Reform. Fortify. Advance.

2018
Macay Holdings, Inc
Annual Report

We are in the business of building a portfolio of consumer products & services that enable us to provide superior value for our customers in the Philippines & other Asian countries.

We provide opportunities for growth & enrichment to our employees & contribute to the success of our business partners in the communities where we operate, and realize financial gains for our shareholders.

We strive for honesty, fairness and integrity in all our dealings under high standards of corporate governance.

Contents

MACAY HOLDINGS, INC.

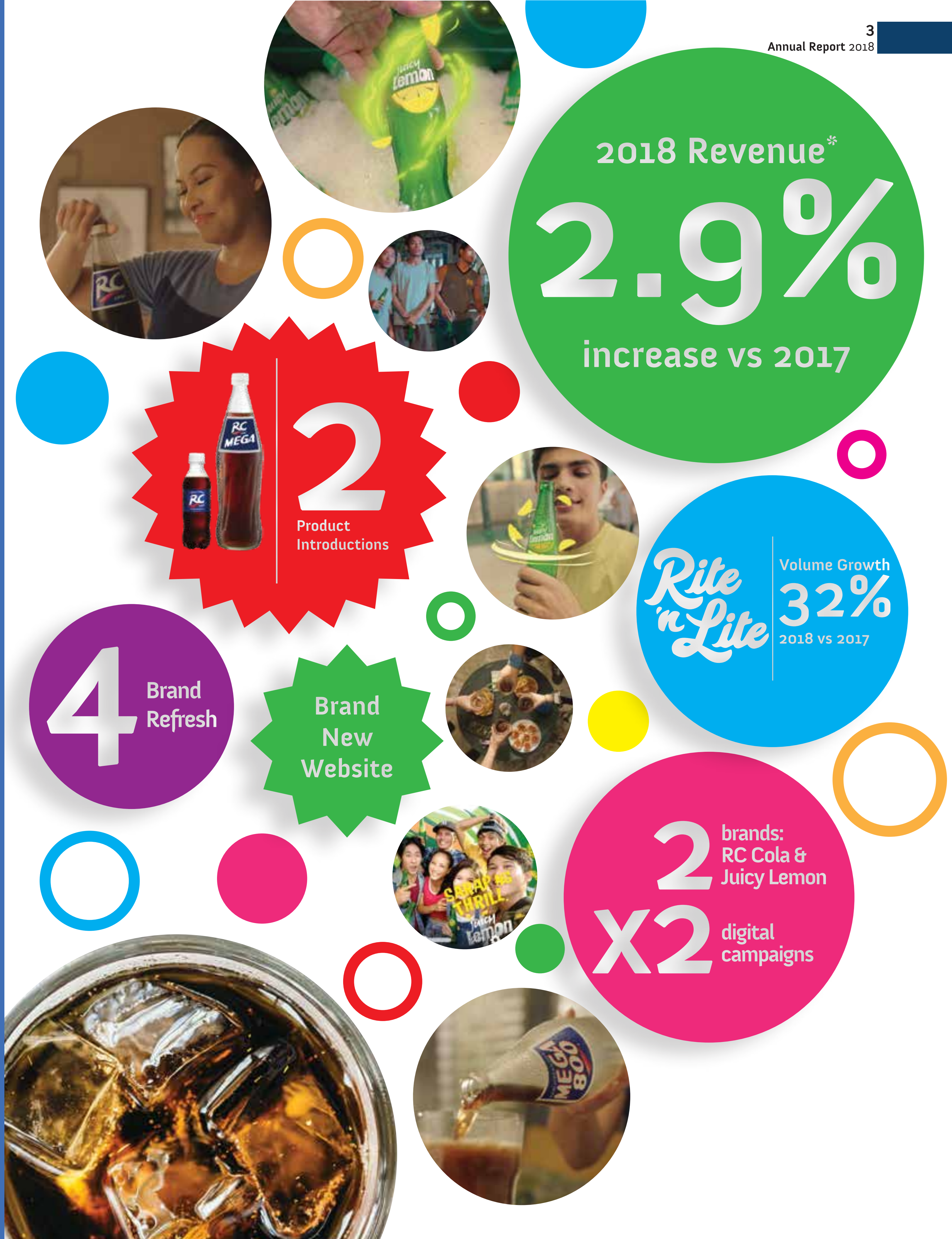
Macay Holdings, Inc. ("Macay") is an investment holding company duly registered with the Securities and Exchange Commission and listed on the Philippine Stock Exchange ("PSE"). Share of the company were listed and traded as "MACAY" on the PSE starting 2014.

Macay is the parent company of ARC Refreshments Corporation ("ARC") which produces, bottles, markets and distributes a wide range of carbonated beverages, including the popular RC Cola and its variant RC No Sugar as well as other soft drinks, namely: Juicy Lemon, Arcy's Root Beer, Fruit Soda Orange, Seetrus and Rite N Lite. Over the years, Macay has –through ARC–carved out a market for its branded carbonated beverages. Significantly, it grew its footprint to a total of nine (9) bottling facilities. These bottling facilities are situated in various strategic locations through the country, in close proximity to our customers and dealers.

Macay was formerly known as Maybank ATR Kim Eng Financial Corporation ("MAKE"). The shareholders of MAKE undertook a re-organization which resulted in the sale of all its operating subsidiaries. Upon completion of this re-organization, the majority investor of MAKE was acquired on October 25, 2013, by an investor group led by Alfredo M. Yao, to serve various businesses engaged in soft drinks bottling, distribution and sales and eventually other consumer-focused businesses to be indentified in the future.

The company and its senior management team aims to expand the presence and market share of ARC, and enter into the manufacture, distribution and sale of other consumer-focused products in the Philippines and in the Asian region.

Company Highlights



Joint Message from the Chairman & President

We present the Annual Report of Macay Holdings. Inc, for the fiscal year 2018. Over the past years of registering compounded growth, this year Macay experienced a slow down which brought its year on year revenue growth to 2.9%. Slowed not by our competitors but by an almost perfect storm of regulatory impositions, resulting costs inflation, economic slowdown and market disruption. This contributed to a dramatic slowdown in consumption–the main driver of our economy; from which our company have benefited much over the years.

The comprehensive Tax Reform for Acceleration and Inclusion Law (TRAIN Law) imposed an excise tax on both sugar and non-sugar sweetened beverages and on fuel as well–the primary cost drivers in our business.

The excise tax that initially increased the retail prices of carbonated beverages by almost 30% translated to shrinkage of the carbonated beverage industry by 4.9%.

With the decline in sales volume, Macay's registered net income amounted to P479.4 in 2018.

Faced with these new realities, our company immediately embarked on key priority initiatives:

- To adapt to the changing market conditions brought bout by the excise tax
- To mitigate the impact of rising inflation to our costs of doing business
- To address consumer affordability issues, given that these products are considered non-essential

To date, the dramatic decline in sales turnover have been checked and we believe we are again positioned to grow under prevailing market conditions.

Other markets in the US, Europe and Asia that went through the same upheaval took more time to recover. Our economy is recovering in time to mitigate the negative effects of the excise tax.

This episode is truly gamechanging, and we have gained valuable insights in the development of our company in an environment that's globally connected and exposed to both opportunities and vulnerabilities.

Macay has set its sight on strategic diversification through potential partnerships and acquisitions. Moving towards participating in other beverage categories in order to increase its portfolio of products and cater to a greater consumer market. To look outside of the Philippine market and participate in the growing opportunities in the region, or beyond, leveraging our operational competence, knowledge in product and brand development, and our relationship with our principals at Royal Crown Cola International.

We thank you for your trust and support, and making this journey, and reaching new heights.

Alfredo M. Yao
Chairman

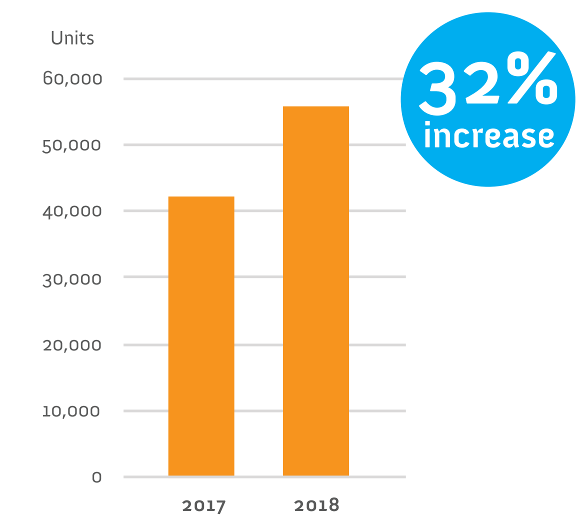
No sugar.
No carbs.
No calories.
All good.

"...confidently paving the way for ARC Refreshments Corporation towards forming & establishing a more premium category for the company."

Last 2016, ARC Refreshments Corporation launched Rite N Lite, a no sugar, no carbs, no calories carbonated drink that was to heed the call to those who clamored for a healthier beverage alternative other than what's been out there. As the awareness on the concern for healthier beverage alternatives grew over the years, so did the acceptance from the younger generations. As a means to appeal to the wider audience, Rite N Lite was repositioned in mid-2018 with an entire overhaul of the look and feel to the brand. In turn, we managed to establish an aspirational brand that is craved for by a broader market. We introduced a more vibrant, colorful, fresh take on a sparkling flavored drink that gave you that guiltless feeling of craving for more and as an added benefit, looks good enough for its own patrons to take photo-ops of the product on their social media.

Since its repositioning, Rite N Lite has grown 32% in volume, surpassing its previous year in 2017 at a high velocity. The surge in growth happened within a span of less than 5 months to year-end spurred by its refreshing make-over and strategic marketing efforts that were to increase awareness via social media and an entirely new approach to distributing the brand that kept in line with the building and establishing the equity of the brand at its infancy stage.

Rite N Lite is confidently paving the way for ARC Refreshments Corporation towards forming and establishing a more premium beverage category for the company. It opens more doors for growth and definitely aims to diversify its market strategically.



Performance of Rite N Lite 2017 vs 2018

Corporate Social Responsibility

BALIK ESKUWELA 2018

The Balik Eskuwela Project is an annual mission of the AMY Foundation in partnership with the LGUs and NGOs. It is one of the Foundation's programs that directly deliver school supplies to students in need before classes start.
This year the project was held on May 31, 2018 at the covered court of Barangay Sta. Lucia District 5, Novaliches, Quezon City. The Kindergarten, Grades One and Two students received school bags containing notebooks, pad papers, pencils, crayons, and other school supplies. Hygiene kits containing towel, alcohol, powder, soap, toothpaste, and toothbrush were also distributed.
Volunteers from the AMY Foundation scholars studying at PUP and PLM, and former scholars who graduated from UCC extended their helping hands to make this activity a success.

2018 AMY SCHOLARS ORIENTATION

The AMY Foundation held an orientation for the new AMY scholars at the Northern Rizal Yorklin School in Caloocan on November 16, 2018. The foundation's Vision, Mission and Goals were explained further to the newly accepted scholars from the partner and non-partner schools.
The first meet and greet provides the perfect opportunity for the new scholars to know their fellow scholars as one family. A total of forty six scholars attended the orientation.
The orientation highlighted the AMY Foundation Scholarship Program Policy and the numerous activities of the Foundation the scholars may be interested to participate in.

CHRISTMAS WITH DUMAGAT KIDS

On December 9, 2018, AMY Foundation partnered with Philippine Business Bank in a gift giving activity held at the Nuestra Señora de Lourdes Parish Church in Doña Remedios Trinidad, Bulacan. The dumagat kids walked for about 6-7 hours all the way from their home in the mountains to receive our humble gift of happiness. Over 150 prepared sets of Christmas bags containing toys, hygiene kits, coloring books, colors, candies and biscuits, were given away to the delight of these kids. They were also given a packed rice meal and a Zest-O juice drink for their lunch.

Meanwhile, more than 200 dumagat families who likewise walked a hundred miles, were very happy to receive their respective pails containing noche buena goodies that would surely brighten up their tables for the upcoming Christmas Eve. Majority of the recipients said: "Sulit ang pagbaba namin mula sa bundok. Ang dami!" (pertaining to the bountiful of goods that they have received).

Board of Directors






From Top (left to right):

ALFREDO M. YAO
Chairman

ANTONIO I. PANAJON
President

JEFFREY S. YAO
Treasurer

GERARDO T. GARCIA
Director

MARY GRACE S. YAO
Director

ALBERT S. TORIBIO
Director






From Top (left to right):

ROBERTO A. ATENDIDO
Director

JESUS G. GALLEGOS, JR.
Independent Director

ROBERTO F. ANONAS
Independent Director

CAROLYN S. YAO
Director

RINALDI C. AVES
Director

ARMANDO M. YAO
Director

Independent Auditor's Report

The Board of Directors and Stockholders
Macay Holdings, Inc.
137 Yakal Street, San Antonio Village
Makati City

Opinion

We have audited the consolidated financial statements of Macay 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 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 to the consolidated financial statements, including a summary of significant accounting policies.

