

The allowance for inventory obsolescence amounted ₱3.16 million and ₱2.26 million as of December 31, 2016 and 2015, respectively. Provision for inventory obsolescence and condemnation amounted to ₱2.91 million, nil and ₱11.56 million 2016, 2015 and 2014, respectively (see Notes 14 and 15). The Group wrote-off inventories amounting to ₱2.02 million in 2016 and nil in 2015 and 2014.

Cost of inventories sold recognized in the statements of comprehensive income amounted to ₱5,145.76 million, ₱5,240.87 million and ₱4,936.32 million in 2016, 2015 and 2014, respectively (see Note 14).

7. Other Assets

	2016	2015
Current:		
Prepaid taxes and licenses	₱38,330,287	₱15,571,060
Prepaid rent	18,080,379	14,581,718
Short-term investment	17,000,000	–
Prepaid insurance	11,951,604	12,220,128
Supplies	6,866,200	6,998,261
Prepaid vehicle registration	292,739	387,243
Others	7,905,969	5,863,445
	100,427,178	55,621,855
Input VAT	73,887,896	84,130,524
Less: Output VAT	(73,449,912)	(84,035,833)
	437,984	94,691
	₱100,865,162	₱55,716,546
Noncurrent:		
Security deposits	₱350,349,197	₱350,349,197
Deferred input VAT	152,431,406	113,548,371
Deposits with suppliers	91,737,982	250,787,173
Others	4,697,231	10,221,554
	₱599,215,816	₱724,906,295

“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.

“Short-term investment” pertains to bank time deposit with a maturity of 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.

“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.

“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.

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

8. Property, Plant and Equipment

2016

	Land	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools Improvements	Leasehold Improvements	Office and Other Equipment	Construction in progress	Total
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	₱28,345,863	₱260,637,738	1,378,956,975

2015

	Machinery and Equipment	Vehicles	Waste Water Facility	Laboratory Equipment	Tools Improvements	Leasehold Improvements	Office and Other Equipment	Construction in progress	Total
Balances at beginning of year	₱1,183,106,986	₱663,570,516	₱21,735,320	₱18,271,643	₱15,478,873	₱23,231,894	₱58,671,049	₱-	₱1,984,066,281
Additions	112,929,950	118,133,446	2,702,373	1,620,599	1,850,657	-	30,399,589	119,242,730	386,879,344
Balances at end 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
Accumulated depreciation:									
Balances at beginning of year	495,247,098	337,172,106	15,470,754	15,570,297	13,281,227	645,728	48,844,791	-	926,232,001
Depreciation	149,623,361	97,474,658	2,130,279	1,875,033	1,680,112	-	9,816,527	-	262,599,970
Balances at end 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
Net book values	₱651,166,477	₱347,057,198	₱6,836,660	₱2,446,912	₱2,368,191	₱22,586,166	₱30,409,320	₱119,242,730	₱1,182,113,654

Fully depreciated assets with a cost of ₱662.54 million and ₱611.92 million as of December 31, 2016 and 2015, 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 Canlubang, Laguna.

9. Deferred Pallets and Containers
2016

	Containers	Pallets	Total
Cost:			
			₱
Beginning balances	₱6,293,451,294	₱42,833,438	6,336,284,732
Additions	681,076,154	20,039,579	701,115,733
Ending balances	6,974,527,448	62,873,017	7,037,400,465
Accumulated amortization:			
Beginning balances	4,303,467,005	7,653,590	4,311,120,595
Amortization	803,384,899	12,848,058	816,232,957
Ending balances	5,106,851,904	20,501,648	5,127,353,552
Net book values	₱1,867,675,544	₱42,371,369	₱1,910,046,913

2015

	Containers	Pallets	Total
Cost:			
Beginning balances	₱5,270,684,656	₱8,592,625	₱5,279,277,281
Additions	1,022,766,638	34,240,813	1,057,007,451
Ending balances	6,293,451,294	42,833,438	6,336,284,732
Accumulated amortization:			
Beginning balances	3,669,548,083	1,720,459	3,671,268,542
Amortization	633,918,922	5,933,131	639,852,053
Ending balances	4,303,467,005	7,653,590	4,311,120,595
Net book values	₱1,989,984,289	₱35,179,848	₱2,025,164,137

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).

