MACAY HOLDINGS
INCORPORATED

NAVIGATING THROUGH CHANGES

ANNUAL REPORT 2017

TABLE OF CONTENTS

THE COMPANY

MACAY HOLDINGS INCORPORATED

Macay Holdings, Inc. ("Macay" or "the Company") is a Filipino holding company incorporated in 1930 and duly registered with the Securities and Exchange Commission. Formerly known as Maybank ATR Kim Eng Financial Corporation, Macay underwent corporate re-organization after an investor-group led by Mr. Alfredo Yao ("Yao Group") acquired a controlling stake in the Company in 2013. The re-organization resulted in the divestment of the Company's former businesses in insurance and property development; and the creation of a new subsidiary that would serve as the vehicle for the consolidation of all the soft drinks operations of the Yao Group. The Company has been listed on the Philippine Stock Exchange under the ticker symbol "MACAY" since 2014.

At present, Macay is 89.75% owned by Mazy's Capital, Inc. and 10.25% owned by the public; and operates through its two subsidiaries, namely: ARC Refreshments Corporation ("ARC") and ARC Holdings Inc. ("ARCHI").

Macay, through ARCHI, holds the exclusive trademark, licensing and related rights over the RC Cola brands in the Philippines. Through ARC on the other hand, Macay has been in the business of producing, bottling, marketing and distributing carbonated beverages locally including the popular brands RC Cola and Juicy Lemon; and such other brands as Fruit Soda Orange, Seetrus, Arcy's Root Beer and Rite N' Lite.

Over the years, Macay has been able to widen its footprint in the traditional trade through its extensive network of direct salesmen and partner-dealers. It has also been able to establish inroads in the modern trade especially in the segments of the convenience stores, hyper-marts and grocery stores. Macay now operates nine (9) bottling facilities and a number of warehouses situated in different parts of the country, in close proximity to its partners and customers. Globally, the Philippines, through Macay, has become one of the largest markets for the RC Cola brands.

Indeed, shifting global and local market trends have intensified existing challenges and created new ones within the beverage industry. Macay, as a response, intensified efforts to enhance and expand product offering, achieve operational efficiencies, rationalize marketing programs and strengthen distribution networks. As it navigates through changes, the Company stays firmly committed to its vision of becoming a dominant company in consumer goods and services; and grounded on its mission to create value for all its stakeholders.

VISION

To be a dominant company in consumer products and services in the Philippines and in other Asian countries.

MISSION

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

We provide opportunities for growth and enrichment to our employees and 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.

JOINT MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

We are pleased to present the Annual Report of Macay Holdings, Inc. for the fiscal year 2017.

The Company reported a consolidated net revenue of Php10.73 billion for 2017. This was a 5.7% decline from a year ago when national elections were held, boosting overall consumer spending in the country and thus lifting Macay's revenue base to high levels. However, for years 2013 to 2017, Macay's revenue translated to a healthy 11.0% 4-year compounded annual growth rate (CAGR).

Cost of sales declined at a faster rate of 8.7% year on year (yoy) due to lower sugar prices and increased operational efficiencies. This allowed Macay's gross profit to remain stable yoy at Php3.95 billion in 2017 for a remarkable 4-year CAGR of 20.2%. Gross profit margin likewise improved by two (2) percentage points to 36.8%.

In the same year, Macay intensified marketing and selling efforts through increased advertising and promotional activities, incurring selling and marketing expenses amounting to Php1.28 billion, higher by 13.9% compared with the previous year. Moreover, general and administrative expenses also increased by Php55.19 million due mostly to the rationalization of security agency fees and additional documentary stamps arising from stock dividends

Overall, Macay earned a consolidated net income of Php 1.63 billion or an earnings per share of Php 1.53, registering a 4-year CAGR of 23.3%. Net income margin stayed robust and above industry at 15.2%.

The Company's profitability, coupled with sound credit and capital management, further strengthened its financial position. Cash and cash equivalents improved by Php 1.79 billion allowing Macay to reach a total asset base of Php 9.96 billion in 2017 for an annual increase of 18.7%. With total liabilities at fairly stable levels, the Company's current ratio reached 2.35 times, an improvement from 1.73 times of 2016. Liability-to-Equity ratio likewise remained at very comfortable levels of 0.36 time.

To support long-term growth, the Company disbursed Php 1.20 billion out of its internally generated funds for plant construction and additional pallets, containers, machines and land. With ample funds on hand, Macay also declared and paid cash dividends amounting to Php0.12 per share for an aggregate amount of Php128.21 million in the second quarter of 2017.

The latter part of 2017 saw the signing into law of RA 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN) Law. The law is the first among several tax reform measures being proposed by the current administration and was designed to reduce individual income tax rates and impose new taxes on sweetened beverages, fuels, cigarettes and automobiles among others. The new tax regime was expected to further exert pressure on the local beverage industry that had been experiencing challenges due to stiff competition among existing players and shifting lifestyle and preferences of the consuming public.

Undoubtedly, these developments created unfamiliar and stronger competitive currents. But Macay did and will continue to navigate through them by staying committed to its core mission of creating value to its stakeholders and focused on its strategic vision to be a dominant company in consumer products and services in the Philippines and other Asian countries.

In order to stay responsive to the changing demands of the market, your Company embarked on programs to reevaluate and recalibrate general management, marketing, distribution and operations. We tapped existing talent and attracted new ones in order to enhance our management pool that will lead the streamlining of structures and processes. We reviewed our existing product portfolio, introduced improvements, created plans to launch new products and rationalized marketing efforts. We likewise allocated corporate resources to identify and address gaps in our existing distribution model with the aim of adapting to the prevailing requirements of the localities. Moreover, we invested resources in new productive assets like pallets, containers and production facilities to sustain and expand operational capabilities while at the same time, sustaining efforts to achieve efficiencies and reduce waste.

Indeed, navigating through industry changes has been a challenging task and was only made feasible by the continued support and confidence of our shareholders. We also wish to acknowledge and express our gratitude to our board directors for their wisdom and counsel, and our employees for their dedication and hard work. Most importantly, we want to express our sincere appreciation for our customers, suppliers, dealers, and partners for helping us build this business to where it stands today.

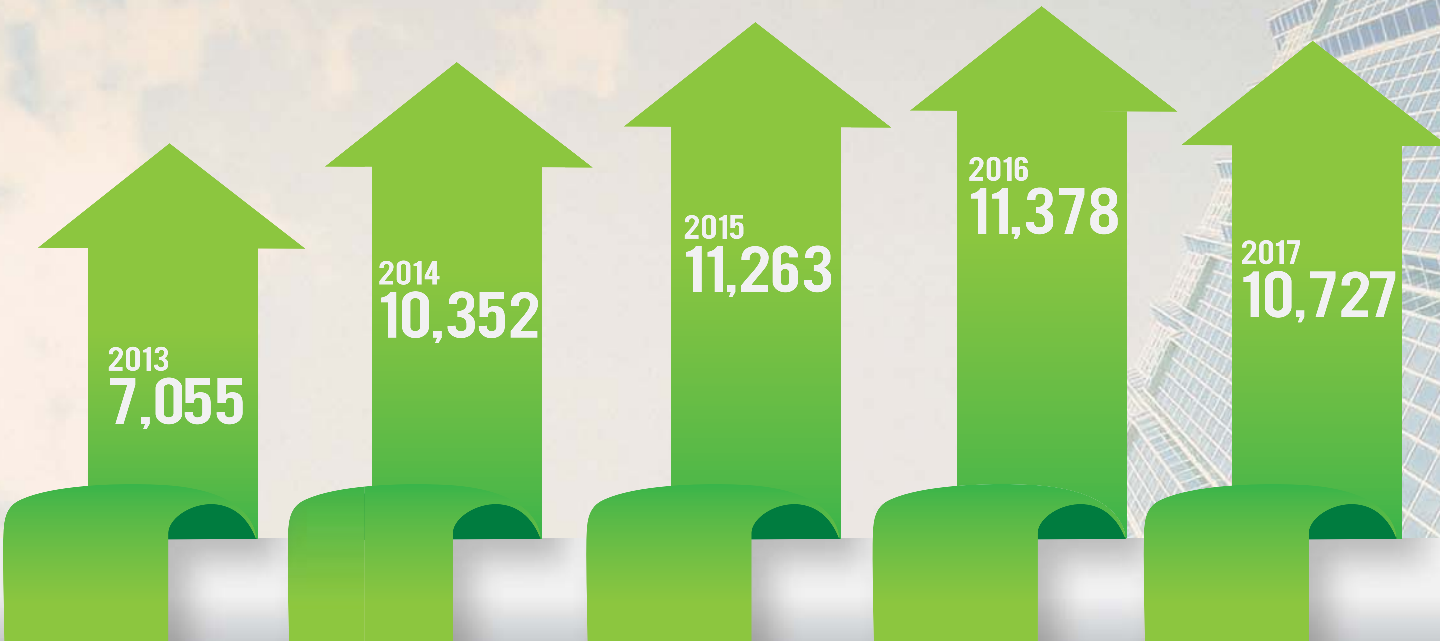
We look forward to our continued relationship as we assist Macay in realizing its vision amidst changes and challenges.

