costs of rehabilitating fully mined-out areas of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as at adoption date or re-evaluation of the asset dismantlement, removal or restoration costs. Such adjusted costs are then measured at present value using the market interest rate for a comparable instrument adjusted for the Group's credit standing. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's accretion and obligation for mine rehabilitation.

Accrual for mine rehabilitation and decommissioning costs amounted to P19 as of December 31, 2018 and 2017 (Note 22).

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 P19,663 and P18,866 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 P12,295 and P11,805 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 P911,246 and P787,345 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 P32,787 and P32,216 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 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 SMC approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to: (a) result in synergies in the food and beverage business units of the Group; (b) unlock greater shareholder value by providing a sizeable consumer vertical market under SMC; and (c) provide investors direct access to the consumer business of the Group through SMFB. On the same day, the BOD of SMC approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

  On March 23, 2018, the 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, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC's 7,859,319,270 common shares of the capital stock of SMB and 216,972,000 common shares of the capital stock of GSMI (collectively, the "Exchange Shares") at the total transfer value of P336,349. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 4,242,549,130 common shares of the capital stock of SMFB (the "New SMFB Shares"). The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 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 SMC's ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

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

As a result, the Group's non-controlling interests decreased by P1,547 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 SMC of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

In 2018, SMC completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083.

With the completion of the follow-on offering, the total number of common shares held by SMC in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

As a result, the Group's non-controlling interests increased by P14,720 equivalent to the carrying amount of the share in the net assets sold. The difference between the carrying amount of the share in the net assets sold and the consideration received was recognized in other equity reserve.

Energy

- SMC Global

  a) Acquisition of MAPL, ATPL and API (the "Masinloc Group")

     On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US$1,900 (P98,990). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd.) ("SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 megawatts (MW) and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 640 MW capacity to the existing portfolio of SMC Global.

     As part of the acquisition, SMC Global also acquired ATPL and API. ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

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

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

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

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

	Note	**2018**
Assets		
Cash and cash equivalents		**P1,656**
Trade and other receivables - net		**2,439**
Inventories		**2,378**
Prepaid expenses and other current assets		**1,692**
Property, plant and equipment	*14*	**62,275**
Other intangible assets		**80**
Other noncurrent assets		**3,040**
Liabilities		
Loans payable		**(2,344)**
Accounts payable and accrued expenses		**(9,591)**
Income and other taxes payable		**(139)**
Finance lease liabilities (including current portion)		**(31)**
Long-term debt - net (including current maturities)		**(31,952)**
Deferred tax liabilities		**(55)**
Other noncurrent liabilities		**(204)**
Total Identifiable Net Assets at Fair Value	*38*	**P29,244**

Provisional goodwill recognized as a result of the acquisition follows:

	Note	**2018**
Total consideration transferred (cash)		**P98,990**
Non-controlling interest measured at proportionate interest in identifiable net assets		**198**
Total identifiable net assets at fair value		**(29,244)**
Provisional Goodwill	*17, 38*	**P69,944**

SMC Global incurred acquisition-related costs of P286 and P195 for the years ended December 31, 2018 and 2017, respectively, which have been included in the “Selling and administrative expenses” account in the consolidated statements of income.

The fair value of trade and other receivables amounted to P2,439. The gross amount of the receivables is P2,503, of which P64 is expected to be uncollectible as at the acquisition date.

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

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

From the date of acquisition, the Masinloc Group has contributed P19,459 and P2,781 of revenues and net income to the Group's results.

If the foregoing acquisitions have occurred on January 1, 2018, management estimates that it would have increased consolidated revenue and consolidated net income by P4,847 and P209, respectively. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2018.

b) Acquisition of Alpha Water

On July 13, 2018, PEGC, a wholly-owned subsidiary of SMC Global, acquired the remaining equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total amount of US$ 10 (P532). Alpha Water is the owner of the land where the current site of the Masinloc Power Plant Complex in Zambales Province is located.

<u>Fuel and Oil</u>

- 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 P4,155 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 P1,494 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 SMC 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 SMC in 2017.

On July 27, 2017, SMHC and SMC executed a Subscription Agreement for the subscription by SMC 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, SMC, 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, SMC through SMYA acquired 100% ownership interest in SMYJ Pty Ltd (SMYJ), formerly JMP Holdings Pty Ltd., for a total consideration of P590. SMYJ is a company engaged in retail packaging products, transport packaging solutions and other products and services based in Victoria, Australia.

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

	Note	2018
Assets		
Cash		**P32**
Trade and other receivables		**165**
Inventories		**199**
Prepaid expenses and other current assets		**2**
Property, plant and equipment	*14*	**15**
Deferred tax assets		**4**
Liabilities		
Accounts payable and accrued expenses		**(261)**
Other noncurrent liabilities		**(6)**
Total Identifiable Net Assets at Fair Value	*38*	**P150**

  The fair value of trade and other receivables amounted to P165. None of the receivables has been impaired and the full amount is expected to be collected.

  The recognized goodwill amounting to P440 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as of the acquisition date.

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

  If the foregoing acquisition have occurred on January 1, 2018, management estimates that it would have increased consolidated revenue and consolidated net income by P421 and P24, respectively. In determining these amounts, management assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2018.

- SMYBB

On November 1, 2017, SMC 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, SMC 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, SMC 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, SMC 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. SMC, 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, SMC 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 SMC 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, SMC 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. SMC 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, SMC 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. SMC 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 SMC 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, SMC 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. SMC, 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, SMC 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 SMC 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, SMC 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 non-controlling interests in SMC are as follows:

	December 31, 2018	December 31, 2017
Percentage of non-controlling interests	**34.01%**	33.97%
Carrying amount of non-controlling interests	**P379,122**	P363,132
Net income attributable to non-controlling interests	**P37,904**	P40,971
Other comprehensive income attributable to non-controlling interests	**P1,034**	P2,063
Dividends paid to non-controlling interests	**P27,119**	P25,258

The following are the audited condensed financial information of SMC:

	December 31, 2018	December 31, 2017
Current assets	**P594,470**	P506,338
Noncurrent assets	**1,082,172**	873,305
Current liabilities	**(433,127)**	(361,771)
Noncurrent liabilities	**(731,568)**	(546,810)
Net assets	**P511,947**	P471,062
Sales	**P1,024,943**	P826,086
Net income	**P48,648**	P54,814
Other comprehensive income	**926**	3,440
Total comprehensive income	**P49,574**	P58,254
Cash flows provided by operating activities	**P58,224**	P79,228
Cash flows used in investing activities	**(194,765)**	(53,624)
Cash flows provided by (used in) financing activities	**174,015**	(22,386)
Effect of exchange rate changes on cash and cash equivalents	**(397)**	(298)
Net increase in cash and cash equivalents	**P37,077**	P2,920

6. Discontinued Operations

On May 30, 2016, SMC entered into agreements with Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, Inc. (Globe) for the sale of 100% ownership interest of SMC in Vega for a total amount of P30,004. Vega Telecoms, Inc. (Vega), through its subsidiaries holds the telecommunications assets of SMC. In addition, advances by SMC to Vega amounting to P22,077 was also assigned to PLDT and Globe. In 2016, SMC 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, SMC, 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 SMC, 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 SMC, 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 SMC, 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.

SMC 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 SMC.

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		13,230
Net income from discontinued operations		P12,248
Attributable to:		
Equity holders of the Parent Company	*37*	P8,054
Non-controlling interests		4,194
		P12,248

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, infrastructure and mining.

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 mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

The telecommunications business was previously presented as one of the reportable segments of the Group. As a result of the completion of the sale of Vega and its subsidiaries on May 30, 2016, the line by line consolidation of the results of operations of Vega and its subsidiaries were excluded in the consolidated statements of income for the year ended December 31, 2016 and presented under "Income after income tax from discontinued operations" account (Note 6).

Segment Assets and Liabilities
Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

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

Major Customer
The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Mining and Others			Eliminations			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Sales																								
External sales	**P286,205**	P251,487	P227,107	**P24,674**	P23,191	P19,990	**P116,933**	P80,256	P67,980	**P551,271**	P431,708	P337,651	**P24,530**	P22,497	P19,866	**P21,302**	P16,919	P12,709	**P -**	P -	P -	**P1,024,915**	P826,058	P685,303
Inter-segment sales	**173**	102	172	**12,651**	8,908	7,396	**3,170**	2,536	9,992	**6,115**	2,916	6,189	**-**	-	-	**17,286**	20,071	10,552	**(39,395)**	(34,533)	(34,301)	**-**	-	-
Total sales	**P286,378**	P251,589	P227,279	**P37,325**	P32,099	P27,386	**P120,103**	P82,792	P77,972	**P557,386**	P434,624	P343,840	**P24,530**	P22,497	P19,866	**P38,588**	P36,990	P23,261	**(P39,395)**	(P34,533)	(P34,301)	**P1,024,915**	P826,058	P685,303
Result																								
Segment result	**P45,174**	P41,472	P36,097	**P3,047**	P2,642	P2,148	**P32,429**	P23,531	P25,985	**P22,402**	P29,432	P24,560	**P11,724**	P10,440	P9,849	**P1,578**	P1,530	(P1,266)	**(P1,690)**	(P574)	(P724)	**P114,664**	P108,473	P96,649
Interest expense and other financing charges																						**(42,766)**	(32,505)	(32,417)
Interest income																						**7,211**	4,532	3,695
Equity in net earnings (losses) of associates and joint ventures																						**(289)**	297	203
Gain (loss) on sale of investments and property and equipment																						**252**	879	155
Other charges - net																						**(9,497)**	(1,360)	(14,158)
Income tax expense																						**(24,715)**	(27,066)	(17,240)
Net Income from continuing operations																						**44,860**	53,250	36,887
Income after income tax from discontinued operations																						**-**	**-**	12,248
Net income																						**P44,860**	P53,250	P49,135
Attributable to:																								
Equity holders of the Parent Company																						**P7,000**	P12,318	P11,413
Non-controlling interests																						**37,860**	40,932	37,722
Net Income																						**P44,860**	P53,250	P49,135

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Mining and Others			Eliminations			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Other Information																								
Segment assets	**P209,533**	P176,855	P156,663	**P52,431**	P41,510	P37,349	**P435,138**	P357,472	P340,611	**P352,323**	P332,529	P312,303	**P215,083**	P192,277	P177,436	**P342,920**	P295,334	P319,243	**(P105,133)**	(P101,237)	(P116,691)	**P1,502,295**	P1,294,740	P1,226,914
Investments in and advances to associates and joint ventures	**280**	346	465	**-**	4,418	4,221	**12,148**	16,621	16,245	**10**	11	6	**745**	745	-	**192,507**	168,563	11,803	**(154,936)**	(154,936)	-	**50,754**	35,768	32,740
Goodwill and trademarks and brand names																						**211,587**	141,146	139,915
Other assets																						**6,890**	6,279	6,222
Assets held for sale																						**3**	-	184
Deferred tax assets																						**19,663**	18,866	21,011
Consolidated Total Assets																						**P1,791,192**	P1,496,799	P1,426,986
Segment liabilities	**P44,373**	P35,992	P29,131	**P11,207**	P10,107	P6,921	**P23,700**	P25,633	P31,896	**P57,989**	P56,790	P50,219	**P47,349**	P45,377	P43,153	**P107,727**	P108,198	P123,854	**(P93,840)**	(P95,964)	(P118,300)	**P198,505**	P186,133	P166,874
Loans payable																						**192,968**	158,064	197,093
Long-term debt																						**617,545**	399,711	329,431
Finance lease liabilities																						**152,539**	168,388	187,105
Income and other taxes payable																						**19,937**	16,669	16,990
Dividends payable and others																						**7,269**	6,931	6,489
Deferred tax liabilities																						**65,297**	62,874	59,027
Consolidated Total Liabilities																						**P1,254,060**	P998,770	P963,009
Capital expenditures (Note 14)	**P13,999**	P12,614	P7,911	**P6,303**	P1,974	P1,723	**P6,056**	P9,065	P14,840	**P10,416**	P9,699	P5,342	**P601**	P445	P295	**P9,950**	P4,897	P10,581	**P -**	P -	P -	**P47,325**	P38,694	P40,692
Depreciation and amortization of property, plant and equipment (Note 28)	**3,763**	3,637	3,784	**2,080**	2,013	2,130	**9,934**	6,694	7,318	**9,925**	9,992	8,277	**265**	205	208	**2,552**	2,395	2,132	**-**	-	-	**28,519**	24,936	23,849
Noncash items other than depreciation and amortization of property, plant and equipment	**6,712**	4,944	5,570	**(806)**	226	145	**6,148**	547	9,449	**4,279**	381	3,708	**4,810**	5,001	3,376	**4,962**	1,004	7,894	**-**	-	-	**26,105**	12,103	30,142
Loss on impairment of goodwill, property, plant and equipment, and other noncurrent assets	**655**	534	109	**37**	19	67	**70**	-	272	**-**	-	35	**-**	-	-	**(257)**	57	12	**-**	-	-	**505**	610	495

Disaggregation of Revenue

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

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Consolidated		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016	**2018**	2017	2016
Timing of revenue recognition																					
Sales recognized at point in time	**P286,094**	P251,394	P227,026	**P23,972**	P22,489	P19,462	**P -**	P -	P -	**P551,271**	P431,708	P337,651	**P -**	P -	P -	**P16,720**	P13,578	P10,341	**P878,057**	P719,169	P594,480
Sales recognized over time	**111**	93	81	**702**	702	528	**116,933**	80,256	67,980	-	-	-	**24,530**	22,497	19,866	**4,582**	3,341	2,368	**146,858**	106,889	90,823
Total External Sales	**P286,205**	P251,487	P227,107	**P24,674**	P23,191	P19,990	**P116,933**	P80,256	P67,980	**P551,271**	P431,708	P337,651	**P24,530**	P22,497	P19,866	**P21,302**	P16,919	P12,709	**P1,024,915**	P826,058	P685,303

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	2018	2017
Cash in banks and on hand		**P38,881**	P33,079
Short-term investments		**204,664**	173,477
	4, 40, 41	**P243,545**	P206,556

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		**P76,520**	P68,019
Non-trade		**50,258**	41,318
Amounts owed by related parties	*33, 35*	**11,487**	15,026
		138,265	124,363
Less allowance for impairment losses	*4, 5*	**13,223**	12,993
	4, 40, 41	**P125,042**	P111,370

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		**P12,993**	P13,682
Adjustment due to adoption of PFRS 9	*3*	**(179)**	-
Balance at beginning of year, as adjusted		**P12,814**	P13,682
Charges (reversals) for the year	*27, 32*	**353**	(62)
Amounts written off	*4*	**(474)**	(226)
Translation adjustments and others		**530**	(401)
Balance at end of year		**P13,223**	P12,993

10. Inventories

Inventories consist of:

	2018	2017
At Net Realizable Value:		
Finished goods and goods in process (including petroleum products)	**P77,234**	P66,304
Materials and supplies (including coal)	**37,571**	30,509
Containers	**6,260**	1,552
At Cost:		
Raw land inventory and real estate projects	**4,080**	4,216
	P125,145	P102,581

The cost of finished goods and goods in process amounted to P78,374 and P66,686 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 P38,800 and P31,986 as of December 31, 2018 and 2017, respectively.

Containers at cost amounted to P6,839 and P1,964 as of December 31, 2018 and 2017, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P128 and P442 as of December 31, 2018 and 2017, respectively, with corresponding costs at point of harvest amounting to P135 and P405, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to (P7), P37 and (P2) in 2018, 2017 and 2016, respectively (Note 16).

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as of December 31, 2018 and 2017, based on management's assessment.

The fair value of raw land inventory amounted to P10,218 and P10,221 as of December 31, 2018 and 2017, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	Note	**2018**	2017
Prepaid taxes and licenses		**P74,590**	P65,473
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*	**3,869**	2,622
		P92,261	P78,435

Restricted cash - current represents: (i) cash in banks maintained by Vertex, PIDC, MTDME, SIDC, CCEC and AAIPC in 2018 and 2017 and by LCWDC in 2018 in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts; and (ii) Cash Flow Waterfall accounts of SCPC and SMCPC in 2018, maintained with a local Trust Company as required in their respective Omnibus Loan and Security Agreements (OLSA).

"Others" consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM (Note 34) and contract assets pertaining to the Group's right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

"Advances to contractors and suppliers" include amounts owed by related parties amounting to P15 as of December 31, 2017 (Note 33).

The methods and assumptions used to estimate the fair values of restricted cash, financial assets at FVPL, derivative assets and financial assets at FVOCI are discussed in Note 41.

12. Investments and Advances

Investments and advances consist of:

	Note	2018	2017
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		**P21,242**	P21,242
Additions		**1,077**	-
Balance at end of year		**22,319**	21,242
Accumulated Equity in Net Earnings			
Balance at beginning of year		**1,013**	678
Adjustment as a result of PFRS 9	*3*	**(147)**	-
Balance at beginning of year, as adjusted		**866**	678
Equity in net earnings (losses)		**(289)**	297
Share in other comprehensive income		**2**	44
Dividends		**(16)**	(6)
Balance at end of year		**563**	1,013
		22,882	22,255
Advances		**27,872**	13,513
	4	**P50,754**	P35,768

Investments in Shares of Stock of Associates

a. NCC

In 2017, SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in NCC comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 5).

NCC is primarily engaged in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling, or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

b. Bank of Commerce (BOC)

SMC through SMPI has 39.93% equity ownership interest in BOC representing 44,817,164 common shares. BOC is engaged in commercial banking services.

On December 17, 2018, SMC through SMC Equivest, in a Deed of Absolute Sale of Shares, acquired 5,258,956 common shares of BOC representing 4.69% ownership interest for a total consideration of P1,077.

c. Mariveles Power Generation Corporation (MPGC)

The Group, through SMC Global, has an existing 49% ownership interest in MPGC. MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW CFB Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

Investments in Shares of Stock of Joint Ventures

Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global has an existing joint venture with Korea Water Resources Corporation (K-Water), covering the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

PVEI holds 30,541,470 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

In January 2017, PVEI granted shareholder advances amounting to US$32 to Angat Hydro. The advances bear annual interest rate of 4.5% and were due initially on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, Angat Hydro made partial payments of the foregoing advances plus interest totaling US$20 to PVEI. Payment date of the remaining balance of the advances amounting to US$12 was extended to March 29, 2018.

On March 1 and October 16, 2018, PVEI collected partial payouts totaling US$10 from Angat Hydro. Payment date of the remaining balance of the advances amounting to US$2 was extended to March 31, 2019.

Advances:

a. SMPI made cash advances to future investees amounting to P870 and P875 as of December 31, 2018 and 2017, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies. In 2017, certain future investees repaid the full amount of its cash advances from the Group amounting to P112.

b. SMC Global and SMEC made deposits to certain landholding companies and power-related expansion projects for future stock subscriptions amounting to P4,963 and P8,965 as of December 31, 2018 and 2017, respectively. During 2018, SMC bought ownership interests in certain landholding companies. As a result, these landholding companies were consolidated and deposits amounting to P4,473 were reclassified by SMC Global to amounts owed by related parties and subsequently eliminated in the consolidated statements of financial position as of December 31, 2018.

c. On June 29, 2016, SMHL entered into an Investment Agreement (the Agreement) with Bryce Canyon Investments Limited for the sale and purchase of assets, as defined in the Agreement, upon the satisfaction of certain conditions set out in the Agreement. As of December 31, 2018 and 2017, outstanding investment advances amounted to P19,784 and P2,479, respectively.

d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2018						December 31, 2017					
	Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Total	Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Philippines			Philippines	Philippines	Philippines	Philippines		
Percentage of ownership	60.00%	35.00%	44.62%	49.00%			60.00%	35.00%	39.93%	49.00%		
Share in net income (loss)	(P481)	P203	P20	P -	(P31)	(P289)	(P16)	P192	P292	(P5)	(P166)	P297
Share in other comprehensive income (loss)	-	(4)	(12)	-	18	2	-	5	(28)	-	67	44
Share in total comprehensive income (loss)	(P481)	P199	P8	P -	(P13)	(P287)	(P16)	P197	P264	(P5)	(P99)	P341
Dividends received	P -	P -	P -	P -	P16	P16	P -	P -	P -	P -	P6	P6
Carrying amount of investments in shares of stock of associates and joint ventures	P6,044	P4,617	P10,397	P954	P870	P22,882	P6,525	P4,418	P9,460	P954	P898	P22,255

The following are the audited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2018					December 31, 2017				
	Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Angat Hydro and KWPP	NCC	BOC	MPGC	Others
Current assets	P2,886	P2,597	P76,946	P18	P4,775	P2,879	P2,462	P63,559	P122	P3,667
Noncurrent assets	18,075	8,654	76,997	1,961	2,514	18,799	8,355	76,897	1,847	2,741
Current liabilities	(1,061)	(1,876)	(133,577)	(32)	(4,130)	(1,699)	(2,228)	(121,513)	(22)	(2,393)
Noncurrent liabilities	(11,996)	(925)	(2,386)	-	(734)	(11,273)	(889)	(1,141)	-	(1,728)
Net assets	P7,904	P8,450	P17,980	P1,947	P2,425	P8,706	P7,700	P17,802	P1,947	P2,287
Sales	P1,575	P8,455	P5,218	P -	P4,227	P2,185	P7,224	P4,270	P -	P4,215
Net income (loss)	(P751)	P761	P50	P1	P209	(P28)	P749	P731	(P10)	(P663)
Other comprehensive income (loss)	-	(11)	(30)	-	43	-	7	(70)	-	149
Total comprehensive income (loss)	(P751)	P750	P20	P1	P252	(P28)	P756	P661	(P10)	(P514)

13. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	Note	**2018**	2017
Equity securities		**P5,350**	P5,317
Government and other debt securities		**432**	531
Proprietary membership shares and others		**381**	273
	4, 40, 41	**6,163**	6,121
Less current portion	*11*	**94**	199
		P6,069	P5,922

Government Securities

a) Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 3.88% to 7.02% in 2018 and 2.13% to 5.30% in 2017 (Note 31).

b) Ovincor's outstanding corporate bond is maintained at the Bank of N.T. Butterfield and carried at fair value with fixed annual interest rate at 6.75% (Note 31).