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 (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of materials misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Estimating Useful Life of Deferred Pallets and Containers

In accordance with its policy, the Group reviews annually the estimated useful life of its deferred pallets and containers based on the profile of the assets and scuff level analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis, and the Group's experience with similar assets in so far as breakages and trip lives are concerned. We consider this as a key audit matter because estimating the useful life of deferred pallets and containers requires significant judgement and estimation by management. In addition, this estimate has impact on the consolidated financial statements, particularly on amortization and impairment assessment and/or testing of deferred pallets and containers.

See Notes 2 and 9 to the consolidated financials statements for the related disclosures.

Audit Response

We obtained the understanding of the Group's process in estimating the useful life of its deferred pallets and containers and tested the relevant controls. We considered the competence, capabilities and objectivity of management's specialist who performed the technical evaluation of the estimated useful life. We performed an analysis of the information used by management in determining the estimates. We tested selected information such as condition of the assets, level of breakages, and trip lives to supporting documents such as containers profiling and scuff level analysis.

Adoption of PFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Group adopted the new revenue recognition standard, PFRS 15, Revenue from Contracts with Customers, under the modified retrospective approach. The adoption of PFRS 15, resulted in changes in the Group's revenue recognition policies, process, and procedures. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgement in determining if consolidation paid to customers is not a payment for a distinct good or service that will result in reduction of the transaction price of the Group's contract with customers.

The disclosures related to the adoption of PFRS 15 are included in Notes 2 and 14 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's process in implementing the new revenue recognition standard. We reviewed the PFRS 15 assessment and accounting policies prepared by management including revenue streams identification and scoping, and contract analysis.

In relation to the amounts paid to customers, we reviewed sample contracts with customers and checked management's assessment on whether the amount paid to customers pertains to a distinct good or service or not. We also reviewed the presentation of consideration paid to customers in the consolidated statements of income.

We also reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 15.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-a and/or Annual Report for the year ended December 31, 2018 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC form 20-IS (Definitive Information Statement), SEC Form 17-a or Annual Report for the year ended December 31, 2018, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we concluded that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 PFRSs, 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.

Auditor's 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 auditor's 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 PSAs 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 basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgement 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 auditor's 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 auditor's report. However, future events or conditions may cause our 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 of the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 they key audit matters. We describe these matters in our auditor's 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 auditor's report is Ana Lea C. Bergado.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation NO. 0660-AR-3 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 102-082-670
BIR Accreditation No. 08-001998-63-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332529, January 3, 2019, Makati City

April 25, 2019

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱3,771,512,294**	₱3,671,335,477
Trade and other receivables (Note 5)	**329,323,732**	518,698,958
Inventories (Notes 2, 6 and 9)	**870,106,120**	859,210,662
Other current assets (Note 7)	**243,487,082**	149,917,174
Total Current Assets	**5,214,429,228**	5,199,162,271
Noncurrent Assets		
Property, plant and equipment (Note 8)	**1,459,931,072**	1,379,332,521
Deferred pallets and containers (Notes 2 and 9)	**2,511,352,146**	2,808,166,969
Interest in a joint venture (Note 10)	**23,324,392**	29,218,381
Retirement benefits asset (Note 21)	**9,493,091**	14,453,915
Deferred tax assets - net (Note 22)	**31,198,569**	5,192,184
Other noncurrent assets (Note 7)	**534,910,806**	526,914,970
Total Noncurrent Assets	**4,570,210,076**	4,763,278,940
TOTAL ASSETS	**₱9,784,639,304**	₱9,962,441,211
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**₱2,051,814,785**	₱2,431,669,952
Short-term loans payable (Note 12)	**62,997,663**	85,934,082
Dividends payable (Note 13)	**2,695,818**	12,766,997
Income tax payable	**21,124,292**	105,321,183
Total Current Liabilities	**2,138,632,558**	2,635,692,214
Equity		
Capital stock (Note 13)	**1,068,393,223**	1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Stock dividends for distribution (Note 13)	**224,362,576**	224,362,576
Other comprehensive income (Note 21)	**65,446,772**	61,727,728
Retained earnings		
Appropriated (Note 13)	**1,400,000,000**	1,100,000,000
Unappropriated	**3,734,235,886**	3,718,697,181
Total Equity	**7,646,006,746**	7,326,748,997
TOTAL LIABILITIES AND EQUITY	**₱9,784,639,304**	₱9,962,441,211

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUES			
Sale of goods (Notes 14 and 19d)	**₱11,034,164,289**	₱10,723,941,949	₱11,374,354,624
Tolling revenues [Notes 14 and 19(g)]	**2,477,079**	3,229,800	3,958,626
	11,036,641,368	10,727,171,749	11,378,313,250
COST OF SALES AND SERVICES (Note 15)	**(8,932,280,832)**	(6,782,365,516)	(7,429,836,675)
GROSS PROFIT	**2,104,360,536**	3,944,806,233	3,948,476,575
EXPENSES			
Selling and marketing (Note 16)	**1,148,302,839**	1,284,951,841	1,128,278,367
General and administrative (Note 17)	**396,850,825**	384,583,908	329,395,854
	1,545,153,664	1,669,535,749	1,457,674,221
OTHER INCOME (CHARGES)			
Interest income (Notes 4 and 19)	**72,677,300**	25,299,899	12,416,997
Share in net income (loss) in joint venture (Note 10)	**(4,904,049)**	(12,892,658)	491,875
Interest expense (Note 12)	**(2,047,242)**	(3,722,792)	(5,908,056)
Foreign exchange gains (losses) - net	**6,899,328**	2,706,734	(278,155)
Others (Note 18)	**21,750,504**	30,408,981	36,611,693
	94,375,841	41,800,164	43,334,354
INCOME BEFORE INCOME TAX	**653,582,713**	2,317,070,648	2,534,136,708
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	**186,972,018**	690,835,620	719,456,474
Deferred	**(12,757,724)**	(5,125,801)	(3,883,837)
	174,214,294	685,709,819	715,572,637
NET INCOME	**479,368,419**	1,631,360,829	1,818,564,071
OTHER COMPREHENSIVE INCOME			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains on retirement benefits, net of tax (Note 21)	**3,719,044**	9,738,709	78,434,368
TOTAL COMPREHENSIVE INCOME	**₱483,087,463**	₱1,641,099,538	₱1,896,998,439
EARNINGS PER SHARE			
Basic/Diluted Earnings Per Share (Note 25)	**₱0.45**	₱1.53	₱1.70

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

	Capital Stock	Additional Paid-in Capital	Stock Dividend for Distribution	Other Comprehensive Income	Retained Earnings Appropriated	Retained Earnings Unappropriated	Total
Balances at January 1, 2016	**₱1,068,393,223**	**₱1,153,568,289**	**₱–**	**(₱26,445,349)**	**₱–**	**₱1,849,549,229**	**₱4,045,065,392**
Net income	–	–	–	–	–	1,818,564,071	1,818,564,071
Other comprehensive income	–	–	–	78,434,368	–	–	78,434,368
Total comprehensive income	–	–	–	78,434,368	–	1,818,564,071	1,896,998,439
Distribution to previous owners of subsidiary (Note 2)	–	–	224,362,576	–	–	(352,569,761)	(128,207,185)
Appropriations (Note 13)	–	–	–	–	1,052,044,720	(1,052,044,720)	–
Balances at December 31, 2016	**1,068,393,223**	**1,153,568,289**	**224,362,576**	**51,989,019**	**1,052,044,720**	**2,263,498,819**	**5,813,856,646**
Net income	–	–	–	–	–	1,631,360,829	1,631,360,829
Other comprehensive income	–	–	–	9,738,709	–	–	9,738,709
Total comprehensive income	–	–	–	9,738,709	–	1,631,360,829	1,641,099,538
Dividends declared (Note 13)				–	–	(128,207,187)	(128,207,187)
Reversal of appropriations (Note 13)	–	–	–	–	(1,052,044,720)	1,052,044,720	–
Appropriations (Note 13)	–	–	–	–	1,100,000,000	(1,100,000,000)	–
Balances at December 31, 2017, as previously reported	**1,068,393,223**	**1,153,568,289**	**224,362,576**	**61,727,728**	**1,100,000,000**	**3,718,697,181**	**7,326,748,997**
Share in transition adjustment for adoption of PFRS 9 by the joint venture (Note 10)	–	–	–	–	–	(989,940)	(989,940)
Transition adjustment for adoption of PFRS 9 (Note 2)	–	–	–	–	–	(34,632,587)	(34,632,587)
Balances at January 1, 2018, as restated	**1,068,393,223**	**1,153,568,289**	**224,362,576**	**61,727,728**	**1,100,000,000**	**3,683,074,654**	**7,291,126,470**
Net income	–	–	–	–	–	479,368,419	479,368,419
Other comprehensive income	–	–	–	3,719,044	–	–	3,719,044
Total comprehensive income	–	–	–	3,719,044	–	479,368,419	483,087,463
Dividends declared (Note 13)	–	–	–	–	–	(128,207,187)	(128,207,187)
Reversal of appropriations (Note 13)	–	–	–	–	(1,100,000,000)	1,100,000,000	–
Appropriations (Note 13)	–	–	–	–	1,400,000,000	(1,400,000,000)	–
Balances at December 31, 2018	**₱1,068,393,223**	**₱1,153,568,289**	**₱224,362,576**	**₱65,446,772**	**₱1,400,000,000**	**₱3,734,235,886**	**₱7,646,006,746**

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱653,582,713**	₱2,317,070,648	₱2,534,136,708
Adjustments for:			
Depreciation and amortization (Notes 8 and 9)	**1,127,819,887**	1,214,126,282	1,088,769,821
Interest income (Note 4)	**(72,677,300)**	(25,299,899)	(12,416,997)
Retirement benefit expense (Note 21)	**10,273,744**	17,085,522	20,790,549
Share in net loss (income) of joint venture (Note 10)	**4,904,049**	12,892,658	(491,875)
Unrealized foreign exchange losses (gains) - net	**(4,759,040)**	(1,319,070)	860,313
Interest expense (Note 12)	**2,047,242**	3,722,792	5,908,056
Operating income before working capital changes	**1,721,191,295**	3,538,278,933	3,637,556,575
Decrease (increase) in:			
Trade and other receivables (Note 5)	**199,640,971**	(104,114,748)	(43,233,627)
Inventories (Note 6)	**(10,895,458)**	33,271,474	(138,550,269)
Other current assets (Note 7)	**(94,294,775)**	(49,052,012)	(28,148,616)
Increase (decrease) in:			
Trade and other payables	**(431,680,562)**	138,202,743	(279,656,865)
Short-term loans payable (Note 12)	**(22,936,419)**	54,788,831	31,145,523
Net cash generated from operations	**1,361,025,052**	3,611,375,221	3,179,112,721
Interest received	**68,590,844**	19,551,640	10,908,202
Income taxes paid, including creditable withholding taxes (Note 24)	**(270,444,042)**	(708,295,229)	(745,785,172)
Interest paid (Note 12)	**(2,047,242)**	(3,722,792)	(5,908,056)
Contributions paid to plan assets (Note 21)	**–**	(19,678,749)	(10,859)
Net cash from operating activities	**1,157,124,612**	2,899,230,091	2,438,316,836
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other noncurrent assets	**64,657,942**	122,559,388	125,690,479
Additions to:			
Deferred pallets and containers (Note 9)	**(550,874,623)**	(648,610,411)	(701,115,733)
Property, plant and equipment (Notes 8 and 24)	**(361,478,822)**	(393,733,304)	(422,189,052)
Payment for placement of short-term investments	**(72,653,783)**	(67,258,542)	(17,000,000)
Proceeds from termination of short-term investments	**–**	17,000,000	–
Payment for subscription payable (Notes 1 and 2)	**–**	–	(17,000,000)
Net cash used in investing activities	**(920,349,286)**	(970,042,869)	(1,031,614,306)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of short-term loan (Note 12)	**–**	–	(450,000,000)
Cash dividends paid (Note 13)	**(138,278,366)**	(140,211,018)	(126,583,212)
Net cash used in financing activities	**(138,278,366)**	(140,211,018)	(576,583,212)

(Forward)

	Years Ended December 31		
	2018	2017	2016
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**₱1,679,857**	(₱1,036,128)	₱101,179
NET INCREASE IN CASH AND CASH EQUIVALENTS	**100,176,817**	1,787,940,076	830,220,497
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,671,335,477**	1,883,395,401	1,053,174,904
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,771,512,294**	₱3,671,335,477	₱1,883,395,401

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Macay Holdings, Inc. (the Parent Company or MHI) is a company incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1930 primarily to reflect the business of a holding company. Under its amended Articles of Incorporation, the corporate life of the Parent Company was extended for another 50 years up to October 16, 2030. The shares of stock of MHI are listed and traded as "MACAY" on the Philippine Stock Exchange (PSE) starting 2013.

The Parent Company is 89.75% owned by Mazy's Capital, Inc. (MCI, a Filipino Corporation) and 10.25% owned by the public. MCI is 42.86% owned by Mega Asia Bottling Corporation (Mega Asia) and 57.14% owned by Zest-O Corporation (Zest-O). Mega Asia is an entity under common control while Zest-O is the ultimate parent company of the Group.