Thank you.

Alfredo M. Yao
Chairman

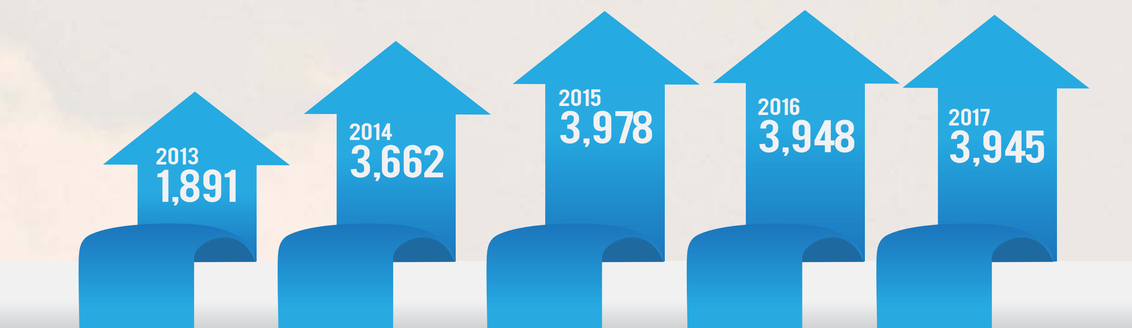
Antonio I. Panajon
President

FINANCIAL HIGHLIGHTS



REVENUES*

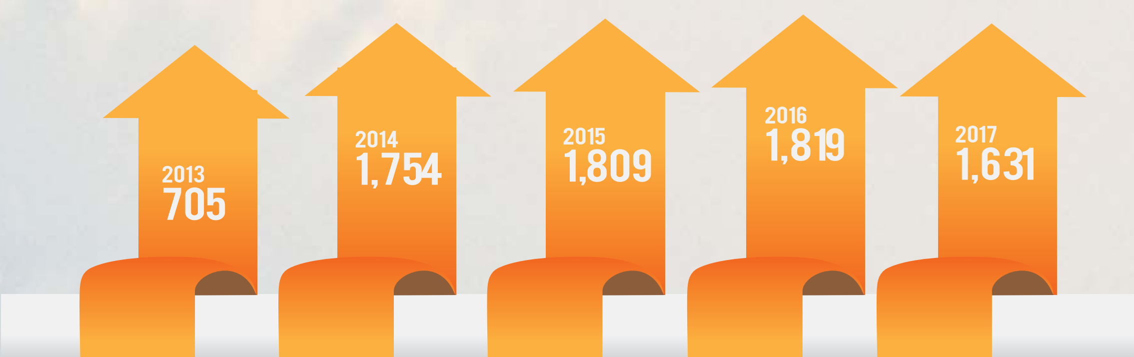
4 YR CAGR 11.0%



GROSS PROFIT*

4 YR CAGR 20.2%

36.8%
GP MARGIN
2017



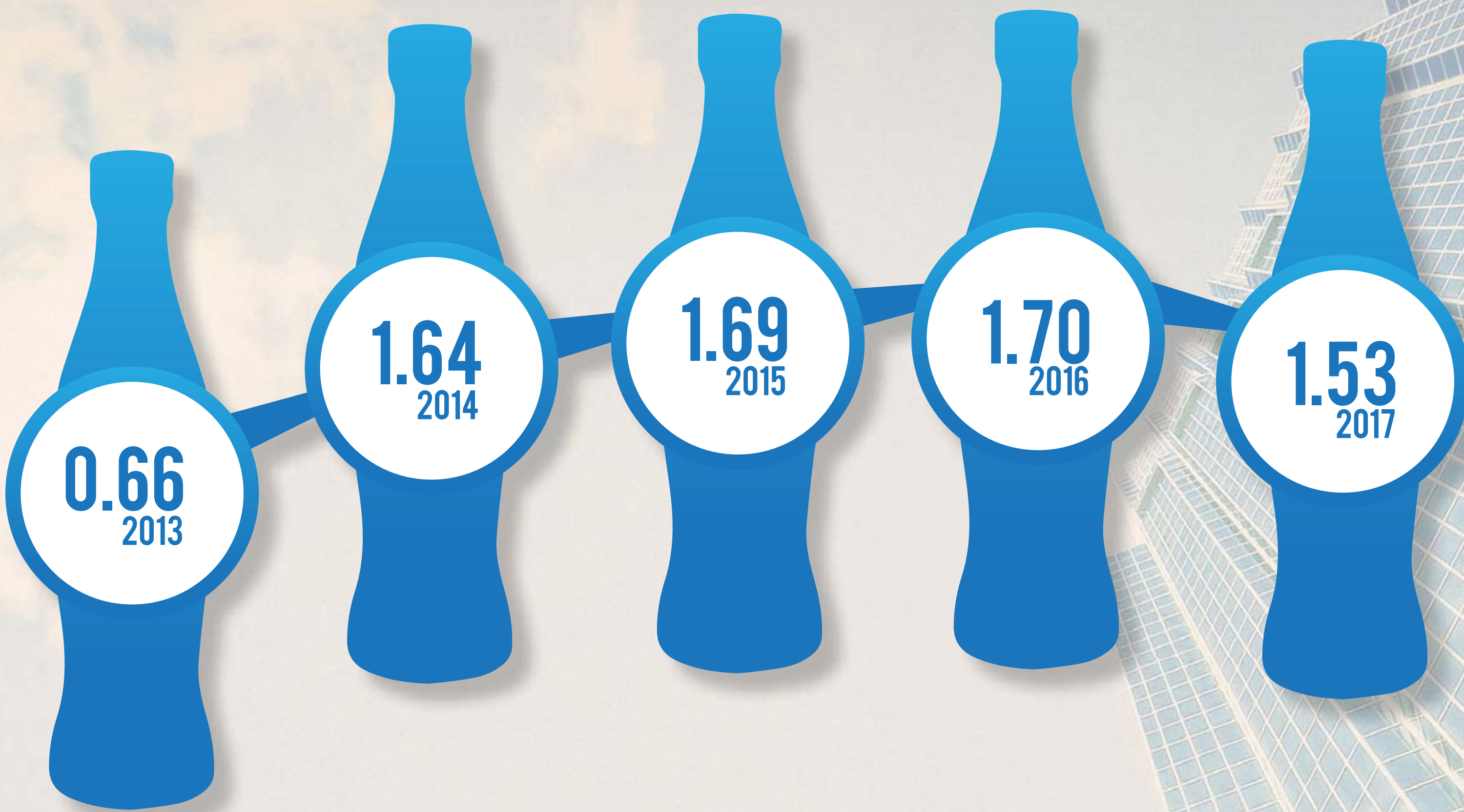
NET INCOME*

4 YR CAGR 23.3%

15.2%
NI MARGIN
2017

*The figures are in PHP '000 .

EARNINGS PER SHARE



CURRENT RATIO

CORPORATE SOCIAL RESPONSIBILITY

AMY FOUNDATION, INC.

AMY Foundation, Inc. ("AMY Foundation") is a non-stock, non-profit organization incorporated in the Philippines on October 15, 2003. Its main aim is to implement and maintain socio-economic programs for the betterment, development and advancement of the less-privileged members of the community particularly in the area of EDUCATION. Since the start of its operations, AMY Foundation has been consistently sharing the gift of learning by providing scholarships to indigent but academically gifted students. As of December 31, 2017, the total number of graduates was 200 while the number of currently-enrolled scholars was almost 100.

AMY Foundation also holds the "Annual Balik Eskuwela Project" which targets needy Kinder, Grades 1 & 2 students; and the "Annual Christmas Party for the Kids" which is held in pre-identified depressed areas. The said activities were held in partnership with local government units.

AMY Foundation is also registered as "Auxiliary Social Welfare and Development Agency" with a category of "Resource Agency" by the Department of Social Welfare and Development. It is also an active member of the League of Corporate Foundations and ABSNET-CAMANAVA (North Cluster).

PNU ANNUAL RECOGNITION AND THANKSGIVING PROGRAM FOR SCHOLARSHIP DONORS

Once again, AMY Foundation was recognized by the Philippine Normal University (PNU) as one of their partners in providing scholarships to the academically gifted but financially deprived students of PNU.

The annual gathering to recognize all scholarship donors and student benefactors of PNU took place on March 22, 2017 at the Geronimo Pecson Auditorium of the said university.

The Foundation's Coordinator for Volunteers, Ms. Luningning T. Ramos received the Certificate of Appreciation on behalf of the Foundation.

AMY Foundation scholars were also present during the said program and AMY Foundation representatives Ms. Luningning T. Ramos and CSR Officer Ruth Tamayo were able to interact with them. All scholars have expressed their gratitude since they are now few weeks away from their much anticipated graduation.

BALIK ESKUWELA 2017

Another successful Balik Eskuwela Project was done on May 31, 2017 at CFC North A Mission Center Amparo Subdivision, Caloocan City. This year, AMY Foundation partnered with Couples for Christ (CFC) North A Sector in giving away basic school supplies to the Kinder and Grade 1 students of CFC's covered community.