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 Asiawide Kalbe Philippines, Inc. (AKPI) which is 50% owned by ARCHI and 50% owned by Kalbe International Pte. Ltd. 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 (loss) of interest in joint venture follows:

	2016	2015
Acquisition cost	₱83,284,425	₱83,284,425
Accumulated equity in net earnings (loss):		
Balance at beginning of year	(41,665,261)	(43,137,198)
Share in net income	491,875	1,471,937
Balance at end of year	(41,173,386)	(41,665,261)
	₱42,111,039	₱41,619,164

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

	2016	2015
Total assets	₱94.13	₱100.23
Total liabilities	33.63	40.72
Sales	35.90	39.33
Net income	0.98	2.94

11.1 Trade and Other Payables

	2016	2015
	₱	
Trade payables (see Note 18)	1,078,409,923	₱1,450,553,923
Containers deposit liability	607,160,076	509,934,779
Due to related parties (see Note 18)	364,652,876	393,851,472
Output VAT payable	51,261,021	31,154,263
Non-trade payables	12,363,712	12,649,123
Accrued expenses:		
Contracted services and professional fees	55,376,569	56,606,865
Advertising and promotions	45,663,805	37,801,783
Withholding taxes	25,643,695	17,454,153
Salaries and wages	10,759,030	9,777,271
Rent (see Notes 18 and 19)	5,418,610	14,805,709
Employee benefits	5,038,616	3,942,836
Utilities and facilities	4,813,639	9,576,456
Travel, meeting and entertainment	681,686	2,121,692
Others	34,882,763	31,552,561
	₱2,302,126,021	₱2,581,782,886

“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 Company 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, 2016 and 2015, the Company has outstanding short-term loans payable amounting to ₱125.78 million and ₱497.44 million, respectively. This includes outstanding loan related to the Group's international purchases of property, plant and equipment amounting to ₱94.65 million and ₱47.19 million as of December 31, 2016 and 2015, respectively. Cash flows related to the availment of short-term loans for the acquisition of property, plant and equipment are presented in the statements of cash flows under investing activities.

Total interest expense related to these loans amounted to ₱5.91 million, ₱7.14 million and ₱7.21 million in 2016, 2015 and 2014, respectively.

13. Equity

Capital Stock

Details of the Parent Company's capital stock as of December 31, 2016 and 2015 are as follow:

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:

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

As of December 31, 2016 and 2015, the equity holdings of the shareholder groups are as follows:

Shareholder Group	2016		2015	
	Number of Shares	Percentage of Ownership	Number of Shares	Percentage of Ownership
MCI	958,941,673	89.76%	958,941,673	89.76%
Public	109,451,550	10.24%	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, 2016, the application for increase in authorized capital stock of the Parent Company is still for approval of the SEC. Accordingly, as of December 31, 2016, the shares have not yet been issued.

Retained Earnings

Dividends

MHI

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 records 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 records as at April 27, 2015. The cash dividend was paid on May 15, 2015.

On June 26, 2014, the Parent Company declared cash dividend of ₱1.35 per share totaling ₱1,442.33 million. The cash dividend was paid on July 24, 2014. The dividend declaration reduced to consolidated equity through a charge against equity reserve amounting to ₱1,441.45 million, representing the retained earnings of the Parent Company as of the date when the entities became under common control.

As of December 31, 2016 and 2015, the Parent Company has outstanding dividends payable to its shareholders related to previous year's declaration amounting to ₱2.58 million and ₱0.95 million

ARCRC

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 ₱3.60 per share.

ARCHI

On May 28, 2015 and August 12, 2015, ARCHI declared cash dividends amounting to ₱34.01 million and ₱7.65 million, respectively, payable to shareholders prior to the acquisition of ARCHI by the Parent Company. In 2015, ARCHI made payment to previous shareholders amounting to ₱19.46 million. As of December 31, 2016 and 2015, balances of ₱22.19 million and ₱21.24 million remain unpaid to previous shareholders, respectively.

Appropriations of Retained Earnings

On April 8, 2016, the stockholders and BOD approved the appropriation of retained earnings amounting to ₱1,052.04 million for future business expansion which is expected to materialize in 5 years.

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	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

	2016	2015	2014
Materials (see Note 6)	₱5,145,759,412	₱5,240,873,188	₱4,936,324,246
Depreciation and amortization (see Notes 8 and 9)	978,083,320	802,190,669	609,684,913
Direct labor	347,946,153	345,397,906	336,001,481
Personnel expenses and outside services	210,588,662	189,889,881	195,830,681
Rent (see Note 19)	202,820,333	219,074,036	210,818,274
Toll packing	141,778,229	106,192,582	60,580,906
Specialty contractor (see Note 18b)	120,000,000	120,000,000	154,000,000
Repairs and maintenance	110,928,755	98,446,724	83,072,129
Gas and utilities	31,487,926	36,416,955	48,936,215
Provision for inventory obsolescence and condemnation (see Note 6)	852,144	–	2,259,248
Others	137,530,138	126,554,046	52,477,548
	₱7,427,775,072	₱7,285,035,987	₱6,689,985,641