On August 13, 2015, the Parent Company executed a Share Purchase Agreement with all shareholders of ARC Holdings Inc. (ARCHI). ARCHI is the holder of the trademark of Royal Crown Cola, Inc. (RCCI), owner of the RC Cola brand. The purpose of the acquisition is to consolidate all the licensing, trademark and related rights on the RC Cola brand. All issued and outstanding common shares totaling 1.70 million shares shall be purchased by the Parent Company at ₱10 per share for a total consideration of ₱17.00 million. The consideration was settled on November 10, 2016.

The Parent Company owns 100% interest and operates as the holding company of ARC Refreshments Corporation (ARCRC), a beverage company, and ARCHI, a holding company.

The registered office address and principal place of business of the Parent Company is 137 Yakal Street, San Antonio Village, Makati City, Philippines 1203.

The Parent Company and its subsidiaries are collectively referred to in the notes to the consolidated financial statements as the "Group".

The accompanying consolidated financial statements of the Group as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, were approved and authorized for issue by the Board of Directors (BOD) on April 25, 2019.

2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies

<u>Basis of Preparation</u>
The accompanying consolidated financial statements have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine peso (₱), which is the Group's functional currency. All amounts are rounded off to the nearest ₱, except when otherwise indicated.

When the Group has less than a 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 Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI 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.

<u>Changes in Accounting Policies</u>

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2018.

- PFRS 9, *Financial Instruments*, replaces PAS 39, *Financial Instrument: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

  The Group applied PFRS 9 using modified retrospective approach, with initial application date of January 1, 2018. The Group has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from adoption of PFRS 9 have been recognized directly in retained earnings. The impact of adopting PFRS 9 on the Group's financial position & financial performance are discussed below.

  (a) Classification and measurement

  Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortized cost, or fair value through other comprehensive income (FVTOCI). The classification is based on two criteria: The Group's business model for managing the assets, and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

  The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  The classification and measurement requirements of PFRS 9 did not have a significant impact to the Group. Cash and cash equivalents, trade and other receivables and short-term investments classified as loans and receivables as of December 31, 2017 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 debt instruments at amortized cost.

  The Group has not designated any financial assets and financial liabilities as at FVTPL and FVTOCI. There are no changes in classification and measurement for the Group's financial liabilities.

  (b) Impairment

  The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at FVTPL.

  For cash and cash equivalents and short-term investments, the Group evaluated that these financial assets have low credit risk. Hence, the Group measured ECL on these instruments on a 12-month basis applying the low credit risk simplification. The Group uses external credit ratings both to determine whether the cash and cash equivalents, short-term cash investments and miscellaneous deposits has significantly increased in credit risk and to estimate ECL.

  For trade receivables, the Group applied a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

  The adoption of PFRS 9 resulted to recognition of additional provision for impairment on the Group's trade receivables of ₱49.48 million with a corresponding decrease in retained earnings of ₱34.63 million (net of tax) as at January 1, 2018.

- PFRS 15, *Revenue from Contracts with Customers*, supersedes PAS 18, *Revenue*, and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

  The Group adopted PFRS 15 using the modified retrospective approach of adoption with January 1, 2018 as the date of initial application. The Group elected to apply the standard to contracts that are not completed as at January 1, 2018.

  The Group is mainly engaged in the manufacture and sale of goods under RC Cola brand which account for almost 100% of its revenue. The Group assessed that in its contract with customer for sale of goods, there is only one performance obligation and that revenue arising from such contract qualify for recognition at the point in time when control over the goods have been transferred to the customer - which is normally at the time of delivery to and acceptance by the customer. The Group also assessed that there are no variable considerations in its contract with customer. Previously, the Group recognized revenue from sale of goods when risks and rewards of ownership of the goods have passed to the customer, which is upon delivery of the goods.

  The Group provides trade deals and discounts to customers which are determined at the time of sale and are not subject to conditions determinable after the sale. Accordingly, the Group recognizes revenue net of trade deals and discounts.

  The adoption of PFRS 15 did not change the timing of revenue recognition.

The Group also assessed that payments to customers in relation to their existing contract with the customer do not represent payment for distinct goods or services, thus, will be accounted for as deduction to revenue. Previously, payments to customers are treated as expense. The adoption of PFRS 15 did not have an effect on the retained earnings as at January 1, 2018.

The Group also provided new disclosures to comply with the requirements of PFRS 15 such as disaggregated revenue information, among others (see Note 14).

The Group also adopted the following new accounting pronouncements starting January 1, 2018. The adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to Philippine Accounting Standards (PAS) 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group is currently assessing the impact of the following standards and plans to adopt the new standards when these become effective.

- PFRS 16, *Leases*, sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases.* The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes,* and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Adoption of the following pronouncements is currently not expected to have a significant impact on the parent company financial statements. The Group intends to adopt the following pronouncement once they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Summary of Significant Accounting Policies

Revenue Recognition

Prior to the adoption of PFRS 15, the following are the Group's policies for revenue recognition:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods

Revenues reflected in the consolidated statement of comprehensive income pertain to sale of goods. Revenue from the sale of goods is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which is upon delivery of the goods. Revenue recognized is net of trade deals and pick-up discounts.

In 2018, 2017 and 2016, the Group recognized net revenues amounting to ₱11.03 billion, ₱10.72 billion and ₱11.37 billion, net of trade and pick-up discounts of ₱1.87 billion, ₱2.68 billion and ₱2.59 billion, respectively.

Tolling Revenues
Revenue from tolling services is recognized when the service has been rendered.

The following are the Group's accounting policies for revenue recognition after adoption of PFRS 15:

Revenue from contracts with customers is recognized when control of goods or services are transferred to the customers at an amount that reflects the consideration which the Group expects to be entitled to in exchange for those goods or services. Control refers to the ability of the customer to direct and obtain substantially all the transferred product benefits. Also, it implies that the customer has the ability to prevent a third-party from directing the use and obtaining substantially all the benefits of the transferred product. The Group consider the following five-step model in accounting for its revenue from contract with customers.

Determine the contract in a revenue arrangement
The Group accounts for a contract when it meets the following criteria: (a) the parties have approved the contract and are committed to perform their respective obligations; (b) each party's rights regarding the goods or services to be transferred can be identified; (c) payment terms can be identified; (d) the contract has commercial substance; and (e) the collectability of consideration is probable.

Identify the related performance obligation in a contract
At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer 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. A good or service is distinct if it is capable of being distinct by providing a benefit to the customer either on its own or together with other resources that are readily available to the customer and the promised good or service is separately identifiable from other promises in a contract.

Determine the transaction price
The Group determines the transaction price in a contract as the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (e.g. value added tax). In determining the transaction price, the Group considers the terms of the contract with customers and the Group's customary business practice.

If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. The Group estimates the amount of variable consideration in a contract either using the expected value or the sum of probability weighted amounts in a range of possible consideration amounts or the single most likely amount in a range of possible consideration amounts. The Group includes the estimated variable consideration in the transaction price only if it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group has no variable considerations related to its contracts with customers.

The Group accounts for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group.

Perform an allocation of the transaction price to performance obligation
If the contract has two or more performance obligation, the Group allocates the total transaction price in a contract to each of the performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation.

Recognize revenue upon satisfaction of performance obligation
The Group recognizes revenue in a contract with customer only when it satisfies an identified performance obligation by transferring a promised good or service to a customer. The Group considers a good or service to be transferred when the customer obtains control. Considering the terms of the contract and type of performance obligation, the Group assesses that it satisfies its performance obligation in a contract with customer, and therefore recognize revenue, either over time or point in time. The Group satisfies performance obligation over time if one of the following criteria are met: (a) as the Group performs, the customer simultaneously receives and consumes the benefits provided by the Group's performance; (b) the Group's performance creates or enhances an asset (e.g., work in progress) 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. For performance obligation satisfied over time, the Group measures the progress towards complete satisfaction of its performance obligation in a contract with customer using input method or output method. For performance obligation not satisfied over time, the Group recognizes revenue at the point in time the control over goods or services have been transferred to the customer.

If the Group enters into an arrangement that does not meet the criteria for a contract above, the Group recognizes revenue only when either: (1) the Group has no remaining obligations to transfer goods or services and substantially all of the consideration has been received by the Group and is non-refundable; or (2) the contract has been terminated and the consideration received is non-refundable.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring to the customers.

Sale of Goods
Most of the Group's revenue arises from its contract for sale of goods (e.g. RC Cola products). Revenue from sale of goods is recognized at a point when control of the goods is transferred to the customer, generally on delivery and acceptance of the goods.

Tolling Revenues
Revenue from tolling services is recognized over time.

<u>Interest Income</u>
Interest income from bank deposits and short-term investments is recognized as it accrues using the effective interest rate (EIR) method.

<u>Cost and Expense Recognition</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are generally recognized when the expense arises following the accrual basis of accounting.

Cost of Sales
Cost of sales, which comprise mainly of purchases of raw materials and related production cost, are recognized on a monthly basis in relation with the recognition of the related revenue arising from the sale.

Cost of Services
Cost of services which mainly pertain to the cost of tolling services rendered to Asiawide Kalbe Philippines, Inc. (AKPI) is recognized when the cost is incurred.

Selling and Marketing Expenses
Selling and marketing expenses consist of costs associated with the development and execution of marketing promotion activities and all expenses connected with selling, servicing and distributing Group products.

General and Administrative Expenses
General and administrative expenses are incurred in the normal course of business and are generally recognized when the services are used or the expenses arise.

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject of an insignificant risk of change in value.

Short-term Investment
Short-term investment pertains to bank time deposit with more than three (3) months but within one year, and earns interest at the respective short-term investment rates.

Financial Instruments
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Prior to the adoption of PFRS 9, the following are the Group's policies for financial instruments:

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

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables and available-for-sale (AFS) financial assets. The Group classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date. As at December 31, 2017, the Group has no AFS financial assets, financial assets at FVPL, HTM financial assets and financial liabilities at FVPL.

Financial instruments are classified as liabilities 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.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the EIR method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in interest income under "Interest income" account in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in the consolidated statements of comprehensive income under "General and administrative expenses" account. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on *Impairment of Financial Assets Carried at Amortized Cost*).

They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the Group's "Cash and cash equivalents", "Trade and other receivables", which arise primarily from sale of goods, short-term investment under "Other current assets" and security deposits under "Other non-current assets" accounts in the consolidated statement of financial position.

Loans and receivables are classified as current assets when they are expected to be realized within twelve months from the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. payables, accruals).

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in "Foreign exchange gain - net" account in the consolidated statement of comprehensive income.

Other financial liabilities are classified as current liabilities when they are expected to be settled within 12 months from the reporting date or when the Group has an unconditional right to defer settlement for at least 12 months from reporting date. Otherwise, they are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's "Trade and other payables", "Short-term loans payable", "Dividends payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable and retirement benefits liability).

Impairment of Financial Assets Carried at Amortized Cost
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has or have occurred after initial recognition of the asset (an incurred "loss event") and that loss has an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated. Objective evidence of impairment may include indications that borrower is experiencing significant financial difficulty, default or delinquency reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as charges in arrear or economic condition that correlate with default.

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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 a collective assessment of impairment.

If there is objective evidence that an impairment loss on receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired receivables are derecognized when they are assessed as uncollectible.

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 statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The following are the Group's accounting policies for financial instruments after the adoption of PFRS 9:

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its 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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost
The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset 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 (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents and trade and other receivables and short-term investments.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group has no financial assets classified under this category.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group has no financial assets classified under this category.

Financial assets at fair value through profit or loss
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in profit or loss as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in profit or loss.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

The Group has no financial assets classified under this category.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The cash and cash equivalents and short-term investments are maintained in financial institution graded by the external credit rating agency and, therefore, are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the credit rating agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, trade and other payables, dividends payable, and interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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 could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where 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, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted-average method and includes expenditures incurred in bringing the materials and supplies to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Any write-down of materials, supplies, spare parts and finished goods to NRV is recognized as an expense in consolidated statement of comprehensive income in the year incurred.

The Group provides allowance for inventory losses on finished goods and raw materials whenever utility of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Investment in a Joint Venture
A joint venture is a type joint arrangement whereby the parties that have joint control of an arrangement, and 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 joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method, the interest is initially recognized at cost. The carrying amount is increased or decreased to recognize the Group's share of the profits and losses of the joint venture after the date of the acquisition.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the joint venture is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues its share of further losses.

The financial statements of the 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.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its interests in joint ventures. At each reporting date, the Group determines whether there is objective evidence that the interest in joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as "Share in net income/losses of a joint venture" in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of comprehensive income.

Deferred Pallets and Containers
The Group purchases returnable containers (i.e. beverage bottles) that are being circulated in the normal course of trade. The containers are initially recorded at cost. These containers are presented as "Deferred pallets and containers" in the statement of financial position, and are carried at cost less accumulated amortization and any impairment in value. The cost of the containers less the salvage value, which is equal to the deposit value of the container, is subjected to amortization over four (4) years representing the trip life of the containers. Amortization of "Deferred pallets and containers" is included under "Cost of sales and services" account in the statement of comprehensive income. The salvage value of the containers previously presented under "Inventories" amounting to ₱1,006.9 million as of December 31, 2017 was reclassified to "Deferred Pallets and Containers" to conform with the current year's presentation. The Group assessed that presentation of the third consolidated statements of financial position is not required in consideration of the following: a) the reclassification resulted to a decrease in total current assets and increase in total noncurrent assets but nil effect on the total assets, total liabilities, total equity and basic/diluted earnings per share as at January 1, 2017 and b) there were no debt covenants affected.