Indigent students numbering 200 received their school bags containing notebooks, pad papers, pencils, crayons, and other school supplies. Children were very thankful and happy to be chosen as the recipients of this year's Balik Eskuwela Project.

Thank you to the regular donors, volunteers, officers, and staff of AMY Foundation for their untiring support.

BOARD OF DIRECTORS

Alfredo M. Yao
Chairman

Antonio I. Panajon
Director and President
Nomination Committee

Jeffrey S. Yao
Director And Vice President

Fernando R. Balatbat
Director And Treasurer
Audit Committee
Nomination Committee
ǂ Deceased April 2018

Roberto A. Atendido
Director
Corporate Governance Committee

Carolyn S. Yao
Director

Mary Grace S. Yao
Director

Armando M. Yao
Director

Rinaldi C. Aves
Director

Albert S. Toribio
Director
Audit Committee

Gerardo T. Garcia
Director
Compensation And Remuneration Committee

Roberto F. Anonas
Independent Director
Corporate Governance Committee
Audit Committee
Compensation and Remuneration Committee

Jesus G. Gallegos Jr.
Independent Director
Corporate Governance Committee, Audit Committee, Compensation And Remuneration Committee, Nomination Committee


Arcy's
ROOT BEER
Juicy Lemon
ROYAL CROWN
RC
cola
COLUMBUS GEORGIA, USA
ORIGINAL COLA SINCE 1905
Seetrus
Fruit Soda
ORANGE
Rite 'n Lite
Aspartame Free
No Sugar. No Carbs. No Calories
Lemon + Lime
NO SUGAR
SINCE 1905
Original Cola
250ML
COLUMBUS
GEORGIA, USA
SINCE
1905
ARC Refreshm

ments Corporation

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Macay Holdings, Inc. and Subsidiaries

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, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 material 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 judgment and estimation by management. In addition, this estimate has significant impact in the consolidated financial statements, particularly on amortization and impairment assessment and/or testing of deferred pallets and containers, and recognition of the Group's liability pertaining to customers' refundable deposits made in relation to containers in trade. As of December 31, 2017, the carrying value of deferred pallets and containers amounted to PHP1.80 billion and the related amortization expense of these assets amounted to PHP915.41 million in 2017. See Notes 2 and 9 to the consolidated financial statements for the related disclosures.

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

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, 2017 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, 2017, 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 conclude 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.

INDEPENDENT AUDITOR'S REPORT

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 the basis of these consolidated financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 John T. Villa.

SYCIP GORRES VELAYO & CO.

John T. Villa

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-AR-2 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621342, January 9, 2018, Makati City

April 10, 2018

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱3,671,335,477**	₱1,883,395,401
Trade and other receivables (Note 5)	**518,698,958**	415,139,564
Inventories (Note 6)	**1,866,094,193**	2,057,398,079
Other current assets (Note 7)	**149,917,174**	100,865,162
Total Current Assets	**6,206,045,802**	4,456,798,206
Noncurrent Assets		
Property, plant and equipment (Note 8)	**1,379,332,521**	1,378,956,975
Deferred pallets and containers (Note 9)	**1,801,283,438**	1,910,046,913
Interest in a joint venture (Note 10)	**29,218,381**	42,111,039
Retirement benefits asset (Note 20)	**14,453,915**	–
Deferred tax assets - net (Note 21)	**5,192,184**	4,240,116
Other noncurrent assets (Note 7)	**526,914,970**	599,215,816
Total Noncurrent Assets	**3,756,395,409**	3,934,570,859
TOTAL ASSETS	**₱9,962,441,211**	₱8,391,369,065
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**₱2,431,669,952**	₱2,302,126,021
Short-term loans payable (Note 12)	**85,934,082**	125,783,025
Dividends payable (Note 13)	**12,766,997**	24,770,828
Income tax payable	**105,321,183**	122,780,792
Total Current Liabilities	**2,635,692,214**	2,575,460,666
Noncurrent Liability		
Retirement benefits liability (Note 20)	**–**	2,051,753
Total Liabilities	**2,635,692,214**	2,577,512,419
Equity		
Capital stock - ₱1 par value (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 20)	**61,727,728**	51,989,019
Retained earnings		
Appropriated (Note 13)	**1,100,000,000**	1,052,044,720
Unappropriated	**3,718,697,181**	2,263,498,819
Total Equity	**7,326,748,997**	5,813,856,646
TOTAL LIABILITIES AND EQUITY	**₱9,962,441,211**	₱8,391,369,065

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
REVENUES			
Sale of goods	**₱10,723,941,949**	₱11,374,354,624	₱11,258,644,628
Tolling revenues [Note 18(g)]	**3,229,800**	3,958,626	4,288,700
	10,727,171,749	11,378,313,250	11,262,933,328
COST OF SALES AND SERVICES (Note 14)	**(6,782,365,516)**	(7,429,836,675)	(7,285,035,987)
GROSS PROFIT	**3,944,806,233**	3,948,476,575	3,977,897,341
EXPENSES			
Selling and marketing (Note 15)	**1,284,951,841**	1,128,278,367	1,082,689,223
General and administrative (Note 16)	**384,583,908**	329,395,854	350,208,218
	1,669,535,749	1,457,674,221	1,432,897,441
OTHER INCOME (CHARGES)			
Interest income (Note 4)	**25,299,899**	12,416,997	8,105,630
Share in net income (loss) in joint venture (Note 10)	**(12,892,658)**	491,875	1,471,937
Interest expense	**(3,722,792)**	(5,908,056)	(7,139,269)
Foreign exchange gains (losses) - net	**2,706,734**	(278,155)	(4,427,043)
Others (Note 17)	**30,408,981**	36,611,693	46,335,297
	41,800,164	43,334,354	44,346,552
INCOME BEFORE INCOME TAX	**2,317,070,648**	2,534,136,708	2,589,346,452
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)			
Current	**690,835,620**	719,456,474	773,445,384
Deferred	**(5,125,801)**	(3,883,837)	6,707,411
	685,709,819	715,572,637	780,152,795
NET INCOME	**1,631,360,829**	1,818,564,071	1,809,193,657
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 20)	**9,738,709**	78,434,368	28,383
TOTAL COMPREHENSIVE INCOME	**₱1,641,099,538**	₱1,896,998,439	₱1,809,222,040
EARNINGS PER SHARE			
Basic/Diluted Earnings Per Share (Note 24)	**₱1.53**	₱1.70	₱1.69

See accompanying Notes to Consolidated Financial Statements.

MACAY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

	Capital Stock	Additional Paid-in Capital	Stock Dividend for Distribution	Equity Reserve (Note 2)	Other Comprehensive Income	Retained Earnings Appropriated	Retained Earnings Unappropriated	Total
Balances at January 1, 2015	**₱1,068,393,223**	**₱1,153,568,289**	**₱–**	**₱17,000,000**	**(₱26,473,732)**	**₱–**	**₱1,631,181,772**	**₱3,843,669,552**
Net income	–	–	–	–	–	–	1,809,193,657	1,809,193,657
Other comprehensive income	–	–	–	–	28,383	–	–	28,383
Total comprehensive income	–	–	–	–	28,383	–	1,809,193,657	1,809,222,040
Distribution to previous owners of subsidiary (Note 2)	–	–	–	(17,000,000)	–	–	(41,656,025)	(58,656,025)
Dividends declared (Note 13)	–	–	–	–	–	–	(1,549,170,175)	(1,549,170,175)
Balances at December 31, 2015	**1,068,393,223**	**1,153,568,289**	**–**	**–**	**(26,445,349)**	**–**	**1,849,549,229**	**4,045,065,392**
Net income for the year	–	–	–	–	–	–	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
Dividends declared (Note 13)	–	–	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	**₱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**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,317,070,648**	₱2,534,136,708	₱2,589,346,452
Adjustments for:			
Depreciation and amortization (Notes 8 and 9)	**1,214,126,282**	1,088,769,821	902,452,023
Retirement benefit expense (Note 20)	**17,085,522**	20,790,549	36,823,603
Interest expense	**3,722,792**	5,908,056	7,139,269
Unrealized foreign exchange losses (gains) - net	**(1,319,070)**	860,313	4,427,043
Provision for impairment losses on inventories (Notes 6 and 14)	**3,929,800**	2,913,747	–
Interest income (Note 4)	**(25,299,899)**	(12,416,997)	(8,105,630)
Share in net loss (income) of joint venture (Note 10)	**12,892,658**	(491,875)	(1,471,937)
Reversal on write-off of CWTs (Note 17)	**–**	–	(9,736,529)
Provision for impairment losses on trade and other receivables (Note 5)	**5,960,985**	–	732,160
Operating income before working capital changes	**3,548,169,718**	3,640,470,322	3,521,606,454
Decrease (increase) in:			
Trade and other receivables (Note 5)	**(110,075,733)**	(43,233,627)	4,733,702
Inventories (Note 6)	**187,374,086**	(141,464,016)	(337,663,973)
Other current assets (Note 7)	**(49,052,012)**	(28,148,616)	90,263,179
Increase (decrease) in:			
Trade and other payables	**138,202,743**	(279,656,865)	(101,983,529)
Trade loans payable (Note 12)	**54,788,831**	31,145,523	(55,851,787)
Net cash generated from operations	**3,769,407,633**	3,179,112,721	3,121,104,046
Interest received	**19,551,640**	10,908,202	8,105,630
Income taxes paid, including creditable withholding taxes (Note 23)	**(708,295,229)**	(745,785,172)	(910,271,711)
Interest paid (Note 12)	**(3,722,792)**	(5,908,056)	(7,139,269)
Contributions paid to plan assets (Note 20)	**(19,678,749)**	(10,859)	(33,048,963)
Net cash from operating activities	**3,057,262,503**	2,438,316,836	2,178,749,733
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in other noncurrent assets	**122,559,388**	125,690,479	(73,033,152)
Additions to:			
Deferred pallets and containers (Note 9)	**(806,642,823)**	(701,115,733)	(1,057,007,451)
Property, plant and equipment (Notes 8 and 23)	**(393,733,304)**	(422,189,052)	(386,879,344)
Payment for availment of short-term investments	**(67,258,542)**	(17,000,000)	–
Proceeds from termination of short-term investments	**17,000,000**	–	20,000,000
Payment for subscription payable (Notes 1 and 2)	**–**	(17,000,000)	–
Net cash used in investing activities	**(1,128,075,281)**	(1,031,614,306)	(1,496,919,947)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of short-term loan (Note 12)	**–**	(450,000,000)	(50,000,000)
Cash dividends paid (Note 13)	**(140,211,018)**	(126,583,212)	(1,549,170,175)
Distribution to previous owners of ARCHI (Note 13)	**–**	–	(19,464,022)
Proceeds from availment of short-term loans (Note 12)	**–**	–	500,000,000
Net cash used in financing activities	**(140,211,018)**	(576,583,212)	(1,118,634,197)