The movements in investments in equity and debt instruments are as follows:

	Note	**2018**	2017
Balance at beginning of year		**P6,121**	P6,057
Additions		**54**	131
Disposals		**(203)**	(73)
Amortization of premium		**(2)**	(6)
Fair value gain		**127**	26
Acquisition of subsidiaries		**55**	-
Currency translation adjustments and others		**11**	(14)
Balance at end of year	*4, 11, 40, 41*	**P6,163**	P6,121

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	**P5,883**
Financial assets at amortized cost	**186**
	6,069
Current	
Financial assets at FVOCI	**54**
Financial assets at amortized cost	**40**
	94
	P6,163

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	Mine and Mining Property	Capital Projects in Progress	Total
Cost											
January 1, 2017		P63,786	P51,526	P270,347	P145,067	P16,173	P135,556	P3,086	P5,594	P93,340	P784,475
Additions		1,722	243	112	1,307	405	2,813	9	-	32,083	38,694
Disposals/retirement		(390)	(472)	-	(5)	(1,106)	(2,738)	(18)	-	(7)	(4,736)
Reclassifications		820	2,563	26,152	19,940	1,269	4,845	669	-	(56,457)	(199)
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		67,136	55,119	296,611	167,415	17,441	143,938	3,805	5,594	69,102	826,161
Additions		1,699	481	67	426	424	5,195	71	-	38,962	47,325
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		**60,781**	**47,400**	**379,217**	**169,971**	**17,969**	**160,249**	**5,629**	**5,594**	**85,298**	**932,108**
Accumulated Depreciation and Amortization											
January 1, 2017		4,369	22,525	38,984	38,249	11,989	85,674	1,185	4,869	-	207,844
Depreciation and amortization	*7, 28*	261	2,177	7,756	5,994	869	7,644	220	15	-	24,936
Disposals/retirement		(147)	(383)	-	(4)	(1,058)	(2,259)	(18)	-	-	(3,869)
Reclassifications		(212)	171	-	29	(6)	(881)	(1)	-	-	(900)
Currency translation adjustments		39	658	-	820	416	1,841	13	-	-	3,787
December 31, 2017		4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	-	231,798
Depreciation and amortization	*7, 28*	191	1,729	10,740	6,308	1,141	8,127	274	9	-	28,519
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		**3,422**	**18,936**	**75,571**	**51,637**	**12,604**	**99,692**	**1,658**	**4,893**	**-**	**268,413**
Accumulated Impairment Losses											
January 1, 2017		266	2,024	-	-	-	7,862	24	573	-	10,749
Impairment		-	127	-	-	-	407	-	-	-	534
Disposals/retirement		-	-	-	-	-	(22)	-	-	-	(22)
Reclassifications		-	-	-	-	-	1	-	-	-	1
Currency translation adjustments		-	164	-	-	-	368	3	-	-	535
December 31, 2017		266	2,315	-	-	-	8,616	27	573	-	11,797
Impairment	*32*	-	454	-	-	-	163	-	-	-	617
Disposals/retirement		-	-	-	-	-	(13)	-	-	-	(13)
Reclassifications		(266)	(16)	-	-	-	26	-	-	-	(256)
Currency translation adjustments		-	(2)	-	-	-	145	(1)	-	-	142
December 31, 2018		**-**	**2,751**	**-**	**-**	**-**	**8,937**	**26**	**573**	**-**	**12,287**
Carrying Amount											
December 31, 2017		P62,560	P27,656	P249,871	P122,327	P5,231	P43,303	P2,379	P137	P69,102	P582,566
December 31, 2018		**P57,359**	**P25,713**	**P303,646**	**P118,334**	**P5,365**	**P51,620**	**P3,945**	**P128**	**P85,298**	**P651,408**

“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 P29,136, P25,470 and P23,849 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 P192,787 and P197,868 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		P8,283	P1,778	P581	P203	P10,845
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		8,034	1,668	582	260	10,544
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		**26,807**	**17,405**	**597**	**288**	**45,097**
Accumulated Depreciation and Amortization						
January 1, 2017		212	862	492	-	1,566
Depreciation and amortization		2	110	1	-	113
Reclassifications		(183)	-	-	-	(183)
Disposals		-	(5)	-	-	(5)
Currency translation adjustments		(2)	(1)	-	-	(3)
December 31, 2017		29	966	493	-	1,488
Depreciation and amortization		60	744	1	-	805
Reclassifications		1,060	8,085	1	-	9,146
Currency translation adjustments		-	15	-	-	15
December 31, 2018		**1,149**	**9,810**	**495**	**-**	**11,454**
Accumulated Impairment Losses December 31, 2017 and 2018		**8**	**-**	**-**	**-**	**8**
Carrying Amount						
December 31, 2017		P7,997	P702	P89	P260	P9,048
December 31, 2018		**P25,650**	**P7,595**	**P102**	**P288**	**P33,635**

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	**P120,867**	P50,429
Other intangible assets	**253,534**	241,469
	P374,401	P291,898

The movements in goodwill are as follows:

	Note	2018	2017
Balance at beginning of year		**P50,429**	P49,225
Additions	*4, 5, 38*	**70,384**	1,162
Cumulative translation adjustments and others		**54**	42
Balance at end of year	*4*	**P120,867**	P50,429

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2017	P3,491	P90,921	P94,412
Additions	-	27	27
Currency translation adjustments	183	-	183
December 31, 2017	3,674	90,948	94,622
Currency translation adjustments	123	26	149
December 31, 2018	**3,797**	**90,974**	**94,771**
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	P3,674	P90,717	P94,391
December 31, 2018	**P3,797**	**P90,720**	**P94,517**

The movements in other intangible assets with finite useful lives are as follows:

		Concession Rights								
	Note	Toll Road	Airport	Power	Port	Water	Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
Cost										
January 1, 2017		P124,792	P6,071	P770	P12,061	P824	P1,828	P15,219	P2,808	P164,373
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		133,273	6,733	894	13,761	2,938	2,533	15,219	3,685	179,036
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		**145,423**	**7,533**	**1,034**	**13,838**	**6,519**	**2,648**	**15,219**	**4,440**	**196,654**
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*	4,053	353	41	742	-	65	-	331	5,585
Acquisition of subsidiaries	*38*	-	-	-	-	-	-	-	9	9
Disposals and reclassifications		-	-	-	2	-	-	-	43	45
Currency translation adjustments		-	-	-	-	-	21	-	19	40
December 31, 2018		**30,449**	**725**	**153**	**2,460**	**-**	**977**	**-**	**2,873**	**37,637**
Carrying Amount										
December 31, 2017		P106,877	P6,361	P782	P12,045	P2,938	P1,642	P15,219	P1,214	P147,078
December 31, 2018		**P114,974**	**P6,808**	**P881**	**P11,378**	**P6,519**	**P1,671**	**P15,219**	**P1,567**	**P159,017**

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	**P79,544**	**P -**	P9,600	P -
Infrastructure	**18,755**	**-**	18,755	-
Fuel and oil	**8,777**	**38,300**	8,777	38,300
Food and beverage	**3,922**	**56,217**	3,922	56,091
Packaging	**2,883**	**-**	2,389	-
Mining	**1,280**	**-**	1,280	-
Others	**5,706**	**-**	5,706	-
Total	**P120,867**	**P94,517**	P50,429	P94,391

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, 2017 and 2016.

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2018 and 2017 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 15.1% and 6.4% to 18.8% in 2018 and 2017, respectively. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for licenses, trademarks and brand names in 2018, 2017 and 2016.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	**2018**	2017
Noncurrent receivables and deposits - net	*4, 34, 40, 41*	**P19,221**	P12,605
Deferred containers - net	*4*	**11,414**	7,949
Advances to contractors and suppliers		**8,820**	3,696
Restricted cash	*40, 41*	**4,994**	5,783
Noncurrent prepaid input tax		**3,901**	4,832
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*	**1,017**	993
Catalyst		**437**	503
Derivative assets - noncurrent	*3, 40, 41*	**371**	62
Others		**2,754**	1,989
		P62,180	P47,672

The movements in the deferred containers are as follows:

	Note	**2018**	**2017**
Gross Carrying Amount			
Balance at beginning of year		**P23,669**	P21,077
Additions		**5,442**	3,322
Disposals/reclassifications		**(74)**	(763)
Currency translation adjustments		**1**	33
Balance at end of year		**29,038**	23,669
Accumulated Amortization and Impairment			
Balance at beginning of year		**15,720**	13,936
Amortization	*28*	**2,077**	1,992
Disposals/reclassifications		**(179)**	(230)
Currency translation adjustments		**6**	22
Balance at end of year		**17,624**	15,720
		P11,414	P7,949

Noncurrent receivables and deposits include amounts owed by related parties amounting to P920 and P199 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.

vi. Accounts of PNPI with local banks to establish a Mining Rehabilitation Fund (MRF) in compliance with the requirements of the Philippine Mining Act of 1995 and a deposit on a trust account with a bank, as required by an insurance company to serve as a guarantee for the surety bond required by the BIR for the payment of PNPI's excise taxes on nickel ore sales. The MRF will be used for physical and social rehabilitation of areas and communities affected by mining activities and for research on social, technical and preventive aspects of rehabilitation. The MRF and the deposit earn interest at the respective bank deposits rates.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	Note	**2018**	2017
Parent Company			
Peso-denominated		**P571**	P571
Foreign currency-denominated		**6,573**	6,241
Subsidiaries			
Peso-denominated		**149,250**	142,622
Foreign currency-denominated		**36,574**	8,630
	38, 40, 41	**P192,968**	P158,064

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 P10,369 and P13,874 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*	**P70,562**	P75,679
Non-trade		**55,661**	42,446
Amounts owed to related parties	*33*	**14,253**	14,421
Customers' deposit	*3*	**7,086**	1,974
Accrued payroll		**4,975**	4,618
Accrued interest payable		**4,328**	3,053
Derivative liabilities	*40, 41*	**1,930**	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		**161**	138
	40, 41	**P162,435**	P149,226

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
Subsidiaries		
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
Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (b)	**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 (c)	**34,636**	19,785
Fixed interest rate of 5.93% and 6.60% maturing in 2019 and 2022, respectively (d)	**16,967**	16,942
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (e)	**14,939**	14,919
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (f)	**14,889**	14,865
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (g)	**7,242**	7,232
Fixed interest rate of 10.50% maturing in 2019 (h)	**2,809**	2,804
Peso-denominated Term Notes:		
Fixed interest rate of 6.2836% to 7.3889% with maturities up to 2029 (i)	**42,247**	41,222
Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (j)	**29,642**	11,761
Fixed interest rate of 7.75210% maturing up to 2030 (k)	**20,060**	-
Fixed interest rate of 6.9265% maturing up to 2024 (l)	**14,726**	14,857
Fixed interest rate of 5.5276% maturing up to 2024 (m)	**12,259**	14,380
Fixed interest rate of 6.52% and 6.7394% maturing up to 2019 and 2025, respectively (n)	**11,245**	16,332
Fixed interest rate of 6.50% with maturities up to 2021 (o)	**10,368**	12,612
Fixed interest rate of 5.7584% with maturities up to 2022 (p)	**9,965**	9,950
Fixed interest rate of 5.25% maturing in 2020 (q)	**9,916**	-
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (r)	**6,465**	7,017
Fixed interest rate of 8.4211% to 9.885% maturing up to 2030 (s)	**4,159**	-
Fixed interest rate of 5.4583% with maturities up to 2022 (t)	**3,991**	4,986
Fixed interest rate of 6.3212% due in 2018 and 7.1827% due until 2021 (u)	**2,696**	3,369
Fixed interest rate of 8.66150% with maturities up to 2020 (v)	**2,307**	3,554
Fixed interest rate of 6.6583% with maturities up to 2023 (w)	**2,264**	2,667
Fixed interest rate of 5.00% with maturities up to 2021 (x)	**1,496**	1,495
Fixed interest rate of 8.348% with maturities up to 2023 (y)	**993**	-
Fixed interest rate of 5.65% with maturities up to 2019 (z)	**450**	1,050
Fixed interest rate of 12.00% (aa)	**52**	52
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 (bb)	**3,259**	-
Floating interest rate based on BVAL plus margin, with maturities up to 2022 (cc)	**2,721**	2,966

Forward

	Note	2018	2017
Floating interest rate based on BVAL plus margin or BSP overnight rate plus margin, whichever is higher, with maturities up to 2019 (dd)		**P625**	P1,499
Floating interest rate based on BVAL plus margin, or 5.75%, whichever is higher with maturities up to 2021 (ee)		**166**	233
Floating interest rate based on BVAL plus margin or BSP overnight rate, whichever is higher (ff)		**-**	114
Foreign Currency-denominated Term Notes:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (gg/pp)		**27,504**	-
Fixed interest rate of 4.875% maturing in 2023 (hh)		**26,989**	25,588
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, with maturities up to 2022 (ii)		**49,451**	49,185
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 (jj)		**43,800**	-
Floating interest rate based on LIBOR plus margin, maturing in 2023 (kk)		**20,632**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (ll)		**15,603**	14,760
Floating interest rate based on LIBOR plus margin, maturing in 2023 (mm)		**15,520**	-
Floating interest rate based on LIBOR plus margin, maturing in 2023 (nn)		**15,502**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 (oo)		**10,336**	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (pp/gg)		**9,103**	-
Floating interest rate based on LIBOR plus margin, maturing in 2019 (qq)		**5,258**	4,969
Floating interest rate based on LIBOR plus margin, maturing in 2019 (rr)		**5,252**	28,851
		617,667	399,544
Net adjustment due to purchase price - allocation		**(122)**	167
	40, 41	**617,545**	399,711
Less Current maturities		**55,749**	36,996
Net adjustment due to purchase price allocation - current		**123**	62
Net current maturities		**55,872**	37,058
		P561,673	P362,653

a. The amount represents the first, second and third tranche of the P60,000 shelf registered fixed rate bonds issued by SMC 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 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.

c. 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.

d. 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.

e. 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.

f. 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.

g. 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.

h. 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 SMC 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.

i. 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.

j. 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.

k. The amount represents the P20,322 drawn by SMCPC on August 17, 2018 from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

   The proceeds were used by SMCPC for the repayment of short-term loan used to fund the design, construction and operation of the Malita, Davao Power Plant and payment of transaction-related fees and expenses.

   The drawdown includes payable to BOC amounting to P3,053 as of December 31, 2018 (Note 33).

   Unamortized debt issue costs amounted to P262 as of December 31, 2018.

l. 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.

m. 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.

n. 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.

o. 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.

p. 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.

q. The amount represents P10,000 Fixed-Rate Notes (the “Fixed-Rate Notes”) due 2020 issued by SMC 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 SMC.

   Unamortized debt issue costs amounted to P84 as of December 31, 2018.

r. 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.

s. 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.

t. 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.

u. 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.

v. 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.

w. 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.

x. 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.

y. The amount represents drawdown by GSMI on September 24, 2018 from its five-year credit facility with a local bank dated August 13, 2018 amounting to P1,000. The loan is carried at amortized cost and payable in equal quarterly installments commencing in September 2019. The proceeds were used to refinance existing short-term obligations.

   Unamortized debt issue costs amounted to P7 as of December 31, 2018.

z. 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).

aa. The amount represents the outstanding loan of PPC with a local bank payable in 16 semi-annual installments over a period of 10 years, inclusive of a two-year grace period, starting from December 1997. PPC was unable to pay the installments. Management is currently developing and discussing a plan with the creditor to amend the loan repayment terms and provisions to enable PPC to continue to meet its obligation from cash generated by operations.

bb. 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.

cc. 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.

dd. 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.

ee. 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).

ff. 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.

gg. 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.

hh. 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 SMC. 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, SMC 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.

ii. 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.

jj. 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.

kk. The amount represents the drawdown by SMC 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.

ll. The amount represents the drawdown by SMC 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, respectively.

mm. The amount represents the drawdown by SMC 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.

nn. The amount represents the drawdown by SMC 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.

oo. The amount represents the drawdown by SMC 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.

pp. 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.

qq. The amount represents the drawdown by SMC 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.

rr. The amount represents the drawdown on various dates, of US$580 medium-term loans from facility agreements entered into by SMC on various dates in 2016 to partially refinance existing loans.

In 2018, SMC paid US$480 of the loan.

Unamortized debt issue costs amounted to P6 and P108 as of December 31, 2018 and 2017, 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	P56,234	P485	P55,749
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	**P624,515**	**P6,848**	**P617,667**

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
Payables on the purchase of shares of stock		**P15,367**	P14,295
Amounts owed to related parties	*33*	**7,873**	6,975
Retirement liabilities	*35*	**5,354**	8,794
ARO	*4*	**3,879**	2,838
Obligation to ROP - service concession agreement	*4, 17, 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
Accrual for mine rehabilitation and decommissioning	*4*	**19**	19
Redeemable preferred shares	*4*	**18**	17
Others		**2,330**	2,695
	40, 41	**P39,848**	P39,960

Payables on the Purchase of Shares of Stock. These amounts include: (a) the unpaid balance of the purchase price of PPC shares and the Tranche B receivables in accordance with the terms of the Amended and Restated Definitive Agreement (ARDA); and (b) advances made by Privatization Management Office (PMO) for the settlement of the liabilities of PPC.

a. The ARDA and Supplemental ARDA were executed on May 10, 1996 and May 2, 1997, respectively, and amended on September 27, 1999, for PIC's acquisition from PMO of the PPC Shares and the Tranche B receivables for a total purchase price of US$334 less US$70, representing the stipulated amount of PPC's liabilities to its creditors excluding the National Government. The said purchase price is payable subject to various provisions of the ARDA as follows: (1) US$260 payable in 23 successive semi-annual installments, of which no payments have been made as of December 31, 2018 and 2017; and (2) US$4 payable in 171 monthly installments, the amortization payments of which started in August 1996 to April 2001 for a total of US$1.

Among others, the payment of the purchase price is subject to the following provisions:

- PIC shall pay an installment only if, during the six-month period ending one month prior to an installment payment date (or such applicable date), the average London Metal Exchange (LME) price for nickel shall be higher than PIC's cash break-even price for such period. Notwithstanding the foregoing provision, if PPC's cash available for payments to PMO (as defined in the ARDA) shall not be sufficient to pay the whole installment, then PIC shall pay only such portion of the installment as shall be equal to PPC's cash available for payments to PMO and the unpaid portion shall be deferred to the next succeeding installment payment date.

- In the event that the payment of an installment, or a portion thereof, is deferred pursuant to the above provisions, PIC shall accrue interest thereon beginning on the date the installment was originally due until paid in full at an interest rate equivalent to the six-month LIBOR for dollar deposits. All interest accrued on this provision shall be paid by PIC to PMO on the installment payment date immediately following the six months period during which the average LME price for nickel is higher than PPC's cash break-even price.

- At least fifty percent of the portion of the purchase price shall be paid by PIC at the end of the ninth year after Final Notice (as defined in the ARDA) and the balance at the end of the 15th year after Final Notice, even if the average LME price for nickel shall be equal or lower than PIC's cash break-even price for such period.

As security for the payment of the said purchase price in accordance with the terms of the ARDA, PIC pledged the shares of PPC to PMO on May 2, 1997. PIC shall also pledge to the PMO the preferred shares to be received from PPC upon the conversion of the Tranche B receivables to equity.

On September 27, 1999, through an Amendment Agreement of the ARDA, the entire obligation of PIC under the ARDA was restructured and the cash break-even price formulated on May 2, 1997 was deleted as PIC and PMO shall establish a new cash break-even price formula which reflects the appropriate cost centers for a nickel refinery based on a pressure acid leach technology. As of December 31, 2018, the cash break-even price formula has not yet been established.

b. The amounts owed to PMO consist of the advances made by PMO for the settlement of the liabilities of PPC amounting to P1,626 as of December 31, 2018. The advances will be paid by PIC in behalf of PPC and shall be payable, without interest, in 23 successive semi-annual installments with a three and a half year grace period, from the date of the Amendment Agreement to the ARDA or over a total period of 15 years inclusive of the grace period.

   PIC has not accrued any interest on the unpaid monthly installments as management believes that interest is not due to PMO, since the cash break-even price has not yet been established, and PIC has no cash available for payment to PMO as defined in the ARDA.

In 2003, PIC filed a case with the Regional Trial Court of Makati (Court) for: (i) the suspension of payments under the ARDA; (ii) to stop PMO from enforcing the provisions under the ARDA providing for automatic reversion of PPC shares to PMO; and (iii) for the Court to fix a period of payment. The Court granted PIC's application and issued a Writ of Preliminary Injunction to enjoin PMO from enforcing the said automatic reversion of clause while the case is pending. The issues relating to the injunction orders and the validity of the automatic reversion clause were subsequently appealed to the Supreme Court, which, in a Decision dated August 27, 2014, declared that the automatic reversion clause constituted pactum commisorium and, thus, null and void. Accordingly, the Writ of Preliminary Injunction issued by the Court against the enforcement of the automatic reversion clause was made final and permanent. In the meantime, in the course of the proceedings before the trial court, PIC filed a Motion for Summary Judgment in December 2015 praying for the trial court to resolve the only remaining issue of fixing the period for payment and performance by PIC of its obligations to PMO under the ARDA. Through an order dated September 14, 2016, the RTC of Makati City granted PIC's Motion for Summary Judgment and fixed the period for PIC to pay its obligations to PMO under the ARDA.

Thereafter, PMO filed an appeal with the Court of Appeals challenging the Order of the Makati RTC. On March 2, 2018, the Court of Appeals issued a Resolution stating that the appeal is considered submitted for decision. On February 27, 2019, the Court of Appeals issued a decision denying the appeal of PMO and affirming the Summary Judgment rendered by the RTC of Makati City in favor of PIC.

Accrual for Mine Rehabilitation and Decommissioning. The Contingent Liability and Rehabilitation Fund Steering Committee, having approved the Final Mine Rehabilitation and/or Decommissioning Plan (FMR/DP) of the Group's nickel refinery, granted the Certificate of Approval dated February 24, 2010 to the Group, after the Group has substantially complied with the FMR/DP requirements.

The Group's recognized accrual for mine rehabilitation and decommissioning costs represents the future cost of rehabilitating the mine site and the related production facilities for the development of mines or installation of those facilities.

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 by PPC to creditors amounting to P66 and P55 as of December 31, 2018 and 2017, respectively, conforming to debt restructuring and other noncurrent payables. These creditors have agreed to the settlement proposal of PIC which provides for the deferral of payment of the principal obligations over a number of years. These amounts are payable, without interest, over 10 years in 17 semi-annual installments commencing two years after the resumption of commercial operations.

"Others" also 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	**P22,739**	P20,511	P19,529
Deferred	**1,976**	6,555	(2,289)
	P24,715	P27,066	P17,240

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	**(44,550)**	**342**	**319**	**166**	**(43,723)**
	(P44,008)	**(P1,976)**	**P252**	**P98**	**(P45,634)**

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	P4,760	P19	P -	P -	P4,779
MCIT	227	(109)	-	-	118
NOLCO	2,160	(147)	-	-	2,013
Undistributed net earnings of foreign subsidiaries	(898)	(127)	-	-	(1,025)
Leases	(2,194)	(3,149)	-	-	(5,343)
Unrealized intercompany charges and others	(42,071)	(3,042)	511	52	(44,550)
	(P38,016)	(P6,555)	P511	P52	(P44,008)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	**2018**	2017
Deferred tax assets	*4*	**P19,663**	P18,866
Deferred tax liabilities		**(65,297)**	(62,874)
		(P45,634)	(P44,008)

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	**(3.11%)**	(1.69%)	(2.05%)
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	**(0.11%)**	(0.33%)	(0.09%)
Others, mainly income subject to different tax rates - net	**8.62%**	5.83%	4.10%
Effective income tax rate	**35.52%**	33.70%	31.85%

24. Equity

a. *Capital Stock*

Common Shares

On January 6, 2010, SMC acquired a 49% stake via equity infusion in the Parent Company consisting of its subscription to 2,401,960 common shares of the Parent Company's unissued capital stock. On January 7, 2010, the Parent Company issued 2,401,960 common shares to SMC at a price of P18,600.00 per share, resulting in additional paid-in capital of P44,436.

On July 16, 2013, the BOD and stockholders of the Parent Company approved the stock split of the Parent Company's common shares via change in the par value from P100.00 per share to P1.00 per share. As a result of such stock split, the issued and outstanding common shares increased from 4,901,960 to 490,196,000. The new authorized capital stock of the Parent Company amounted to P1,000 divided into 740,000,000 common shares with a par value of P1.00 per share and 2,600,000 preferred shares with a par value of P100.00 per share. The SEC approved such corporate action on August 16, 2013.

On October 17, 2013, the BOD and stockholders of the Parent Company approved the Amendment of Articles of Incorporation to include the relevant provisions on the lock-up requirements prescribed by the rules and regulations of the PSE which the Parent Company shall comply with, subject to any waiver or exemption that may be granted by the PSE, in connection with the Parent Company's initial listing by way of introduction on the PSE of the Parent Company's 490,196,200 common shares. The SEC approved the aforesaid amendment on November 8, 2013.

On December 18, 2013, the PSE approved the application of the Parent Company for the listing by way of introduction of all its common shares. The shares were listed on the PSE on January 13, 2014.

The Parent Company has 330,325,136 (net of 2,561,031 common shares held by SMC) issued and outstanding common shares, and has 31,610 and 30,559 common shareholders as of December 31, 2018 and 2017, respectively.

Preferred Shares

On October 22, 2010, the Parent Company issued the stock certificates covering SMC's investment in 2,598,040 preferred shares at a price of P18,600.00 per share, resulting in additional paid-in capital of P48,064.

The preferred shares have a par value of P100.00 per share and are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

The preferred shares do not carry the right to vote except in the cases expressly provided by law. These are redeemable in whole or in part, at the sole option of the Parent Company, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

The preferred shares are entitled to participate and share in the retained earnings remaining after payment of the preferential dividends at the same rate as the common shares.

Dividends in arrears on the 3% cumulative and participating preferred shares amounted to P1,328 and P2,125 in 2018 and 2017, respectively.

There were no movements in the number of issued and outstanding preferred shares of stock in 2018 and 2017.

b. *CPS*

On June 30, 2016, the Parent Company issued Philippine Peso-denominated CPS with an aggregate face value of P25,883 in favor of Bryce Canyon Investments Limited, a British Virgin Island business company. The CPS entitles the security holder to a cumulative preferential distribution at 6.25% per annum on their face value amount, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2016. The security holders have the option to convert the CPS into preferred shares of the Parent Company at any time on or after July 31, 2019.

Proceeds from the sale of the securities were used by the Parent Company for payment of a US$550 long-term debt on June 30, 2016.

Preferential dividends in arrears on CPS amounted to P4,045 and P2,427 as of December 31, 2018 and 2017, respectively.

c. *Treasury Shares*

As of December 31, 2018, 2017 and 2016, treasury stock consist of:

Common:	
Receipt of own shares as property dividends	P28,001
Common shares of the Parent Company held by SMC	456
	28,457
Preferred:	
Redemption of preferred shares	12,899
Preferred shares of the Parent Company held by SMC	35,424
	48,323
	P76,780

On June 18, 2012, the Parent Company partially redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to SMC, at the total redemption price of P12,899, corresponding to the original issue price of the said preferred shares. The redeemed preferred shares are presented as part of "Treasury stock - preferred" account in the consolidated statements of financial position as of December 31, 2018 and 2017.

On October 17, 2013, the BOD of SMC approved the declaration, by way of property dividends, of 240,196,000 common shares of stock of the Parent Company to SMC common shareholders of record as of November 5, 2013, distributed on December 26, 2013.

The declaration of the property dividends eliminated the cross ownership between the Parent Company and SMC, which resulted in the consolidation of SMC effective October 17, 2013. The Parent Company, being a shareholder of SMC, received 157,310,033 of its own common shares equivalent to P28,001 recognized as "Treasury stock - common" and "Additional paid-in capital" accounts in the consolidated statements of changes in equity as of December 31, 2018, 2017 and 2016.

The remaining investments in the Parent Company held by SMC consisting of 2,561,031 common shares and 1,904,540 preferred shares amounting to P456 and P35,424, respectively, were recognized as "Treasury stock" account in the consolidated statements of financial position as of December 31, 2018 and 2017.

There were no movements in the treasury shares of the Parent Company in 2018, 2017 and 2016.

d. *Unappropriated Retained Earnings*

The unappropriated retained earnings is restricted in the amount of P456 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 P10,006, P14,672, and P16,014 in 2018, 2017 and 2016, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P5,230, P8,078 and P10,740 in 2018, 2017 and 2016, respectively.