Amortization of bottles, and shells and pallets commences once they are available for use over the estimated useful life of four (4) years. An allowance is provided for excess, unusable and obsolete returnable bottles and cases based on the specific identification method.

Property, Plant and Equipment
Property, plant and equipment, except land, are carried at cost less accumulated depreciation, and any impairment in value. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment consists of construction cost, and its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

The average estimated useful lives of property, plant and equipment are as follows:

Category	Number of Years
Machinery and equipment	10
Vehicles	5
Waste water facility	2-5
Leasehold improvements	Contract Dependent
Laboratory equipment	2
Tools	3
Office and other equipment	2-3

The useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are disposed of, or are permanently withdrawn from use and no future economic benefits are expected from their disposals, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in statement of comprehensive income. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Construction in progress under "Property, plant and equipment" is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and are available for use.

Impairment of Nonfinancial Assets
Property, plant and equipment and deferred pallets and containers are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash generating unit (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU

to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

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. The Group used value in use to assess the recoverable amount of an asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed to the Group by its suppliers for the acquisition of goods and services as required by the Philippine taxation laws and regulations.

Input taxes under "Other current assets" account is stated at its estimated NRV and will be used to offset against the Group's output VAT liabilities. Output VAT is the amount of VAT calculated and charged on the Group's own sale of goods and services to third parties.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium the difference between the proceeds and the par value is credited to "Additional paid-in capital".

Retained Earnings
Retained earnings represent all accumulated profits or losses of the Group and dividend distributions, if any, to shareholders of the Parent Company and other capital adjustments. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date.

Leases
Determination of Whether an Arrangement Contains a Lease
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.

Operating Leases - The Group as a Lessee
Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Containers Deposit Liability
Containers deposit liability consists of cash deposit received by the Group associated with the returnable containers (i.e., beverage bottles) upon sale of product. The cash deposit is paid back to customers upon return of returnable containers or reversed against the salvage value of the deferred containers upon determination that the containers will no longer be returned.

Provisions
Provisions are generally recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Retirement Benefits Asset (Liability)
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period 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 any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit 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 statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. These are retained in other comprehensive income until full settlement of the obligation.

Foreign Currency-denominated Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are recognized in the consolidated statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Income Taxes
Current Income Tax
Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the reporting date.

Deferred Tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits to the extent that it is probable that sufficient future taxable profit will be available against which the deductible 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 assets 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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 reporting date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to income taxes levied by the same taxation authority.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to 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 disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Earnings Per Share (“EPS”)
Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share and diluted earnings per only from the date when all necessary conditions are satisfied (i.e. the events have occurred). If the conditions are not satisfied, the number of contingently issuable shares included in the diluted earnings per share calculation is based on the number of shares that would be issuable if the end of the period were the end of the contingency period.

Segment Reporting
A segment is a distinguishable component of the Group that is engaged either in providing products or services within a particular economic environment subject to risks and rewards that are different from those of other segments, which operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), to make decisions about how resources are to be allocated to each of the segments and to assess their performances, and for which discrete financial information is available. Financial information on segment reporting is presented in Note 26.

Events After the Reporting Date
Post year-end events that provide additional information about the Group’s financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. Actual results could differ from such estimates.

Judgments
In the process of applying the Group’s accounting policies, management has made the judgment below, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Determining Operating Lease Commitments - The Group as Lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that, based on an evaluation of the terms and conditions of the arrangements, that the lessor retains all significant risks and rewards of ownership of these properties because the lease agreements do not transfer to the Group the ownership over the assets at the end of the lease term and do not provide the Group with a bargain purchase option over the leased assets and so accounts for the contracts as operating leases. Rent expense charged to current operation amounted to ₱344.94 million, ₱367.33 million and ₱329.61 million in 2018, 2017 and 2016, respectively (see Note 20).

Determination if consideration paid to customer is for distinct goods or services

The Group determines that the consideration paid to customers is not a payment for a distinct goods or services in consideration of the following:
- the standalone selling price of the good or service arising from the various programs for which the consideration is paid cannot be reasonably estimated;
- the various programs for the customers are highly interdependent with existing contracts with customers for sale of goods or services; and
- the Group does not obtain control of the goods or service from the various programs with customers to which payment was made.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Estimating Useful Life of Deferred Pallets and Containers
In accordance with its policy, the Group periodically reviews the estimated useful life of the deferred pallets and containers based on the containers profiling and scuff level analysis. The estimation of useful life is based on internal technical evaluation done on a collective basis and the Group’s experience with similar assets. Based on the reassessment made by the Group, there was no change in the estimated useful life of deferred pallets and containers.

The carrying value of deferred pallets and containers as at December 31, 2018 and 2017 amounted to ₱2,511.35 million and ₱2,808.17 million, respectively (see Note 9).

Estimating Impairment Losses on Inventories
The Group maintains allowance for inventory losses at a level considered adequate to reflect the cost of materials and supplies over its NRV. The Group recognizes materials and supplies at NRV whenever NRV becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. Increase in the NRV of materials and supplies will increase cost of materials and supplies but only to the extent of their original acquisition costs.

As at December 31, 2018 and 2017, the carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to ₱870.11 million and ₱859.21 million, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible, however, that future results of operations 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.

The carrying amounts of property, plant and equipment, excluding construction-in-progress, amounted to ₱1,300.69 million and ₱1,282.14 million as at December 31, 2018 and 2017, respectively (see Note 8).

Estimating Salvage Value of Deferred Pallets and Containers
In determining the estimated salvage value of deferred pallets and containers, management takes into account the most reliable evidence available at the time the estimates are made. The salvage value is equal to the amount the Group would receive currently if the assets were already of the age and in the condition expected at the end of estimated trip life.

The useful life of deferred pallets and containers are reviewed periodically and are updated if expectations differ from previous estimates based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information.

Estimating Retirement Benefits Cost
The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuation. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. These assumptions are described in Note 20 to the consolidated financial statements.

The Group's retirement asset amounted to ₱9.49 million and ₱14.45 million as of December 31, 2018 and 2017, respectively. Retirement benefits cost amounted to ₱10.27 million, ₱17.09 million and ₱20.79 million in 2018, 2017 and 2016, respectively (see Note 21).

Provision for expected credit losses of trade and other receivables
The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for individual customer. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., consumer price index rate) are expected to deteriorate over the next year which can lead to an increased number of customer defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Trade and other receivables amounted to ₱329.32 million and ₱518.70 million as of December 31, 2018 and 2017, respectively (see Note 5).

4. Cash and Cash Equivalents

	2018	2017
Cash on hand and with banks	**₱660,272,706**	₱893,507,963
Cash equivalents	**3,111,239,588**	2,777,827,514
	₱3,771,512,294	₱3,671,335,477

Cash with banks earn interest at the respective bank deposit rates. Cash equivalents consist of short-term placements which are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term placement rates.

Cash deposits with maturities of more than three months but less than one year are classified as short-term investments under "Other current assets" (see Note 7).

Interest income on cash and cash equivalents and short-term investments amounted to ₱72.68 million, ₱25.30 million and ₱12.42 million in 2018, 2017 and 2016, respectively.

5. Trade and Other Receivables

	2018	2017
Trade (see Note 19)	**₱261,221,607**	₱400,141,213
Due from related parties (see Note 19)	**87,884,131**	78,731,742
Receivables from officers and employees	**12,640,853**	10,327,492
Due from retirement fund (see Notes 19 and 21)	**38,218,160**	–
Advances to suppliers	**6,930,853**	12,378,554
Others	**20,397,872**	24,136,918
	427,293,476	525,715,919
Less allowance for impairment losses	**97,969,744**	7,016,961
	₱329,323,732	₱518,698,958

"Trade receivables" are non-interest bearing and are generally on 7 to 60 days term.

"Receivables from officers and employees" represent loans, cash advances and other receivables from employees.

"Advances to suppliers" mainly pertain to payments made by the Group in relation to acquisition of raw materials.

"Others" include interest receivable arising from short term investments, advances to contractors and external receivables from other companies, among others. Interest receivable as of December 31, 2018 and 2017 amounted to ₱7.02 million and ₱5.79 million, respectively.

The allowance for impairment losses on trade receivables amounted to ₱97.20 million and ₱6.29 million as of December 31, 2018 and 2017, respectively. Provision for impairment loss on trade receivable amounted to ₱ 41.47 million in 2018, ₱5.24 million in 2017 and nil in 2016 (see Note 16). The Group wrote-off receivable against allowance amounting to ₱0.04 million in 2017 (nil in 2018).

The allowance for impairment losses on receivables from employees and officers amounted to ₱0.77 million and ₱0.73 million as of December 31, 2018 and 2017, respectively. Provision for impairment loss on receivable from employees and officers amounted to ₱0.05 million in 2018, ₱0.73 million in 2017 and nil in 2016 (see Note 17).

6. Inventories

	2018	2017
Inventories at NRV:		
Spare parts and supplies	**₱219,061,654**	₱225,767,334
Inventories at cost:		
Crushed shells and resin	**194,926,732**	175,566,782
Raw materials	**330,125,475**	356,397,678
Finished goods	**125,992,259**	101,478,868
	₱870,106,120	₱859,210,662

The cost of spare parts and supplies amounted to ₱227.96 million and ₱231.96 million as of December 31, 2018 and 2017, respectively. The allowance for inventory obsolescence amounted to ₱8.90 million and ₱6.19 million as of December 31, 2018 and 2017, respectively. Provision for inventory obsolescence amounted to ₱3.66 million, ₱3.93 million and ₱2.91 million in 2018, 2017 and 2016, respectively (see Note 15). The Group wrote-off inventories amounting to ₱0.95 million in 2018, ₱0.90 million in 2017 and ₱2.02 million in 2016.

Cost of materials used amounted to ₱6,730.32 million, ₱4,374.49 million and ₱5,145.76 million in 2018, 2017 and 2016, respectively (see Note 15).

7. Other Assets

	2018	2017
Current:		
Short-term investment (Note 4)	**₱139,912,324**	₱67,258,542
Prepaid taxes and licenses	**61,969,458**	32,149,347
Prepaid rent	**12,786,103**	19,211,493
Prepaid insurance	**11,932,889**	11,467,391
(Forward)		
Supplies	**₱8,901,052**	₱10,473,980
Prepaid vehicle registration	**387,474**	548,197
Others	**7,575,733**	8,630,296
	243,465,033	149,739,246
Input VAT	**55,439,017**	76,599,589
Less: Output VAT	**55,416,968**	76,421,661
	22,049	177,928
	₱243,487,082	₱149,917,174
Noncurrent:		
Security deposits	**₱362,582,198**	₱357,405,222
Deferred input VAT	**157,291,989**	136,390,051
Deposits with suppliers	**14,100,925**	29,493,586
Others	**935,694**	3,626,111
	₱534,910,806	₱526,914,970

"Short-term investment" pertains to bank time deposit with a maturity of more than three months but less than one (1) year.

"Prepaid taxes and licenses" pertains mainly to prepaid excise tax and creditable withholding taxes.

"Prepaid rent" pertains to payments made in advance for rentals of billboard advertisements, staff house and office rental covering a period of not more than one (1) year.

"Prepaid insurance" represents share in the health insurance coverage of regular employees, as well as fire and property insurance which are amortized over the period of the contract.

"Security deposits" pertain to various rental deposits for the lease of land and building to Mega Asia (lessor) which shall answer for any and all unpaid obligations of the Group to the lessor, as well as for any damage to the leased premises at the end of lease term (see Note 20).

"Deferred input VAT" represents VAT imposed on the purchase of goods and services which are expected to be realized beyond one (1) year from reporting date.

"Deposits with suppliers" pertain to advances to suppliers for acquisition of machinery and equipment by the Group and advances made to brokers for the release of imported goods.

"Others" consist of other prepaid expense, accountable forms and computer supplies.