(Forward)

	Years Ended December 31		
	2017	2016	2015
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(₱1,036,128)**	₱101,179	(₱4,427,043)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,787,940,076**	830,220,497	(441,231,454)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,883,395,401**	1,053,174,904	1,494,406,358
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱3,671,335,477**	₱1,883,395,401	₱1,053,174,904

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, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, were approved and authorized for issue by the Board of Directors (BOD) on April 10, 2018.

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

Basis of Preparation

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.

Acquisition of ARCHI

On August 13, 2015, the shareholders of ARCHI signed a Share Purchase Agreement where the shareholders offered to sell their shares to the Parent Company. On the same date, Deeds of Absolute Sale of Shares were executed on the subject shares. As a result, ARCHI became a wholly-owned subsidiary of the Parent Company.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The separate financial statements of the subsidiaries are prepared using the same reporting date and reporting period as those of the Parent Company, using consistent accounting policies.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only, if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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.

Changes in Accounting Policies and Disclosures

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2017

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements starting January 1, 2017. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Group.

- **Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)**
- **Amendments to Philippine Accounting Standards (PAS) 7, *Statement of Cash Flows, Disclosure Initiative***

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  Adoption of these amendments did not have any impact on the Group's financial position, performance or disclosures as the Group does not have liabilities arising from financing activities.

- **Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses***

New Accounting Standards and Interpretation Effective Subsequent to December 31, 2017

The Group will adopt the standards and interpretation enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new, revised and amended standards and new Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) to have a significant impact on the consolidated financial statements.

Effective in 2018:

- **PFRS 9, *Financial Instruments***

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the Group's financial statements.

- **PFRS 15, *Revenue from Contracts with Customers***
  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is 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. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Based on the Group's initial assessment, the adoption of this standard does not have a significant impact in its financial position, performance and disclosures.

- **Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions***
- **Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments with PFRS 4***
- **Amendment to PAS 28, *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***

Effective in 2019:

- **PFRS 16, *Leases***
  PFRS 16 was issued in January 2016 which replaces PAS 17, the current leases standard, and related Interpretations.

  Under the new standard, lessees will no longer classify their leases as either operating or finance lease in accordance with PAS 17. Rather, lessees will apply a single-model approach. Under this model, lessees will recognize the assets and related liabilities for most leases on their statements of financial position, and subsequently, will depreciate the lease assets and recognized interest on the lease liabilities in their profit or loss. Leases with terms of 12 months or less or those where the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure on residual value.

The Group is currently assessing the impact that this standard will have on the financial position and performance.

- **Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments***
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 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.

  The Group is currently assessing the impact of adopting this interpretation.

- **Amendments to PFRS 9, *Prepayment Features with Negative Compensation***
- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***

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
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 2017, 2016 and 2015, the Group recognized net revenues amounting to ₱10.72 billion, ₱11.37 billion and ₱11.26 billion, net of trade and pick-up discounts of ₱2.68 billion, ₱2.59 billion and ₱2.53 billion, respectively.

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

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

Other Income
Other income is recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Group and that can be measured reliably. Sale of scrap materials and cullets is recognized as revenue upon delivery of the items and transfer of control to the buyer.

<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.

<u>Cash and Cash Equivalents</u>
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.

<u>Short-term Investment</u>
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.

<u>Financial Instruments</u>
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.

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 and 2016, 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.

Derecognition of Financial Instruments

Financial Asset

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement 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. The difference in the respective carrying amounts is recognized in consolidated statement of comprehensive income.

Offsetting Financial Instruments

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.

Inventories

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.

Containers (i.e. returnable bottles, pallets and shells) included under inventories, are stated at deposit value, which is the estimated salvage value of the containers at the end of the estimated trip life.

The Group provided allowance for inventory losses on unusable containers in circulation that failed to meet the Group's quality standards and excess bottles as determined by management based on the containers profiling analysis conducted by the Group. 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.

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.

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, net of salvage value of the containers at the end of estimated trip life (see accounting policy on Inventories). These containers are presented as "Deferred pallets and containers" in the consolidated statement of financial position, and are carried at cost, net of an estimated salvage value less accumulated amortization and any impairment in value. They are amortized 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 consolidated statement of comprehensive income.

Amortization of bottles, shells and pallets commences once they are available for use over the estimated useful life of four years (see Note 3 for the change in estimated useful life of deferred containers). 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, depletion 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	5 or lease term, whichever is shorter
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.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

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.

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.

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), Mr. Antonio Panajon, 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 25.

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 operating 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 ₱367.33 million, ₱329.61 million and ₱345.20 million in 2017, 2016 and 2015, respectively (see Note 19).

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. A review in 2014 indicated that the actual trip lives of the containers were longer than 2013 estimate. As a result, effective February 1, 2014, in view of the change in the expected pattern of economic benefits from the assets, the Group revised its estimate of the useful life of its containers from three years to four years.

The Group recognized amortization expense amounting to ₱915.41 million, ₱816.23 million and ₱639.85 million in 2017, 2016 and 2015, respectively. The carrying value of deferred pallets and containers as at December 31, 2017 and 2016 amounted to ₱1,801.28 million and ₱1,910.05 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, 2017 and 2016, the carrying amounts of inventories, net of allowance for inventory obsolescence, amounted to ₱1,866.09 million and ₱2,057.40 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 Group recognized depreciation expense amounting to ₱298.72 million and ₱272.54 million in 2017 and 2016, respectively. The carrying amounts of property, plant and equipment, excluding construction-in-progress, amounted to ₱1,282.14 million and ₱1,118.32 million as at December 31, 2017 and 2016, 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 deposit values 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 and liability amounted to ₱14.45 million and ₱2.05 million as of December 31, 2017 and 2016, respectively. Retirement benefit cost amounted to ₱17.09 million, ₱20.79 million and ₱36.82 million in 2017, 2016 and 2015, respectively (see Note 20).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available in the future to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on forecasted taxable income. This forecast is based on the Group's past results and future expectations on revenues and expenses.

The Group has deferred tax assets amounting to ₱32.04 million and ₱26.52 million as of December 31, 2017 and 2016, respectively (see Note 21).

4. **Cash and Cash Equivalents**

	2017	2016
Cash on hand and with banks	**₱893,507,963**	₱931,411,832
Cash equivalents	**2,777,827,514**	951,983,569
	₱3,671,335,477	₱1,883,395,401

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".

Interest income on cash and cash equivalents and short-term investments amounted to ₱25.30 million, ₱12.42 million and ₱8.11 million in 2017, 2016 and 2015, respectively.

5. Trade and Other Receivables

	2017	2016
Trade	**₱400,141,213**	₱315,735,839
Due from related parties (see Note 18)	**78,731,742**	70,044,183
Advances to suppliers	**12,378,554**	7,443,198
Receivables from officers and employees	**10,327,492**	10,141,187
Others	**24,136,918**	12,866,589
	525,715,919	416,230,996
Less allowance for impairment losses on receivables	**7,016,961**	1,091,432
	₱518,698,958	₱415,139,564

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

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

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

"Others" consist of interest receivable, advances to contractors and external receivables from other companies, among others. Interest receivable as of December 31, 2017 and 2016 amounted to ₱5.79 million and ₱1.92 million, respectively.