25. Sales

Sales consist of:

	Note	**2018**	2017	2016
Goods		**P995,628**	P799,409	P662,460
Services		**29,287**	26,649	22,843
	7	**P1,024,915**	P826,058	P685,303

26. Cost of Sales

Cost of sales consist of:

	Note	**2018**	2017	2016
Inventories		**P592,546**	P452,094	P353,596
Taxes and licenses		**79,119**	58,259	46,576
Depreciation and amortization	*28*	**32,122**	27,527	24,575
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		**1,372**	3,620	2,074
		P827,343	P646,010	P515,912

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2018	2017	2016
Selling	**P42,718**	P36,629	P32,972
Administrative	**40,190**	34,946	39,770
	P82,908	P71,575	P72,742

Selling expenses consist of:

	Note	**2018**	2017	2016
Personnel	*29*	**P11,302**	P8,612	P7,724
Freight, trucking and handling		**9,853**	8,564	7,889
Advertising and promotions		**8,987**	9,085	8,025
Rent	*4, 34*	**3,694**	3,423	1,655
Depreciation and amortization	*28*	**3,092**	2,949	3,095
Repairs and maintenance		**1,449**	1,440	1,232
Taxes and licenses		**786**	689	678
Professional fees		**683**	552	448
Supplies		**663**	589	758
Communications, light and water		**494**	409	374
Others		**1,715**	317	1,094
		P42,718	P36,629	P32,972

Administrative expenses consist of:

	Note	**2018**	2017	2016
Personnel	*29, 39*	**P18,645**	P16,966	P15,104
Depreciation and amortization	*28*	**5,196**	4,857	5,633
Taxes and licenses		**3,488**	2,565	2,957
Professional fees		**2,958**	2,574	2,659
Repairs and maintenance		**1,330**	1,032	1,122
Impairment loss	*9*	**1,024**	537	4,712
Communications, light and water		**789**	732	698
Supplies		**655**	705	792
Rent	*4, 34*	**614**	749	435
Freight, trucking and handling		**390**	259	161
Research and development		**152**	127	103
Others	*34*	**4,949**	3,843	5,394
		P40,190	P34,946	P39,770

"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*	**P24,306**	P20,158	P18,330
Deferred containers, biological assets and others	*16, 18*	**7,816**	7,369	6,245
	26	**32,122**	27,527	24,575
Selling and administrative expenses:				
Property, plant and equipment	*14*	**4,213**	4,778	5,185
Deferred containers and others	*18*	**4,075**	3,028	3,543
	27	**8,288**	7,806	8,728
		P40,410	P35,333	P33,303

Depreciation expense from discontinued operations amounted to P334 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		**P21,013**	P17,921	P15,595
Retirement costs - net	*35*	**2,004**	1,833	1,745
Other employee benefits	*39*	**18,180**	15,019	13,055
		P41,197	P34,773	P30,395

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	**18,645**	16,966	15,104
		P41,197	P34,773	P30,395

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	Note	**2018**	2017	2016
Interest expense		**P38,781**	P27,987	P28,048
Other financing charges	*21*	**3,985**	4,518	4,369
		P42,766	P32,505	P32,417

Amortization of debt issue costs included in "Other financing charges" amounted to P1,386, P2,778 and P2,275 in 2018, 2017 and 2016, respectively (Note 21).

Interest expense on loans payable, long-term debt, finance lease liabilities and other liabilities is as follows:

	Note	**2018**	2017	2016
Loans payable	*19*	**P7,524**	P5,813	P4,392
Long-term debt	*21*	**25,693**	16,012	16,700
Finance lease liabilities	*34*	**5,238**	5,690	6,103
Other liabilities		**326**	472	853
		P38,781	P27,987	P28,048

Interest expense from discontinued operations amounted to P6 in 2016 (Note 6).

31. Interest Income

Interest income consists of:

	Note	**2018**	2017	2016
Interest from short-term investments, cash in banks and others	*8, 13*	**P6,728**	P4,026	P3,211
Interest on amounts owed by related parties	*33, 35*	**483**	506	484
		P7,211	P4,532	P3,695

Interest income from discontinued operations amounted to P14 in 2016 (Note 6).

32. Other Charges

Other charges consists of:

	Note	**2018**	2017	2016
Construction revenue	*17, 34*	**P23,062**	P18,089	P12,623
PSALM monthly fees reduction		**1,615**	3,284	1,509
Gain (loss) on derivatives - net	*41*	**805**	(3,665)	(616)
Dividend income		**27**	21	12
Additional provision on impairment (a)	*14, 17, 18*	**(771)**	(610)	(495)
Gain (loss) on foreign exchange - net	*40*	**(11,723)**	55	(14,011)
Construction costs	*17, 34*	**(23,062)**	(18,089)	(12,623)
Others (b)		**550**	(445)	(557)
		(P9,497)	(P1,360)	(P14,158)

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
Shareholders of the Parent Company	*20*	**2018**	**P -**	**P -**	**P -**	**P11,281**	On demand; interest bearing	Unsecured
		2017	-	-	-	10,882		
		2018	**-**	**-**	**-**	**221**	On demand; non-interest bearing	Unsecured
		2017	-	-	-	221		
Retirement Plans	*9, 18, 35*	**2018**	**399**	**-**	**9,516**	**-**	On demand; interest bearing	Unsecured; no impairment
		2017	400	-	12,131	-		
Associates	*9, 18, 20*	**2018**	**2,905**	**251**	**1,564**	**193**	On demand; interest and non-interest bearing	Unsecured; no impairment
		2017	2,466	598	1,462	521		
	19, 21	**2018**	**-**	**-**	**-**	**23,226**	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2017	-	-	-	23,940		
Joint Ventures	*9, 18, 20*	**2018**	**76**	**1,181**	**684**	**64**	On demand; non-interest bearing	Unsecured; no impairment
		2017	116	466	1,245	118		
Shareholders in Subsidiaries	*9, 20*	**2018**	**125**	**103**	**147**	**2,516**	On demand; non-interest bearing	Unsecured; no impairment
		2017	391	79	165	2,645		
Others	*9, 11, 20, 22*	**2018**	**2,199**	**1,499**	**496**	**7,851**	On demand; non-interest bearing	Unsecured; no impairment
		2017	193	493	237	7,009		
Total		**2018**	**P5,704**	**P3,034**	**P12,407**	**P45,352**		
Total		2017	P3,566	P1,636	P15,240	P45,336		

a. Interest-bearing payable owed to a shareholder of the Parent Company, used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest will accrue beginning on the relevant year when SMC has commenced the management and operations of its Airport Project, a project that involves the construction of an international airport in Bulacan. This payable has no definite payment terms and considered payable upon demand.

b. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

c. Amounts owed to related parties consist of trade payables and professional fees.

d. 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.

e. 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).

- *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, SMCPC, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party RES and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCPC, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers’ power requirements.

- *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, SMCPC, 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.

<u>*Status of Operations*</u>
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 SMC, 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.

- 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.

- *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.

- *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).

- Mining

  - *Mineral Production Sharing Agreement (MPSA)*

PNPI, PPC and PIC

The MPSA provides for the exclusive possession of and the privilege and right to explore, utilize, process and dispose of all minerals, mineral products and by-products that may be derived from the total contract area of 23,877 hectares in Parcels II and III of the Surigao Mineral Reservation (SMR) in the Province of Surigao del Norte and Dinagat Islands.

On May 2, 1997, PIC assigned its rights and obligations under the MPSA to PNPI. As a result of the assignment, PNPI holds exclusive rights to explore, develop, mine, and commercially utilize nickel, cobalt, chrome, iron and other mineral deposits within the contract area for a period of 25 years. As part of the consideration for the assignment of the MPSA, PNPI assigned to PPC the exclusive Mineral Processing Rights (MPR) granted under the MPSA. PPC holds exclusive rights with respect to the processing of minerals and resources under the MPSA.

The assignment of the MPSA by PIC to PNPI and the assignment of the MPR by PNPI to PPC were approved by the DENR on August 7, 1997.

The assignment of the MPSA was subject to the following conditions:

i PNPI shall enter into an exclusive 25-year ore supply contract with PPC, to provide PPC with its nickel ore requirements;

ii The MPSA shall be deemed automatically assigned to PPC in the event that PIC shall be in default under the ARDA or the ARDA is terminated in accordance with its terms;

iii PNPI shall be jointly and severally liable for the payments due to the PMO under the ARDA and all profits earned by PNPI will be used to pay PIC's obligations to PMO under the ARDA as and when necessary; and

iv All of the outstanding capital stock of PNPI shall be pledged to PMO as security for the obligations of PNPI to PMO as well as the obligations of PIC to PMO under the ARDA.

On August 7, 2007, MPSA No. 072-97-XIII (SMR) was reinstated in favor of PNPI. The term of the MPSA is for a period of 25 years until 2022. The first renewal of the two-year exploration period was granted on February 1, 2000; the second renewal on November 18, 2002; and the third renewal on September 25, 2007.

On August 12, 2009, prior to the expiration of the third renewal of the exploration period, PNPI submitted a Declaration of Mining Project Feasibility (DMPF) covering the 25,000 hectare MPSA contract area.

PNPI filed the fourth request for an additional two-year exploration period on November 25, 2013 with the Mines and Geosciences Bureau of the DENR (DENR-MGB) with the objective of: (a) updating the 2009 DMPF; and (b) fully defining the quality and quantity of limonite and saprolite deposits within the contract area. The request was approved, covering the period of February 25, 2015 to February 24, 2017.

On February 10, 2017, PNPI was granted the fifth renewal of the two-year exploration period by the DENR-MGB covering the period of February 25, 2017 to February 24, 2019 subject to the full implementation of the approved Exploration Work Program and Environmental Work Program, as well as the filing of DMPF. On February 7, 2019, PNPI filed the sixth request for the renewal of the MPSA's exploration period with the DENR-MGB. The request was filed in view of (1) the need to complete various technical studies; (2) the pending litigation involving PIC and PMO; and (3) PNPI's satisfactory compliance with the terms and conditions of the fifth renewal of the MPSA's exploration period.

On September 21, 2015, PNPI entered into two Deeds of Partial Assignment and Transfer with VMI and PLGMC covering certain areas of MPSA No. 072-97-XIII (SMR). An area of 7,035 hectares was assigned to PLGMC while an area of 6,264 hectares was assigned to VMI. The Deeds were filed at DENR-MGB Regional Office No. XIII (CARAGA) on December 11, 2015 for initial review and evaluation. On November 10, 2016, the Deeds were forwarded by MGB XIII to MGB Central Office for final review and evaluation prior to the endorsement to the Office of the DENR Secretary for approval. As of December 31, 2018, the Deeds are still under the final review and evaluation of MGB Central Office.

VMI

VMI has mining rights under MPSA No. 346-2010-IVA issued by the DENR on June 25, 2010. The MPSA covers a total area of 11,126 hectares located in Quezon and Camarines Norte. The term of the MPSA is for a period of 25 years until 2035. In December 2015, the exploration permit of VMI expired and the exploratory core drilling activities were put on hold. A letter of request for the renewal of exploration permit was sent by VMI to MGB. In view of the peace and order situation in the contract area, VMI filed with the DENR-MGB a request for suspension of obligations pursuant to the MPSA due to *force majeure*. The request was granted by MGB on August 24, 2017 and will be valid for two years or up to August 23, 2019.

- *Joint Operating Agreement*
  On June 21, 2007, PPC and PNPI executed a Deed of Assignment to assign the rights and obligations of the Joint Operating Agreement entered by Philippine Mining Development Corporation (PMDC) and PPC to PNPI. The assignment was approved by PMDC on January 11, 2008.

- *Special Economic Zone*
  On October 6, 1999, Presidential Proclamation No. 192 was issued creating and establishing the 106.5 hectare land situated in Nonoc Island, Surigao City as an economic zone to be known as the Philnico Industrial Estate Special Economic Zone. The Company is a PEZA-registered operator/developer of the economic zone as per Certificate of Registration No. EZ 00-001.

Pursuant to its registration with PEZA as an economic zone developer/operator, the Company is entitled to certain incentives in accordance with the provisions of RA No. 7916, otherwise known as "The Special Economic Zone Act of 1995", as amended.

As of December 31, 2018, Clariden is currently conducting metallurgical tests and additional technical studies to determine the optimal processing option for the nickel deposits.

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 P191,770 and P152,389 as of December 31, 2018 and P197,702 and P168,285 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 P5,165, P5,680 and P6,095 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	**146**	**7,672**	**8,960**	**16,632**
Present values of finance lease liabilities	**US$1,536**	**P80,760**	**P71,629**	**P152,389**

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	192	9,570	11,730	21,300
Present values of finance lease liabilities	US$1,746	P87,176	P81,109	P168,285

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$228**	**P12,002**	**P10,419**	**P22,421**
More than one year and not later than five years	**964**	**50,658**	**44,963**	**95,621**
Later than five years	**344**	**18,100**	**16,247**	**34,347**
	US$1,536	**P80,760**	**P71,629**	**P152,389**

2017

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US$210	P10,487	P9,479	P19,966
More than one year and not later than five years	997	49,785	46,230	96,015
Later than five years	539	26,904	25,400	52,304
	US$1,746	P87,176	P81,109	P168,285

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 P5,253, P5,002 and P2,904 in 2018, 2017 and 2016, respectively (Notes 4, 26 and 27).

35. Retirement Plans

SMC 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 SMC 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 SMC and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

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	**P29,744**	P27,799	**(P32,216)**	(P28,603)	**(P3,188)**	(P2,957)	**(P5,660)**	(P3,761)
Benefit obligation of newly-acquired subsidiaries	**-**	-	**(165)**	-	**-**	-	**(165)**	-
Recognized in profit or loss								
Service costs	**-**	-	**(1,781)**	(1,617)	**-**	-	**(1,781)**	(1,617)
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	**(3,600)**	(3,067)	**(181)**	(143)	**(2,004)**	(1,833)
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**	1,661	**-**	-	**190**	200
Transfers from other plans	**18**	60	**(18)**	(60)	**-**	-	**-**	-
Transfers to other plans	**(18)**	(60)	**18**	60	**-**	-	**-**	-
Other adjustments	**26**	4	**(4)**	(56)	**-**	-	**22**	(52)
	3,579	49	**2,146**	1,605	**-**	-	**5,725**	1,654
Balance at end of year	**P33,464**	P29,744	**(P32,787)**	(P32,216)	**(P3,321)**	(P3,188)	**(P2,644)**	(P5,660)

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 recognized in the consolidated statements of income by the Group amounted to P2,004, P1,833 and P1,745 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 P5,354, 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 P8,794, 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 SMC 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 the Parent Company 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 SMC 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 the Parent Company 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 the Parent Company, SMC 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 SMC 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 SMC 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 SMC 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**	4.30 - 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 2 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. SMC 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 preferred stockholders as follows:

2018

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 15, 2018	March 15, 2018	March 16, 2018	P279.00
August 9, 2018	August 9, 2018	August 10, 2018	279.00
November 13, 2018	November 13, 2018	November 14, 2018	418.50

2017

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
August 10, 2017	August 10, 2017	August 11, 2017	P418.50
November 10, 2017	November 10, 2017	November 16, 2017	279.00

On March 14, 2019, the BOD of the Parent Company declared cash dividends at P279.00 per share to preferred shareholders of record as of March 14, 2019 to be paid on March 15, 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		**P7,000**	P12,318	P3,359
Dividends on CPS	*24*	**(1,618)**	(1,618)	(809)
Net income from continuing operations attributable to common shareholders of the Parent Company (a)		**5,382**	10,700	2,550
Net income from discontinued operations attributable to common shareholders of the Parent Company (b)	*6*	**-**	-	8,054
Net income from attributable to common shareholders of the Parent Company		**P5,382**	P10,700	P10,604
Weighted average number of common shares outstanding (in millions) (c)		**330**	330	330
Basic/diluted earnings per common share attributable to equity holders of the Parent Company				
Continuing operations (a/c)		**P16.29**	P32.39	P7.72
Discontinued operations (b/c)		**-**	-	24.38
		P16.29	P32.39	P32.10

**Earnings per share are computed based on amounts in nearest peso.*

As of December 31, 2018, 2017 and 2016, the Group has no dilutive debt or equity instruments.

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	**(P10,217)**	(P10,665)	(P2,397)
Inventories	**(17,146)**	(20,088)	(19,039)
Prepaid expenses and other current assets	**(10,879)**	(3,154)	(5,525)
Accounts payable and accrued expenses	**(5,670)**	11,346	16,595
Income and other taxes payable and others	**3,020**	3,196	(1,777)
	(P40,892)	(P19,365)	(P12,143)

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	**P158,064**	**P399,711**	**P168,388**	**P3,878**
Changes from Financing Activities				
Proceeds from borrowings	**1,032,344**	**242,405**	**-**	**-**
Payments of borrowings	**(999,627)**	**(65,591)**	**-**	**-**
Payments of finance lease liabilities	**-**	**-**	**(25,698)**	**-**
Dividends and distributions paid	**-**	**-**	**-**	**(27,503)**
Total Changes from Financing Activities	**32,717**	**176,814**	**(25,698)**	**(27,503)**
The Effect of Changes in Foreign Exchange Rates	**(157)**	**7,951**	**4,648**	**-**
Acquisition of Subsidiaries and Other Changes	**2,344**	**33,069**	**5,201**	**27,116**
Balance as of December 31, 2018	**P192,968**	**P617,545**	**P152,539**	**P3,491**

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Dividends Payable
Balance as of January 1, 2017	P197,093	P329,431	P187,105	P3,442
Changes from Financing Activities				
Proceeds from borrowings	881,046	203,714	-	-
Payments of borrowings	(920,745)	(135,975)	-	-
Payments of finance lease liabilities	-	-	(24,924)	-
Dividends and distributions paid	-	-	-	(24,820)
Total Changes from Financing Activities	(39,699)	67,739	(24,924)	(24,820)
The Effect of Changes in Foreign Exchange Rates	670	397	518	-
Other Changes	-	2,144	5,689	25,256
Balance as of December 31, 2017	P158,064	P399,711	P168,388	P3,878

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of SMC'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 SMC 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 of SMC. As of December 31, 2018 and 2017, 3,478,400 common shares which were cancelled under the ESPP are held in treasury of SMC.

There were no shares of SMC offered under the ESPP in 2018 and 2017.

LTIP

SMC also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of SMC 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 of SMC, 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 SMC'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.

Share-based payment charged to operations, included under "Administrative expenses - personnel expenses" account, amounted to P29, P44 and 29 in 2018, 2017 and 2016, respectively (Notes 27 and 29).

40. Financial Risk and Capital Management Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

Interest Rate Risk

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

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

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

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

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

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and

- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

December 31, 2018	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P29,488**	**P28,159**	**P51,765**	**P49,110**	**P49,465**	**P161,404**	**P369,391**
Interest rate	**5.4583% - 12.00%**	**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**	
	P56,234	**P51,672**	**P82,279**	**P68,251**	**P183,697**	**P182,382**	**P624,515**

December 31, 2017	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P12,048	P28,165	P17,858	P50,526	P48,193	P117,266	P274,056
Interest rate	5.4583% - 12%	5.4583% - 10.50%	4.9925% - 8.6615%	4.0032% - 8.0589%	4.8243% - 8.0589%	4.5219% - 8.0589%	
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	-	-	25,783	25,783
Interest rate	-	-	-	-	-	4.875%	
Floating Rate							
Philippine peso-denominated	1,304	1,059	545	534	1,379	-	4,821
Interest rate	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or BSP overnight rate, whichever is higher	PDST-R2 + margin or 5.75%, whichever is higher	PDST-R2+ margin or 5.75%, whichever is higher	PDST-R2 + margin	-	-
Foreign currency-denominated (expressed in Philippine peso)	23,966	24,252	18,260	14,266	13,623	4,494	98,861
Interest rate	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	
	P37,318	P53,476	P36,663	P65,326	P63,195	P147,543	P403,521

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**	**P128,554**	US$1,507	P75,302
Trade and other receivables	**770**	**40,482**	339	16,929
Prepaid expenses and other current assets	**17**	**926**	3	124
Noncurrent receivables	**87**	**4,552**	-	16
	3,318	**174,514**	1,849	92,371
Liabilities				
Loans payable	**821**	**43,147**	298	14,871
Accounts payable and accrued expenses	**1,475**	**77,574**	1,195	59,662
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	**457**	**24,040**	440	21,982
	8,974	**471,884**	6,123	305,722
Net foreign currency-denominated monetary liabilities	**(US$5,656)**	**(P297,370)**	(US$4,274)	(P213,351)

The Group reported net gains (losses) on foreign exchange amounting to (P11,723), P55 and (P14,011) 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	**(262)**	**(740)**	**262**	**740**
Prepaid expenses and other current assets	**(8)**	**(16)**	**8**	**16**
Noncurrent receivables	**(30)**	**(77)**	**30**	**77**
	(2,331)	**(2,668)**	**2,331**	**2,668**
Loans payable	**575**	**649**	**(575)**	**(649)**
Accounts payable and accrued expenses	**937**	**1,404**	**(937)**	**(1,404)**
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	**307**	**366**	**(307)**	**(366)**
	6,620	**6,986**	**(6,620)**	**(6,986)**
	P4,289	**P4,318**	**(P4,289)**	**(P4,318)**

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	246	225	(246)	(225)
Accounts payable and accrued expenses	848	1,421	(848)	(1,421)
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	284	207	(284)	(207)
	5,568	4,785	(5,568)	(4,785)
	P4,035	P3,023	(P4,035)	(P3,023)

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.

SMC 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	**P243,545**	**P243,545**	**P243,545**	**P -**	**P -**	**P -**
Trade and other receivables - net	**125,042**	**125,042**	**125,042**	**-**	**-**	**-**
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)	**5,937**	**6,026**	**60**	**46**	**235**	**5,685**
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)	**19,221**	**19,516**	**-**	**2,870**	**16,304**	**342**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**14,032**	**14,032**	**9,038**	**4,994**	**-**	**-**
Financial Liabilities						
Loans payable	**192,968**	**193,914**	**193,914**	**-**	**-**	**-**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**158,415**	**158,724**	**158,724**	**-**	**-**	**-**
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)	**617,545**	**783,282**	**89,247**	**82,220**	**400,027**	**211,788**
Finance lease liabilities (including current portion)	**152,539**	**169,173**	**27,042**	**29,698**	**76,222**	**36,211**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**29,216**	**31,709**	**-**	**17,776**	**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	P206,556	P206,556	P206,556	P -	P -	P -
Trade and other receivables - net	111,370	111,370	111,370	-	-	-
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)	6,121	6,167	246	5,584	309	28
Noncurrent receivables and deposits - net (included under “Other noncurrent assets - net” account)	12,605	12,644	-	2,248	9,731	665
Restricted cash (included under “Prepaid expenses and other current assets” and “Other noncurrent assets - net” accounts)	8,661	8,661	2,878	5,783	-	-
Financial Liabilities						
Loans payable	158,064	158,586	158,586	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	143,553	143,842	143,842	-	-	-
Derivative liabilities (included under “Accounts payable and accrued expenses” account)	3,487	3,487	3,487	-	-	-
Long-term debt (including current maturities)	399,711	504,551	57,780	71,619	206,266	168,886
Finance lease liabilities (including current portion)	168,388	189,698	25,072	26,263	82,814	55,549
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	25,249	28,060	-	14,851	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*	**P240,014**	P203,663
Trade and other receivables - net	*9*	**125,042**	111,370
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*	**19,221**	12,605
Restricted cash	*11, 18*	**14,032**	8,661
		P400,286	P337,163

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

	2018					
	Financial Assets at Amortized Cost					
	12-Month ECL	**Lifetime ECL - not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P240,014**	**P -**	**P -**	**P -**	**P -**	**P240,014**
Trade and other Receivables	**125,042**	**-**	**13,223**	**-**	**-**	**138,265**
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	**-**	**18,728**	**493**	**-**	**-**	**19,221**
Restricted cash	**9,038**	**4,994**	**-**	**-**	**-**	**14,032**

The aging of receivables is as follows:

December 31, 2018	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P52,659**	**P22,353**	**P10,318**	**P85,330**
Past due:				
1 - 30 days	**8,450**	**1,048**	**340**	**9,838**
31 - 60 days	**2,800**	**3,398**	**9**	**6,207**
61 - 90 days	**1,071**	**1,710**	**2**	**2,783**
Over 90 days	**11,540**	**21,749**	**818**	**34,107**
	P76,520	**P50,258**	**P11,487**	**P138,265**

December 31, 2017	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P49,017	P20,061	P13,258	P82,336
Past due:				
1 - 30 days	5,617	1,042	128	6,787
31 - 60 days	1,922	552	20	2,494
61 - 90 days	965	783	14	1,762
Over 90 days	10,498	18,880	1,606	30,984
	P68,019	P41,318	P15,026	P124,363

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	**P243,545**	**P243,545**	P206,556	P206,556
Trade and other receivables - net	**125,042**	**125,042**	111,370	111,370
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)	**5,937**	**5,937**	-	-
AFS financial assets (including current portion presented under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**-**	**-**	6,121	6,121
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)	**19,221**	**19,221**	12,605	12,605
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**14,032**	**14,032**	8,661	8,661
Financial Liabilities				
Loans payable	**P192,968**	**P192,968**	P158,064	P158,064
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**158,415**	**158,415**	143,553	143,553
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)	**617,545**	**623,889**	399,711	419,417
Finance lease liabilities (including current portion)	**152,539**	**152,539**	168,388	168,388
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**29,216**	**29,216**	25,249	25,249

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

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

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

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

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

Long-term Debt, Finance Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. Discount rates used for Philippine peso-denominated loans range from 5.2% to 7.1% and 2.4% to 5.7% as of December 31, 2018 and 2017, respectively. The discount rates used for foreign currency-denominated loans range from 2.5% to 3.0% and 1.7% to 2.2% as of December 31, 2018 and 2017, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

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

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges as of December 31, 2018:

	Maturity			
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk				
Currency forwards				
Notional amount	US$15	US$ -	US$ -	US$15
Average forward rate	P54.27	-	-	
Call spread swaps				
Notional amount	US$22	US$65	US$220	US$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US$ -	US$ -	US$120	US$120
Strike rate	-	-	P54.31	
Fixed interest rate	5.80%	5.80%	5.80%	

The following are the amounts relating to hedged items as of December 31, 2018:

	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P11	P -	(P77)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	1,020	(538)	419

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments as of December 31, 2018:

	Notional	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
	Amount	Assets	Liabilities						
Foreign currency risk									
Currency forwards	US$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other 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 charges
Foreign currency and interest rate risk:									
Cross currency swap	120	-	377	Other noncurrent liabilities	(1,020)	598	252	-	Interest expense and other financing charges, and Other income (charges)

No ineffectiveness was recognized in the 2018 consolidated statement of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	Hedging Reserve	Cost of Hedging Reserve
Balance as of January 1, 2018	P -	P -
Changes in fair value:		
Foreign currency risk	(11)	(187)
Foreign currency risk and interest rate risk	(1,020)	598
Amount reclassified to profit or loss	263	77
Tax effect	230	(146)
Balance as of December 31, 2018	(P538)	P342

The Group has no outstanding derivative instruments accounted as cash flow hedges as of December 31, 2017.