8. **Property, Plant and Equipment**

2018

	Land	Building	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Construction in Progress	Total
Cost:											
Balances at beginning of year	₱109,133,574	₱–	₱1,494,042,092	₱557,287,780	₱40,191,012	₱10,962,027	₱14,375,103	₱30,104,135	₱50,373,233	₱97,197,161	₱2,403,666,117
Additions	3,615,663	3,937,754	214,253,416	57,419,986	1,585,562	1,071,277	1,139,039	7,948,387	8,465,641	62,042,097	361,478,822
Transfers	–	–	–	–	–	–	–	–	–	–	–
Disposal	–	–	–	(5,808,616)	–	–	–	–	(93,411)	–	(5,902,027)
Balances at end of year	112,749,237	3,937,754	1,708,295,508	608,899,150	41,776,574	12,033,304	15,514,142	38,052,522	58,745,463	159,239,258	2,759,242,912
Accumulated depreciation:											
Balances at beginning of year	–	–	579,524,694	377,538,366	9,542,562	7,316,992	8,499,912	7,463,142	34,447,928	–	1,024,333,596
Depreciation	–	–	174,976,979	84,226,098	3,804,404	1,839,607	3,038,569	4,104,410	8,057,753	–	280,047,820
Disposal	–	–	–	(4,986,954)	–	–	–	–	(82,622)	–	(5,069,576)
Balances at end of year	–	–	754,501,673	456,777,510	13,346,966	9,156,599	11,538,481	11,567,552	42,423,059	–	1,299,311,840
Net book values	₱112,749,237	₱3,937,754	₱953,793,835	₱152,121,640	₱28,429,608	₱2,876,705	₱3,975,661	₱26,484,970	₱16,322,404	₱159,239,258	₱1,459,931,072

2017

	Land	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools	Leasehold Improvements	Office and Other Equipment	Construction in Progress	Total
Cost:										
Balances at beginning of year	₱64,603,887	₱1,136,186,892	₱531,414,120	₱12,942,970	₱8,373,181	₱10,427,913	₱23,770,431	₱58,336,849	₱260,637,738	₱2,106,693,981
Additions	44,529,687	84,449,716	26,553,540	1,232,145	1,856,703	3,956,869	6,333,704	425,701	133,217,593	302,555,658
Transfers	–	273,405,484	–	26,015,897	732,143	–	–	(1,433,835)	(296,658,170)	2,061,519
Disposal	–	–	(679,880)	–	–	(9,679)	–	(6,955,482)	–	(7,645,041)
Balances at end of year	109,133,574	1,494,042,092	557,287,780	40,191,012	10,962,027	14,375,103	30,104,135	50,373,233	97,197,161	2,403,666,117
Accumulated depreciation:										
Balances at beginning of year	–	407,113,171	275,004,050	5,790,869	5,836,350	4,706,435	3,965,837	23,886,459	–	726,303,171
Depreciation	–	172,411,523	103,214,196	3,751,693	1,480,642	3,803,156	3,497,305	10,561,469	–	298,719,984
Disposal	–	–	(679,880)	–	–	(9,679)	–	–	–	(689,559)
Balances at end of year	–	579,524,694	377,538,366	9,542,562	7,316,992	8,499,912	7,463,142	34,447,928	–	1,024,333,596
Net book values	₱109,133,574	₱914,517,398	₱179,749,414	₱30,648,450	₱3,645,035	₱5,875,191	₱22,640,993	₱15,925,305	₱97,197,161	₱1,379,332,521

Construction in progress account mainly pertains to accumulated costs in relation to the construction of a new production plant in Cabuyao, Laguna and Iloilo plant.

Depreciation expense charged to operations is as follows:

	2018	2017	2016
Cost of sales and services (see Note 15)	**₱192,511,886**	₱190,025,398	₱161,850,363
Selling and marketing expenses (see Note 16)	**75,998,458**	96,191,782	97,622,420
General and administrative expenses (see Note 17)	**11,537,476**	12,502,804	13,064,081
	₱280,047,820	₱298,719,984	₱272,536,864

9. **Deferred Pallets and Containers**

2018

	Containers	Pallets	Total
Net book values - beginning	**₱2,635,435,275**	**₱172,731,694**	**₱2,808,166,969**
Additions	**537,501,218**	**13,373,405**	**550,874,623**
Amortization	**(820,202,419)**	**(27,487,027)**	**(847,689,446)**
Net book values - ending	**₱2,352,734,074**	**₱158,618,072**	**₱2,511,352,146**

2017

	Containers	Pallets	Total
Net book values - beginning	₱2,911,800,289	₱163,162,567	₱3,074,962,856
Additions	617,550,998	31,059,413	648,610,411
Amortization	(893,916,012)	(21,490,286)	(915,406,298)
Net book values - ending	₱2,635,435,275	₱172,731,694	₱2,808,166,969

Deferred pallets and containers represent the acquisition cost of pallets and containers plus the incidental cost of importation less any subsequent amortization and impairment. The cost of containers less the estimated salvage value is subjected to amortization.

Amortization expense was charged under "Cost of sales and services" (see Note 15).

10. **Interest in a Joint Venture**

In 2011, ARCHI entered into an agreement with Kalbe International Pte. Ltd, to establish a joint venture entity to implement a project for (a) marketing and sale of energy drink in ready to drink form bearing the "extra joss" mark (the product); (b) appointing a toll manufacturer to produce the product; and (c) appointing a distributor to distribute the product, all within the Philippines.

The joint venture entity was incorporated as AKPI which is 50% owned by ARCHI and 50% owned by Kalbe International Pte. Ltd. (Kalbe). Both companies will share equal control and management over the operations of the incorporated Joint Venture entity.

The roll-forward analysis of interest in joint venture and accumulated equity in net income (loss) follows:

	2018	2017
Interest in joint venture, cost	**₱83,284,425**	₱83,284,425
Less: Equity in net loss of joint venture	**71,821,258**	65,927,269
	11,463,167	17,357,156
Excess of consideration paid over share in net assets	**11,861,225**	11,861,225
Carrying amount of investment in joint venture	**₱23,324,392**	₱29,218,381
Accumulated equity in net loss of joint venture, beginning	**(₱65,927,269)**	(₱53,034,611)
Equity in net loss of joint venture for the year	**(4,904,049)**	(12,892,658)
Share in transition adjustment for adoption of PFRS 9 by the joint venture	**(989,940)**	–
Accumulated equity in net loss of joint venture, ending	**(₱71,821,258)**	(₱65,927,269)

The following table sets out the audited financial information of AKPI as of December 31, 2018 and 2017 (in millions):

	2018	2017
Total assets	**₱51.78**	₱66.22
Total liabilities	**28.85**	31.50
Equity	**22.93**	34.72
Sales	**25.55**	36.92
Net income (loss)	**(9.81)**	(25.79)

11. Trade and Other Payables

	2018	2017
Trade payables	**₱1,126,386,573**	₱1,056,160,613
Containers deposit liability	**455,938,702**	625,284,403
Due to related parties (see Note 19)	**185,626,607**	400,767,108
Output VAT payable	**53,289,852**	40,897,852
Non-trade payables	**16,793,361**	16,412,954
Deferred output VAT payable	**3,485,040**	13,651,952
Accrued expenses:		
Advertising and promotions	**69,783,693**	99,211,043
Contracted services and professional fees	**53,798,326**	70,286,985
Salaries and wages	**11,447,275**	11,525,495
Utilities and facilities	**9,225,263**	6,659,511
Rent (see Notes 19 and 20)	**8,178,561**	18,486,740
Employee benefits	**5,080,720**	5,842,519
Travel, meeting and entertainment	**2,216,062**	2,031,872
Others	**50,564,750**	64,450,905
	₱2,051,814,785	₱2,431,669,952

"Trade payables" pertains to accounts payable to suppliers from purchases of materials and toll packing used in production. These are noninterest-bearing and with payment terms which are dependent on the supplier's credit terms, which is generally 30 to 90 days.

"Containers deposit liability" pertains to deposits made by its customer which are refundable after return of bottles in good condition.

"Non-trade payables" pertains to all non-trade liabilities such as freight services and administration expenses, among others.

"Accrued expenses-others" pertain to accrued hauling expenses, accrued freight and handling expenses, among others.

12. Short-Term Loans Payable

The Group obtained unsecured Letters of Credit (LC) with various banks for its international purchases with terms ranging from 30 days to 3 months and with interest rate of 2.17% to 5.5% per annum. As of December 31, 2018, and 2017, the Group has outstanding short-term loans payable amounted to ₱63.00 million and ₱85.93 million, respectively.

In 2015, the Group obtained a short-term loan for working capital purposes payable within 6 months and with interest rate of 2.5% per annum amounting to ₱500.00 million. In 2016 and 2015, the Group paid ₱450.00 million and ₱50.00 million, respectively, of the loan outstanding balance. These are presented in the statements of cash flows as financing activities.

Total interest expense related to these loans amounted to ₱2.05 million, ₱1.20 million and ₱5.91 million in 2018, 2017 and 2016, respectively.

13. Equity

Capital Stock
Details of the Parent Company's capital stock are as follow:

	2018	2017
Common stock:		
Authorized - ₱1 par value	**₱1,300,000,000**	₱1,300,000,000
Issued and outstanding	**₱1,068,393,223**	₱1,068,393,223
Preferred stock:		
Authorized - ₱1,000 par value	**₱200,000,000**	₱200,000,000
Issued and outstanding	**₱–**	₱–

The following are the salient features of the preferred stock:

a. Cumulative dividend at a rate to be determined solely by the BOD;
b. Nonparticipating in the retained earnings remaining after dividend payments have been made on the preferred shares;
c. Redeemable at such price, within such period, in such manner and under such terms and conditions as may be determined by the BOD; and
d. Non-voting.

As of December 31, 2018, and 2017, the equity holdings of the shareholder groups are as follows:

	2018		2017	
Shareholder Group	**Number of Shares**	**Percentage of Ownership**	Number of Shares	Percentage of Ownership
MCI	**958,941,673**	**89.75%**	958,941,673	89.75%
Public	**109,451,550**	**10.25%**	109,451,550	10.25%
	1,068,393,223	**100.00%**	1,068,393,223	100.00%

On April 8, 2016, the BOD of the Parent Company approved the increase in authorized capital stock by ₱800 million through the increase of common shares by 800,000,000 shares with a par value of ₱1. At the same time, the BOD approved the declaration of stock dividend equivalent to 21% of issued and outstanding common shares, amounting to ₱224.36 million, to be issued out of the aforementioned increase in authorized capital stock. The application for increase in authorized capital stock of the Parent Company was approved by the SEC in January 2019. Accordingly, as of December 31, 2018, the shares have not yet been issued.

Retained Earnings

Dividends
MHI
On May 10, 2018, the Parent Company declared cash dividends of ₱0.12 per share for a total amount of ₱128.21 million in favor of stockholders on record as at May 31, 2018. Cash dividends amounting to ₱124.51 million were paid on June 11, 2018.

On May 4, 2017, the Parent Company declared cash dividends of ₱0.12 per share for a total amount of ₱128.21 million in favor of stockholders on record as at May 18, 2017. The cash dividend was paid on June 8, 2017.

On April 8, 2016, the Parent Company declared cash dividends of ₱0.12 per share for a total amount of ₱128.21 million in favor of stockholders on record as at April 29, 2016. Cash dividends amounting to ₱126.58 million were paid on May 20, 2016.

As of December 31, 2018 and 2017, the Parent Company has outstanding dividends payable to its shareholders amounting to ₱2.70 million and ₱2.57 million, respectively.

ARCRC
On February 15, 2018, ARCRC declared cash dividends of ₱0.70 per share totaling to ₱700.00 million. The cash dividend was paid on June 15, 2018.

On February 9, 2017, ARCRC declared cash dividends of ₱2.3 per share totaling to ₱1,012.00 million. The cash dividend was paid on March 25, 2017.

On April 8, 2016, ARCRC declared and paid cash dividends of ₱0.8 per share totaling to ₱352.57 million.

ARCHI
In 2018, ARCHI paid its outstanding dividends payable to its shareholders related to previous declaration amounting to ₱10.19 million. There were no dividend declaration in 2018.

In 2017, ARCHI paid cash dividends amounting to ₱12.00 million to its shareholders related to previous declaration.

In 2016, there were no dividend declaration and payment made.

As of December 31, 2017, ARCHI has outstanding dividends payable to its shareholders related to previous year's declaration amounting to ₱10.19 million (nil in 2018).

Appropriations of Retained Earnings
On February 15, 2018, the BOD and stockholders approved the reversal of ₱1,100.00 million appropriations in the Group's retained earnings and consequently approved the appropriations amounting to ₱1,400.00 million out of the Group's unrestricted retained earnings for future business expansion project which include acquisition of new bottles, shells, pallets, property and equipment and construction of plant which will materialize in the next five (5) years.

On April 8, 2016, the BOD and stockholders approved the appropriations amounting to ₱1,052.04 million out of the Group's unrestricted retained earnings for future business expansion project related to the acquisition of capital assets which will materialize in the next five (5) years. On February 9, 2017, the BOD and stockholders approved the reversal of the ₱1,052.04 million appropriation to increase the amount to ₱1,100.00 million.

Securities Regulation Code Rule (SRC) Disclosures
Incorporation
Pursuant to the Articles of Incorporation ("AOI") in 1930, as reconstructed after the loss of documents during the Second World War, the Parent Company's authorized capital stock was ₱40,000, divided into 400 shares with par value of ₱100 per share. Its principal stockholder then was Mariano C. Mercado who owned 96 common shares. Other private stockholders owned 4 common shares.

Parent Company listing
The Parent Company listed its shares, with the stock symbol "PTR" in the Manila Stock Exchange and the Makati Stock Exchange on January 28, 1987 following BOD approval of the listing on November 5, 1986. Upon the merger of the two exchanges into the PSE in 1992, the Parent Company signed a listing agreement with PSE for its shares to be listed and traded on the unified exchange also as PTR.