The allowance for impairment losses on trade receivables amounted to ₱6.29 million and ₱1.09 million as of December 31, 2017 and 2016, respectively. Provision for impairment loss amounted to ₱5.24 million in 2017, nil in 2016 and ₱0.73 million in 2015 (see Note 15). The Group wrote-off allowance amounting to ₱0.04 million, ₱0.14 million and ₱1.67 million in 2017, 2016 and 2015, respectively

The allowance for impairment losses on receivables from employees and officers amounted to ₱0.72 million and nil as of December 31, 2017 and 2016, respectively. Provision for impairment loss amounted to ₱0.72 million in 2017, nil in 2016 and 2015 (see Note 16).

6. Inventories

	2017	2016
Inventories at NRV:		
Containers and pallets - on hand	**₱550,976,864**	₱711,188,318
Inventories at cost:		
Containers and pallets - in trade	**625,284,403**	607,160,076
Raw materials	**356,397,678**	399,897,908
Spare parts and supplies	**231,956,380**	233,298,391
Finished goods	**101,478,868**	105,853,386
	₱1,866,094,193	₱2,057,398,079

The cost of inventories amounted to ₱557.17 million and ₱714.34 million as of December 31, 2017 and 2016, respectively. The allowance for inventory obsolescence amounted to ₱6.19 million and ₱3.16 million as of December 31, 2017 and 2016, respectively. Provision for inventory obsolescence and condemnation amounted to ₱3.93 million, ₱2.91 million and nil in 2017, 2016 and 2015, respectively (see Notes 14 and 15). The Group wrote-off inventories amounting to ₱0.90 million in 2017, ₱2.02 million in 2016 and nil in 2015.

Cost of inventories sold recognized in the statements of comprehensive income amounted to ₱4,374.49 million, ₱5,145.76 million and ₱5,240.87 million in 2017, 2016 and 2015, respectively (see Note 14).

7. Other Assets

	2017	2016
Current:		
Short-term investment	**₱67,258,542**	₱17,000,000
Prepaid taxes and licenses	**32,149,347**	38,330,287
Prepaid rent	**19,211,493**	18,080,379
Prepaid insurance	**11,467,391**	11,951,604
Supplies	**10,473,980**	6,866,200
Prepaid vehicle registration	**548,197**	292,739
Others	**8,630,296**	7,905,969
	149,739,246	100,427,178
Input VAT	**76,599,589**	73,887,896
Less: Output VAT	**(76,421,661)**	(73,449,912)
	177,928	437,984
	₱149,917,174	₱100,865,162
Noncurrent:		
Security deposits	**₱357,405,222**	₱350,349,197
Deferred input VAT	**136,390,051**	152,431,406
Deposits with suppliers	**29,493,586**	91,737,982
Others	**3,626,111**	4,697,231
	₱526,914,970	₱599,215,816

"Short-term investment" pertains to bank time deposit with a maturity of one (1) year.

"Prepaid taxes and licenses" pertains mainly to 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 the regular employees 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 19).

"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

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	₱1,519,576,873	₱800,542,720	₱26,984,710	₱21,813,470	₱22,389,988	₱24,270,714	₱99,505,710	₱260,637,738	₱2,840,325,810
Additions	44,529,687	84,449,716	26,553,540	1,232,145	1,856,703	3,956,869	121,370	3,177,907	133,217,593	299,095,530
Transfers	–	273,405,484	–	26,015,897	732,143	–	–	(3,495,354)	(296,658,170)	–
Retirement	–	–	(679,880)	–	–	(9,679)	–	(1,433,835)	–	(2,123,394)
Balances at end of year	109,133,574	1,877,432,073	826,416,380	54,232,752	24,402,316	26,337,178	24,392,084	97,754,428	97,197,161	3,137,297,946
Accumulated depreciation:										
Balances at beginning of year	–	790,503,152	543,202,442	19,832,609	19,276,639	16,668,510	725,637	71,159,846	–	1,461,368,835
Depreciation	–	172,411,523	103,451,696	3,751,693	1,480,642	3,803,156	366,318	13,454,956	–	298,719,984
Retirement	–	–	(679,880)	–	–	(9,679)	–	(1,433,835)	–	(2,123,394)
Balances at end of year	–	962,914,675	645,974,258	23,584,302	20,757,281	20,461,987	1,091,955	83,180,967	–	1,757,965,425
Net book values	₱109,133,574	₱914,517,398	₱180,442,122	₱30,648,450	₱3,645,035	₱5,875,191	₱23,300,129	₱14,573,461	₱97,197,161	₱1,379,332,521

2016

	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	₱–	₱1,296,036,936	₱781,703,962	₱24,437,693	₱19,892,242	₱17,329,530	₱23,231,894	₱89,070,638	₱119,242,730	₱2,370,945,625
Additions	64,603,887	223,539,937	18,838,758	2,547,017	1,921,228	5,060,458	1,038,820	10,435,072	141,395,008	469,380,185
Balances at end of year	64,603,887	1,519,576,873	800,542,720	26,984,710	21,813,470	22,389,988	24,270,714	99,505,710	260,637,738	2,840,325,810
Accumulated depreciation:										
Balances at beginning of year	–	644,870,459	434,646,764	17,601,033	17,445,330	14,961,339	645,728	58,661,318	–	1,188,831,971
Depreciation	–	145,632,693	108,555,678	2,231,576	1,831,309	1,707,171	79,909	12,498,528	–	272,536,864
Balances at end of year	–	790,503,152	543,202,442	19,832,609	19,276,639	16,668,510	725,637	71,159,846	–	1,461,368,835
Net book values	₱64,603,887	₱729,073,721	₱257,340,278	₱7,152,101	₱2,536,831	₱5,721,478	₱23,545,077	₱28,345,864	₱260,637,738	₱1,378,956,975

Fully depreciated assets with a cost of ₱789.24 million and ₱662.54 million as of December 31, 2017 and 2016, respectively, are still being used in the operations.

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

Depreciation expense charged to operations is as follows:

	2017	2016	2015
Cost of sales and services (see Note 14)	**₱190,025,398**	₱161,850,363	₱162,338,616
Selling and marketing expenses (see Note 15)	**96,191,782**	97,622,420	89,413,978
General and administrative expenses (see Note 16)	**12,502,804**	13,064,081	10,847,376
	₱298,719,984	₱272,536,864	₱262,599,970

9. Deferred Pallets and Containers

2017

	Containers	**Pallets**	**Total**
Net book values - beginning	**₱1,867,675,544**	**₱42,371,369**	**₱1,910,046,913**
Additions	**767,462,303**	**39,180,520**	**806,642,823**
Amortization	**(893,916,012)**	**(21,490,286)**	**(915,406,298)**
Net book values - ending	**₱1,741,221,835**	**₱60,061,603**	**₱1,801,283,438**

2016

	Containers	Pallets	Total
Net book values - beginning	₱1,989,984,289	₱35,179,848	₱2,025,164,137
Additions	681,076,154	20,039,579	701,115,733
Amortization	(803,384,899)	(12,848,058)	(816,232,957)
Net book values - ending	₱1,867,675,544	₱42,371,369	₱1,910,046,913

Deferred pallets and containers arises from the difference of the containers acquisition cost, which is the landed cost that includes the purchased cost plus the incidental cost of importation, less deposit value of the containers and pallets (see Note 6).

Amortization expense was charged under "Cost of sales and services" (see Note 14).

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 rollforward analysis of investment in joint venture and accumulated equity in net income of interest in joint venture follows:

	2017	2016
Acquisition cost	**₱83,284,425**	₱83,284,425
Accumulated equity in net earnings:		
Balance at beginning of year	**(41,173,386)**	(41,665,261)
Share in net (loss) income	**(12,892,658)**	491,875
Balance at end of year	**(54,066,044)**	(41,173,386)
	₱29,218,381	₱42,111,039

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

	2017	2016
Total assets	**₱89.94**	₱117.85
Total liabilities	**31.50**	33.63
Equity	**58.44**	84.22
Sales	**36.02**	35.90
Net (loss) income	**(25.79)**	0.98

11. Trade and Other Payables

	2017	2016
Trade payables	**₱1,056,160,613**	₱1,078,409,923
Containers deposit liability	**625,284,403**	607,160,076
Due to related parties (see Note 18)	**400,767,108**	364,652,876
Output VAT payable	**54,549,804**	51,261,021
Non-trade payables	**16,412,954**	12,363,712
Accrued expenses:		
Advertising and promotions	**99,211,043**	45,663,805
Contracted services and professional fees	**70,286,985**	55,376,569
Withholding taxes	**32,789,800**	25,643,695
Rent (see Notes 18 and 19)	**18,486,740**	5,418,610
Salaries and wages	**11,525,495**	10,759,030
Utilities and facilities	**6,659,511**	4,813,639
Employee benefits	**5,842,519**	5,038,616
Travel, meeting and entertainment	**2,031,872**	681,686
Others	**31,661,105**	34,882,763
	₱2,431,669,952	₱2,302,126,021

"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 and other 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 2.5% per annum.

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.

As of December 31, 2017 and 2016, the Group has outstanding short-term loans payable amounting to ₱85.93 million and ₱125.78 million, respectively.

Total interest expense related to these loans amounted to ₱1.20 million, ₱5.91 million and ₱7.14 million in 2017, 2016 and 2015, respectively.