Derivative Instruments not Designated as Hedges

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

Freestanding Derivatives

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

Interest Rate Swap

As of December 31, 2018 and 2017, the Group has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P1,104 and P1,563 as of December 31, 2018 and 2017, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$912 and US$1,283 as of December 31, 2018 and 2017, and with various maturities in 2019 and 2018, respectively. The negative fair value of these currency forwards amounted to P297 and P445 as of December 31, 2018 and 2017, respectively.

Currency Options

As of December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US$370, and with various maturities in 2019. The negative fair value of these currency options amounted to P10 as of December 31, 2018.

The Group has no outstanding currency options as of December 31, 2017.

Commodity Swaps
The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,500 metric tons as of December 31, 2018. The negative fair value of these swaps amounted to P10 as of December 31, 2018.

The Group has no outstanding commodity swaps on the purchase of aluminum as of December 31, 2017.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2019 and 2018. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 17.0 and 42.6 million barrels as of December 31, 2018 and 2017, respectively. The net positive (negative) fair value of these swaps amounted to P489 and (P1,177) as of December 31, 2018 and 2017, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 60,000 metric tons as of December 31, 2018 and 2017. The positive fair value of these swaps amounted to P96 and P62 as of December 31, 2018 and 2017, respectively.

Commodity Options
As of December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as of December 31, 2018.

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

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards
The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$187 and US$169 as of December 31, 2018 and 2017, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The positive fair value of these embedded currency forwards amounted to P87 and P93 as of December 31, 2018 and 2017, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P805, (P3,665) and (P616) in 2018, 2017 and 2016, respectively (Note 32).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2018	2017
Balance at beginning of year	**(P3,154)**	(P2,391)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(453)**	-
Not designated as accounting hedge	**853**	(3,665)
	(2,754)	(6,056)
Less fair value of settled instruments	**(1,804)**	(2,902)
Balance at end of year	**(P950)**	(P3,154)

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

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

	December 31, 2018			December 31, 2017		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P1,545**	**P1,545**	P -	P333	P333
Financial assets at FVPL	**-**	**254**	**254**	-	170	170
Financial assets at FVOCI	**386**	**5,551**	**5,937**	-	-	-
AFS financial assets	**-**	**-**	**-**	278	5,843	6,121
Financial Liabilities						
Derivative liabilities	**-**	**2,495**	**2,495**	-	3,487	3,487

The Group has no financial instruments valued based on Level 3 as of December 31, 2018 and 2017. In 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

42. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987 (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or one month from the date of such commissioning or testing, whichever comes earlier as certified by National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the

project for reasons beyond its control. SMCPC has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017 and September 26, 2017, respectively. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LPPC was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW Circulating Fluidized Bed Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LPPC as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LPPC is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LPPC's BOI registrations.

  In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LPPC to SCPC. On July 13, 2018, BOI granted the SCPC's request to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 commenced on March 26, 2018.

  On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPC, SCPC and LPPC, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPC and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

  On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMC Global for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- SMEC, SPDC and SPPC are registered with the BOI as administrator/ operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.

- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-Pioneer Status.

- On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 300 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for three years from December 2018 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On June 25, 2015, BOI approved the amendments on the registration which includes the downgrade of registered capacity from 600MW to 300MW and the extension of start of commercial operation date to December 2019. However, the ITH reckoning date remains to be the same (December 2018).

  On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10MW BESS Project. The BESS Facility provides 10MW of interconnected capacity and enhances the reliability of the Luzon grid using the Advancion energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for six years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration.

- On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20MW Kabankalan Advancion Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for six years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.

<u>License Granted by the ERC</u>
On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the Electric Power Industry Reform Act of 2001 (EPIRA), which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCLs RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMFB

<u>SMFI</u>
SMFI is registered with the BOI for certain poultry, feedmill and meats projects. In accordance with the provisions of EO No. 226, the projects are entitled, among others, to the following incentives:

- *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. SMFI's management decided to no longer apply for the second year extension of ITH.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions to eight years.

- *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035. The Davao Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts. The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082. The Quezon Poultry Project is entitled to ITH for four years from January 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

  Because of the significant changes and developments in the capacity requirements of both plants, as well as the change of project site for the proposed Quezon Poultry Project, the original project proposals are no longer feasible, thus the need to revise the business plans. On September 19, 2018, SMFI submitted to the BOI request for the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082 and voluntarily surrendered the above BOI Certificates of Registration.

  On October 10, 2018, the BOI approved the cancellation of the above BOI Registration Nos. 2017-035 and 2017-082.

On February 15, 2019, SMFI submitted its new applications for registration of the Davao and Quezon Poultry Projects reflecting the revised project proposals. The applications are currently subject to the evaluation and approval of the BOI.

- *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Great Food Solutions project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the Authority of Freeport Area of Bataan (AFAB) as a Manufacturer of Feeds for Poultry, Livestock and Marine Species on January 6, 2017 under Registration No. 2017-057 valid for the year 2017. On March 6, 2018, the AFAB issued its Certificate of Registration No. 2018-096 for Bataan Feedmill Project, valid for the year 2018.

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

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*

- *Operation of Oil Tanker Vessel (MTC Apitong, 2,993GT).* The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT).* The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional Deduction for Labor Expense*. For the first five years from registration, MTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

g. BTC

BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT).* The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT)*. The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense*. For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

h. NTC

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT). The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense*. For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

i. SMNCI

On January 15, 2018, SMNCI was registered with the BOI as a new producer of cement on a non-pioneer status. SMNCI's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

i. ITH for four years from January 2023 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 22 and its Implementing Rules and Regulation.

iii. Additional deduction from taxable income of 50% of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the requirements as stated in the BOI Certificate.

iv. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.

v. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.

vi. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration.

vii. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.

viii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

43. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- SEC Case

  On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the “Petitioner”) against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the “Petition”). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC’s common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB’s capital stock; and, (b) SMFB’s Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

  SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

  Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motion while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner. On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. On March 14, 2019, counsels for SMC, GSMI and SMFB received a copy of the Motion for Reconsideration of the decision of the SEC Special Hearing Panel dated March 6, 2019. SMC, GSMI and SMFB will file their respective comments on the Motion for Reconsideration no later than March 29, 2019.

- Penalties for Late Filing

  On March 20, 2012, SMC 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 SMC of the shares in Manila Electric Company. SMC 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 SMC.

On December 7, 2017, SMC 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 SMC 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 SMC 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.

- Treasury Shares of SMC

A portion of the total treasury shares of SMC 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 SMC 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 SMC 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 SMC 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, SMC 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 SMC, 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 SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC 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 of SMC 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 SMC. The financial advisor stated that if SMC 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 of SMC 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 SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC 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 SMC 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 SMC 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 SMC 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 SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC 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 SMC 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 SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC 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 SMC'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 SMC 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 SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD of SMC on March 6, 2008.

On July 23, 2009, the stockholders of SMC 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 SMC 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 SMC, 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, SMC 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 SMC.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, SMC 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 SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

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 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 SMC 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) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; 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 SMC 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 SMC, 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 SMC'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.

SMC, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion…' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, SMC 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 SMC to the 25,450,000 treasury shares of SMC. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

- Deficiency Excise Tax/Excess Excise Tax Payments

  Filed by SMC

  On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. SMC 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, SMC, 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, SMC 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 SMC, appealing to SMC to settle its alleged tax liabilities subject of CTA Case Nos. 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". SMC's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against SMC, especially in view of SMC's pending claims for refund.

  As of December 31, 2018, the BIR has taken no further action on the matter.

  On July 24, 2009, SMC 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 SMC 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 SMC'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 SMC 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 SMC, 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 SMC's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC'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, SMC 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, SMC spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

Filed by SMB

SMB filed ten claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - docketed as CTA Case No. 9513 (December 2016);

(i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - docketed as CTA Case No. 9743 (December 2017); and

(j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 - docketed as CTA Case No. 10000 (December 2018).

CTA Case No. 7973, which was consolidated with CTA Case No. 7953, had been decided in favor of SMB by the Third Division, ordering the BIR in the consolidated cases to refund to SMC and SMB the joint amount of P934, which decision was appealed by the BIR before the CTA *En Banc*. The CTA *En Banc* affirmed the Decision of the Third Division and, subsequently, the BIR filed a Motion for Reconsideration, which was denied. The BIR elevated the CTA *En Banc* decision to the Supreme Court by way of a petition for review, which was docketed thereat as G.R. No. 232404. The petition was denied by the Supreme Court on September 11, 2017, thereby affirming the decision of the CTA *En Banc*. On January 23, 2019, after the motion for reconsideration filed by the Office of the Solicitor General was denied and the Supreme Court remanded the cases to the Court of Tax Appeals, SMC/SMB filed a motion for execution with the CTA. This motion is pending with the CTA Second Division.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division, ordering the BIR to refund the amount of P730. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the Court of Tax Appeals, SMB filed a motion for execution with the CTA. This motion is pending with the CTA Third Division.

CTA Case No. 8591 was decided in favor of SMB by the Second Division. The BIR was ordered to refund to SMB the amount of P740. On appeal to the CTA *En Banc*, the latter affirmed the decision of the division. The BIR filed a motion for reconsideration, which was denied by the CTA *En Banc*. The BIR, through the Office of the Solicitor General, appealed the CTA *En Banc* decision to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 232776. On February 21, 2018, the Supreme Court denied the petition for review and affirmed the decision of the CTA *En Banc*. Subsequently, the Office of the Solicitor General filed a motion for reconsideration, which was denied with finality on July 23, 2018. As soon as the case is remanded by the Supreme Court to the Court of Tax Appeals, SMB will file a motion for execution with the CTA Second Division.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761, which was appealed by the BIR to the CTA *En Banc*. On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. The CIR's motion for reconsideration is pending in the CTA *En Banc*.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and

remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the CIR filed a motion for reconsideration on the aforesaid decision, to which motion SMB filed an opposition. The motion was denied by the CTA *En Banc* in a resolution dated January 24, 2019.

In CTA Cases Nos. 9223, 9513 and 9743, after the parties filed their memoranda, the cases were deemed submitted for decision.

CTA Case No. 10000 will be scheduled for pre-trial after the respondent BIR Commissioner shall have filed his answer to SMB's petition for review.

Filed by GSMI

CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 in Case No. 8953, and P133 in Case No. 8954 representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessments and collection cases arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol. This case is still pending with the CTA.

- Deficiency Tax Liabilities

IBI

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment (FDDA) issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was

docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motions for Reconsideration, which were denied by CTA *En Banc* in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Certiorari on September 7, 2018. The petitions of IBI and the BIR are pending in the Supreme Court.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc* (docketed as CTA EB No. 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic deficiency tax, in the amount of P110, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA *En Banc* did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 in light of the amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA *En Banc* has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. An application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending for resolution by the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to the CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three (3) Divisions of the Court. On December 18, 2018, the CTA First Division issued a Resolution admitting IBI's Formal Offer of Evidence and resetting the presentation of evidence by the BIR on March 5, 2019.

SMFI

i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand /Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand /Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

The case is now submitted for decision of the CTA First Division.

- Tax Credit Certificates Cases

  In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on certiorari dated December 5, 2012. On July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR.

- Oil Spill Incident in Guimaras

  On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

  Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases are still pending as of December 31, 2018.

- Lease Agreements with PNOC

  On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour TRO and Verified Applications for 20-day TRO and Writ of Preliminary Injunction. In its complaint, Petron seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated

privatization of Petron. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

Petron alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with Petron.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. As of December 31, 2018, the case was under judicial dispute resolution proceeding before the court.

- Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015 On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders." The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 ("CA Decision"). In the CA decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 ("CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision dated December 19, 2017 and the July 12, 2018 CA Resolution. To date, PSALM's petition is still pending with the Supreme Court.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City which scheduled the Pre-Trial Conference on May 11, 2018. Meanwhile, prior to the scheduled Pre-Trial Conference, SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an Order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said Order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. The issue is now pending resolution with the RTC.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon expiry of the IPPA agreement in 2022.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP administrator for the Ilijan Power Plant.

- Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. Unfortunately, the Supreme Court denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of "*League of Cities vs. Commission of Elections*" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. This case is still pending with the Supreme Court.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's complaint for trademark infringement and unfair competition against Tanduay Distillers, Inc. (TDI) filed with the RTC, arising from TDI's distribution and sale of "Ginebra Kapitan" and use of a bottle design similar to that used by GSMI. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court. These cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224. This case is still pending with the Supreme Court.

- Imported Industrial Fuel Oil

SLHBTC has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 or one and one-half times of the assessed amount of P82 representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

By Order dated September 25, 2018, the case was transferred to the CTA's First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As of December 31, 2018, the case is still pending with the CTA.

- Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partially and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount US$60. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons, in relation to acts that they have allegedly committed in violation of Section 3(e) of RA No. 3019, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (Team Sual), relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of RA 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

- Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignation without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignation case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and Team Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

- TRO Issued to Meralco

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able

to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 27 and May 9, 2014. On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its Decision dated November 7, 2017 ("Decision"), granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL, declaring the aforesaid ERC Orders null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid Motions. On June 2018, the intervenors filed their respective Motions for Reconsideration of the said Resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018. To date, these motions for Reconsideration remain pending with the Court of Appeals.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322, plus interest.

- System Loss Charge

  In 2008, Meralco filed a petition for dispute resolution against PEMC, National Transmission Corporation (TransCo), NPC and PSALM seeking, among others, the refund of the transmission line loss components of the line rentals associated with PSALM/NPC bilateral transactions from the start of the WESM operations and Transition Supply Contract (TSC) implemented in 2006. In this case, the ERC concluded that Meralco was being charged twice considering that it already paid line rental to the WESM beginning June 2006. Hence, the ERC ordered PSALM/NPC to refund Meralco the 2.98% system loss charge embedded in the NPC Time-of-Use ("NPC TOU") rate (Meralco vs. PSALM, NPC, TransCo).

  On March 4, 2013, the ERC issued a subsequent order directing Meralco (i) to collect this system loss charge from the Successor Generating Companies (SGCs), which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs. PSALM appealed the ERC's March 4, 2013 order to the Court of Appeals.

  In compliance with the ERC's March 4, 2013 order, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC (including SMEC, SPPC and MPPCL). On September 20, 2013, SMEC, SPPC and MPPCL jointly with the other SGCs filed a Motion to Dismiss before the ERC, which to this day remains unresolved by the ERC.

- Validity of Concession Agreement with ALECO

  The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed on December 16, 2014 by a certain group of persons headed by an individual who claims to be the president of ALECO (the "Appellants"), against APEC and its former general manager (the "Defendants"), enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global that was subsequently assigned to APEC. The foregoing Complaint also questioned the validity of the Concession Agreement due to alleged oppressive and disadvantageous provisions therein. On September 29, 2015, the trial court upheld the validity of the Concession Agreement and dismissed the Complaint. As a result, the Appellants filed an appeal with the Court of Appeals. On November 23, 2016, the Court of Appeals issued a decision ("November 2016 Decision") reversing the decision of the trial court on the ground that no pre-trial conference was conducted and ruled that the case should be remanded back to conduct the pre-trial conference and for the case to be resolved with dispatch in accordance with the Rules of Court. After motion for reconsideration from Defendants, the Court of Appeals sustained its November 2016 Decision on June 26, 2018.

  To date, the Defendants have not received any order from the trial court on the schedule of the pre-trial conference.

b. *EPIRA*

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2018.

c. *Commitments*

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

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

d. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries, associates and joint ventures to Philippine peso were closing rates of P52.58 and P49.93 in 2018 and 2017, respectively, for consolidated statements of financial position accounts; and average rates of P52.69, P50.40 and P47.48 in 2018, 2017 and 2016, respectively, for income and expense accounts.

e. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

Annex "B-2"

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 AND DECEMBER 31, 2018
(In Millions)

ASSETS

	2019 Unaudited	2018 Audited
Current Assets		
Cash and cash equivalents (Notes 8 and 9)	₱ 253,462	₱ 243,545
Trade and other receivables - net (Notes 1, 4, 8 and 9)	129,657	125,042
Inventories	127,441	125,145
Current portion of biological assets - net	4,065	4,245
Prepaid expenses and other current assets (Notes 1, 4, 8 and 9)	82,080	92,261
Total Current Assets	596,705	590,238
Noncurrent Assets		
Investments and advances - net	50,396	50,754
Investments in equity and debt instruments (Notes 8 and 9)	6,071	6,069
Property, plant and equipment - net (Notes 1 and 5)	463,718	651,408
Right-of-use assets -net (Note 1)	205,027	-
Investment property - net (Note 1)	47,812	33,635
Biological assets - net of current portion	2,943	2,844
Goodwill	120,792	120,867
Other intangible assets - net (Note 1)	254,382	253,534
Deferred tax assets (Note 1)	19,342	19,663
Other noncurrent assets - net (Notes 1, 4, 8 and 9)	68,551	62,180
Total Noncurrent Assets	1,239,034	1,200,954
	₱ 1,835,739	₱ 1,791,192

LIABILITIES AND EQUITY

	2019 Unaudited	2018 Audited
Current Liabilities		
Loans payable (Notes 4, 8 and 9)	₱ 204,170	₱ 192,968
Accounts payable and accrued expenses (Notes 1, 4, 8 and 9)	172,457	162,435
Lease liabilities - current portion (Notes 1, 8 and 9)	24,826	22,529
Income and other taxes payable	23,935	19,937
Dividends payable (Note 4)	3,708	3,491
Current maturities of long-term debt - net of debt issue costs (Notes 4, 8 and 9)	55,228	55,872
Total Current Liabilities	484,324	457,232
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 4, 8 and 9)	560,226	561,673
Deferred tax liabilities (Note 1)	65,854	65,297
Lease liabilities - net of current portion (Notes 1, 8 and 9)	141,826	130,010
Other noncurrent liabilities (Notes 1, 4, 8 and 9)	40,233	39,848
Total Noncurrent Liabilities	808,139	796,828
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Convertible perpetual securities	25,158	25,158
Equity reserves	11,293	10,923
Retained earnings:		
Appropriated	29,248	29,655
Unappropriated (Note 1)	50,823	48,583
Treasury stock	(76,780)	(76,780)
	160,993	158,790
Non-controlling Interests (Note 1)	382,283	378,342
Total Equity	543,276	537,132
	₱ 1,835,739	₱ 1,791,192

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

CERTIFIED CORRECT:

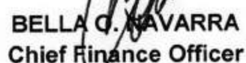
BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In Millions, Except Per Share Data)

	2019 Unaudited	2018 Unaudited
SALES (Note 2)	₱ 250,920	₱ 234,341
COST OF SALES	200,054	184,124
GROSS PROFIT	50,866	50,217
SELLING AND ADMINISTRATIVE EXPENSES	(20,174)	(18,189)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(13,026)	(8,241)
INTEREST INCOME	2,725	1,376
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	208	46
GAIN ON SALE OF PROPERTY AND EQUIPMENT	33	8
OTHER CHARGES - Net (Note 3)	(899)	(6,438)
INCOME BEFORE INCOME TAX	19,733	18,779
INCOME TAX EXPENSE	7,253	5,229
NET INCOME	₱ 12,480	₱ 13,550
Attributable to:		
Equity holders of the Parent Company	₱ 2,290	₱ 1,716
Non-controlling interests	10,190	11,834
	₱ 12,480	₱ 13,550
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 6):	₱ 5.71	₱ 3.97

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

CERTIFIED CORRECT:



BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited
NET INCOME	**₱ 12,480**	₱ 13,550
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	-	1
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**(3)**	20
INCOME TAX BENEFIT (EXPENSE)	**(4)**	1
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	**89**	(139)
	82	(117)
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	**696**	4,100
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**5**	(3)
INCOME TAX BENEFIT	-	1
NET LOSS ON CASH FLOW HEDGES	**(165)**	-
INCOME TAX BENEFIT	**49**	-
	585	4,098
OTHER COMPREHENSIVE INCOME - Net of tax	**667**	3,981
TOTAL COMPREHENSIVE INCOME - Net of tax	**₱ 13,147**	₱ 17,531
Attributable to:		
Equity holders of the Parent Company	**₱ 2,447**	₱ 2,509
Non-controlling interests	**10,700**	15,022
	₱ 13,147	₱ 17,531

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

CERTIFIED CORRECT:

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves					Retained Earnings		Treasury Stock		Total		
	Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As of January 1, 2019, As previously reported (Audited)	P 490	P 260	P 120,501	P 25,158	P (1,899)	P (114)	P 1,444	P (1,662)	P 13,154	P 29,655	P 48,583	P (28,457)	P (48,323)	P 158,790	P 378,342	P 537,132
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 (Note 1)	-	-	-	-	-	-	-	-	-	-	(411)	-	-	(411)	(569)	(980)
As of January 1, 2019, As adjusted	490	260	120,501	25,158	(1,899)	(114)	1,444	(1,662)	13,154	29,655	48,172	(28,457)	(48,323)	158,379	377,773	536,152
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	169	-	-	-	-	-	169	527	696
Share in other comprehensive income of associates and joint ventures - net	-	-	-	-	-	-	54	3	-	-	-	-	-	57	32	89
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(67)	-	-	-	-	-	-	-	(67)	(49)	(116)
Net loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(2)	-	-	-	-	-	-	(2)	-	(2)
Other comprehensive income (loss)	-	-	-	-	-	(67)	52	172	-	-	-	-	-	157	510	667
Net income	-	-	-	-	-	-	-	-	-	-	2,290	-	-	2,290	10,190	12,480
Total comprehensive income (loss)	-	-	-	-	-	(67)	52	172	-	-	2,290	-	-	2,447	10,700	13,147
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	-	213	-	(46)	-	-	167	788	955
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(407)	407	-	-	-	-	-
Cash dividends:																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,998)	(2,998)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,364)	(2,364)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,616)	(1,616)
As of March 31, 2019 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,899)	P (181)	P 1,496	P (1,490)	P 13,367	P 29,248	P 50,823	P (28,457)	P (48,323)	P 160,993	P 382,283	P 543,276
As of January 1, 2018 (Audited)	P 490	P 260	P 120,501	P 25,158	P (1,685)	P -	P 1,395	P (1,693)	P (4,059)	P 25,742	P 46,262	P (28,457)	P (48,323)	P 135,591	P 362,444	P 498,035
Gain on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	873	-	-	-	-	-	873	3,227	4,100
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	(101)	7	-	-	-	-	-	(94)	(45)	(139)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	13	-	-	-	-	-	-	13	6	19
Equity reserve for retirement plan	-	-	-	-	1	-	-	-	-	-	-	-	-	1	-	1
Other comprehensive income (loss)	-	-	-	-	1	-	(88)	880	-	-	-	-	-	793	3,188	3,981
Net income	-	-	-	-	-	-	-	-	-	-	1,716	-	-	1,716	11,834	13,550
Total comprehensive income (loss)	-	-	-	-	1	-	(88)	880	-	-	1,716	-	-	2,509	15,022	17,531
Net addition (reduction) to non-controlling interests and others	-	-	-	-	-	-	-	-	(2,232)	-	(263)	-	-	(2,495)	5,885	3,390
Reversal of appropriations - net	-	-	-	-	-	-	-	-	-	(132)	132	-	-	-	-	-
Cash dividends:																
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,425)	(2,425)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,364)	(2,364)
Distributions paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,719)	(2,719)
As of March 31, 2018 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (1,684)	P -	P 1,307	P (813)	P (6,291)	P 25,610	P 47,847	P (28,457)	P (48,323)	P 135,605	P 375,843	P 511,448

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

CERTIFIED CORRECT:

BE[illegible]ARRA
Chi[illegible]Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2019 AND 2018
(In Millions)

	2019 Unaudited	2018 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 19,733	P 18,779
Adjustments for:		
Interest expense and other financing charges	13,026	8,241
Depreciation, amortization and others - net	8,440	18,758
Interest income	(2,725)	(1,376)
Equity in net earnings of associates and joint ventures	(208)	(46)
Gain on sale of property and equipment	(33)	(8)
Operating income before working capital changes	38,233	44,348
Changes in noncash current assets, certain current liabilities and others	11,286	(21,265)
Cash generated from operations	49,519	23,083
Interest and other financing charges paid	(12,966)	(5,899)
Income taxes paid	(2,532)	(1,788)
Net cash flows provided by operating activities	34,021	15,396
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(12,815)	(7,075)
Increase in other noncurrent assets and others	(12,100)	(3,388)
Additions to investments and advances	(330)	(786)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(9)	(97,334)
Dividends received	6	2
Proceeds from sale of investments and property and equipment	267	39
Interest received	2,434	1,299
Net cash flows used in investing activities	(22,547)	(107,243)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	266,406	263,456
Long-term borrowings	3,553	109,938
Payments of:		
Short-term borrowings	(255,350)	(237,699)
Long-term borrowings	(5,585)	(5,043)
Cash dividends and distributions paid to non-controlling shareholders	(6,762)	(6,022)
Payments of lease liabilities	(4,949)	(6,330)
Increase (decrease) in non-controlling interests and others	5	(367)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	-	24,878
Redemption of undated subordinated capital securities of a subsidiary	-	(21,309)
Net cash flows provided by (used in) financing activities	(2,682)	121,502
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,125	683
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,917	30,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	243,545	206,556
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 253,462	P 236,894

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

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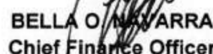

BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2019
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	**31 - 60 Days**	**Over 60 Days**
Trade	P 81,858	P 60,393	P 6,368	P 2,622	P 12,475
Non-trade	48,910	22,399	1,375	859	24,277
Amounts Owed by Related Parties	11,838	10,683	344	62	749
Total	142,606	**P 93,475**	**P 8,087**	**P 3,543**	**P 37,501**
Less allowance for impairment losses	12,949				
Net	**P 129,657**				

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as of and for the period ended March 31, 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.