Amendments to the authorized capital stock
Subsequent to the Parent Company filing its AOI in 1930, the Parent Company made the following amendments on its authorized capital stock:

Year	Authorized Capital Stock	Composition	Par Value
1939 [a]	₱200,000	2,000 common shares	₱100
1957 [b]	₱12,000,000	1,200,000 common shares	₱10
1966	₱30,000,000	3,000,000 common shares	₱10
1973	₱60,000,000	6,000,000 common shares	₱10
1977	₱100,000,000	10,000,000 common shares	₱10
1984	₱110,000,000	11,000,000 common shares	₱10
1987	₱200,000,000	20,000,000 common shares; later divided into 12,000,000 Class "A" common shares and 8,000,000 Class "B" common shares	₱10
1989	₱360,000,000	21,600,000 Class "A" common shares and 14,400,000 Class "B" common shares	₱10
1994	₱700,000,000 divided into ₱500,000,000 common capital and ₱200,000,000 preferred capital [c]	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	₱10 - common; ₱1,000 - preferred
2001	₱250,000,000 divided into ₱50,000,000 common capital and ₱200,000,000 preferred capital	32,400,000 Class "A" common shares and 17,600,000 Class "B" common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2002	₱300,000,000 divided into ₱100,000,000 common capital and ₱200,000,000 preferred capital	62,400,000 Class "A" common shares and 37,600,000 Class "B" common shares (later declassified into 100,000,000 authorized common capital); 200,000 preferred shares	₱1 - common; ₱1,000 - preferred
2003	₱1,300,000,000 divided into ₱1,100,000,000 common capital and ₱200,000,000 preferred capital	1,100,000,000 common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred

Year	Authorized Capital Stock	Composition	Par Value
2010	₱1,500,000,000 divided into ₱1,300,000,000 common capital and ₱200,000,000 preferred capital	1,300,000,000 common shares; 200,000 preferred shares	₱1 - common; ₱1,000 - preferred

[a] Based on a reconstruction of records, including the AOI, in 1948
[b] Existing shareholders were issued 150 shares with par value of ₱10 for each share with par value of ₱100 they already held through a stock dividend
[c] The creation of the preferred shares of stock was approved by the BOD in its regular meeting on March 18, 1993 and by the shareholders at the annual shareholders' meeting on April 30, 1993. It was subsequently approved by the SEC on January 11, 1994.

Track record of subsequent offerings
Below is a summarized discussion of the Parent Company's track record of registration of securities under the SRC:

						Number of shares after offering	
Year	Date of SEC approval	Type of offering	Number of shares offered	Par value	Offer price	Authorized	Issued and outstanding
2003	April 24, 2003	Rights with warrants offer	499,997,540	₱1.00	₱2.00	1,100,000,000	599,997,048
			99,999,508[d]				629,997,412[g]
			99,999,508[e]	₱1.00	₱2.00[f]		652,477,229[h]
2008	November 24, 2008	Rights offer	296,775,950	₱1.00	₱2.10	1,100,000,000	989,253,179

[d] Warrants
[e] Underlying common shares
[f] Exercise price
[g] After exercise of warrants in 2004
[h] After exercise of warrants in 2005

14. Revenue

Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Sources of revenue

	2018
Sale of goods	₱11,034,164,289
Provision of tolling services	2,477,079
	₱11,036,641,368

Timing of recognition of revenue

	2018
Revenue recognized at point in time (upon delivery to customer)	₱11,034,164,289
Revenue recognized over time	2,477,079
	₱11,036,641,368

Had the Group applied its previous accounting policy for revenue recognition in its revenue transactions for the year ended December 31, 2018, the amount of revenue will be as follows:

	2018
Sale of goods	₱11,069,293,068
Tolling revenues	2,477,079
	₱11,071,770,147

Contract Balances
The Group's trade receivables arising from contracts from customers amounted to ₱261.22 million and ₱400.14 million as of December 31, 2018 and January 1, 2018, respectively.

There are no contract assets and liabilities as of January 1, 2018 and December 31, 2018, respectively.

Performance obligation

The Group is mainly engaged in the manufacture and sale of goods under RC Cola brand which account for almost 100% of its revenue. The Group assessed that in its contract with customers for sale of goods, there is only one performance obligation and that revenue arising from such contract qualify for recognition at the point in time in which control over the goods have been transferred to the customer - which is normally at the time of delivery to and acceptance by the customer.

15. Cost of Sales and Services

	2018	2017	2016
Materials used (see Note 6)	**₱6,730,322,076**	₱4,374,490,946	₱5,145,759,412
Depreciation and amortization (see Notes 8 and 9)	**1,040,201,332**	1,105,431,696	978,083,320
Direct labor	**473,069,020**	460,514,692	489,724,382
Rent (see Note 20)	**201,481,606**	240,238,696	202,820,333
Personnel expenses and outside services	**141,193,511**	225,553,549	210,588,662
Specialty contractor (see Note 19b)	**100,455,660**	117,153,874	120,000,000
Repairs and maintenance	**61,903,615**	94,342,799	110,928,755
Gas and utilities	**37,231,455**	35,535,975	31,487,926
Provision for inventory obsolescence (see Note 6)	**3,662,539**	3,929,800	2,913,747
Others	**142,760,018**	125,173,489	137,530,138
	₱8,932,280,832	₱6,782,365,516	₱7,429,836,675

"Others" consists of personnel development expenses, insurance and association and membership fees, among others.

16. Selling and Marketing Expenses

	2018	2017	2016
Advertising	**₱227,740,959**	₱344,972,910	₱267,115,192
Outside services	**151,320,883**	182,380,235	172,580,897
Salaries, wages and benefits	**143,767,483**	144,224,937	116,151,874
Rent (see Note 20)	**143,455,447**	127,091,695	126,789,675
Hauling and loading	**83,109,085**	69,243,011	58,694,239
Depreciation (see Note 8)	**75,998,458**	96,191,782	97,622,420
Gas, oil and fuel	**72,872,942**	58,033,117	49,646,332
Promotions and commissions	**64,881,332**	98,221,069	53,821,229
Repairs and utilities	**41,481,951**	47,227,774	45,308,260
Provision for impairment on receivables (see Note 5)	**41,468,296**	5,236,296	–
Travel, transportation and entertainment	**29,521,646**	32,266,880	36,067,378
Taxes, licenses and registrations	**9,073,683**	7,258,390	7,250,187
Others	**63,610,674**	72,603,745	97,230,684
	₱1,148,302,839	₱1,284,951,841	₱1,128,278,367

"Others" consist of toll and market fees, freight and handling fees and entertainment and recreation expenses, among others.

17. General and Administrative Expenses

	2018	2017	2016
Salaries, wages and benefits	**₱198,519,471**	₱181,779,752	₱174,789,606
Contracted services and professional fees	**93,855,621**	107,127,386	70,485,312
Repairs and utilities	**24,931,952**	23,472,162	19,165,977
Meetings and entertainment	**16,493,052**	20,672,463	23,056,192
Supplies and transportation	**14,979,524**	12,454,017	13,754,466
Depreciation (see Note 8)	**11,537,476**	12,502,804	13,064,081
Rent	**6,585,011**	5,993,639	5,067,610
Taxes, licenses and registrations	**5,574,871**	14,579,883	2,786,711
Insurance	**2,370,449**	1,569,481	2,206,954
Provision for impairment on receivables (see Note 5)	**46,831**	724,689	–
Others	**21,956,567**	3,707,632	5,018,945
	₱396,850,825	₱384,583,908	₱329,395,854

"Others" consist of donations, rentals and miscellaneous expenses, among others.

18. Others

	2018	2017	2016
Sale of scrap materials and cullets	**₱19,905,206**	₱27,627,856	₱31,261,666
Others	**1,845,298**	2,781,125	5,350,027
	₱21,750,504	₱30,408,981	₱36,611,693

Sale of scrap materials and cullets is presented net of selling costs.

19. Related Party Transactions

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 operational decisions. Parties are considered to be related if they are subject to common control and common significant influence. Related parties may be individuals or corporate entities. Transactions with related parties are based on terms agreed to by the parties.

Transactions during the year and outstanding balances as of December 31, 2018 with related parties are set out below:

Category	Year	Revenues	Interest income	Costs and expenses	Cash and cash equivalents	Trade and other receivables (see Note 5)	Due from related parties (see Note 5)	Trade and other payables (see Note 11)	Due to related parties (see Note 11)	Terms	Conditions
Entities under common control:											
Asiawide (see Note 19a)	**2018**	**₱–**	**₱–**	**₱19,412,580**	**₱–**	**₱–**	**₱50,600**	**₱–**	**₱3,687,841**	Noninterest bearing;	No impairment;
	2017	₱–	₱–	₱17,794,865	₱–	₱–	₱552,000	₱–	₱5,554,875	due and demandable	Unsecured
Bev-pack Inc. (Bev-pack, see Note 19c)	**2018**	**–**	**–**	**175,145,689**	**–**		**820,491**	**57,436,623**	–	Noninterest bearing;	No impairment;
	2017	–	–	257,316,184	–	–	820,491	100,714,179	–	due and demandable	Unsecured
Solmac Marketing Inc. (Solmac; see Note 19e)	**2018**	**–**	**–**	**5,501,827**	**–**	**–**	–	–	–	Noninterest bearing;	Unsecured
	2017	–	–	4,897,671	–	–	–	–	–	due and demandable	
SMI Development Corporation (SMI; see Note 19f)	**2018**	**–**	**–**	**7,710,232**	**–**	**–**	–	–	**480,166**	Noninterest bearing;	
	2017	–	–	7,067,713	–	–	–	–	1,788,643	due and demandable	Unsecured
AKPI (see Note 19g)	**2018**	**2,477,409**	**–**	**–**	**–**	**–**	**9,470,068**	**–**	**26,117,061**	Noninterest bearing;	No impairment;
	2017	3,229,800	–	–	–	–	9,553,760	–	34,389,948	due and demandable	Unsecured
Philippine Business Bank (PBB; see Note 19h)	**2018**	**–**	**59,591,737**	**–**	**2,966,505,583**	–	–	–	–		
	2017	–	19,745,365	–	2,849,325,229	–	–	–	–	Interest bearing	Unsecured;
Stockholder:											
Zest-O (see Note 19d)	**2018**	**2,222,650**	**–**	**78,554,083**	**–**	**–**	**68,963,170**	**–**	**39,674,383**	Noninterest bearing;	No impairment;
	2017	31,501,550	–	298,700,161	–	139,180,746	67,372,881	–	140,326,090	due and demandable	Unsecured
Mega Asia (see Note 19b)	**2018**	**–**	**–**	**326,036,047**	–	–	**236,587**		**115,667,156**	Noninterest bearing;	No impairment;
	2017	–	–	303,692,303	–	–	432,610	–	218,707,552	due and demandable	Unsecured
ARC Thai Company Limited	**2018**	**–**	–	–	–	–	**8,343,215**	–	–	Noninterest bearing;	No impairment;
	2017	**–**	–	–	–	–	7,328,258	–	–	due and demandable	Unsecured
Retirement Fund (see Notes 5 and 21)	**2018**	**–**	**–**	**–**	**–**	**39,193,250**	**–**	**–**	**–**	Noninterest bearing;	No impairment;
	2017	–	–	–	–	–	–	–	–	due and demandable	Unsecured
	2018	**₱4,700,059**	**₱59,591,737**	**₱612,360,458**	**₱2,966,505,583**	**₱39,193,250**	**₱87,884,131**	**₱57,436,623**	**₱185,626,607**		
	2017	₱34,731,350	₱19,745,365	₱889,468,897	₱2,849,325,229	₱139,180,746	₱86,060,000	₱100,714,179	₱400,767,108		

a. ARCRC entered into lease agreement with Asiawide for the use of its land and building situated in Sitio Puting Bato, Antipolo, Rizal. Total rent expense amounted to ₱19.41 million and ₱17.80 million in 2018 and 2017, respectively (see Note 20).

b. ARCRC entered into lease agreements with Mega Asia for the use of its land and building situated in Pampanga, Pangasinan, Isabela, Davao, Misamis Oriental and Cabuyao. Total rental expense amounted to ₱225.58 million and ₱186.57 million in 2018 and 2017, respectively. Mega Asia also provides specialty contractor services in all plants except Cabuyao. Under the agreement, ARCRC shall pay a fixed monthly service fee totaling ₱100.44 million in 2018, ₱117.15 million in 2017 and ₱120.00 million in 2016 (see Note 15).

   ARCRC made advances to Zest-O in relation to the payment of bunker fuel oil in Cabuyao, Laguna.

   ARCRC made advances to Mega Asia in pertaining to reimbursement of expenses. Outstanding receivables as of December 31, 2018 and 2017 amounted to ₱0.23 million and ₱0.43 million, respectively.

c. Bev-pack is a supplier of caps for ARCRC's production of 800 ml bottled softdrinks. Total purchases made amounted to ₱57.44 million and ₱257.32 million in 2018 and 2017, respectively. Purchases are covered with approved Purchase Order form based on the projected requirements of production.

d. On February 1, 2015, ARCRC entered into various lease agreements with Zest-O for the use of its land and building facilities, and bottling equipment in Kaybiga, Novaliches and Cabuyao, Laguna. Total rent expense amounted to ₱36.79 million and ₱117.86 million, in 2018 and 2017, respectively (see Note 20).