13. Equity

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

	2017	2016
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, 2017 and 2016, the equity holdings of the shareholder groups are as follows:

	2017		2016	
Shareholder Group	**Number of Shares**	**Percentage of Ownership**	Number of Shares	Percentage of Ownership
MCI	**958,941,673**	**89.75%**	958,941,673	89.76%
Public	**109,451,550**	**10.25%**	109,451,550	10.24%
	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 a 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. As of December 31, 2017, the application for increase in authorized capital stock of the Parent Company is still for approval of the SEC. Accordingly, as of December 31, 2017, the shares have not yet been issued.

Retained Earnings

Dividends
MHI
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.

On April 8, 2015, the Parent Company declared dividends of ₱1.45 per share for a total amount of ₱1,549.17 million in favor of stockholders on record as at April 27, 2015. The cash dividend was paid on May 15, 2015.

As of December 31, 2017 and 2016, the Parent Company has outstanding dividends payable to its shareholders related to previous year's declaration amounting to ₱2.58 million.

ARCRC
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.

In 2015, ARCRC declared and paid dividends amounting ₱1,584.00 million at ₱3.6 per share.

ARCHI
In 2017, ARCHI made payment to previous shareholders amounting to ₱12.00 million. As of December 31, 2017 and 2016, balances of ₱10.19 million and ₱22.19 million remain unpaid to previous shareholders, respectively.

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

In 2015, ARCHI declared cash dividends of ₱24.50 per share amounting to ₱41.66 million. On August 31, 2015, ARCHI paid ₱19.46 million.

Appropriations of Retained Earnings
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 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

Year	Authorized Capital Stock	Composition	Par Value
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
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:

Year	Date of SEC approval	Type of offering	Number of shares offered	Par value	Offer price	Number of shares after offering: Authorized	Number of shares after offering: 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. Cost of Sales and Services

	2017	2016	2015
Materials (see Note 6)	**₱4,374,490,946**	₱5,145,759,412	₱5,240,873,188
Depreciation and amortization (see Notes 8 and 9)	**1,105,431,696**	978,083,320	802,190,669
Direct labor	**309,347,403**	347,946,153	345,397,906
Rent (see Note 19)	**240,238,696**	202,820,333	219,074,036
Personnel expenses and outside services	**225,553,549**	210,588,662	189,889,881
Toll packing	**151,167,289**	141,778,229	106,192,582
Specialty contractor (see Note 18b)	**117,153,874**	120,000,000	120,000,000
Repairs and maintenance	**94,342,799**	110,928,755	98,446,724
Gas and utilities	**35,535,975**	31,487,926	36,416,955
Provision for inventory obsolescence and condemnation (see Note 6)	**3,929,800**	2,913,747	–
Others	**125,173,489**	137,530,138	126,554,046
	₱6,782,365,516	₱7,429,836,675	₱7,285,035,987

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

15. Selling and Marketing Expenses

	2017	2016	2015
Advertising	**₱344,972,910**	₱267,115,192	₱301,405,968
Outside services	**182,380,235**	172,580,897	152,863,434
Salaries, wages and benefits	**144,224,937**	116,151,874	110,491,701
Rent (see Note 19)	**127,091,695**	126,789,675	126,121,566
Promotions and commissions	**98,221,069**	53,821,229	49,706,845
Depreciation (see Note 8)	**96,191,782**	97,622,420	89,413,978
Hauling and loading	**69,243,011**	58,694,239	41,775,722
Gas, oil and fuel	**58,033,117**	49,646,332	61,267,489
Repairs and utilities	**47,227,774**	45,308,260	41,278,825
Travel, transportation and entertainment	**32,266,880**	36,067,378	38,998,673
Taxes, licenses and registrations	**7,258,390**	7,250,187	4,330,545
Provision for impairment on receivables (see Note 5)	**5,236,296**	–	732,160
Others	**72,603,745**	97,230,684	64,302,317
	₱1,284,951,841	₱1,128,278,367	₱1,082,689,223

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

16. General and Administrative Expenses

	2017	2016	2015
Salaries, wages and benefits	**₱181,779,752**	₱174,789,606	₱164,023,857
Contracted services and professional fees	**104,504,452**	68,936,254	70,487,830
Repairs and utilities	**23,472,162**	19,165,977	19,414,989
Meetings and entertainment	**19,596,633**	21,689,585	19,528,165
Taxes, licenses and registrations	**14,579,883**	2,786,711	24,049,205
Depreciation (see Note 8)	**12,502,804**	13,064,081	10,847,376
Supplies and transportation	**12,152,514**	13,379,094	12,345,396
Provision for impairment on receivables (see Note 5)	**724,689**	–	–
Others	**15,271,019**	15,584,546	29,511,400
	₱384,583,908	₱329,395,854	₱350,208,218

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

17. Others

	2017	2016	2015
Sale of scrap materials and cullets	**₱27,627,856**	₱31,261,666	₱30,272,409
Reversal on write-off of CWTs	**–**	–	9,736,529
Others	**2,781,125**	5,350,027	6,326,359
	₱30,408,981	₱36,611,693	₱46,335,297

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

18. 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.

Outstanding balances of transactions with related parties are set out below:

Category	Year	Revenues	Interest income	Costs and expenses	Cash and cash equivalents	Trade and other receivables	Due from related parties (see Note 5)	Trade and other payables	Due to related parties (see Note 11)	Terms	Conditions
Entities under common control:											
Asiawide (see Note 18a)	**2017**	**₱–**	**₱–**	**₱17,794,865**	**₱–**	**₱–**	**₱552,000**	**₱–**	**₱5,554,875**	Noninterest bearing;	No impairment;
	2016	₱–	₱–	₱16,756,020	₱–	₱–	₱1,168,876	₱–	₱4,655,706	due and demandable	Unsecured
Bev-pack Inc. (Bev-pack, see Note 18c)	**2017**	**–**	**–**	**257,316,184**	**–**	**–**	**820,491**	**100,714,179**	**–**	Noninterest bearing;	No impairment;
	2016	–	–	259,055,791	–	–	27,483	106,918,944	–	due and demandable	Unsecured
Solmac Marketing Inc. (Solmac; see Note 18e)	**2017**	**–**	**–**	**4,897,671**	**–**	**–**	**–**	**–**	**–**	Noninterest bearing;	Unsecured
	2016	–	–	4,692,300	–	–	–	–	–	due and demandable	
SMI Development Corporation (SMI; see Note 18f)	**2017**	**–**	**–**	**7,067,713**	**–**	**–**	**–**	**–**	**1,788,643**	Noninterest bearing;	
	2016	–	–	6,660,384	–	–	–	–	1,726,334	due and demandable	Unsecured
AKPI (see Note 18g)	**2017**	**3,229,800**	**–**	**–**	**–**	**–**	**9,553,760**	**–**	**34,389,948**	Noninterest bearing;	No impairment;
	2016	3,958,626	–	–	–	–	9,783,118	–	25,453,856	due and demandable	Unsecured
Philippine Business Bank (PBB; see Note 18h)	**2017**	**–**	**19,745,365**	**–**	**2,849,325,229**	**–**	**–**	**–**	**–**		
	2016	–	11,286,653	–	938,646,342	–	–	–	–	Interest bearing	Unsecured;

(Forward)

Category	Year	Revenues	Interest income	Costs and expenses	Cash and cash equivalents	Trade and other receivables	Due from related parties (see Note 5)	Trade and other payables	Due to related parties (see Note 11)	Terms	Conditions
Stockholder:											
Zest-O (see Note 18d)	**2017**	**₱31,501,550**	**₱–**	**₱298,700,161**	**₱–**	**₱139,180,746**	**₱67,372,881**	**₱–**	**₱140,326,090**	Noninterest bearing;	No impairment;
	2016	₱21,147,694	₱–	₱274,324,097	₱–	₱139,180,746	₱58,626,096	₱–	₱153,955,201	due and demandable	Unsecured
Mega Asia (see Note 18b)	**2017**	**–**	**–**	**303,692,303**	**–**	**–**	**432,610**	**–**	**218,707,552**	Noninterest bearing;	No impairment;
	2016	–	–	295,787,902	–	–	438,610	–	178,861,779	due and demandable	Unsecured
	2017	**₱34,731,350**	**₱19,745,365**	**₱889,468,897**	**₱2,849,325,229**	**₱139,180,746**	**₱78,731,742**	**₱100,714,179**	**₱400,767,108**		
	2016	₱25,106,320	₱11,286,653	₱857,276,494	₱938,646,342	₱139,180,746	₱70,044,183	₱106,918,944	₱364,652,876		

a. ARCRC entered into a lease agreement with Asiawide for the use of its land and building situated in Sitio Puting Bato, Antipolo Rizal. Total rent expense amounted to ₱17.80 million and ₱16.76 million in 2017 and 2016, respectively (see Note 19).

   ARCRC obtained advances from Asiawide for the payment of import duties related to the importation of bottles.

b. ARCRC entered into a lease agreements with Mega Asia for the use of its land and building situated in Pampanga, Pangasinan, Isabela, Davao and ARCRC entered into a lease agreements with Mega Asia for the use of its land and building situated in Pampanga, Pangasinan, Isabela, Davao and Misamis Oriental. Total rental expense amounted to ₱186.53 million and ₱175.79 million in 2017 and 2016, respectively. Mega Asia also provides specialty contractor services in all plants except Cabuyao. Under the agreement, ARCRC shall pay a fixed monthly service fee of ₱9.76 million in 2017 and ₱10.00 million in 2016 and 2015 (see Note 14).