<u>Adoption of New and Amended Standards and Interpretation</u>
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:

- 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;

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- 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	P98
Prepaid expenses and other current assets	(415)
Property, plant and equipment - net	(195,028)
Right-of-use assets - net	206,868
Investment property - net	10,744
Other intangible assets - net	(1,190)
Deferred tax assets	206
Other noncurrent assets - net	(3,175)
	P18,108
LIABILITIES AND EQUITY	
Accounts payable and accrued expenses	(P1,152)
Lease liabilities	20,716
Deferred tax liabilities	(350)
Other noncurrent liabilities	(126)
Total Liabilities	19,088
Retained earnings	(411)
Non-controlling interests	(569)
Total Equity	(980)
	P18,108

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	(684)
Extension and termination options reasonably certain to be exercised	2,089
Effect from discounting at the incremental borrowing rate as of January 1, 2019	(14,855)
Lease liabilities recognized based on the initial application of PFRS 16 as of January 1, 2019	P20,716
Finance lease liabilities recognized as of December 31, 2018	152,539
Lease liabilities recognized as of January 1, 2019	P173,255

- 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:

  - 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.

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. **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, infrastructure and mining.

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 coffeerelated 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 mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

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		Mining and Others		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Sales																
External sales	**P75,577**	P66,069	**P6,299**	P5,465	**P33,853**	P23,902	**P123,254**	P128,093	**P6,358**	P5,888	**P5,579**	P4,924	**P–**	P –	**P250,920**	P234,341
Inter-segment sales	**78**	18	**2,541**	3,092	**823**	759	**1,304**	1,019	**1**	–	**4,583**	3,557	**(9,330)**	(8,445)	**–**	–
Total sales	**P75,655**	P66,087	**P8,840**	P8,557	**P34,676**	P24,661	**P124,558**	P129,112	**P6,359**	P5,888	**P10,162**	P8,481	**(P9,330)**	(P8,445)	**P250,920**	P234,341
Results																
Segment results	**P10,731**	P10,689	**P828**	P706	**P9,655**	P7,805	**P5,898**	P9,856	**P3,104**	P3,088	**P808**	P97	**(P332)**	(P213)	**P30,692**	P32,028

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		Mining and 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	**P75,560**	P66,047	**P6,146**	P5,326	**P–**	P–	**P123,254**	P128,093	**P–**	P–	**P4,525**	P4,052	**P209,485**	P203,518
Sales recognized over time	**17**	22	**153**	139	**33,853**	23,902	**–**	–	**6,358**	5,888	**1,054**	872	**41,435**	30,823
Total external sales	**P75,577**	P66,069	**P6,299**	P5,465	**P33,853**	P23,902	**P123,254**	P128,093	**P6,358**	P5,888	**P5,579**	P4,924	**P250,920**	P234,341

3. Other Charges

Other income (charges) consists of:

	March 31	
	2019	2018
Construction revenue	**P3,339**	P1,380
Gain (loss) on foreign exchange - net	**242**	(8,128)
Gain (loss) on derivatives - net	**(1,270)**	1,254
Construction costs	**(3,339)**	(1,380)
Others	**129**	436
	(P899)	(P6,438)

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.

4. 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 March 31, 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
Shareholders of the Parent Company	**March 31,2019**	**P–**	**P–**	**P–**	**P11,264**	On demand; interest bearing	Unsecured
	December 31, 2018	–	–	–	11,281		
	March 31,2019	**–**	**–**	**–**	**221**	On demand; non-interest	Unsecured
	December 31, 2018	–	–	–	221		
Retirement Plans	**March 31,2019**	**76**	**–**	**9,590**	**38**	On demand; interest bearing	Unsecured; no impairment
	December 31, 2018	399	–	9,516	–		
Associates	**March 31,2019**	**694**	**12**	**1,629**	**176**	On demand; interest and non-Interest bearing	Unsecured; no impairment
	December 31, 2018	2,905	251	1,564	193		
	March 31,2019	**–**	**–**	**–**	**24,112**	Less than 1 to 10 years; Interest bearing	Unsecured and secured
	December 31, 2018	–	–	–	23,226		
Joint Ventures	**March 31,2019**	**14**	**278**	**686**	**190**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	76	1,181	684	64		
Shareholders in Subsidiaries	**March 31,2019**	**14**	**17**	**204**	**2,511**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	125	103	147	2,516		
Others	**March 31,2019**	**653**	**848**	**737**	**8,031**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2018	2,199	1,499	496	7,851		
Total	**March 31,2019**	**P1,451**	**P1,155**	**P12,846**	**P46,543**		
Total	December 31, 2018	P5,704	P3,034	P12,407	P45,352		

a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest will accrue beginning on the relevant year when SMC has commenced the management and operations of its Airport Project, a project that involves the construction of an international airport in Bulacan. This payable has no definite payment terms and considered payable upon demand.

b. Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.

c. Amounts owed to related parties consist of trade payables and professional fees.

d. The amounts owed to associates include interest bearing loans to Bank of Commerce (BOC) presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.

5. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 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	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
Additions	1,699	481	67	426	424	5,195	71	–	38,962	47,325
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)	60,781	47,400	379,217	169,971	17,969	160,249	5,629	5,594	85,298	932,108
Adjustment due to adoption of PFRS 16	(877)	(1,291)	(242,619)	(1,816)	(176)	–	–	–	10	(246,769)
December 31, 2018 (as adjusted)	59,904	46,109	136,598	168,155	17,793	160,249	5,629	5,594	85,308	685,339
Additions	141	288	4	375	628	641	2	–	10,736	12,815
Disposals/retirement	–	(15)	(2)	–	(257)	(347)	–	–	(82)	(703)
Reclassifications	175	2,470	–	33	189	804	17	–	(3,358)	330
Acquisition of subsidiaries	16	50	–	–	–	29	–	–	–	95
Currency translation adjustments	(252)	(71)	(73)	386	139	352	3	–	31	515
March 31, 2019 (Unaudited)	**59,984**	**48,831**	**136,527**	**168,949**	**18,492**	**161,728**	**5,651**	**5,594**	**92,635**	**698,391**
Accumulated Depreciation and Amortization										
January 1, 2018 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	–	231,798
Depreciation and amortization	191	1,729	10,740	6,308	1,141	8,127	274	9	–	28,519
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)	3,422	18,936	75,571	51,637	12,604	99,692	1,658	4,893	–	268,413
Adjustment due to adoption of PFRS 16	–	(636)	(50,849)	(193)	(63)	–	–	–	–	(51,741)
December 31, 2018 (as adjusted)	3,422	18,300	24,722	51,444	12,541	99,692	1,658	4,893	–	216,672
Depreciation and amortization	45	435	937	1,583	629	1,950	78	1	–	5,658
Disposals/retirement	–	(3)	–	–	(243)	(293)	–	–	–	(539)
Reclassifications	(30)	708	–	(18)	15	(576)	3	–	–	102
Acquisition of subsidiaries	–	7	–	–	–	23	–	–	–	30
Currency translation adjustments	(63)	26	(29)	171	80	199	–	–	–	384
March 31, 2019 (Unaudited)	**3,374**	**19,473**	**25,630**	**53,180**	**13,022**	**100,995**	**1,739**	**4,894**	**–**	**222,307**

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**	**Mine and Mining Property**	**Capital Projects in Progress**	**Total**
Accumulated Impairment Losses										
January 1, 2018 (Audited)	P266	P2,315	P–	P–	P–	P8,616	P27	P573	P–	P11,797
Impairment	–	454	–	–	–	163	–	–	–	617
Disposals/retirement	–	–	–	–	–	(13)	–	–	–	(13)
Reclassifications	(266)	(16)	–	–	–	26	–	–	–	(256)
Currency translation adjustments	–	(2)	–	–	–	145	(1)	–	–	142
December 31, 2018 (Audited)	–	2,751	–	–	–	8,937	26	573	–	12,287
Disposals and reclassifications	3	(76)	–	–	–	–	–	–	–	(73)
Currency translation adjustments	–	48	–	–	–	104	–	–	–	152
March 31, 2019 (Unaudited)	**3**	**2,723**	**–**	**–**	**–**	**9,041**	**26**	**573**	**–**	**12,366**
Carrying Amount										
December 31, 2018 (Audited)	P57,359	P25,713	P303,646	P118,334	P5,365	P51,620	P3,945	P128	P85,298	P651,408
March 31, 2019 (Unaudited)	**P56,607**	**P26,635**	**P110,897**	**P115,769**	**P5,470**	**P51,692**	**P3,886**	**P127**	**P92,635**	**P463,718**

March 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	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2018 (Audited)	P67,136	P55,119	P296,611	P167,415	P17,441	P143,938	P3,805	P5,594	P69,102	P826,161
Additions	210	2	–	109	43	328	29	–	6,354	7,075
Disposals/retirement	–	(170)	–	(2)	(231)	(166)	–	–	–	(569)
Reclassifications	(90)	971	11,612	102	(113)	1,957	1,064	–	(15,005)	498
Acquisition of subsidiaries	873	974	53,383	–	–	2,331	38	–	23,483	81,082
Currency translation adjustments	826	1,579	72	1,189	789	2,355	8	–	172	6,990
March 31, 2018 (Unaudited)	68,955	58,475	361,678	168,813	17,929	150,743	4,944	5,594	84,106	921,237
Accumulated Depreciation and Amortization										
January 1, 2018 (Audited)	4,310	25,148	46,740	45,088	12,210	92,019	1,399	4,884	–	231,798
Depreciation and amortization	61	557	2,238	1,557	245	1,948	59	4	–	6,669
Disposals/retirement	–	(167)	–	(2)	(224)	(148)	–	–	–	(541)
Reclassifications	31	267	(37)	(1)	(271)	75	(9)	–	–	55
Acquisition of subsidiaries	–	75	18,004	–	–	696	32	–	–	18,807
Currency translation adjustments	51	795	28	855	437	1,269	6	–	–	3,441
March 31, 2018 (Unaudited)	4,453	26,675	66,973	47,497	12,397	95,859	1,487	4,888	–	260,229
Accumulated Impairment Losses										
January 1, 2018 (Audited)	266	2,315	–	–	–	8,616	27	573	–	11,797
Reclassifications	–	–	–	–	–	9	–	–	–	9
Currency translation adjustments	–	235	–	–	–	659	1	–	–	895
March 31, 2018 (Unaudited)	266	2,550	–	–	–	9,284	28	573	–	12,701
Carrying Amount										
March 31, 2018 (Unaudited)	P64,236	P29,250	P294,705	P121,316	P5,532	P45,600	P3,429	P133	P84,106	P648,307

Depreciation and amortization charged to operations amounted to P5,658 and P6,669 for the periods ended March 31, 2019 and 2018, respectively.

6. 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 and distribution to holders of convertible perpetual securities (CPS), 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:

	March 31	
	2019	2018
Net income attributable to equity holders of the Parent Company	**P2,290**	P1,716
Less dividends on CPS for the period	**404**	404
Net income attributable to common shareholders of the Parent Company (a)	**P1,886**	P1,312
Weighted average number of common shares outstanding (in millions) (b)	**330**	330
Basic and diluted earnings per common share attributable to equity holders of the Parent Company (a/b)	**P5.71**	P3.97

Earnings per share are computed based on amounts in nearest peso.

As of March 31, 2019 and 2018, the Parent Company has no dilutive debt or equity instruments.

7. Dividends

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

2019

Date of Declaration	**Date of Record**	**Date of Payment**	**Dividend per Share**
March 14, 2019	**March 14, 2019**	**March 15, 2019**	**P279.00**

2018

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 15, 2018	March 15, 2018	March 16, 2018	P279.00

On May 9, 2019, the BOD of the Parent Company declared cash dividends at P279.00 per preferred share, payable on May 10, 2019 to shareholders owning preferred shares as of May 9, 2019.

8. **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:

March 31, 2019	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P29,037**	**P29,075**	**P58,791**	**P57,769**	**P48,465**	**P142,187**	**P365,324**
Interest rate	**5.4583% - 12.00%**	**4.9925% - 9.8754%**	**4.0032% - 9.885%**	**5.1923% - 9.885%**	**4.5219% - 9.885%**	**5.1792% - 9.885%**	
Foreign currency-denominated (expressed in Philippine peso)	**1,977**	**2,542**	**2,675**	**7,763**	**28,147**	**13,240**	**56,344**
Interest rate	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.7776% - 5.5959%**	**4.875% - 5.5959%**	**5.5959%**	
Floating Rate							
Philippine peso-denominated	**1,069**	**1,225**	**1,687**	**2,421**	**587**	**–**	**6,989**
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)	**23,539**	**30,553**	**15,895**	**72,037**	**42,358**	**9,087**	**193,469**
Interest rate	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	
	P55,622	**P63,395**	**P79,048**	**P139,990**	**P119,557**	**P164,514**	**P622,126**

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	P29,488	P28,159	P51,765	P49,110	P49,465	P161,404	P369,391
Interest rate	5.4583% - 12.00%	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	
	P56,234	P51,672	P82,279	P68,251	P183,697	P182,382	P624,515

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 P2,005 and P2,001 for the period ended March 31, 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:

	March 31, 2019		December 31, 2018	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,694**	**P141,366**	US$2,444	P128,554
Trade and other receivables	**431**	**22,731**	770	40,482
Prepaid expenses and other current assets	**11**	**587**	17	926
Noncurrent receivables	**62**	**3,283**	87	4,552
	3,198	**167,967**	3,318	174,514
Liabilities				
Loans payable	**866**	**45,457**	821	43,147
Accounts payable and accrued expenses	**1,568**	**82,426**	1,475	77,574
Long-term debt (including current maturities)	**4,758**	**249,813**	4,722	248,324
Lease liabilities (including current portion)	**1,489**	**78,105**	1,499	78,799
Other noncurrent liabilities	**449**	**23,586**	457	24,040
	9,130	**479,387**	8,974	471,884
Net foreign currency-denominated monetary liabilities	**(US$5,932)**	**(P311,420)**	(US$5,656)	(P297,370)

The Group reported net gain (losses) on foreign exchange amounting to P242 and (P8,128) for the periods ended March 31, 2019 and 2018, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 3). 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
March 31, 2019	**52.50**
December 31, 2018	52.58
March 31, 2018	52.16
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**	
March 31, 2019	**Effect on Income before Income Tax**	**Effect on Equity**	**Effect on Income before Income Tax**	**Effect on Equity**
Cash and cash equivalents	**(P2,320)**	**(P1,999)**	**P2,320**	**P1,999**
Trade and other receivables	**(274)**	**(429)**	**274**	**429**
Prepaid expenses and other current assets	**(10)**	**(8)**	**10**	**8**
Noncurrent receivables	**(11)**	**(59)**	**11**	**59**
	(2,615)	**(2,495)**	**2,615**	**2,495**
Loans payable	**725**	**655**	**(725)**	**(655)**
Accounts payable and accrued expenses	**1,135**	**1,593**	**(1,135)**	**(1,593)**
Long-term debt (including current maturities)	**4,016**	**3,553**	**(4,016)**	**(3,553)**
Lease liabilities (including current portion)	**1,486**	**1,042**	**(1,486)**	**(1,042)**
Other noncurrent liabilities	**449**	**358**	**(449)**	**(358)**
	7,811	**7,201**	**(7,811)**	**(7,201)**
	P5,196	**P4,706**	**(P5,196)**	**(P4,706)**

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
December 31, 2018	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P2,031)	(P1,835)	P2,031	P1,835
Trade and other receivables	(262)	(740)	262	740
Prepaid expenses and other current assets	(8)	(16)	8	16
Noncurrent receivables	(30)	(77)	30	77
	(2,331)	(2,668)	2,331	2,668
Loans payable	575	649	(575)	(649)
Accounts payable and accrued expenses	937	1,404	(937)	(1,404)
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	307	366	(307)	(366)
	6,620	6,986	(6,620)	(6,986)
	P4,289	P4,318	(P4,289)	(P4,318)

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.

SMC enters into commodity derivative 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, coal, 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.

March 31, 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	**P253,462**	**P253,462**	**P253,462**	**P–**	**P–**	**P–**
Trade and other receivables – net	**129,657**	**129,657**	**129,657**	**–**	**–**	**–**
Derivative assets (included under "Prepaid expenses, other current assets" and "Other noncurrent assets" accounts)	**1,774**	**1,774**	**1,074**	**700**	**–**	**–**
Investments at FVPL (included under "Prepaid expenses and other current assets" account)	**251**	**251**	**251**	**–**	**–**	**–**
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**5,939**	**5,960**	**60**	**45**	**127**	**5,728**
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	**226**	**246**	**49**	**76**	**121**	**–**
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	**20,250**	**20,464**	**–**	**3,361**	**16,497**	**606**
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	**11,567**	**11,567**	**5,387**	**6,180**	**–**	**–**
Financial Liabilities						
Loans payable	**204,170**	**204,979**	**204,979**	**–**	**–**	**–**
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure restoration obligation (IRO), deferred income and other current non-financial liabilities)	**170,015**	**170,324**	**170,324**	**–**	**–**	**–**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**1,939**	**1,939**	**1,043**	**896**	**–**	**–**
Long-term debt (including current maturities)	**615,454**	**773,914**	**88,108**	**93,381**	**400,661**	**191,764**
Lease liabilities (including current portion)	**166,652**	**192,427**	**30,620**	**32,553**	**79,532**	**49,722**
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), accrual for mine rehabilitation and decommissioning, and other noncurrent non-financial liabilities)	**29,435**	**32,086**	**–**	**17,972**	**9,571**	**4,543**

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	P243,545	P243,545	P243,545	P−	P−	P−
Trade and other receivables - net	125,042	125,042	125,042	−	−	−
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" 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)	5,937	6,026	60	46	235	5,685
Financial assets at amortized cost (incuded 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)	19,221	19,516	−	2,870	16,304	342
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	14,032	14,032	9,038	4,994	−	−
Financial Liabilities						
Loans payable	192,968	193,914	193,914	−	−	−
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	158,415	158,724	158,724	−	−	−
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)	617,545	783,282	89,247	82,220	400,027	211,788
Finance lease liabilities (including current portion)	152,539	169,173	27,042	29,698	76,222	36,211
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	29,216	31,709	−	17,776	9,330	4,603

Credit Risk

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

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

Trade and Other Receivables

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

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

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

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.

	March 31, 2019	December 31, 2018
Cash and cash equivalents (excluding cash on hand)	**P251,407**	P240,014
Trade and other receivables - net	**129,657**	125,042
Derivative assets	**1,774**	1,545
Investment in debt instruments at FVOCI	**211**	206
Investmetns in debt instruments at amortized cost	**226**	226
Noncurrent receivables and deposits - net	**20,250**	19,221
Restricted cash	**11,567**	14,032
	P415,092	P400,286

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 losses (ECL) or lifetime ECL. Assets that are credit-impaired are separately presented.

	March 31, 2019					
	Financial Assets at Amortized Cost					
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P251,407**	**P–**	**P–**	**P–**	**P–**	**P251,407**
Trade and other receivables	**129,657**	**–**	**12,949**	**–**	**–**	**142,606**
Derivative assets	**–**	**–**	**–**	**1,774**	**–**	**1,774**
Investment in debt instruments at FVOCI	**–**	**–**	**–**	**–**	**211**	**211**
Investment in debt instruments at amortized cost	**40**	**186**	**–**	**–**	**–**	**226**
Noncurrent receivables and deposits	**–**	**20,250**	**476**	**–**	**–**	**20,276**
Restricted cash	**5,387**	**6,180**	**–**	**–**	**–**	**11,567**

	December 31, 2018					
	Financial Assets at Amortized Cost					
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P240,014	P–	P–	P–	P–	P240,014
Trade and other receivables	125,042	–	13,223	–	–	138,265
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	–	19,221	493	–	–	19,714
Restricted cash	9,038	4,994	–	–	–	14,032

The aging of receivables is as follows:

March 31, 2019	**Trade**	**Non-trade**	**Amounts Owed by Related Parties**	**Total**
Current	**P60,393**	**P22,399**	**P10,683**	**P93,475**
Past due:				
1 - 30 days	**6,368**	**1,375**	**344**	**8,087**
31 - 60 days	**2,622**	**859**	**62**	**3,543**
61 - 90 days	**1,193**	**369**	**9**	**1,571**
Over 90 days	**11,282**	**23,908**	**740**	**35,930**
	P81,858	**P48,910**	**P11,838**	**P142,606**

December 31, 2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P52,659	P22,353	P10,318	P85,330
Past due:				
1 - 30 days	8,450	1,048	340	9,838
31 - 60 days	2,800	3,398	9	6,207
61 - 90 days	1,071	1,710	2	2,783
Over 90 days	11,540	21,749	818	34,107
	P76,520	P50,258	P11,487	P138,265

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, CPS 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.

9. 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:

	March 31, 2019		December 31, 2018	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P253,462**	**P253,462**	P243,545	P243,545
Trade and other receivables - net	**129,657**	**129,657**	125,042	125,042
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**1,774**	**1,774**	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	**251**	**251**	254	254
Financial assets at FVOCI (including current portion presented under "Prepaid expenses and other current assets" account)	**5,939**	**5,939**	5,937	5,937
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)	**20,250**	**20,250**	19,221	19,221
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	**11,567**	**11,567**	14,032	14,032
Financial Liabilities				
Loans payable	**204,170**	**204,170**	192,968	192,968
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	**170,015**	**170,015**	158,415	158,415
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**1,939**	**1,939**	2,495	2,495
Long-term debt (including current maturities)	**615,454**	**642,805**	617,545	623,889
Lease liabilities (including current portion)	**166,652**	**166,652**	152,539	152,539
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO, deferred income, accrual for mine rehabilitation and decommissioning and other noncurrent non-financial liabilities)	**29,435**	**29,435**	29,216	29,216

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 5.5% to 6.1% and 5.2% to 7.1% as of March 31, 2019 and December 31, 2018, respectively. The discount rates used for foreign currency-denominated loans range from 2.2% to 2.7% and 2.5% to 3.0% as of of March 31, 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 Hedging 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 the host contract is not a financial asset and 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:

	Maturity			
March 31, 2019	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Total**
Foreign currency risk				
Currency forwards				
Notional amount	**US$15**	**US$–**	**US$–**	**US$15**
Average forward rate	**P54.27**	**–**	**–**	
Call spread swaps				
Notional amount	**US$22**	**US$184**	**US$324**	**US$530**
Average strike rate	**P53.87 to P57.37**	**P52.85 to P56.15**	**P52.83 to P56.15**	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	**US$–**	**US$20**	**US$150**	**US$170**
Strike rate	**–**	**P47.00 to P57.50**	**P47.00 to P57.50**	
Fixed interest rate	**–**	**5.75%**	**5.75% to 5.80%**	

	Maturity			
December 31, 2018	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Total
Foreign currency risk				
Currency forwards				
Notional amount	US$15	US$–	US$–	US$15
Average forward rate	P54.27	–	–	
Call spread swaps				
Notional amount	US$22	US$65	US$220	US$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US$–	US$–	US$120	US$120
Strike rate	–	–	P54.31	
Fixed interest rate	5.80%	5.80%	5.80%	

The following are the amounts relating to hedged items:

March 31, 2019	**Change in Fair Value Used for Measuring Hedge Ineffectiveness**	**Hedging Reserve**	**Cost of Hedging Reserve**
Foreign currency risk			
US dollar-denominated borrowings	**P38**	**P−**	**(P73)**
Foreign currency and interest rate risks			
US dollar-denominated borrowings	**89**	**(608)**	**369**

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:

March 31, 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:									
Currency forwards	**US$15**	**P–**	**P22**	**Accounts payable and accrued expenses**	**(P1)**	**(P6)**	**P1**	**P4**	**Other income (charges)**
Call spread swaps	**530**	**712**	**(590)**	**Prepaid expenses and other current assets, Other noncurrent assets, Accounts payable and accrued expenses and Other noncurrent liabilities**	**(37)**	**(54)**	**(74)**	**61**	**Interest expense and other financing charges, and Other income (charges)**
Foreign currency and interest rate risk:									
Cross currency swap	**170**	**–**	**574**	**Other noncurrent liabilities**	**(89)**	**(72)**	**67**	**1**	**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.