   On February 1, 2014, ARCRC also purchased various machinery and equipment from Zest-O. The total amount of consideration is ₱53.28 million. Total outstanding payable as of December 31, 2018 and 2017 amounted to ₱39.67 million and ₱140.33 million, respectively.

   Zest-O has tolling arrangements with ARCRC, with the former being the Contract Packer and Filler for carbonated beverages in PET bottles. Total tolling expense amounted to ₱9.06 million and ₱6.68 million 2018 and 2017.

   Zest-O has a supply agreement with ARCRC for gas, oil and fuel and other materials such as bottles, cartons and tin cans associated with the tolling agreement with Zest-O. Total purchases amounted to ₱22.30 million and ₱22.29 million in 2018 and 2017, respectively.

   Zest-O billed ARCRC for its share in administrative expenses amounting to ₱32.62 million and ₱151.88 million in 2018 and 2017, respectively.

   Zest-O is a distributor of ARCRC' one-way products polyethylene terephthalate bottles (PET) and cans in supermarkets and convenience stores. Zest-O enjoys a maximum discount of 17% of Gross Wholesale Price. Total revenue amounted to ₱31.50 million in 2017 and ₱2.22 million in 2018.

e. Solmac is the owner of the building where the corporate office of the Group is located. The Group occupies 12 units with an average rental of ₱275.61 per sq. meter. Rental security deposit amounted to ₱1.26 million as of December 31, 2018 and 2017. Total rent expense amounted to ₱5.50 million and ₱4.90 million in 2018 and 2017, respectively.

f. On February 1, 2014, ARCRC entered into a lease agreement with SMI for the use of its 16,398 sq. meter land in Antipolo. Total rent expense amounted to ₱7.71 million in 2018, ₱7.07 million in 2017, and ₱6.66 million in 2016.

g. ARCRC was contracted to be the toll manufacturer of AKPI for its carbonated beverages starting February 1, 2014. Under the terms of the agreement, AKPI shall pay a variable fee per case of finished goods produced and delivered. Total tolling revenue earned in 2018, 2017, and 2016 amounted to ₱2.48 million, ₱3.23 million, and ₱3.96 million respectively.

   ARCRC obtained advances from AKPI for expenditures related to the production and distribution of the energy drink "Extra Joss".

h. The Group has cash and cash equivalents with PBB that earns average interest rate of 0.12% to 5.24%.

i. In 2018, the Group made retirement benefit payments amounting to ₱39.19 million to be reimbursed by the retirement fund.

j. The compensation of key management personnel are as follows:

	2018	2017	2016
Salaries and wages	**₱30,932,913**	₱23,820,902	₱29,577,911
Allowances and benefits	**2,244,155**	4,032,740	1,791,740
	₱33,177,068	₱27,853,642	₱31,369,651

20. Lease Agreements

Lease Agreements with Mega Asia, a related party (see Note 19)

a. ARCRC leases a piece of land and building located in Pampanga for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020. Rental security deposit amounted to ₱28.62 million as of December 31, 2018 and 2017. Rent expense amounted to ₱30.64 million in 2018, ₱29.03 million in 2017 and 27.36 million in 2016.

b. ARCRC leases a piece of land and building located in Cagayan de Oro, Misamis Oriental for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020. Rental security deposit amounted to ₱101.50 million as of December 31, 2018, 2017 and 2016. Rent expense amounted to ₱37.17 million in 2018, ₱37.14 million in 2017 and ₱33.20 million in 2016.

c. ARCRC leases of a piece of land and building located in Pangasinan for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020. Rental security deposit amounted to ₱72.05 million as of December 31, 2018 and 2017. Rent expense amounted to ₱52.23 million in 2018, ₱49.49 million in 2017 and ₱46.64 million in 2016.

d. ARCRC leases a piece of land and building located in Isabela for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020. Rental security deposit amounted to ₱43.60 million as of December 31, 2018 and 2017. Rent expense amounted to ₱35.46 million in 2018, ₱33.59 million in 2017, and ₱31.66 million in 2016.

e. ARCRC leases a piece of land and building located in Davao. for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020. Rental security deposit amounted to ₱104.58 million as of December 31, 2018 and 2017. Rent expense amounted to ₱41.38 million in 2018, ₱39.20 million in 2017 and ₱36.94 million in 2016.

f. ARCRC leases a piece of land and building located in Cabuyao, Laguna I for one (1) year commencing from February 1, 2018 to January 31, 2019, renewable upon mutual agreement of the parties. Rent expense amounted to ₱28.70 million in 2018.

The above lease agreements require ARCRC to pay rental security deposits amounted to ₱350.35 million as of December 31, 2018 and 2017, respectively (see Note 7).

Lease Agreements with Zest-O, a related party (see Note 19)

a. ARCRC leases a piece of land and building on which the manufacturing plant and administrative office of ARCRC are located in Kaybiga, Novaliches, Quezon City. The lease is for a period of three (3) years up to 2017, and further extended until 2020. Rent expense amounted to ₱31.21 million in 2018, ₱29.57 million in 2017 and ₱27.86 million in 2016.

b. ARCRC leases a bottling equipment located in Kaybiga, Novaliches, Quezon City for four (4) years commencing from February 1, 2014 to January 31, 2018 and further extended until 2020. Rent expense amounted to ₱1.36 and ₱17.36 million in 2018, 2017 and 2016, respectively.

c. ARCRC leases a bottling equipment in Brgy. Canlubang, Calamba, Laguna for a period of three (3) years up to 2017, renewable by mutual consent and further extended until 2020. Rent expense amounted to ₱2.61 million in 2018, ₱30.16 million in 2017, and ₱28.42 million in 2016.

d. ARCRC leases a bottling equipment in 108 Progressive Avenue Carmelrey Industrial Park, Brgy. Canlubang, Calamba, Laguna for four (4) years commencing from February 1, 2014 to January 31, 2018, renewable by mutual consent. Rent expense amounted to ₱1.61 million in 2018, ₱19.33 million in 2017 and 2016.

Others

a. ARCRC entered into a lease agreement with Asiawide, a related party, for a lease of a piece of land and building located at Km. 27 Sitio Puting Bato, Inarawan, Antipolo City. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱19.41 million in 2018, ₱17.80 million in 2017, and ₱16.76 million in 2016.

b. ARCRC entered into a lease agreement with SMI Development Corporation, a related party, for a lease of a piece of land at Km. 27 Sitio Puting Bato, Inarawan, Antipolo City. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱7.71 million in 2018, ₱7.07 million in 2017, and ₱6.66 million in 2016.

c. ARCRC entered into a lease agreement with FLB Industries, for a lease of piece of land located in Mandaue City, Cebu. The lease shall be for five (5) years commencing from January 16, 2015 to January 15, 2020, renewable by mutual consent. Rent expense amounted to ₱6.14 million in 2018, ₱6.14 million in both 2017 and 2016.

d. ARCRC entered into a lease agreement with Eduardo A. Gutierrez for a lease of piece of land located in Brgy. Magdalo, Kawit, Cavite. The lease shall be for three (3) years commencing from February 15, 2016 to February 14, 2019, renewable by mutual consent. Rental security deposit amounted to ₱1.22 million as of December 31, 2018 and 2017. Rent expense amounted to ₱1.80 million in 2018, ₱1.80 million in 2017, and ₱1.58 million in 2016.

e. ARCRC entered into lease agreement with R. Florente Pawnshop & Jewelry, Inc., for a lease of office space located in Iloilo City. The lease is for a period of one (1) year commencing on May 16, 2016 to May 15, 2017, renewable by mutual consent. Rent expense amounted to ₱0.05 million in 2017, and ₱0.08 million in 2016 (nil in 2018).

f. ARCRC entered into a lease agreement with Fiesta Beverage Corporation, for a lease of office space located in Cebu City. The lease shall be for two (2) years commencing from July 1, 2016 to June 30, 2018 and further extended until 2019. Rental security deposit amounted to ₱1.12 million as of December 31, 2018 and 2017. Rent expense amounted to ₱21.34 million in 2018 and 2017, and ₱10.67 million in 2016.

g. ARCRC entered into a lease agreement with Belvic Corporation, for a lease of piece of land located in Paco, Manila. The lease shall be for six (6) years commencing from August 1, 2017 to July 31, 2023, renewable by mutual consent. Rental security deposit amounted to ₱3.30 million as of December 31, 2018 and 2017. Rent expense amounted to ₱5.12 million in 2018 and ₱2.55 million in 2017.

h. ARCRC entered into a lease agreement with Belek Corporation, for a lease of piece of land located in Paco, Manila. The lease shall be for six (6) years commencing from August 1, 2017 to July 31, 2023, renewable by mutual consent. Rental security deposit amounted to ₱5.34 million as of December 31, 2018 and 2017. Rent expense amounted to ₱15.55 million and ₱9.33 million in 2017.

The above lease agreements with Belvic Corporation and Belek Corporation require ARCRC to pay rental security deposits, which are included under "Security deposits" account in the consolidated statement of financial position.

Rent expense charged to operations are as follows:

	2018	2017	2016
Cost of sales and services (see Note 15)	**₱201,481,606**	₱240,238,696	₱202,820,333
Selling and marketing expenses (see Note 16)	**143,455,447**	127,091,695	126,789,675
	₱344,937,053	₱367,330,391	₱329,610,008

Future minimum lease payables under non-cancellable operating leases are as follows:

	2018	2017
Within one year	**₱325,620,936**	₱371,329,389
After one year but not more than five years	**55,369,432**	467,689,882

21. Retirement Benefits Asset

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2018 and 2017.

The net retirement benefits costs recognized in the statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 are as follows:

	2018	2017	2016
Service cost	**₱11,098,166**	₱16,975,197	₱16,225,651
Net interest cost (income)	**(824,422)**	110,325	4,564,898
Retirement benefits costs	**₱10,273,744**	₱17,085,522	₱20,790,549

Retirement benefits asset recognized in the statements of financial position as of December 31, 2018 and 2017 are as follows:

	2018	2017
Fair value of plan assets	**₱91,014,062**	₱132,834,762
Present value of defined benefit obligation	**(81,520,971)**	(118,380,847)
Balance at end of year	**₱9,493,091**	₱14,453,915

The present value of defined benefit retirement obligation as of December 31, 2018 and 2017 are as follows:

	2018	2017
Balance at beginning of year	**₱118,380,847**	₱117,252,702
Service cost	**11,098,166**	16,975,197
Interest cost	**6,752,207**	6,304,795
Benefits paid	**(39,613,439)**	(4,747,574)
Remeasurement gains due to change in:		
Financial assumptions	**(31,902,763)**	(11,161,612)
Experience adjustments	**16,805,953**	(6,242,661)
Balance at end of year	**₱81,520,971**	₱118,380,847

The Group expects to make no contributions to its defined retirement benefit plan in 2019.

The changes in fair value of plan assets are as follows:

	2018	2017
Balance at beginning of year	**₱132,834,762**	₱115,200,949
Contributions	–	19,678,749
Interest income	**7,576,629**	6,194,470
Benefits paid	**(39,613,439)**	(4,747,574)
Actuarial loss from experience adjustments	**(9,783,890)**	(3,491,832)
Balance at end of year	**₱91,014,062**	₱132,834,762

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by certain officers of ARCRC duly authorized by the BOD. The latest actuarial valuation report is as of December 31, 2018.

The net plan assets available for benefits are as follows:

	Fair values
Cash and cash equivalents	₱58,201,277
Short-term investments	10,708,155
Long-term investments	60,322,790
Due to ARCRC	(38,218,160)
	₱91,014,062

The Plan's assets and investments consist of the following:

- Cash and cash equivalents, which includes regular savings and time deposits.
- Short-term investments which includes time deposits and special deposit accounts with a maturity of more than three months but not more than one year from date of acquisition.
- Long-term investments which is primarily composed of government securities and some corporate bonds.

The cumulative amount of remeasurement gain closed to retained earnings as of December 31, 2018 and 2017 follows:

	2018	2017
Beginning balance	**₱88,182,469**	₱74,270,028
Remeasurement gain on defined benefit obligation	**15,096,810**	17,404,273
Remeasurement loss on plan assets	**(9,783,890)**	(3,491,832)
Balance at end of year	**93,495,389**	88,182,469
Tax effect	**(28,048,617)**	(26,454,741)
Cumulative remeasurement gain, net of tax	**₱65,446,772**	₱61,727,728

The principal assumptions used to determine the retirement benefit obligation as of December 31 are as follows:

	2018	2017
Discount rate	**7.4%**	5.70%
Future salary increases	**5%**	5%
Expected average future service years of employees	**25.20**	25.75

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

		Increase (decrease) in defined benefit obligation	
Assumptions	Increase (decrease)	2018	2017
Discount rate	+1%	**(₱11,431,000)**	(₱19,712,000)
	-1%	**14,093,000**	24,683,000
Salary increase rate	+1%	**13,766,000**	23,787,000
	-1%	**(11,378,000)**	(19,431,000)

The average duration of the retirement at the end of the reporting date is 20 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

More than 1 year to 5 years	₱18,855,000
More than 5 years to 10 years	18,155,000

22. **Income Taxes**

The current provision for income tax in 2018 and 2017 represents the regular corporate income tax.