   ARCRC made advances to Mega Asia in relation to the payment of bunker fuel oil in Cabuyao, Laguna. Outstanding receivables as of December 31, 2017 and 2016 amounted to ₱0.43 million and ₱0.44 million, respectively.

c. Bev-pack is a supplier of caps for ARCRC's production of 800 ml bottled softdrinks. Total purchases made amounted to ₱257.32 million and ₱259.06 million in 2017 and 2016, 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 ₱117.86 million and ₱94.93 million, in 2017 and 2016, respectively (see Note 19).

   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, 2017 and 2016 amounted to ₱130.50 million and ₱153.96 million, respectively.

Zest-O has tolling arrangements with ARCRC as a Contract Packer and Filler for carbonated beverages in PET bottles. Total tolling expense amounted to ₱6.68 million and ₱13.27 million in 2017 and 2016, respectively.

Zest-O billed ARCRC for its share in administrative expenses amounting to ₱151.88 million and ₱138.65 million in 2017 and 2016, respectively.

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 ₱22.29 million and ₱27.47 million in 2017 and 2016, 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 and ₱21.15 million in 2017 and 2016, respectively.

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 ₱260.25 per sq. meter. Total rent expense amounted to ₱4.90 million and ₱4.69 million in 2017 and 2016, 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 ₱7.07 million and ₱6.66 million in 2017 and 2016, respectively.

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 2017 and 2016 amounted to ₱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 0.50% to 2.25%.

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

	2017	2016	2015
Salaries and wages	**₱23,820,902**	₱29,577,911	₱23,734,401
Allowances and benefits	**4,032,740**	1,791,740	1,934,791
	₱27,853,642	₱31,369,651	₱25,669,192

19. Lease Agreements

Lease Agreements with Mega Asia

a. ARCRC entered into a lease agreement with Mega Asia, a related party (see Note 18), for a lease of a piece of land and building located in Pampanga. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020 in 2017. Rental security deposit amounted to ₱28.62 million as of

December 31, 2017 and 2016. Rent expense amounted to ₱29.03 million in 2017, and ₱27.36 million in both 2016 and 2015.

b. ARCRC entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Cagayan de Oro. The lease shall be for three (3) years commencing from February 1, 2014 to January 31, 2017 and further extended to January 31, 2020 in 2017. Rental security deposit amounted to ₱101.50 million as of December 31, 2017 and 2016. Rent expense amounted to ₱35.22 million in 2017, and ₱33.20 million in both 2016 and 2015.

c. ARCRC entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Pangasinan. The lease shall be 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, 2017 and 2016. Rent expense amounted to ₱49.49 million in 2017, and ₱46.64 million in both 2016 and 2015.

d. ARCRC entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Isabela. The lease shall be 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, 2017 and 2016. Rent expense amounted to ₱33.59 million in 2017, and ₱31.66 million in both 2016 and 2015.

e. ARCRC entered into a lease agreement with Mega Asia, a related party, for a lease of a piece of land and building located in Davao. The lease shall be 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, 2017 and 2016. Rent expense amounted to ₱39.20 million in 2017, and ₱36.94 million in both 2016 and 2015.

The above lease agreements require ARCRC to pay rental security deposits, which are included under "Security deposits" account in the consolidated statement of financial position. Rental security deposits amounted to ₱350.35 million as of December 31, 2017 and 2016, respectively (see Note 7).

Lease Agreements with Zest-O

a. On February 1, 2014, ARCRC entered into a lease agreement with Zest-O, a related party, covering 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, renewable for mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱29.57 million in 2017, and ₱27.86 million in both 2016 and 2015.

b. ARCRC entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in Kaybiga, Novaliches, Quezon City. The lease shall be for four (4) years commencing from February 1, 2014 to January 31, 2018, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱17.36 million in 2017, 2016 and 2015.

c. ARCRC entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in Kaybiga, Novaliches, Quezon City. The lease shall be for two (2) years commencing from February 1, 2014 to January 31, 2016, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱11.44 million, ₱1.04 million and ₱12.47 million in 2017, 2016 and 2015, respectively.

d. On February 1, 2014, ARCRC entered into a lease agreement with Zest-O, a related party, covering a piece of land and building on which the manufacturing plant and administrative office of ARCRC are located in 108 Progressive Avenue Carmelray Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease is for a period of three (3) years up to 2017, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱30.16 million in 2017, and ₱28.42 million in both 2016 and 2015.

e. ARCRC entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in 108 Progressive Avenue Carmelrey Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease shall be for four (4) years commencing from February 1, 2014 to January 31, 2018, renewable by mutual consent. Rent expense amounted to ₱19.33 million in 2017, 2016 and 2015.

f. ARCRC entered into a lease agreement with Zest-O, a related party, for a lease of bottling equipment in 108 Progressive Avenue Carmelray Industrial Park, Brgy. Canlubang, Calamba, Laguna. The lease shall be for two (2) years commencing from February 1, 2014 to January 31, 2016, renewable by mutual consent. In 2017, it was further extended until 2020. Rent expense amounted to ₱10.01 million, ₱0.91 million and ₱10.92 million in 2017, 2016 and 2015, respectively.

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 ₱17.80 million in 2017, and ₱16.76 million in both 2016 and 2015.

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 ₱7.07 million in 2017, and ₱6.66 million in both 2016 and 2015.

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 both 2017 and 2016, and ₱5.68 million in 2015.

d. ARCRC entered into a lease agreements 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. Rent expense amounted to ₱1.80 million in 2017 and ₱1.58 million in 2016.

e. ARCRC entered into a lease agreements 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.

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, renewable by mutual consent. Rent expense amounted to ₱21.34 million in 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. Rent expense amounted to ₱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. Rent expense amounted to ₱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. Rental security deposits amounted to ₱7.04 million as of December 31, 2017 (see Note 7).

Rent expense charged to operations are as follows:

	2017	2016	2015
Cost of sales and services (see Note 14)	**₱240,238,696**	₱202,820,333	₱219,074,036
Selling and marketing expenses (see Note 15)	**127,091,695**	126,789,675	126,121,566
	₱367,330,391	₱329,610,008	₱345,195,602

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

	2017	2016
Within one year	**₱371,329,389**	₱67,072,149
After one year but not more than five years	**467,689,882**	18,785,604

20. **Retirement Benefits Asset (Liability)**

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, 2017 and 2016.

The net retirement benefits costs recognized in the statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Service cost	**₱16,975,197**	₱16,225,651	₱32,805,444
Net interest cost	**110,325**	4,564,898	4,018,159
Retirement benefits costs	**₱17,085,522**	₱20,790,549	₱36,823,603

Retirement benefits asset (liability) recognized in the statements of financial position as of December 31, 2017, 2016 and 2015 are as follows:

	2017	2016
Fair value of plan assets	**₱132,834,762**	₱115,200,949
Present value of defined benefit obligation	**(118,380,847)**	(117,252,702)
Balance at end of year	**₱14,453,915**	(₱2,051,753)

The present value of defined benefit retirement obligation as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balance at beginning of year	**₱117,252,702**	₱205,359,730
Service cost	**16,975,197**	16,225,651
Interest cost	**6,304,795**	10,045,377
Benefits paid	**(4,747,574)**	(441,504)
Remeasurement gains arising from:		
Changes in financial assumptions	**(11,161,612)**	(17,790,329)
Experience adjustments	**(6,242,661)**	(96,146,223)
Balance at end of year	**₱118,380,847**	₱117,252,702

The Group expects to make no contributions to its defined retirement benefit plan in 2017.

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

	2017	2016
Balance at beginning of year	**₱115,200,949**	₱112,038,569
Contributions	**19,678,749**	10,859
Interest income	**6,194,470**	5,480,480
Benefits paid	**(4,747,574)**	(441,504)
Actuarial loss from experience adjustments	**(3,491,832)**	(1,887,455)
Balance at end of year	**₱132,834,762**	₱115,200,949

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 net plan assets available for benefits are as follows:

	Carrying amounts	Fair values
Cash and cash equivalents	₱59,823,724	₱59,823,724
Short-term investments	11,006,661	11,006,661
Long-term investments	62,004,377	62,004,377
	₱132,834,762	₱132,834,762

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 principal assumptions used to determine the accrued retirement fund as of December 31 are as follows:

	2017	2016
Discount rate	**5.70%**	5.38%
Future salary increases	**5%**	5%
Expected average future service years of employees	**25.75**	26.01

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017, assuming all other assumptions were held constant:

2017	Increase (Decrease)	Amount
Discount rate	+1%	(₱19,712,000)
	-1%	24,683,000
Future salary increase rate	+1%	23,787,000
	-1%	(19,431,000)

The average duration of the accrued retirement fund 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	₱16,109,000
More than 5 years to 10 years	19,101,000

21. Income Taxes

The current provision for income tax in 2017 and 2016 represents the regular corporate income tax.