	March 31, 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	**73**	**(60)**	(11)	(187)
Foreign currency risk and interest rate risk	**(167)**	**(72)**	(1,020)	598
Amount reclassified to profit or loss	**(6)**	**66**	263	77
Tax effect	**30**	**20**	230	(146)
Balance, ending	**(P608)**	**P296**	(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, currency and commodity derivatives entered into by the Group.

Interest Rate Swap

As of 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 P427 and P1,104 as of March 31, 2019 and December 31, 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$387 and US$912 as of March 31, 2019 and December 31, 2018, respectively, and with various maturities in 2019. The net negative fair value of these currency forwards amounted to P38 and P297 as of March 31, 2019 and December 31, 2018, respectively.

Currency Options

As of March 31, 2019 and December 31, 2018, the Group has outstanding currency options with an aggregate notional amount of US$498 and US$370, respectively, and with various maturities in 2019. The net positive (negative) fair value of these currency options amounted to P71 and (P10) as of March 31, 2019 and December 31, 2018, respectively.

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 and 1,500 metric tons as of March 31, 2019 and December 31, 2018, respectively. The negative fair value of these swaps amounted to P2 and P10 as of 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 13.7 and 17.0 million barrels as of March 31, 2019 and December 31, 2018, respectively. The positive fair value of these swaps amounted to P687 and P489 as of 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 60,000 metric tons as of March 31, 2019 and December 31, 2018. The positive fair value of these swaps amounted to P45 and P96 as of March 31, 2019 and December 31, 2018, respectively.

Commodity Options
As of March 31, 2019, the Group has no outstanding 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.

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$171 and US$187 as of 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 (P27) and P87 as of March 31, 2019 and December 31, 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P1,270), P1,254, and P805 in March 31, 2019, 2018 and December 31, 2018, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	March 31, 2019	December 31, 2018
Balance, beginning	**(P950)**	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	**(162)**	(453)
Not designated as accounting hedge	**(1,221)**	853
	(2,333)	(2,754)
Less fair value of settled instruments	**(2,168)**	(1,804)
Balance, ending	**(P165)**	(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:

	March 31, 2019			December 31, 2018		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P–**	**P1,774**	**P1,774**	P–	P1,545	P1,545
Financial assets at FVPL	**–**	**251**	**251**	–	254	254
Financial assets at FVOCI	**382**	**5,557**	**5,939**	386	5,551	5,937
Financial Liabilities						
Derivative liabilities	**–**	**1,939**	**1,939**	–	2,495	2,495

The Group has no financial instruments valued based on Level 3 as of March 31, 2019 and December 31, 2018. For the period ended March 31, 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.

10. **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 March 31, 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 SMFB, which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality 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 March 31, 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 March 31, 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.

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

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

I. BASIS OF PREPARATION

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

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

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

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

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

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

New and Amended Standards and Interpretation Adopted in 2018

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

- PFRS 9 (2014), *Financial Instruments*, replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and supersedes the previously published versions of PFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

  The Group adopted PFRS 9 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. The adoption of PFRS 9 has no significant effect on the classification and measurement of financial assets and financial liabilities of the Group except for the effect of applying the ECL model in estimating impairment.

- Applying PFRS 9, with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4). The amendments permit an entity to defer application of PFRS 9 in 2018 and continue to apply PAS 39, if it has not applied PFRS 9 before and its activities are predominantly connected with insurance. A qualified entity is permitted to apply the temporary exemption for annual reporting periods beginning before January 1, 2021. The amendments also provide an overlay approach to presentation when applying PFRS 9 for designated financial assets where an entity is permitted to reclassify between profit or loss and other comprehensive income the difference between the amounts recognized in profit or loss under PFRS 9 and those that would have been reported under PAS 39. A financial asset is eligible for designation if it is held for an activity that is connected with contracts in the scope of PFRS 4, and if it is measured at FVPL under PFRS 9, but would not have been under PAS 39. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if the entity restates comparative information when applying PFRS 9.

- Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2*, Share-based Payment*). The amendments cover the following areas: (a) Measurement of cash-settled awards. The amendments clarify that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments - i.e., the modified grant date method; (b) Classification of awards settled net of withholding tax. The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if: (i) the terms of the arrangement permit or require an entity to settle the transaction by withholding a specified portion of the equity instruments to meet the statutory withholding tax requirement (the net settlement feature); and (ii) the entire share-based payment transaction would otherwise be classified as equity-settled if there were no net settlement feature. The exception does not apply to equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment. (c) Modification of awards from cash-settled to equity-settled. The amendments clarify that when a share-based payment is modified from cash-settled to equity-settled at modification date, the liability for the original cash-settled share-based payment is derecognized and the equity-settled share-based payment is measured at its fair value and recognized to the extent that the goods or services have been received up to that date. The difference between the carrying amount of the liability derecognized, and the amount recognized in equity, is immediately recognized in the consolidated statements of income.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new and more comprehensive revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) the Group transfers control of goods or services to a customer at the amount to which the Group expects to be entitled. PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the entity's performance, or at a point in time, when control of the goods or services is transferred to the customer.

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

  The Group has adopted PFRS 15 using the cumulative effect method. The cumulative effect of applying the new standard is recognized at the beginning of the year of initial application, with no restatement of comparative period. Additional disclosures were included in the consolidated financial statements as a result of the adoption of PFRS 15.

- Transfers of Investment Property (Amendments to PAS 40, *Investment Property)*. The amendments clarify the requirements on when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use - i.e., an asset meets or ceases to meet the definition of

investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

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

- Annual Improvements to PFRS Cycles 2014 - 2016 contain changes to three standards, of which only the Amendments to PAS 28, *Investments in Associates and Joint Ventures*, on measuring an associate or joint venture at fair value is applicable to the Group. The amendments provide that a venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at FVPL. This election can be made on an investment-by-investment basis. The amendments also provide that a non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

Except as otherwise indicated, the adoption of amendments to standards did not have a material effect on the consolidated financial statements.

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

II. FINANCIAL PERFORMANCE

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

	Years Ended December 31		
	2018	2017	2016
		(In Millions)	
Sales	**P1,024,915**	P826,058	P685,303
Cost of Sales	**827,343**	646,010	515,912
Gross Profit	**197,572**	180,048	169,391
Selling and Administrative Expenses	**(82,908)**	(71,575)	(72,742)
Operating Income	**114,664**	108,473	96,649
Financing Charges - net	**(35,555)**	(27,973)	(28,722)
Gain on Sale of Investments and Property and Equipment	**252**	879	155
Equity in Net Earnings (Losses) of Associates and Joint Ventures	**(289)**	297	203
Other Charges – net	**(9,497)**	(1,360)	(14,158)
Income from Continuing Operations	**44,860**	53,250	36,887
Income after Income Tax from Discontinued Operations	**-**	-	12,248
Net Income	**44,860**	53,250	49,135
Net Income Attributable to Equity Holders of the Parent Company	**7,000**	12,318	11,413
Net Income Attributable to Non-controlling interests	**37,860**	40,932	37,722

2018 vs. 2017
The Group's consolidated sales revenue reached P1,024,915 million in 2018, 24% higher than the previous year mainly driven by higher volumes and favorable selling prices across all major businesses.

Cost of sales increased by 28% to P827,343 million mainly due to the increase in crude prices and effect of excise tax of Petron Corporation (Petron); higher sales volume of San Miguel Brewery Inc. (SMB) and the Food Segment; increase in excise tax by 4% per case of the domestic operations of SMB and operations of the newly acquired Masinloc Power Partners Co. Ltd. (MPPCL or the Masinloc Group) and the new power plants in Bataan and Davao.

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

Consolidated operating income increased by 6% at P114,664 million. This growth was however partly softened by higher raw material costs that impacted Petron and the Food businesses.

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

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

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

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

Consolidated recurring net income, excluding the effect of foreign exchange translation, amounted to P53,164 million, at par with last year. Growth was tempered by the sharp decline in crude oil prices which affected Petron during the fourth quarter of 2018. Consolidated net income as a result, amounted to P44,860 million.

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

1. FOOD AND BEVERAGE

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

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

a) Beer and NAB Segment (SMB)

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

Domestic Operations

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

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

International Operations

SMB's International Operations benefitted from volume growth in its South China and Indonesia operations as well as Exports, and better sales mix. As such, despite continuing challenges in the business environment in North China, Hong Kong, Vietnam and Thailand, SMB International registered double-digit growth in operating income.

b) Spirits Segment (GSMI)

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

All these translated to revenues of P24,835 million, 19% higher than the previous year. Operating income surged 40% to P1,832 million, due to strong volumes and lower operating costs, while net income increased 75% to P1,053 million.

c) Food Segment

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

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

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

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

Food Segment made significant strides in its ongoing expansion in 2018, completing new facilities that will provide much-needed additional capacities to serve the growing demand and changing preferences of consumers. These include feedmills in Bulacan and Bataan, and one hotdog plant in Cavite. Ongoing projects include additional feedmill facilities in Davao, Cebu and Cagayan de Oro, a flour mill in Mabini, Batangas and its first ready-to-

eat facility in Sta. Rosa, Laguna that will cater to the growing demand for convenient, pre-prepared and pre-cooked meals.

2. PACKAGING

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

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

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

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

3. ENERGY

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

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

4. FUEL AND OIL

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

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

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

Consolidated operating income and net income stood at P18,921 million and P7,069 million, 32% and 50% decline from 2017, respectively, as a result of inventory losses incurred in November and December.

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

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

5. INFRASTRUCTURE

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

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

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

Phase 1 of the Bulacan Bulk Water Supply Project was completed end of 2018. It has started supplying potable water to six Bulacan municipalities in the first quarter of 2019.

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

2017 vs. 2016

The Group's consolidated sales revenue for the year 2017 amounted to P826,058 million, 21% higher than 2016, on the back of robust, double-digit growth across its fuel and oil, infrastructure, and beer, liquor, and packaging businesses.

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

Sustained sales growth, coupled with effective fixed cost management, brought consolidated operating income to P108,473 million, 12% higher than 2016.

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

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

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

Income from continuing operations amounted to P53,250 million, 44% higher compared to 2016.

Consolidated recurring net income, excluding the effect of forex translation and one-time gain from the sale of the telecommunications business in 2016, was up 12% to P53,254 million, compared to P47,637 million in 2016.

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

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

1. FOOD AND BEVERAGE

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

a) SMB

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

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

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

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

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

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

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

b) GSMI

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

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

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

c) Food Segment

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

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

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

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

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

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

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

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

Food Segment also started implementing its capacity expansion program in 2017. This includes the construction of five feed mills and at least one flour mill; a new hotdog plant, and the first ready-to-eat manufacturing plant, located in Santa Rosa Laguna, which will serve the

growing consumer demand for convenient and nutritious meals. Construction of these facilities is progressing according to schedule.

2. PACKAGING

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

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

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

3. ENERGY

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

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

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

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

4. FUEL AND OIL

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

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

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

barrel-per-day Bataan refinery and the 88,000 barrel-per-day Port Dickson refinery in Malaysia.

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

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

5. INFRASTRUCTURE

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

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

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

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

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

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

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

Mass Rail
Construction of the MRT 7 project remains on-track. Currently, work is focused at the area between Quezon Memorial Circle to SM Fairview, traversing Commonwealth Ave. and

Regalado Ave. Civil works, rolling stocks, and electromechanical works and acquisition of subject lands are also ongoing.

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

6. REAL ESTATE

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

III. FINANCIAL POSITION

A. The following are the major developments in 2018:

INVESTMENT IN SUBSIDIARIES

Food and Beverage

- *Consolidation of Food and Beverage Businesses*

  On November 3, 2017, the Board of Directors (BOD) of SMC approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to: (a) result in synergies in the food and beverage business units of the Group; (b) unlock greater shareholder value by providing a sizeable consumer vertical market under SMC; and (c) provide investors direct access to the consumer business of the Group through SMFB. On the same day, the BOD of SMC approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

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

  On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC's 7,859,319,270 common shares of the capital stock of SMB and 216,972,000 common shares of the capital stock of GSMI (collectively, the "Exchange Shares") at the total transfer value of P336,349 million. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 4,242,549,130 common shares of the capital stock of SMFB (the "New SMFB Shares"). The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 million divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share, to P12,000 million divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the 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 Certificate of Filing of Amended Articles of Incorporation.

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

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

On October 12, 2018, the Bureau of Internal Revenue (BIR) issued BIR Certification No. SN: 010-2018 which confirmed the tax-free transfer by SMC of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

- *Follow-on Offering of SMFB Shares*

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

  In 2018, SMC completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083 million.

  With the completion of the follow-on offering, the total number of common shares held by SMC in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

Energy

- *Acquisition of the Masinloc Group*

  On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US$1,900 million (P98,990 million). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd.) ("SMCGP Philippines Energy"). MPPCL owns, operates and maintains the 1 x 330 megawatts (MW) and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage project, all located in Masinloc, Zambales, Philippines (collectively, the "MPPCL Assets"), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 640 MW capacity to the existing portfolio of SMC Global.

  As part of the acquisition, SMC Global also acquired AES Transpower Private Ltd. (ATPL) and AES Philippines, Inc. (API). ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

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

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

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

The transaction was financed through the following:

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

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

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

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

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

LONG-TERM DEBT

- REFINANCING OF LOANS

AVAILMENT OF LOANS

SMC

- *Availment of US$300 Million Term Loan*

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

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

- *Availment of US$200 Million Term Loan*

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

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

GSMI

- *Availment of P1,000 Million Term Loan*

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

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

Petron

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

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

The bonds are comprised of the six-year Series C Bonds, due 2024 with an interest rate of 7.8183% per annum and seven-year Series D Bonds, due 2025 with an interest rate of 8.0551%.

- REDENOMINATION OF FOREIGN CURRENCY LOANS

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

SMC

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

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

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

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

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

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

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

Proceeds from the Fixed-Rate Notes were used to partially refinance various loans and partially invest in existing businesses of the subsidiaries of SMC.

SMC Global

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

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

- AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECTS/INVESTMENT

SMC Consolidated Power Corporation (SCPC)

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

Luzon Clean Water Development Corporation (LCWDC)

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

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

Citra Central Expressway Corp. (CCEC)

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

SMC

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

MPPCL

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

San Miguel Consolidated Power Corporation (SMCPC)

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

SMY Asia

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

- PAYMENT OF MATURING OBLIGATIONS

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

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

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

B. The following are the major developments in 2017:

INVESTMENT IN SUBSIDIARIES

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

On September 21, 2017, Petron signed the Share Purchase Agreement with International Container Terminal Services, Inc. for the sale of 10,449,000 shares of stocks or 34.83% equity interest in MNHPI for a total consideration of P1,750 million.

On October 30, 2017, all conditions for the completion of the sale had been complied with and the purchase price had been paid.

The Group retained the 43.33% ownership and control through the stake of San Miguel Holdings Corp. (SMHC) in MNHPI.

LONG-TERM DEBT

- REDENOMINATION OF FOREIGN CURRENCY LOANS

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

SMC

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

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

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

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

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

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

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

SMC Global

- *Availment of P15,000 Million Term Loan*

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

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

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

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

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

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

SCPC

- *Availment of P42,000 Million Term Loan*

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

- REFINANCING OF LOANS

SMC

- *Availment of US$300 million Medium Term Loan*

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

- *Availment of US$100 Million Medium Term Loan*

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

Petron

- *US$1,000 Million Term Loan*

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

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

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

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

- AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECTS

Petron

- *P15,000 Million Term Loan*

On July 25, 2017, Petron drew P15,000 million from its term loan facility. The loan is amortized over seven years and is subject to a fixed interest rate of 5.5276% per annum payable quarterly. The proceeds were used to refinance the short-term loan availed on December 23, 2016 for the acquisition of the 140MW Power Plant in Limay, Bataan.

- *P10,000 Million Term Loan*

On December 29, 2017, Petron drew P10,000 million from its term loan facility. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance permanent working capital requirements.

CCEC

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

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

SCPC

- *Availment of P42,000 Million Term Loan*

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

- PAYMENT OF MATURING OBLIGATIONS

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

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

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

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

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2018 vs. 2017

The Group's consolidated total assets as of December 31, 2018 amounted to P1,791,192 million, P294,393 million higher than last year. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets, and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents by P36,989 million was mainly due to proceeds from the follow-on offering of SMFB common shares in November 2018.

The increase in trade and other receivables by P13,672 million was mainly attributable to the higher revenue of SMC Global, Petron and Food Segment, consolidation of Masinloc Group and increase in Petron Malaysia's government subsidy receivable.

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

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

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

Investments and advances increased by P14,986 million mainly due to the advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited and acquisition by SMC Equivest Corporation of 4.69% equity interest in BOC.

The increase of P68,842 million in property, plant and equipment was primarily due to the consolidation of the power plant and properties of the Masinloc Group.

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

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

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

The increase in other noncurrent assets by P14,508 million was mainly due to the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited from current to noncurrent due to delay in MRT 7 Project completion, capitalized expenditures on the construction of MRT 7 Project, purchase of new containers by SMB and the consolidation of the Masinloc Group's other noncurrent assets.

The increase in loans payable by P34,904 million was mainly due to net availment of working capital loans and for general corporate purposes by Petron, Food Segment and SMC.

Accounts payable and accrued expenses increased by P13,209 million mainly due to the consolidation of the balances of Masinloc entities, reclassification of SMB's customer's container deposit from contra inventory account to liability due to the adoption of PFRS 15.

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

The P3,268 million increase in income and other taxes payable was mainly due to the higher excise tax of Petron and the contributed income tax and other payables of the Masinloc entities.

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

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

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

The decrease in finance lease liabilities by P15,849 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Equity reserves increased by P17,134 million mainly due to the effect of SMFB's share swap and the gain from the follow on offering of SMFB common shares, net of the redemption of USCS of Petron.

The increase in appropriated retained earnings by P3,913 was mainly due to appropriations by SMFB net of the reversals of SMC Global, SMITS, Infrastructure Group, SMC Shipping and Lighterage Corporation (SMCSLC) and SMY Asia.

Equity
The increase in equity in 2018 is due to:

(In millions)	2018
Income during the period	P44,860
Other comprehensive income	718
Net addition to non-controlling interests and others	20,638
Adjustments due to PFRS 9 and 15	6
Cash dividends and distributions	(27,119)
	P39,103

2017 vs. 2016

The Group's consolidated total assets as of December 31, 2017 amounted to P1,496,799 million, P69,813 million higher than 2016. The increase was primarily due to the increase in inventories, biological assets, property, plant and equipment, other intangible assets and other noncurrent assets.

Inventories increased by P19,340 million primarily due to the higher prices of crude oil and finished products of Petron and increased importation of certain raw materials to support expected surge in sales volume and in anticipation of further increase in raw material costs of the Food Segment.

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

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

The increase in investments and advances by P3,028 million was mainly due to advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited.

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

Deferred tax assets decreased by P2,145 million mainly due to the temporary difference on the higher actual monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease interest expense accrued in 2017.

The increase in other noncurrent assets by P15,416 million was mainly due to the a) capitalized project costs incurred for the MRT 7 Project, advances to contractors of the Skyway Stage 3 Project and increase in noncurrent portion of the subsidy receivable from DPWH for the construction costs incurred in Section 3A-2 (Binalonan to Pozzorubio) of TPLEX Project; b) higher restricted cash to cover SCPC's debt servicing and capex requirements and higher prepaid input VAT recognized on additional purchases for the construction of Limay Phase II.

The decrease in loans payable by P39,029 million was mainly due to the net payments made by SMC and settlement by Petron of the P15,000 million bridge loan, offset by availments made by SMCPC for Malita, Davao capex requirements.

Accounts payable and accrued expenses increased by P15,278 million mainly due to higher liabilities for crude and other products of Petron, and higher volume of transactions with third party suppliers in the last quarter of 2017 of the Food Segment.

Dividends payable increased by P436 million mainly due to unclaimed dividends payable to common stockholders of SMC.

The higher amount of long-term debt by P70,280 million resulted from the P42,000 million term loan availed by SCPC; issuance by SMC of P30,000 million fixed rate - bonds; availment by Petron of the P15,000 million and P10,000 million term loans; and availment by CCEC of the P3,200 million term loan for the construction of the Skyway Stage 3 project. The increase was partially offset by the payments made by the Infrastructure Group, and prepayment of Petron Malaysia of its long-term debt and the redemption of SMB of the Series D Bonds.

Deferred tax liabilities increased by P3,847 million mainly due to the temporary differences arising from the: a) different method of depreciation used for tax reporting (accelerated method) and financial accounting (straight-line method) for power plant acquired by Petron in December 2016 and RMP-2, and realization of forex loss of Petron; and b) actual monthly payments to the PSALM over the finance lease liability-related expenses of SPPC.

The decrease in finance lease liabilities by P18,717 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

The P3,987 million increase in other noncurrent liabilities was primarily due to higher retirement liabilities caused mainly by the recognition of re-measurement losses on plan assets and increase in asset retirement obligation of Petron, retention payable to the contractors of MRT 7 and LCWDC and additional long term liability of MNHPI for the purchase of certain equipment in relation to the expansion project.

Equity reserves increased by P1,069 million mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron, Packaging Group International and SMB.

The increase in appropriated retained earnings by P6,594 million was mainly due to the increase in appropriation by SMC Global for monthly fixed payments and energy fees to PSALM and SMB for the payment of Series C & E bonds due in 2019 partially offset by the reversal of SMCSLC of appropriations for completed projects.

Unappropriated retained earnings increased by P5,566 million mainly due to the net income attributable to the equity holders of the Parent Company, net of additional appropriations.

Non-controlling interests increased by P20,823 million primarily due to the share of non-controlling stockholders in the higher net income of SMC, SMB, Petron, Food Segment and Infrastructure and translation adjustments, net of dividends declared to the non-controlling stockholders of SMC, SMB and Petron.

Equity

The increase in equity in 2017 is due to:

(In millions)	2017
Income during the period	P53,250
Other comprehensive income	2,592
Net addition to non-controlling interests and others	3,468
Cash dividends and distributions	(25,258)
	P34,052

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2018	2017	2016
		(In Millions)	
Net cash flows provided by operating activities	**P57,413**	P78,455	P78,160
Net cash flows used in investing activities	**(196,658)**	(55,023)	(24,420)
Net cash flows provided by (used) in financing activities	**176,630**	(19,824)	(32,235)

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

Net cash flows used in investing activities are as follows:

	December 31		
	2018	2017	2016
		(In Millions)	
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(P98,057)**	(P2,568)	(P1,905)
Additions to property, plant and equipment	**(47,325)**	(38,694)	(40,692)
Increase in other noncurrent assets and others	**(38,993)**	(30,095)	(15,571)
Additions to investments and advances and investment in debt instruments	**(20,024)**	(2,911)	(8,042)
Interest received	**6,556**	4,269	3,482
Proceeds from sale of investments and property and equipment	**1,139**	1,930	1,114
Dividends received	**46**	26	19
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	**-**	13,020	37,175

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

	December 31		
	2018	2017	2016
		(In Millions)	
Net proceeds from (payments of) long-term borrowings	**P176,814**	P67,739	(P84,091)
Proceeds from follow-on offering of common shares of a subsidiary	**35,083**	-	-
Net proceeds from (payments of) short-term borrowings	**32,717**	(39,699)	48,476
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	**24,881**	-	-
Increase (decrease) in non-controlling interests and others	**105**	1,880	(5,443)
Redemption of undated subordinated capital securities of a subsidiary	**(39,769)**	-	-
Cash dividends and distribution paid	**(27,503)**	(24,820)	(22,135)
Payments of finance lease liabilities	**(25,698)**	(24,924)	(23,907)
Net proceeds from issuance of convertible perpetual securities - net	**-**	-	25,158
Proceeds from reissuance of treasury shares of a subsidiary	**-**	-	29,707

The effect of exchange rate changes on cash and cash equivalents amounted to (P396) million, (P298) million and P607 million on December 31, 2018, 2017 and 2016, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Group include the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

VI. KEY PERFORMANCE INDICATORS

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

	December 31	
	2018	2017
Liquidity:		
Current Ratio	**1.29**	1.31
Solvency:		
Debt to Equity Ratio	**2.33**	2.01
Asset to Equity Ratio	**3.33**	3.01
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**4.76%**	9.55%
Interest Rate Coverage Ratio	**2.63**	3.47
Operating Efficiency:		
Volume Growth	**8%**	4%
Revenue Growth	**24%**	21%
Operating Margin	**11%**	13%

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

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

VII. OTHER MATTERS

- Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

a. SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock; and, (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

SMC, SMFB and GSMI filed their respective Answers to the Petition on September 25, 2018. On October 11, 2018, Petitioner filed a Reply to the Answer filed by SMC, SMFB and GSMI. On October 30, 2018, the SEC issued an order setting the case for a preliminary conference on November 13, 2018.