The components of the Group's net deferred tax assets as of December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets		
Retirement benefits liability	**₱25,200,689**	₱22,118,566
Allowance for impairment loss on receivables	**29,390,923**	2,115,725
Allowance for inventory obsolescence and condemnation	**2,669,562**	1,856,714
Straight-line adjustment on rent	**2,046,686**	4,359,868
Unamortized past service costs	**1,341,226**	1,591,773
Unrealized foreign exchange loss	**(554,366)**	–
	60,094,720	32,042,646
Deferred tax liability on unrealized foreign exchange gain	**(847,535)**	(395,721)
	59,247,185	31,646,925
Deferred tax liability on retirement benefits liability recognized directly in equity	**(28,048,616)**	(26,454,741)
Net deferred tax asset	**₱31,198,569**	₱5,192,184

The Group has assessed that it is probable that sufficient taxable income will be available in future periods to allow the deferred tax assets to be realized.

The movements in NOLCO follows:

	2018	2017	2016
Balances at beginning of year	**₱–**	₱17,786,316	₱272,085,501
Application	**–**	(17,786,316)	(153,262,006)
Expiration	**–**	–	(101,037,179)
Balances at end of year	**₱–**	₱–	₱17,786,316

The reconciliation of income tax computed based on the statutory income tax rate to the provision for income tax in the consolidated statement of comprehensive income is as follows:

	2018	2017	2016
Income tax at 30%	**₱196,074,815**	₱698,988,991	₱760,241,012
Adjustments in income tax resulting from:			
Interest income already subjected to final tax	**(21,803,190)**	(7,589,970)	(3,694,279)
Differences in tax due to optional standard deduction	**(3,186,051)**	–	–
Nondeductible expenses	**1,657,505**	3,331,606	1,575,007
Share in net loss of a joint venture	**1,471,215**	–	–
Changes in previously unrecognized deferred income taxes	**–**	(5,335,895)	(42,401,540)
Nontaxable income	**–**	(3,684,913)	(147,563)
	₱174,214,294	₱685,709,819	₱715,572,637

23. Financial Risk Management and Capital Management

The main purpose of the Group's dealings in financial instruments is to fund its operations, capital expenditures and financing activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control, identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

Management addresses the risks faced by the Group in the preparation of its annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and forecasted results. 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.

Credit Risk and Quality

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk exposure arises principally from the possibility that the counterparties may fail to fulfill their agreed obligations. To manage such risk, the Group monitors its receivables on an ongoing basis. The objective is to reduce the risk of loss through default of counterparties.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, receivables, short-term investments and security deposits, the Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

An impairment analysis is performed at each reporting date. The mechanics of the ECL calculations and key elements are, as follows:

Probability of default (PD) is an estimate of the likelihood of default over a given time horizon.

Exposure at default (EAD) is an estimate of the exposure at a future default date taking into account expected changes in the exposure after the reporting date.

Loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time.

In 2018, an impairment analysis is performed using a provision matrix for trade and other receivables to measure expected credit losses. The provision rates are based on days past due of customers. Generally, trade and other receivables are written-off if past due for more than a year and are not subjected to enforcement activity.

For cash and cash equivalents and short-term investments which are maintained in financial institution graded by the external credit rating agency, the Group applies the low credit risk simplification where the Group measures the ECL on a 12 month basis based on the PD and LGD which are publicly available. The Group also evaluates the credit rating of the banks and other financial institutions to determine whether the debt instruments has significantly increased in credit risk and to estimate ECLs.

The table below show the credit quality by class of financial assets in 2017:

	Neither Past Due Nor impaired		Past Due But Not		
	High Grade	Standard Grade	Impaired	Impaired	Total
Cash and cash equivalents*	₱3,531,470,474	₱–	₱–	₱–	₱3,531,470,474
Trade and other receivables**	–	₱518,698,958	–	7,016,961	525,715,919
Short-term investment***	67,258,542	–	–	–	67,258,542
Total credit risk exposure	₱3,598,729,016	₱518,698,958	₱–	₱7,016,961	₱4,124,444,935

**Excluding cash on hand amounting to ₱₱147.11 million.*
***Excluding advances to suppliers and receivables from officers and employees amounting to ₱22.71 million*
****Under "Other current assets"*

The Group has assessed the credit quality of the following financial assets:

1. Cash and cash equivalents and short-term investment are assessed as high grade since these are deposited with reputable banks.
2. Trade and other receivables were assessed as standard grade since there were no history of default on the outstanding receivables as of December 31, 2018 and 2017. These were assessed based on past collection experience and the debtors' ability to pay the receivables.
3. Security deposits are considered as high grade since these are deposits made with reputable counterparties.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The table below shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2018	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year	Total
Cash and cash equivalents*	**₱548,558,912**	**₱3,111,239,589**	**₱–**	**₱–**	**₱3,659,798,501**
Trade and other receivables**	**123,084,765**	**158,022,735**	**1,014,957**	**27,629,568**	**309,752,025**
Short-term investment	**–**	**122,391,309**	**17,521,015**	**–**	**139,912,324**
	671,643,677	**3,391,653,633**	**18,535,972**	**27,629,568**	**4,109,462,850**
Trade and other payables***	**(1,771,641,787)**	**(202,690,442)**	**–**	**–**	**(1,974,332,229)**
Short-term loans payable	**–**	**(62,997,663)**	**–**	**–**	**(62,997,663)**
Customer deposit	**(455,938,702)**	**–**	**–**	**–**	**(455,938,702)**
Dividends payable	**(120,823)**	**–**	**–**	**(2,574,994)**	**(2,695,817)**
	(2,227,701,312)	**(265,688,105)**	**–**	**(2,574,994)**	**(2,495,964,411)**
Liquidity Position (Gap)	**(₱1,556,057,635)**	**₱3,125,965,528**	**₱18,535,972**	**₱25,054,574**	**₱1,613,498,439**

**Excluding cash on hand amounting to ₱116.70 million*
***Excluding advances to suppliers and receivables from officers and employees amounting to ₱19.57 million*
*****Excluding statutory payables amounting to ₱77.48 million*

2017	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year	Total
Cash and cash equivalents*	₱746,375,095	₱2,777,827,514	₱–	₱–	₱3,524,202,609
Trade and other receivables**	88,010,759	159,028,433	–	248,785,721	495,824,913
Short-term investment	–	50,000,000	17,258,542		67,258,542
	834,385,854	2,986,855,947	17,258,542	248,785,721	4,087,286,064
Trade and other payables*	(2,135,275,204)	(417,180,160)	–	–	(2,552,455,364)
Short-term loans payable	–	(85,934,082)	–	–	(85,934,082)
Customer deposit	(625,284,403)	–	–	–	(625,284,403)
Dividends payable	(12,766,997)	–	–	–	(12,766,997)
	(2,773,326,604)	(503,114,242)	–	–	(3,276,440,846)
Liquidity Position (Gap)	(₱1,938,940,750)	₱2,483,741,705	₱17,258,542	₱248,785,721	₱810,845,218

**Excluding cash on hand amounting to ₱147.11 million*
***Excluding advances to suppliers and receivables from officers and employees amounting to ₱22.71million*
*****Excluding statutory payables amounting to ₱93.18 million.*

The Group has financial assets of ₱4,314.20 million and ₱4,621.72 million as of December 31, 2018 and 2017, respectively, that may be used to settle its financial liabilities.

<u>Foreign Exchange Risk</u>
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group uses the Peso (₱) as its functional currency and is therefore exposed to foreign exchange movements, primarily on the US Dollar ($). The Group follows a policy to manage this risk by closely monitoring its cash flow position and by providing forecast on its exposures in non-peso currency.

The balances of the Group's financial assets and liabilities denominated in foreign currency translated in Philippine peso, as of December 31, 2018 and 2017, are as follows:

2018	Original Currency in $	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	**$3,851,938**	**₱202,534,889**	**€16,624**	**₱1,002,634**
Financial liabilities:				
Trade and other payables	**(2,271,078)**	**(119,413,296)**	**–**	**–**
Net exposure	**$1,580,860**	**₱83,121,593**	**€16,624**	**₱1,002,634**

2017	Original Currency in $	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	$2,343,806	₱117,026,234	€1,762	₱105,038
Financial liabilities:				
Trade and other payables	(1,741,755)	(86,965,827)	–	–
Net exposure	$602,051	₱30,060,407	€1,762	₱105,038

As of December 31, 2018, and 2017, the exchange rate of Philippine peso (₱) to USD is ₱52.58 and ₱49.93, respectively, while the exchange rate for EUR is ₱60.31 and ₱59.61, respectively.

The table below demonstrates the sensitivity to a reasonably possible change in ₱ to $ and ₱ to Euro (€) exchange rates, with all other variables held constant, of the Group's income before income tax. There is no other impact on the Group's equity other than those affecting the statement of comprehensive income.

Change in exchange rate	$ strengthens by 5%	$ weakens by 5%	€ strengthens by 5%	€ weakens by 5%
Increase (decrease) in income before income tax				
2018	**₱4,156,081**	**(₱4,156,081)**	**₱50,130**	**(₱50,130)**
2017	1,503,021	(1,503,021)	5,252	(5,252)

<u>Fair Values of Financial Instruments</u>
Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following financial assets and liabilities have carrying values that approximate their fair values as of December 31, 2018 and 2017:

Cash and cash equivalents, Trade and other receivables, Short-term investments, Trade and other payables, Short-term loans payable and Dividends Payable
The carrying amounts of cash and cash equivalents, trade and other receivables, short-term investments, trade and other payables, short-term loans payable and dividends payable approximate their fair values due to the short-term maturity of these financial instruments.

<u>Capital Management</u>
The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to increase the value of shareholders' investment. The Group sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure upon commencement of its operations.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry. No changes were made in the objectives, policies or processes during the years ended December 31, 2018, 2017 and 2016.

The following table summarizes what the Group considers as its total capital as of December 31:

	2018	2017
Capital stock	**₱1,068,393,223**	₱1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Retained earnings	**5,134,235,886**	4,818,697,181
	₱7,356,197,398	₱7,040,658,693

24. Notes to Consolidated Statement of Cash flows

Operating Activity
Creditable withholding taxes under "Other current assets" amounting to ₱33.22 million and ₱39.17 million were applied against income tax payable in 2018 and 2017, respectively.

Noncash investing activities
Cost of property, plant and equipment amounting to ₱94.65 million remained unpaid as of December 31, 2016 and was subsequently paid in 2017. In addition, purchases in 2015 amounting to ₱47.19 million were paid in 2016.

25. Basic/Diluted Earnings Per Share

Basic and dilutive EPS is computed as follows:

	2018	2017	2016
Net income	**₱479,368,419**	₱1,631,360,829	₱1,818,564,071
Weighted average number of common shares outstanding	**1,068,393,223**	1,068,393,223	1,068,393,223
Basic and diluted EPS	**₱0.45**	₱1.53	₱1.70

As at December 31, 2018 and 2017, there are no potential ordinary shares that have a dilutive effect on the basic EPS of the Parent Company.

26. Segment Information

The Group is organized into only one operating division, manufacturing and trading of beverages, which is its primary activity. The Group operates in nine geographical areas namely Antipolo, Kaybiga, Cabuyao, Pangasinan, Pampanga, Isabela, Cebu, Davao and Cagayan De Oro, where it derives its revenues. For management purposes, the Group considers the entire business as one segment. Management monitors the operating results of the business for purposes of making decisions about resource allocation and performance assessment.

Net sales, net income, total assets and total liabilities of the beverage company as at and for the years ended December 31, 2018, 2017 and 2016, respectively, are as follows:

	2018	2017	2016
Net sales - external customers	**₱11,036,641,368**	₱10,727,171,749	₱11,378,313,250
Net income	**395,275,870**	1,514,179,406	1,660,398,460
Total assets	**7,628,763,409**	8,531,628,139	7,919,345,565
Total liabilities	**2,119,632,950**	2,714,954,416	2,614,589,956

Reconciliation of net income:

	2018	2017	2016
Segment net income	**₱395,275,870**	₱1,514,179,406	₱1,660,398,460
General and administrative	**66,676,787**	156,481,764	163,721,401
Interest income	**37,186,894**	10,735,026	856,277
Provision for income tax	**(17,692,201)**	(38,330,284)	(7,005,121)
Share in net (loss) income of joint venture	**(4,904,049)**	(12,892,658)	491,875
Foreign exchange gain - net	**2,825,118**	–	101,179
Others - net	**–**	1,187,575	–
Group net income	**₱479,368,419**	₱1,631,360,829	₱1,818,564,071

Reconciliation of assets and liabilities:

	2018	2017
Segment assets	**₱7,628,763,409**	₱8,531,628,139
Cash and cash equivalents	**2,091,043,199**	1,358,702,907
Interest in a joint venture	**23,324,392**	29,218,381
Other current assets	**39,037,182**	30,879,970
Trade and other receivables	**2,568,961**	10,457,267
Property, plant and equipment	**1,597,231**	1,554,547
Group assets	**₱9,786,334,374**	₱9,962,441,211
Segment liabilities	**₱2,119,632,950**	₱2,714,954,416
Dividends payable	**2,695,818**	12,766,997
Trade and other payables	**16,303,790**	(92,029,199)
Group liabilities	**₱2,138,632,558**	₱2,635,692,214

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