The components of the Group's net deferred tax assets as of December 31, 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets		
Retirement benefits liability	**₱22,118,566**	₱22,896,534
Straight-line adjustment on rent	**4,359,868**	682,340
Allowance for impairment losses on receivables	**2,115,725**	327,430
Allowance for inventory obsolescence and condemnation	**1,856,714**	947,258
Unamortized past service costs	**1,591,773**	1,031,254
Unrealized foreign exchange loss	**–**	636,308
	32,042,646	26,521,124
Deferred tax liability on unrealized foreign exchange gain	**(395,721)**	–
	31,646,925	26,521,124
Deferred tax liability on retirement benefits liability recognized directly in equity	**(26,454,741)**	(22,281,008)
Net deferred tax asset	**₱5,192,184**	₱4,240,116

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.

As at December 31, 2017, the Group has claimed its remaining NOLCO as deductions against future taxable income amounting to ₱17.78 million in 2017.

The following are the movements in NOLCO:

	2017	2016	2015
Balances at beginning of year	**₱17,786,316**	₱272,085,501	₱274,106,625
Application	**(17,786,316)**	(153,262,006)	(2,021,124)
Expiration	**–**	(101,037,179)	–
Balances at end of year	**₱–**	₱17,786,316	₱272,085,501

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

	2017	2016	2015
Income tax at statutory tax rate	**₱698,988,991**	₱760,241,012	₱776,900,445
Reductions in income tax resulting from:			
Nondeductible expenses	**3,331,606**	1,575,007	6,709,603
Changes in previously unrecognized deferred income taxes	**(5,335,895)**	(42,401,540)	(606,337)
Interest income already subjected to final tax	**(7,589,970)**	(3,694,279)	(2,287,040)
Nontaxable income	**(3,684,913)**	(147,563)	(563,876)
	₱685,709,819	₱715,572,637	₱780,152,795

22. 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 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.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main components of this allowance are specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective allowance is determined based on historical data of payment statistics for similar financial assets.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, receivables, short-term investment 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.

The tables below show the credit quality by class of financial assets:

	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**
Security deposits***	**357,405,222**	–	–	–	**357,405,222**
Total credit risk exposure	**₱3,956,134,238**	**₱518,698,958**	**₱–**	**₱7,016,961**	**₱4,481,850,157**

**Excluding cash on hand amounting to ₱139.87 million.*
***Under "Other current assets"*
****Under "Other non-current assets"*

	2016				
	Neither Past Due Nor impaired		Past Due But Not		
	High Grade	Standard Grade	Impaired	Impaired	Total
Cash and cash equivalents*	₱1,752,123,347	₱–	₱–	₱–	₱1,752,123,347
Trade and other receivables	–	₱415,139,564	–	1,091,432	416,230,996
Short-term investment**	17,000,000	–	–	–	17,000,000
Security deposits***	350,349,197	–	–	–	350,349,197
Total credit risk exposure	₱2,119,472,544	₱415,139,564	₱–	₱1,091,432	₱2,535,703,540

**Excluding cash on hand amounting to ₱131.27 million.*
***Under "Other current assets"*
****Under "Other non-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, which pertain mainly to receivables from related parties, officers and employees and others, were assessed as standard grade since there were no history of default on the outstanding receivables as of December 31, 2017 and 2016. 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:

	2017				
	Due and Demandable	**Within 6 Months**	**6 to 12 Months**	**Over 1 year**	**Total**
Trade and other payables*	**₱2,344,330,348**	**₱–**	**₱–**	**₱–**	**₱2,344,330,348**
Short-term loans payable	**–**	**85,934,082**	**–**	**–**	**85,934,082**
Dividends payable	**12,766,997**	**–**	**–**	**–**	**12,766,997**
	₱2,357,097,345	**₱85,934,082**	**₱–**	**₱–**	**₱2,443,031,427**

Excluding statutory payables amounting to ₱88.32 million

	2016				
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year	Total
Trade and other payables*	₱2,225,221,305	₱–	₱–	₱–	₱2,225,221,305
Short-term loans payable	–	125,783,025	–	–	125,783,025
Dividends payable	24,770,828	–	–	–	24,770,828
	₱2,249,992,133	₱125,783,025	₱–	₱–	₱2,375,775,158

Excluding statutory payables amounting to ₱76.90 million

The Group has financial assets of ₱4,621.72 million and ₱2,666.97 million as of December 31, 2017 and 2016, respectively, that may be used to settle its financial liabilities.

Foreign Exchange Risk

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, 2017 and 2016, are as follows:

	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**

	2016			
	Original Currency in $	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	$3,272,506	₱162,708,998	€581	₱30,119
Financial liabilities:				
Trade and other payables	(2,234,892)	(111,118,830)	–	–
Net exposure	$1,037,614	₱51,590,168	€581	₱30,119

As of December 31, 2017 and 2016, the exchange rate of the Philippine peso to the USD is ₱49.93 and ₱49.72, respectively, while the exchange rate for EUR is ₱59.61 and ₱51.84, 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				
2017	**₱1,503,021**	**(₱1,503,021)**	**₱5,252**	**(₱5,252)**
2016	₱2,579,508	(₱2,579,508)	₱1,508	(₱1,508)

Fair Values of Financial Instruments

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, 2017 and 2016:

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.

Security deposits

These are presented at cost since the timing and amounts of future cash flows related to the refundable deposits are linked to the termination of the contract which cannot be reasonably and reliably estimated.

Similarly, the carrying amounts of these instruments which are all subject to normal trade terms, approximate their fair values due to their short-term nature.

Capital Management

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, 2017, 2016 and 2015.

The following table summarizes what the Group considers as its total capital as of December 31, 2017 and 2016:

	2017	2016
Capital stock	**₱1,068,393,223**	₱1,068,393,223
Additional paid-in capital	**1,153,568,289**	1,153,568,289
Retained earnings	**4,818,697,181**	3,315,543,539
	₱7,040,658,693	₱5,537,505,051

23. Notes to Consolidated Statement of Cash flows

Operating Activity
Creditable withholding taxes under "Other current assets" amounting to ₱39.17 million and ₱9.68 million were applied against income tax payable in 2017 and 2016, respectively.

Noncash investing activities in 2017 and 2016:
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.

24. Basic/Diluted Earnings Per Share

Basic and dilutive EPS is computed as follows:

	2017	2016	2015
Net income	**₱1,631,360,829**	₱1,818,564,071	₱1,809,193,657
Weighted average number of common shares outstanding	**1,068,393,223**	1,068,393,223	1,068,393,223
Basic and diluted EPS	**₱1.53**	₱1.70	₱1.69

As at December 31, 2017 and 2016, there are no potential ordinary shares that have a dilutive effect on the basic EPS of the Parent Company.

25. 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, 2017, 2016 and 2015, respectively, are as follows:

	2017	2016	2015
Net sales - external customers	**₱10,727,171,749**	₱11,378,313,250	₱11,262,933,328
Net income	**1,514,179,406**	1,660,398,460	1,783,685,604
Total assets	**8,531,628,139**	7,919,345,565	7,240,923,025
Total liabilities	**2,714,954,416**	2,614,589,956	3,326,801,736

Reconciliation of net income:

	2017	2016	2015
Segment net income	**₱1,514,179,406**	₱1,660,398,460	₱1,783,685,604
General and administrative	**156,481,764**	163,721,401	19,862,327
Others - net	**1,187,575**	–	9,872,450
Share in net (loss) income of joint venture	**(12,892,658)**	491,875	1,471,937
Interest income	**10,735,026**	856,277	764,985
Foreign exchange gain - net	–	101,179	166,304
Provision for income tax	**(38,330,284)**	(7,005,121)	(6,157,265)
Interest expense	–	–	(472,685)
Group net income	**₱1,631,360,829**	₱1,818,564,071	₱1,809,193,657

Reconciliation of assets and liabilities:

	2017	2016
Segment assets	**₱8,531,628,139**	₱7,919,345,565
Cash and cash equivalents	**1,358,702,907**	388,943,145
Interest in a joint venture	**29,218,381**	42,111,039
Other current assets	**30,879,970**	38,388,728
Trade and other receivables	**10,457,267**	747,215
Property, plant and equipment	**1,554,547**	1,833,373
Group assets	**₱9,962,441,211**	₱8,391,369,065
Segment liabilities	**₱2,714,954,416**	₱2,614,589,956
Dividends payable	**12,766,997**	12,769,248
Trade and other payables	**(92,029,199)**	(49,846,785)
Group liabilities	**₱2,635,692,214**	₱2,577,512,419

26. **Subsequent Events**

On February 15, 2018, ARCRC was authorized to appropriate ₱2.10 billion to be taken from its retained earnings for the following purposes:

a. ₱0.70 billion is allotted for the declaration of cash dividend for stockholders of record as of December 31, 2017 at ₱0.70 per share which shall be issued in proportion to the shareholdings of individual stockholders and to be released on or before May 31, 2018.
b. ₱1.40 billion is allotted for the proposed expansion projects to commence on March 2018.

For more information please visit our websites
www.macayholdings.com.ph
www.arc.com.ph

or email us at
investor.relations@macayholdings.com.ph

MACAY HOLDINGS
INCORPORATED