Separately, the Petitioner filed an Urgent Motion to Issue a Status Quo Order against SMC, SMFB and GSMI dated September 3, 2018. On October 4, 2018, SMFB filed a Comment/Opposition on the Urgent Motion while on October 9, 2018, SMC and GSMI likewise filed a Comment/Opposition to the said Urgent Motion. On November 8, 2018, the SEC denied the Urgent Motion filed by the Petitioner. On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. On March 14, 2019, counsels for SMC, GSMI and SMFB received a copy of the Motion for Reconsideration of the decision of the SEC Special Hearing Panel dated March 6, 2019. SMC, GSMI and SMFB will file their respective comments on the Motion for Reconsideration no later than March 29, 2019.

b. Penalties for Late Filing

On March 20, 2012, SMC was assessed by the Corporate Finance Department of the SEC (SEC-CFD) for a penalty amounting to P769 million, in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) relating to the purchase by SMC of the shares in Manila Electric Company (Meralco). SMC 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 SMC.

On December 7, 2017, SMC 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 SMC 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 SMC is whether the SEC *En Banc* erred in affirming the respondent Corporate Finance Department's imposition upon petitioner SMC of the fine of P769 million for late filing of SEC Forms 23-A and B, and in not applying the limitation prescribed under Section 54.1 (ii) of the SEC.

In view of the favorable decision, the penalty was reduced to P3 million. The SEC has filed a manifestation in the Court of Appeals that it will no longer appeal the said Decision, and accordingly the decision of the Court of Appeals became final and executory.

c. Treasury Shares of SMC

A portion of the total treasury shares of SMC came from 25,450,000 common shares with an acquisition cost of P481 million, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by SMC 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 SMC 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 SMC 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, SMC 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 SMC, 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 SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC 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 SMC. The financial advisor stated that if SMC is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100 million; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring SMC to deliver what it acquired from the sellers without

a substantive ground to justify it, and a direct action in which SMC 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 SMC 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 SMC 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 SMC 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 SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC 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 SMC 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 SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the SMC shares in favor of the Government cannot bind SMC, and that SMC 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 SMC'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 SMC 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 SMC 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 SMC 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 SMC 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 SMC, 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, SMC 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 SMC.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, SMC 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 SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

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 SMC 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) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished to SMC; 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 SMC 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 SMC, 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 SMC’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.

SMC, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) “Comment of San Miguel Corporation on the ‘Manifestation’ of Petitioners COCOFED, et al., Dated October 4, 2012” on November 6, 2013; and (b) “Comment of San Miguel Corporation on the ‘Manifestation and Omnibus Motion…’ Dated October 12, 2012 of the Respondent Republic” on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos.

177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, SMC 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 SMC to the 25,450,000 treasury shares of SMC. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

d. Deficiency Excise Tax/Excess Excise Tax Payments

Filed by SMC

On April 12, 2004 and May 26, 2004, SMC was assessed by the BIR for deficiency excise tax on "San Mig Light", one of its beer products. SMC 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, SMC, 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, SMC 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 SMC, appealing to SMC to settle its alleged tax liabilities subject of CTA Case Nos. 7052 and 7053 "in order to obviate the necessity of issuing a Warrant of Distraint and Garnishment and/or Levy". SMC's external legal counsel responded to the aforesaid letter and met with appropriate officials of the BIR and explained to the latter the unfairness of the issuance of a Warrant of Distraint and Garnishment and/or Levy against SMC, especially in view of SMC's pending claims for refund.

As of December 31, 2018, the BIR has taken no further action on the matter.

On July 24, 2009, SMC 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 SMC and SMB by the CTA Third Division, ordering the BIR to refund to them the joint amount of P934 million.

On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting SMC'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 SMC in the amount of P926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against SMC, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

In a Resolution dated July 21, 2014, a copy of which was received by SMC's counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both SMC's counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 million for the period of December 1, 2005 to July 31, 2007, and P782 million for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the Court of Tax Appeals, SMC filed a motion for execution in CTA Cases Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 million representing refund of excess taxes erroneously collected for the period of February 2, 2004 to November 30, 2005; and another and separate motion for execution in CTA Case No. 7708 on the final judgment of P926 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, SMC spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

Filed by SMB

SMB filed ten claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - docketed as CTA Case No. 8955 (December 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - docketed as CTA Case No. 9223 (December 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - docketed as CTA Case No. 9513 (December 2016);

(i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - docketed as CTA Case No. 9743 (December 2017); and

(j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 – docketed as CTA Case No. 10000 (December 2018).

CTA Case No. 7973, which was consolidated with CTA Case No. 7953, had been decided in favor of SMB by the Third Division, ordering the BIR in the consolidated cases to refund to SMC and SMB the joint amount of P934 million, which decision was appealed by the BIR before the CTA *En Banc*. The CTA *En Banc* affirmed the Decision of the Third Division and, subsequently, the BIR filed a Motion for Reconsideration, which was denied. The BIR elevated the CTA *En Banc* decision to the Supreme Court by way of a petition for review, which was docketed thereat as G.R. No. 232404. The petition was denied by the Supreme Court on September 11, 2017, thereby affirming the decision of the CTA *En Banc*. On January 23, 2019, after the motion for reconsideration filed by the Office of the Solicitor General was denied and the Supreme Court remanded the cases to the Court of Tax Appeals, SMC/SMB filed a motion for execution with the CTA. This motion is pending with the CTA Second Division.

CTA Case No. 8209 was decided in favor of SMB by the CTA's First Division, ordering the BIR to refund the amount of P730 million. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for

certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari.

CTA Case No. 8400 was decided in favor of SMB by both the CTA's Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699 million. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the Court of Tax Appeals, SMB filed a motion for execution with the CTA. This motion is pending with the CTA Third Division.

CTA Case No. 8591 was decided in favor of SMB by the Second Division. The BIR was ordered to refund to SMB the amount of P740 million. On appeal to the CTA *En Banc*, the latter affirmed the decision of the division. The BIR filed a motion for reconsideration, which was denied by the CTA *En Banc*. The BIR, through the Office of the Solicitor General, appealed the CTA *En Banc* decision to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 232776. On February 21, 2018, the Supreme Court denied the petition for review and affirmed the decision of the CTA *En Banc*. Subsequently, the Office of the Solicitor General filed a motion for reconsideration, which was denied with finality on July 23, 2018. As soon as the case is remanded by the Supreme Court to the Court of Tax Appeals, SMB will file a motion for execution with the CTA Second Division.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761 million, which was appealed by the BIR to the CTA *En Banc.* On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. The CIR's motion for reconsideration is pending in the CTA *En Banc*.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the CIR filed a motion for reconsideration on the aforesaid decision, to which motion SMB filed an opposition. The motion was denied by the CTA *En Banc* in a resolution dated January 24, 2019.

In CTA Cases Nos. 9223, 9513, and 9743, after the parties filed their memoranda, the cases were deemed submitted for decision.

CTA Case No. 10000 will be scheduled for pre-trial after the respondent BIR Commissioner shall have filed his answer to SMB's petition for review.

Filed by GSMI

CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 million in Case No. 8953, and P133 million in Case No. 8954 representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26 million, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

The aforementioned assessments and collection cases arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol. This case is still pending with the CTA.

e. Deficiency Tax Liabilities

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on Iconic Beverages, Inc. (IBI) deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA's First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 million on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motions for Reconsideration, which were denied by CTA En Banc in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Ceritorari on September 7, 2018. The petitions of IBI and the BIR are pending in the Supreme Court.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division

held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc* (docketed as CTA EB No 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic deficiency tax, in the amount of P110 million, where IBI requested for the cancellation of the surcharge and interests.

On September 19, 2018, the CTA *En Banc* did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 million in light of the amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA En Banc has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. An application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending for resolution by the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to the CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three (3) Divisions of the Court. On December 18, 2018, the CTA First Division issued a Resolution admitting IBI's Formal Offer of Evidence and resetting the presentation of evidence by the BIR on March 5, 2019.

f. San Miguel Foods, Inc. (SMFI)

   i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division.

      In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a Final Decision on Disputed Assessment (FDDA) was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

      SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

      The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

      The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand / Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand /Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered

cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

The case is now submitted for decision of the CTA First Division.

g. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Tax Appeals in its Resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on *certiorari* dated December 5, 2012. On July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR.

h. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292 million. The cases are still pending as of December 31, 2018.

i. Lease Agreements with Philippine National Oil Company (PNOC)

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for Resolution and Reconveyance, and Damages, with Verified Ex-Parte Application for 72-hour Temporary Restraining Order (TRO) and Verified Applications for 20-day TRO and Writ of Preliminary Injunction. In its complaint, Petron seeks the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron. These landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint stemmed from PNOC's refusal to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

Petron alleged that by unilaterally setting aside the renewal clauses of the lease agreements and by categorically declaring its refusal to honor them, PNOC committed a fundamental breach of such lease agreements with Petron.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

The court-mandated mediation conference held at the Philippine Mediation Center in Mandaluyong City on February 5, 2018 was terminated without any agreement between the parties. As of December 31, 2018, the case was under judicial dispute resolution proceeding before the court.

j. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan Independent Power Producer Administration (IPPA) Agreement covering the appointment of SPPC as the IPP administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016, the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of prelimary injunction enjoining PSALM from further proceedings with the termination of the IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to this Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the RTC's Orders granting the writ of preliminary injunction, allowing Meralco's intervention, and the Orders denying PSALM's motions for reconsideration of said injunction and intervention orders. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed Orders". The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 ("CA Decision"). In the CA decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 ("CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision dated December 19, 2017 and the July 12, 2018 CA Resolution. To date, PSALM's petition is still pending with the Supreme Court.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City which scheduled the Pre-Trial Conference on May 11, 2018. Meanwhile, prior to the scheduled Pre-Trial Conference, SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections *Ad Cautelam.*

On September 24, 2018, the RTC issued an Order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said Order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. The issue is now pending resolution with the RTC.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon expiry of the IPPA agreement in 2022.

By virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP administrator for the Ilijan Power Plant.

k. Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 ("gin") with the Intellectual Property Office of the Philippines ("IPOPHL"). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the "Petition") with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. Unfortunately, the Supreme Court denied GSMI's Motion for Reconsideration "with FINALITY", as well as GSMI's Motion to Refer to Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment and invoked the case of "League of Cities vs. Commission of Elections" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. This case is still pending with the Supreme Court.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's complaint for trademark infringement and unfair competition against 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 (2) cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court. These cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 ("gin") with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin", (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like Ginebra Kapitan, and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

The Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.", docketed as G.R. No. 210224. This case is still pending with the Supreme Court.

I. Imported Industrial Fuel Oil

SL Harbor Bulk Terminal Corporation (SLHBTC) has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751 million. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's

imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 million or one and one-half times of the assessed amount of P82 million representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

By Order dated September 25, 2018, the case was transferred to the CTA's First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As of December 31, 2018, the case is still pending with the CTA.

m. Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partially and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount US$60 million. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons, in relation to acts that they have allegedly committed in violation of Section 3(e) of RA No. 3019, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

San Miguel Energy Corporation (SMEC)

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (Team Sual), relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of the RA 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

n. Civil Case

SMEC

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM of electricity generated from capacity in excess of the 1000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignation without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an Order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignation case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and Team Sual Corporation with the Energy Regulatory Commission (ERC) against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

o. TRO Issued to Meralco

On December 23, 2013, the Supreme Court issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, ERC and Philippine Electricity Market Corporation (PEMC), acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the Supreme Court granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the Supreme Court extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 27 and May 9, 2014. On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its Decision dated November 7, 2017 ("Decision"), granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL, declaring the aforesaid ERC Orders null and void and set aside the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid Motions. On June 2018, the intervenors filed their respective Motions for Reconsideration of the said Resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC and SPPC filed Consolidated Opposition to said Motions for Reconsideration on July 27, 2018. To date, these motions for Reconsideration remain pending with the Court of Appeals.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322 million, plus interest.

p. System Loss Charge

In 2008, Meralco filed a petition for dispute resolution against PEMC, National Transmission Corporation (TransCo), National Power Corporation (NPC) and PSALM seeking, among others, the refund of the transmission line loss components of the line rentals associated with PSALM/NPC bilateral transactions from the start of the WESM operations and Transition Supply Contract (TSC) implemented in 2006. In this case, the ERC concluded that Meralco was being charged twice considering that it already paid line rental to the WESM beginning June 2006. Hence, the ERC ordered PSALM/NPC to refund Meralco the 2.98% system loss charge embedded in the NPC Time-of-Use ("NPC TOU") rate (Meralco vs. PSALM, NPC, TransCo).

On March 4, 2013, the ERC issued a subsequent order directing Meralco (i) to collect this system loss charge from the Successor Generating Companies (SGCs), which supplied the Meralco-NPC TSC and charged the NPC TOU rates, and (ii) to file a petition for dispute resolution against the SGCs. PSALM appealed the ERC's March 4, 2013 order to the Court of Appeals.

In compliance with the ERC's March 4, 2013 order, Meralco filed a petition for dispute resolution with the ERC against all SGCs which supplied portions of the TSC (including SMEC, SPPC and MPPCL). On September 20, 2013, SMEC, SPPC and MPPCL jointly with the other SGCs filed a Motion to Dismiss before the ERC, which to this day remains unresolved by the ERC.

q. Validity of Concession Agreement with Albay Electric Cooperative, Inc. (ALECO)

The dispute arose from a Complaint for Injunction with a prayer for the issuance of writ of preliminary prohibitory injunction, writ of preliminary mandatory injunction, temporary mandatory order and TRO filed on December 16, 2014 by a certain group of persons headed by an individual who claims to be the president of ALECO (the "Appellants"), against Albay Power and Energy Corp. (APEC) and its former general manager (the "Defendants"), enjoining the implementation of the 25-year Concession Agreement with ALECO dated October 29, 2013, with SMC Global that was subsequently assigned to APEC. The foregoing Complaint also questioned the validity of the Concession Agreement due to alleged oppressive and disadvantageous provisions therein. On September 29, 2015, the trial court upheld the validity of the Concession Agreement and dismissed the Complaint. As a result, the Appellants filed an appeal with the Court of Appeals. On November 23, 2016, the Court of Appeals issued a decision ("November 2016 Decision") reversing the decision of the trial court on the ground that no pre-trial conference was conducted and ruled that the case should be remanded back to conduct the pre-trial conference and for the case to be resolved with dispatch in accordance with the Rules of Court. After motion for reconsideration from Defendants, the Court of Appeals sustained its November 2016 Decision on June 26, 2018.

To date, the Defendants have not received any order from the trial court on the schedule of the pre-trial conference.

r. Electric Power Industry Reform Act (EPIRA)

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance

with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2018.

- Commitments

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

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

- Foreign Exchange Rates

  The foreign exchange rates used in translating the US Dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P52.58 and P49.93 in 2018 and 2017, respectively, for consolidated statements of financial position accounts; and average rates of P52.69, P50.40 and P47.48 in 2018, 2017 and 2016, respectively, for income and expense accounts.

- Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.

- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.

- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as of December 31, 2018.

- The effects of seasonality or cyclicality on the interim operations of the Group's businesses are not material.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as of and for the period December 31, 2018.

Annex "C-2"

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 Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as of and for the period ended March 31, 2019 (with comparative figures as of December 31, 2018 and for the period ended March 31, 2018). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as of March 31, 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 (PFRS) have been omitted.

I. 2019 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LOANS TO FINANCE INVESTMENT AND CAPEX/PROJECTS

Masinloc Power Partners Co. Ltd. (MPPCL)

On January 11, 2019, MPPCL drew a total of US$35 million (P1,824 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 fixed interest tranche of 5.5959% per annum and floating interest tranche based on a 6-month LIBOR plus margin with maturities up to December 2030.

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).

San Miguel Yamamura Asia Corporation (SMYAC)

On January 22, 2019, SMYAC drew the final tranche worth P700 million from its P4,000 million long-term loan facility to finance the capital expenditure on the construction of a third furnace to support the glass capacity expansion project. The loan is subject to a floating interest rate with maturities up to July 2023.

PAYMENT OF MATURING OBLIGATIONS

In the first quarter of 2019, the Group paid a total amount of P5,585 million of the maturing long-term debt.

The Infrastructure Group, Petron Corporation (Petron) and Energy Group paid a total of P3,149 million, P1,411 million and P571 million, respectively, of their maturing long-term debt.

While, San Miguel Yamamura Packaging Corporation, Can Asia, Inc. and SMYAC paid their maturing long-term debt with a total amount of P448 million.

II. FINANCIAL PERFORMANCE

2019 vs. 2018

The Group's consolidated sales revenue for the first quarter of 2019 amounted to P250,920 million, 7% higher than 2018, mainly driven by the higher volume and favorable selling prices from most of the major businesses.

Higher cost of sales by 9% to P200,054 million million resulted primarily from the volume growth and increase in costs and prices of raw materials of the Energy Group, Food Group and domestic operations of SMB.

Selling and administrative expenses increased mainly due to higher depreciation and amortization, advertising and promotions, taxes and licenses, contracted services and distribution costs.

The Group's consolidated operating income amounted to P30,692 million, 4% lower than last year, mainly due to Petron, which continue to be affected by the prevailing movements in world crude oil prices eroding refining margins, and the Food business, which has also been affected by a sharp decline in poultry prices and rising raw material costs.

The higher interest expense and other financing charges was mainly due to the higher level of loans payable and long-term debt 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 primarily represents the share of SMC Global on the net income of Angat Hydropower Corporation (Angat Hydro) in 2019 compared to share in net loss in 2018.

The gain on sale of property and equipment in 2019 and 2018 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for the construction of LRT / MRT project.

The decrease in other charges was primarily due to the appreciation of the Philippine Peso in March 2019 compared to the depreciation of the Philippine Peso in March 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018. This was partly offset by hedging loss on currency and commodity in 2019, compared to hedging gain on currency and hedging loss on commodity in 2018.

The higher income tax expense was primarily due to SMC's recognition of deferred income tax expense for the unrealized forex gain in 2019 compared to deferred income tax benefit for the unrealized forex loss in 2018, mainly from the revaluation of long-term debt.

Consolidated net income amounted to P12,480 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 higher net income of SMC Global and SMB.

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

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc. (SMFB) posted consolidated revenues amounting to P75,655 million for the first quarter of 2019, 14% higher than P66,087 million reported in the same period in 2018. Volumes and revenues remained strong across Beer, Spirits and the Food businesses. Consolidated operating income of P10,810 million, however, ended slightly lower than last year on account of the sharp decline in chicken selling prices and continuous rising cost of raw materials that affected the food business.

Net income grew 1% to P7,363 million from last year.

a. Beer and NAB Segment (SMB)

SMB reinforced its continuous strong volumes and revenue growth during the first quarter of this year. Volumes reached 76.4 million cases, 18% higher than last year, while revenues also grew 17% at P34,832 million.

Domestic Operations
Domestic volumes grew 19% compared to last year mainly driven by strong consumption across the country with Red Horse and San Miguel Pale Pilsen sustaining their position as SMB's top selling brands. This has been backed by consistent and engaging consumption-generating initiatives and defense programs boosting further the equity strength and market leadership of the SMB brands.

International Operations
SMB’s international operations, on the other hand, posted volume and revenue growth during the first three months. Exports, Hong Kong, Indonesia and Vietnam led volume growths, which were partly offset by lower volumes in North China and Thailand.

Consequently, SMB’s consolidated operating income rose to P9,556 million, 15% higher than last year, mainly driven by strong volumes offsetting the effect of higher operating costs and increase in excise tax effective January 1, 2019.

Net income grew to P6,747 million, up 19% from last year.

b. Spirits Segment (GSMI)

GSMI sustained its strong growth momentum in the first quarter of 2019 with sales volume reaching 10.4 million cases, 24% higher than last year’s level. This is the result of continuous sales efforts, complimented by GSMI’s on-going nationwide “Pilipino Ako, Ginebra Ako” thematic campaign. Vino Kulafu also helped boost growth through its “Lakas sa Magandang Bukas” advertising campaigns and on-ground activations in the Visayas and Mindanao regions.

This resulted in revenues of P8,265 million, 28% higher than the same period last year. Operating income and net income posted significant growth of 122% and 141% at P986 million and P616 million from the previous year, respectively.

c. Food Segment

The Food Group’s consolidated revenues rose to P32,558 million, 9% higher than last year. All businesses registered revenue growth brought about by higher sales volume and better selling prices.

Revenues from the Prepared and Packaged Food segment, expanded by 16% mainly from its core products - Tender Juicy, Pure Foods Corned Beef, Nuggets and

Luncheon Meat and Magnolia breadfill and spreads. The Animal Nutrition and Health segment revenues grew 8% due to strong performance of high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

The Protein segment revenue also grew by 6%, backed by higher chicken sales from its stable-priced channels, despite the significant industry-wide drop in chicken selling prices.

Coupled with rising cost of raw materials and increased selling and administrative expenses, Food Group's operating income ended at P284 million, lower than same period last year.

Net income, likewise, ended lower at P11 million.

2. PACKAGING

The packaging business' sales revenues during the first three months reached P8,840 million, 3% higher vs. 2018. Growth continues to be propelled by the solid performance from the glass, metal, plastics, flexibles and paper operations.

Operating income amounted to P828 million, 4% higher than 2018**.**

3. ENERGY

SMC Global posted consolidated off-take volume of 6,826 gigawatt hours (gwh) during the first quarter, 42% higher than last year, brought about by higher operating hours from the Ilijan and Sual power plants, the full contribution from Unit 2 and Unit 3 of the Malita and Limay power plants and the full YTD recognition of the operations of Masinloc power plant.

With higher off-take volumes and average realization price, consolidated revenues rose by 41% to P34,676 million from P24,661 million in the previous year. This in turn brought operating income to reach P9,841 million, 23% higher.

Net income amounted to P3,579 million, double than last year's level.

4. FUEL AND OIL

Petron posted consolidated revenues of P124,558 million during the first quarter, 4% lower than the P129,112 million in the previous year. This was mainly due to the 5% decline in volume from the Philippine operations following the second year increase in excise tax at the beginning of this year.

Consolidated volumes, however, ended 1% lower at 26.3 million barrels compared to the same period last year brought about by higher volumes contribution from Petron Malaysia and increases in LPG and polypropylene volumes.

Consolidated operating income and net income settled at P4,865 million and P1,303 million, 45% and 77% decline from 2018, respectively.

Efforts to manage prevailing risk and strengthen further its presence in key areas were implemented to mitigate its impact. It, likewise, remains focused on completing major expansion projects that will further re-inforce its market leadership.

Petron will soon commission its new Lube Oil Blending Plant at the Manila Harbor which will have twice the capacity of its current Pandacan Plant, that will clearly improve its Lube business. It is also nearing completion of its polypropylene plant expansion which will provide overall better margins.

Petron also continued its service stations expansion as it opened 40 new stations in the first quarter in the Philippine market and the Malaysian operations has now over 650 stations, bringing Petron's combined total count to over 3,000.

5. INFRASTRUCTURE

SMC Infrastructure reported revenues of P6,359 million, an 8% increase from the previous year, as vehicular volume from all operating tollroads continue to grow. Operating income reached P3,130 million, 1% higher than last year.

2018 vs. 2017

The Group's consolidated sales revenue for the first quarter of 2018 amounted to P234,341 million, 20% higher than 2017 with all major businesses posting double-digit growth.

Cost of sales increased by 21% to P184,124 million mainly due to the increase in crude prices and excise tax on fuel, lubes & greases of Petron; higher sales volume of SMB, Poultry and the Food group; higher excise tax of the domestic operations of SMB, cost of coal consumed by Limay Power Plant, and prices of major raw materials of the Food business.

Selling and administrative expenses increased mainly due to higher personnel, advertising and promotion expenses, and distribution costs of SMB, higher Liquefied Petroleum Gas (LPG) cylinder purchases and rental expenses of Petron, and logistics and manpower costs of SMFB.

The Group's consolidated operating income reached P32,028 million, 19% higher than 2017. This was the result of sustained sales growth from all businesses and continuous efficiency improvements throughout the Group.

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 SMC 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 SMC Global, of the domestic and international operations of SMB, San Miguel Equity Investments Inc. and SMC.

The decrease in equity in net earnings primarily represents the share of SMC Global on the net loss of Angat Hydro in 2018 vs net income in 2017, share of San Miguel Properties Inc. (SMPI) on the lower income of Bank of Commerce.

The gain on sale of investments and property and equipment in 2018 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 were 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 of and finance lease liabilities as a result of the higher depreciation of Philippine Peso against the US Dollar in March 2018.

Consolidated net income amounted to P13,550 million in 2018 ended flat.

Consolidated recurring net income, excluding the effect of foreign exchange translation, amounted to P19,191 million, 28% 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 SMC.

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

1. FOOD AND BEVERAGE

The combined sales revenues of SMFB in 2018 grew 16% to P66,087 million from P57,161 million in 2017. Operating income reached P10,920 million in 2018, an increase of 21% from the same period in 2017.

a. SMB

SMB continued to perform strongly in the first three months in 2018 with consolidated volumes reaching 65 million cases, 11% higher than 2017. The strong volume growth was mainly driven by increased consumption of SMB brands nationwide, boosted by new marketing campaigns further strengthening its brand equity coupled with the implementation of trade and consumer promos.

Growth in volumes combined with the impact of the price increase implemented last October 2017, brought consolidated revenues up 18% to P29,814 million.

Along with the contribution from its International Operations, operating income grew 25% to P8,313 million.

b. GSMI

GSMI likewise turned in a solid first quarter of 2018 performance posting a 20% increase in sales volumes to 8.4 million cases. The core brands Ginebra San Miguel and Vino Kulafu continued to drive growth benefitting from all out ongoing campaigns.

Revenues rose 24% to P6,449 million while operating income reached P444 million, 57% higher than 2017.

c. Food Segment

The Food business headed to a good start during the first three months of 2018, with consolidated revenues reaching P29,824 million, 12% higher than 2017. This is on the back of the sustained strong growth momentum from the Protein and Prepared and Packaged Food businesses.

Income from operations grew 4% to P2,161 million, led by the strong revenue performance of the Animal Nutrition and Health, Protein and Prepared and Packaged Food businesses. Growth was however softened by higher prices of major raw materials and expansion-related operating expenses.

Revenues from the Animal Nutrition and Health and Protein businesses grew 12% to P21,027 million, driven by higher sales volume and favorable selling prices from the chicken and fresh meats products. However, rising costs of major raw materials namely corn, cassava and feed wheat partly affected operating income growth.

The Milling business continues to be weighed down by aggressive competition among local and foreign players putting pressure on flour selling prices. Capacity constraints likewise limited the business' volume growth expansion. Revenues declined by 3% to P2,370 million relative to the same quarter in 2017. Nevertheless, the Milling business remains profitable despite the margin squeeze.

The Prepared and Packaged Food business continued to perform well as combined revenues climbed 17% higher to P6,869 million, driven primarily by the strong performance of processed meats. Growth in volumes was led by the double-digit sales of the mid-priced segment. Tender Juicy hotdog continued to be the market leader in the overall hotdog category. Operating income was likewise affected by rising imported raw material costs for dairy.

2. PACKAGING

The San Miguel Yamamura Packaging Group likewise started 2018 strong delivering total sales revenues amounting to P8,557 million, 25% higher from 2017. This was mainly driven by strong sales from the glass, plastics, flexibles businesses and continuous growth in its Australian operations.

Operating income amounted to P794 million, 26% higher than 2017.

3. ENERGY

SMC Global posted consolidated off-take volume of 4,790 gwh during the first quarter of 2018, 21% higher than 2017 driving revenues to grow 27% to P24,661 million. This was the result of higher off-take volumes from Ilijan and San Miguel Electric Corp., shorter outages, increase in Retail Electricity Supplier customer requirements, higher average selling prices for Sual and higher contribution from the new power plants in Limay, Bataan and Malita, Davao.

Operating income reached P7,991 million, 32% higher than 2017 at P6,040 million.

4. FUEL AND OIL

Petron opened the year 2018 strong, posting consolidated revenues of P129,112 million, up 21% from P106,412 million in 2017. Despite higher international oil prices and softer demand, combined volumes of 26.6 million barrels ended at par vs. 2017 which reached full time high. Combined domestic fuel volumes in the Philippines and Malaysia grew 5%.

Petron’s Refinery Master Plan 2 has reached its highest ever utilization rate at 99% or near full capacity during the period.

Operating income hit P8,796 million.

5. INFRASTRUCTURE

The Infrastructure business posted consolidated revenue of P5,888 million, 11% higher than 2017 on the back of continuous growth in traffic volume at all operating tollroads. Operating income grew 22% to P3,114 million.

III. FINANCIAL POSITION

2019 vs. 2018

Consolidated total assets as of March 31, 2019 amounted to about P1,835,739 million, P44,547 million higher than December 31, 2018. The increase was primarily due to the recognition of right-of-use (ROU) assets with the adoption of Philippine Financial Reporting Standard (PFRS) 16, *Leases*, and the consolidation of Mariveles Power Generation Corp (MPGC) by SMC Global.

The decrease in prepaid expenses and other current assets by P10,181 million was primarily due to decrease in CCEC's restricted cash balance and decrease in Petron's input tax and

goods and services tax as a result of collection of input tax claim from the government and also utilization of input tax for the period.

Property, plant and equipment decreased by P187,690 million primarily due to the reclassification of the Group's power plants under IPPA to ROU assets account as a result of the adoption of PFRS 16.

The balance of ROU assets of P205,027 million represents the amount of the Group's power plants under IPPA reclassified from property, plant and equipment and other various operating lease agreements as a result of the adoption of PFRS 16.

The increase in investment property by P14,177 million is mainly due to the set-up of ROU assets of Petron for its rented properties being sub-leased to external parties.

The increase in other noncurrent assets by P6,371 million was mainly due to the consolidation of the advances of MPGC to suppliers and contractors for the construction of its Mariveles Power Plant. On January 25, 2019, SMC Global increased its percentage of ownership in MPGC from 49% to 73.58 % through capital infusion.

The increase in loans payable by P11,202 million mainly due to the net availment of short-term Peso loans by SMC for general corporate purposes.

The increase in accounts payable and accrued expenses by P10,022 million was mainly due to the higher liabilities for crude and petroleum products on account of higher prices.

The increase in lease liabilities (current and noncurrent) by P14,113 million pertains to the recognition of lease liabilities for ROU assets due to the adoption of PFRS 16, set-up of IPPA's interest expense, net of Energy Group's payment for the period.

The increase in income and other taxes payable by P3,998 million was mainly due to the first quarter income taxes payable of SMB and Energy Group, and higher VAT payable of Energy Group.

The increase in dividends payable by P217 million primarily represents the dividends declared by Petron on March 12, 2019 to its non-controlling shareholders payable on April 11, 2019.

2018 vs. 2017

Consolidated total assets as of March 31, 2018 amounted to P1,696,397 million, P199,598 million higher than December 31, 2017. The increase was primarily due to the increase in cash and cash equivalents, the consolidation of Masinloc Power assets and the recognition of goodwill on the consolidation of Masinloc Group.

The increase in cash and cash equivalents by P30,338 million was mainly due to the proceeds from issuance of Series E, F and G Bonds of SMC which was used to repay the US$400 million bridge loan in April 2018, and net cash generated from operations of SMB and Petron.

The increase in trade and other receivables of P6,850 million is mainly attributable to the higher bilateral sales of SMC Global and consolidation of the trade and other receivables of MPPCL, a subsidiary of Masin-AES Pte. Ltd. (MAPL).

Inventories increased by P11,127 million due to the higher prices and higher volume of crude oil and finished products of Petron, consolidation of the materials and supplies of MPPCL, and purchase of containers and materials by SMB in anticipation of higher volumes for the summer season.

Current portion of biological assets increased by P208 million mainly due to expansion of Poultry farms' capacities to support increasing supply requirement.

The increase in property, plant and equipment by P65,741 million was primarily due to the consolidation of the power plant and properties of MPPCL and Alpha Water and Realty Services Corp. (AWRSC), a subsidiary of MAPL, and the costs of the expansion projects of SMFB.

Investment property also increased by P617 million mainly due to the acquisition by SMPI of properties located in Mariveles, Bataan and Makati City.

The increase in goodwill by P70,009 million mainly represents the goodwill recognized as a result of the consolidation of Masinloc Power.

Deferred tax assets increased by P1,483 million mainly due to the effect of recognition by SMC of deferred tax on the higher unrealized foreign exchange loss on the revaluation of foreign currency denominated-long-term debt and loans payable in 2018, net of the effect of deferred tax on unrealized gain on derivatives and forex restatement of SMEC and Strategic Power Devt. Corp. (SPDC) and difference in the PSALM payments versus recognized finance lease liabilities-related expenses per books and the consolidation of the deferred taxes of AWRSC and MPPCL.

Other noncurrent assets increased by P9,077 million mainly due to the reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited, project costs incurred for Section 3A-2 (Binalonan to Pozzorubio) of Private Infra Dev Corporation Project and capitalized expenditures on the construction of Mass Rail Transit Line 7 Project; consolidation of the restricted cash balance of MPPCL and purchase of new bottles and shells by SMB.

Loans payable increased by P28,790 million mainly due to availment by SMC of US$400 million bridge financing loans to partly finance the acquisition of Masinloc Group.

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.

Income and other taxes payable increased by P4,894 million was mainly due to the increase in taxable income of SMB and San Miguel Holdings Corp., higher vatable sales of SMC Global, and higher excise tax liability coupled with higher income tax of Petron Malaysia.

The increase in dividends payable by P1,483 million was mainly due to the dividends declared by SMB to its common stockholders on March 9, 2018 which was paid on April 18, 2018.

The higher amount of long-term debt by P143,007 million resulted from the availments made by SMC Global of US$1,200 million and SMC of US$400 million to partly finance the acquisition of Masinloc; issuance by SMC of Series E, F and G fixed rate Bonds which were used for the payment in April 2018 of the US$400 million short-term loans; consolidation of the long-term debt of MPPCL; and forex adjustment on the US dollar denominated loans.

NCI increased by P13,524 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 Petron, SMC and SMB, and translation adjustments, net of dividends declared to the non-controlling stockholders of SMC, SMB and Petron.

Equity

The increase (decrease) in equity is due to:

(In millions)	March 31	
	2019	2018
Income during the period	**P12,480**	P13,550
Addition to non-controlling interests and others	**955**	3,390
Other comprehensive income	**667**	3,981
Adjustments due to adoption of PFRS	**(980)**	-
Cash dividends and distributions	**(6,978)**	(7,508)
	P6,144	P13,413

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	March 31	
	2019	2018
Net cash flows provided by operating activities	**P34,021**	P15,396
Net cash flows used in investing activities	**(22,547)**	(107,243)
Net cash flows provided by (used in) financing activities	**(2,682)**	121,502

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 primarily includes the following:

(In millions)	March 31	
	2019	2018
Additions to property, plant and equipment	**(P12,815)**	(P7,705)
Increase in other noncurrent assets and others	**(12,100)**	(3,388)
Additions to investments and advances	**(330)**	(786)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	**(9)**	(97,334)
Interest received	**2,434**	1,299
Proceeds from sale of investments and property and equipment	**267**	39

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

(In millions)	March 31	
	2019	2018
Payment of cash dividends and distributions	**(P6,762)**	(P6,022)
Payment of lease liabilities	**(4,949)**	(6,330)
Proceeds from long-term debt - net	**(2,032)**	104,895
Proceeds from short-term loans - net	**11,056**	25,757
Net proceeds from senior perpetual securities of a subsidiary	**-**	24,878
Redemption of undated subordinated capital securities of a subsidiary	**-**	(21,309)

The effect of exchange rate changes on cash and cash equivalents amounted to P1,125 million and P683 million for the periods ended March 31, 2019 and 2018, respectively.

V. KEY PERFORMANCE INDICATORS

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

	March 2019	December 2018
Liquidity:		
Current Ratio	**1.23**	1.29
Solvency:		
Debt to Equity Ratio	**2.38**	2.33
Asset to Equity Ratio	**3.38**	3.33
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	**4.74%**	4.76%
Interest Rate Coverage Ratio	**2.51**	2.63

	Periods Ended March 31	
	2019	2018
Operating Efficiency:		
Volume Growth	**8%**	6%
Revenue Growth	**7%**	20%
Operating Margin	**12%**	14%

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

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

* *Annualized for quarterly reporting*

Annex "D"

MINUTES OF THE ANNUAL MEETING
OF THE STOCKHOLDERS
OF
TOP FRONTIER INVESTMENT HOLDINGS, INC.

Held at Executive Dining Room, 2nd Floor, San Miguel Head Office Complex,
No. 40 San Miguel Avenue, Mandaluyong City
on July 10, 2018

Total Number of Shares Present in Person and by Proxy:	Common -	298,431,260	(89.65%)
	Preferred -	1,904,540	(100%)
	Total -	300,335,800	(89.71%)
Total Number of Shares Issued and Outstanding:	Common -	332,886,167	
	Preferred -	1,904,540	
	Total -	334,790,707	

Directors Present:

Iñigo U. Zobel
Ramon S. Ang
Ferdinand K. Constantino
Aurora T. Calderon
Nelly A. Favis-Villafuerte
Consuelo M. Ynares-Santiago
Minita V. Chico-Nazario (*By proxy*)

Officers Present:

Bella O. Navarra
Virgilio S. Jacinto
Maria Rosario B. Balanza
Irene M. Cipriano
Ramon R. Bantigue

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1. CALL TO ORDER

Mr. Iñigo U. Zobel, the Chairman of the Board, called the meeting to order and presided over the same.

After the singing of the National Anthem, Ms. Maria Rosario B. Balanza, the Investment Relations Officer, led the invocation.

2. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary, Atty. Virgilio S. Jacinto, certified that notices to the shareholders were duly sent. He certified that there are present in person or by proxy, stockholders owning and/or representing approximately 89.6% of the outstanding common shares, and 100% of the outstanding preferred shares, for a total of approximately 89.7% of the outstanding capital stock of the Company.

As the voting procedures are set out in the Information Statement, Atty. Jacinto stated, for the record, that proxies executed by stockholders owning and/or representing 89.68% of the outstanding common and preferred shares of the Company have been issued in favor of the Chairman authorizing him to vote for the approval of all corporate actions to be submitted in the meeting pursuant to the Agenda circulated to the stockholders.

3. APPROVAL OF PREVIOUS MEETING MINUTES

The Chairman informed the stockholders that the next item on the Agenda is the Approval of the Minutes of the Annual Stockholders; Meeting held on July 12, 2017, and that copies of the said Minutes have been posted at the registration area.

Upon motion duly made and seconded, there being no objections, the stockholders approved the following resolution:

Stockholders Resolution No. 2018-07-10-01
Approval of the Minutes of the Annual Stockholders' Meeting held on 12 July 2017

"**RESOLVED**, as it is hereby resolved, that the stockholders approve the Minutes of the Annual Stockholders' Meeting held on 12 July 2017."

4. APPROVAL OF ANNUAL REPORT FOR 2017

Ms. Aurora T. Calderon, a Director and the Treasurer of the Company, was requested by the Chairman to deliver the Annual Report for 2017. A copy of the report is attached hereto as Annex "A".

Thereafter, the Chairman opened the floor for questions from the stockholders.

Ms. Navarro asked for the outlook of the Company for 2018, and whether its good performance can be sustained. Mr. Ramon S. Ang, the President and Chief Executive Officer, replied that the Company had a good start this year, and 2018 is likewise expected to be another good year for the same. Its major asset, San Miguel Corporation ("SMC"), will continue to benefit from increasing sales across its businesses.

Ms. Kalaw asked which projects of SMC will be completed this year. Mr. Ang replied that for its beer business, SMC is building an additional packaging line in Sta. Rosa, Laguna, and its completion is targeted in the 4th Quarter of 2018. Meanwhile, the brewery currently under construction in Misamis Oriental is slated to be finished by next year. For its food business, Mr. Ang reported that SMC's hotdog plant located in Cavite has been operational since April of this year, while the four (4) feedmills in Mariveles, Bulacan, Davao, and Cagayan de Oro are also all expected to be finished within 2018.

Mr. Katigbak inquired about the consolidation of SMC's food and beverage businesses, and when its completion can be expected. Mr. Ang responded that the Company is only waiting for the release of the regulatory approvals before the follow-on offering of San Miguel Food and Beverage, Inc. can proceed. The Company is optimistic that the offering will progress timely as the same has been much anticipated by the market and the industry.

Mr. Lay posted a question on whether Petron has plans to sell gasoline products to ASEAN countries, and if so, how will the Company present itself to the ASEAN economy. Mr. Ang replied that Petron's current gasoline supply is just sufficient to meet the demands of the Philippine market. As such, Petron has no available capacity to export gasoline products.

Mr. Sanvictones asked whether the Company intends to invest elsewhere aside from SMC. Mr. Ang answered that Company is always open to study and evaluate all business opportunities, and that the stockholders will be kept fully informed of the investments that the it will make at the proper time.

There being no other questions from the stockholders, upon motion duly made and seconded, and there being no objections, the stockholders unanimously resolved to close the open forum and approve the following resolution:

Stockholders Resolution No. 2018-07-10-02
Approval of the Annual Report of the Company

"**RESOLVED**, as it is hereby resolved, that the stockholders approve and ratify the Annual Report of the Company for 2017, as presented."

5. RATIFICATION OF ALL ACTS OF THE BOARD OF DIRECTORS AND CORPORATE OFFICERS

The Chairman announced that the next item on the Agenda is the Ratification of All Acts and Proceedings of the Board of Directors and the Corporate Officers since the Annual Stockholders' Meeting held on July 12, 2017 to date. The Corporate Secretary further explained to the stockholders that the acts to be ratified are as follows:

a. Approval of:

   i. Minutes of Previous Meetings
   ii. Quarterly reports on the financial performance and financial position of the Company
   iii. Declarations of cash dividends to shareholders owning preferred shares
   iv. 2017 Audited Financial Statements of the Company
   v. Self-rating form of the Board of Directors
   vi. 2018 Internal Audit Plan
   vii. Record date and other significant dates and details for the 2018 Annual Stockholders Meeting
   viii. Report on the qualifications of the nominees for election to the Board
   ix. Report on the Corporate Governance Committee validation of the results of the Audit Committee performance assessment and self-rating form of the Board of Directors
   x. Report on the Filing of the 2017 Integrated Annual Corporate Governance Report (I-ACGR) of the Company

b. Election of officers;
c. Creation of the following Board Committees, namely: the Audit and Risk Oversight Committee, the Corporate Governance Committee and the Related Party Transaction Committee;

d. Approval of the Audit and Risk Oversight Committee Charter, Corporate Governance Committee Charter, and Related Party Transaction Committee Charter;
e. Appointment of the Members of the Board Committees;
f. Approval of the Internal Audit Charter; and
g. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2018-07-10-03
Ratification of All Acts of the Board of
Directors and Corporate Officers

"**RESOLVED**, that all acts, resolutions and proceedings of the Board of Directors and corporate officers of the Company since the Annual Meeting of the Stockholders on 12 July 2017 until today, 10 July 2018, as set forth in the minutes of the meetings of the Board of Directors be, as they hereby are, approved, confirmed and ratified."

6. APPOINTMENT OF EXTERNAL AUDITORS

The Chairman proceeded to the nomination for the position of external auditors of the Company for fiscal year 2018. Justice Consuelo M. Ynares-Santiago, an Independent Director and Member of the Audit and Risk Oversight Committee, reported to the stockholders that the Audit and Risk Oversight Committee, after evaluation, recommends the appointment of the accounting firm of R.G. Manabat & Co. as the external auditors of the Company for the fiscal year 2018.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2018-07-10-04
Appointment of External Auditors for 2018

"**RESOLVED**, as it is hereby resolved, that R. G. Manabat & Co. be, as they hereby are, appointed as the external auditors of the Company for the fiscal year 2018."

7. ELECTION OF DIRECTORS

The Corporate Secretary, upon request of the Chairman, presented to the stockholders the names of the nominees for election to the Board of Directors, namely:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Nelly A. Favis-Villafuerte
6. Consuelo M. Ynares-Santiago - Independent Director
7. Minita V. Chico-Nazario - Independent Director

The Chairman explained that the Information Statement circulated to the stockholders provided the names of the nominees for election as independent directors of the Board of Directors and they are Justices Consuelo M. Ynares-Santiago and Minita V. Chico-Nazario. The Chairman likewise informed the stockholders that the Board has identified the named independent directors to comply with the mandatory requirements imposed by the Securities and Exchange Commission.

A motion was made to dispense with the balloting for the election of directors considering that the number of directors to be elected is seven (7) and there are only seven (7) nominees. It was further moved that all the seven (7) nominees be unanimously elected as directors of the Company for the ensuing year, until their successors are elected and qualified, and that the votes of the stockholders present and represented by proxies be distributed and recorded accordingly.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2018-07-10-05
Election of Directors

"**RESOLVED**, that the following be, as they hereby are, elected as members of the Board of Directors of the Company, to serve as such for the ensuing year, until their successors are duly elected and qualified:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Nelly A. Favis-Villafuerte
6. Consuelo M. Ynares-Santiago - Independent Director
7. Minita V. Chico-Nazario - Independent Director"

On behalf of Management, the Chairman welcomed the newly-elected members of the Board of Directors and thanked the stockholders for their vote of confidence.

8. <u>ADJOURNMENT</u>

The Chairman inquired if any of the stockholders have any matter to present in the assembly.

There being no other matters to be discussed, the meeting was adjourned upon motion duly made and seconded. The Chairman thanked all stockholders present for attending the 2018 Annual Stockholders' Meeting of the Company.

A T T E S T:

IÑIGO U. ZOBEL
Chairman

VIRGILIO S. JACINTO
Corporate Secretary

Annex "A"

2017Annual Report

Financial Performance

Management is pleased to report that Top Frontier delivered strong results in 2017. As you are aware, our company's performance reflects primarily that of our principal subsidiary—San Miguel Corporation, and 2017 was an exceptional year for San Miguel.

Consolidated sales revenue of Top Frontier and subsidiaries amounted to P826 billion, a hefty 21% improvement over the 2016 level of P685 billion. The core businesses…food, beverage and packaging… all delivered outstanding results. The new businesses…Petron, Power and Infrastructure… also turned in healthy revenue and income growth, with Petron registering peak revenues and income.

2017 consolidated income from operations grew 12% to P108.5 billion from P97 billion of year ago while earnings before interest, taxes and depreciation (EBITDA) jumped 12% to P145.7 billion. Our recurring net income of P53.3 billion, was likewise 11% higher than the previous year's P48.1 billion.

San Miguel's diversification program that began ten years ago has resulted in the biggest gains for the company thus far. For 2017, the new businesses ---Petron, Power and Infrastructure --- already contributed 59.2% of consolidated operating income.

Ongoing Expansion Projects

In the last few years, San Miguel has continuously invested in new plants, expanded production and modernized operations. To meet the growing demand for its products, SMC is working to complete, within the next three years, the largest capacity expansion in the history of its food and beverage businesses. Its expansion projects are:

- A new brewery is being constructed in Misamis Oriental, Northern Mindanao.
- The capacity of the beer bottling plant in Sta. Rosa, Laguna is also being expanded.
- A total of 17 new facilities for the food business are being built.
- This year, a new hotdog manufacturing facility in Cavite which doubled its capacity was completed and inaugurated.
- A feed mill in Mariveles, Bataan was also completed while another one in Bulacan province is being constructed.

The decision of San Miguel to consolidate San Miguel Brewery Inc., San Miguel Pure Foods Company Inc., and Ginebra San Miguel, Inc., is to create a powerhouse consumer company -- San Miguel Food and Beverage, Inc. The consolidation will allow us to extract optimum synergies and leverage on their combined strengths.

For the new businesses:

- Petron continues to expand its retail network in the Philippines and in Malaysia. Its service stations number more than 3,000 to date.
- The last section of the Tarlac-Pangasinan-La Union Expressway is being completed and a proposal to extend this was recently submitted.
- The Skyway Stage 3, MRT-7, Boracay Airport expansion, and Bulacan Bulk Water Supply projects, are all progressing.

- The proposal to build a new international airport on a 2,500-hectare complex in Bulacan will be a game-changer for the Philippines. This airport complex will feature four runways with space for an additional two; modern passenger terminals with capacity for 100 million, scalable up to 200 million, and a modern air cargo complex.

Mining Projects

Clariden Holdings, Inc., which owns the Nonoc nickel mining project in Surigao and some gold and copper mines in Mt. Cadig, Bango and North Davao, continues to implement exploration and rehabilitation of mine site facilities in preparation for future operations.

Community development programs in support of environmental protection and management, safety and health, and other social development activities for its host communities are also continuously being undertaken. In 2017, particular focus was made to help in the rebuilding efforts for Marawi. San Miguel donated P1.5 billion for the construction of new houses for families affected by the siege. In addition, a business startup package of P2 million each was provided to honor the 166 soldiers and policemen who perished in the Marawi conflict.

First Quarter 2018 Results

Your company had a good start for the first quarter of 2018. Consolidated revenues posted a huge jump of 20% to P234.3 billion fueled by growth across all the businesses of San Miguel. Income from operations reached P32 billion, 19% higher than the same period in 2017 while recurring net income was 28% higher at P19.2 billion.

We aim to deliver even greater growth as we continue to grow our businesses and help attain our country's goals and aspirations.

On behalf of Mr. Zobel, Mr. Ang and your management, we would like to thank you, our fellow stockholders, for your continued confidence and support.

Again, maraming salamat po at magandang hapon sa inyong lahat.

Annex "B"

Voting Results

Election of the Board of Directors					
NO.	NOMINEE	FOR	AGAINST	ABSTAIN	TOTAL
1	IÑIGO U. ZOBEL	298,332,617	0	9,263	298,341,880
2	RAMON S. ANG	298,326,716	15,164	0	298,341,880
3	FERDINAND K. CONSTANTINO	297,026,376	40,465	1,275,039	298,341,880
4	AURORA T. CALDERON	297,053,399	15,164	1,273,317	298,341,880
5	NELLY A. FAVIS–VILLAFUERTE	297,066,841	0	1,275,039	298,341,880
6	CONSUELO M. YNARES–SANTIAGO	298,301,415	40,465	0	298,341,880
7	MINITA V. CHICO–NAZARIO	298,341,880	0	0	298,341,880
	TOTAL	2,084,449,244	111,258	3,832,658	2,088,393,160

RESOLUTION	FOR		AGAINST		ABSTAIN		TOTAL	
Approval of the Minutes of the Annual Stockholders' Meeting held on July 12, 2017	298,341,752	89.623%	0	0%	128	0.000%	298,341,880	89.623%
Approval of the Annual Report of the Company for year ended December 31, 2017	298,290,707	89.607%	0	0%	51,173	0.015%	298,341,880	89.623%
Ratification of all the acts and proceedings of the Board of Directors and Officers since the Annual Stockholders' Meeting held on July 12, 2017	298,290,707	89.607%	0	0%	51,173	0.015%	298,341,880	89.623%
Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2018	298,341,752	89.623%	0	0%	128	0.000%	298,341,880	89.623%