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

15. Selling and Marketing Expenses

	2016	2015	2014
Advertising	₱267,115,192	₱301,405,968	₱236,688,444
Outside services	172,580,897	152,863,434	123,991,113
Rent (see Note 19)	126,789,675	126,121,566	110,208,524
Salaries, wages and benefits	116,151,874	110,491,701	101,295,950
Depreciation (see Note 8)	97,622,420	89,413,978	69,938,805
Hauling and loading	58,694,239	41,775,722	38,679,340
Promotions and commissions	53,821,229	49,706,845	34,666,170
Gas, oil and fuel	49,646,332	61,267,489	82,866,005
Repairs and utilities	45,308,260	41,278,825	40,917,803
Travel, transportation and entertainment	36,067,378	38,998,673	36,017,340
Taxes, licenses and registrations	7,250,187	4,330,545	3,628,348
Provision for inventory obsolescence and condemnation (see Note 6)	2,061,603	–	9,302,844
Others	97,230,684	65,034,477	56,847,856
	₱1,130,339,970	₱1,082,689,223	₱945,048,542

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

16. General and Administrative Expenses

	2016	2015	2014
Salaries, wages and benefits	₱174,789,606	₱164,023,857	₱158,128,216
Contracted services and professional fees	68,936,254	70,487,830	55,467,361
Meetings and entertainment	21,689,585	19,528,165	17,779,953
Repairs and utilities	19,165,977	19,414,989	17,860,209
Supplies and transportation	13,379,094	12,345,396	9,320,853
Depreciation (see Note 8)	13,064,081	10,847,376	8,817,698
Taxes, licenses and registrations	2,786,711	24,049,205	28,761,374
Others	15,584,546	29,511,400	14,759,103
	₱329,395,854	₱350,208,218	₱310,894,767

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

17. **Others** - net

	2016	2015	2014
Sale of scrap materials and cullets	₱31,261,666	₱30,272,409	₱28,539,512
Reversal on (loss from) write-off of CWTs	-	9,736,529	(9,736,529)
Others	5,350,027	6,326,359	996,340
	₱36,611,693	₱46,335,297	₱19,799,323

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)	2016	P-	P-	P1,675,602	P-	P-	P1,168,876	P-	P4,655,706	Noninterest bearing; due and demandable	No impairment; Unsecured
	2015	P-	P-	P16,756,020	P-	P-	P-	P-	P39,077,715	Noninterest bearing; due and demandable	No impairment; Unsecured
Bev-pack Inc. (Bev-pack; see Note 18c)	2016	-	-	259,055,791	-	-	27,483	106,918,944	-	Noninterest bearing; due and demandable	No impairment; Unsecured
	2015	-	-	253,442,354	-	-	-	134,308,874	-	Noninterest bearing; due and demandable	Unsecured
Solmac Marketing Inc. (Solmac; see Note 18e)	2016	-	-	4,692,300	-	-	-	-	-	Noninterest bearing; due and demandable	Unsecured
	2015	-	-	4,713,473	-	-	-	1,255,535	-	Noninterest bearing; due and demandable	Unsecured
SMI Development Corporation (SMI; see Note 18f)	2016	-	-	6,660,384	-	-	-	-	1,726,334	Noninterest bearing; due and demandable	Unsecured
	2015	-	-	6,660,384	-	-	-	593,413	526,840	Noninterest bearing; due and demandable	Unsecured
AKPI (see Note 18g)	2016	3,958,626	-	-	-	-	9,783,118	-	25,453,856	Noninterest bearing; due and demandable	No impairment; Unsecured
	2015	4,288,700	-	-	-	-	11,004,959	-	27,351,403	Noninterest bearing; due and demandable	No impairment; Unsecured
Philippine Business Bank (PBB; see Note 18h)	2016	-	11,286,653	-	938,646,342	-	-	-	-	-	-
	2015	-	6,645,244	-	685,463,530	-	-	-	-	-	-

(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
Zest-O (see Note 18c)	2016	₱21,147,694	₱-	₱274,324,097	₱-	₱139,180,746	₱58,626,096	₱-	₱153,955,201	Noninterest bearing; due and demandable	No impairment; Unsecured
	2015	₱27,212,036	₱-	₱315,773,909	₱-	₱175,532,352	₱42,479,970	₱-	₱180,561,229	Noninterest bearing; due and demandable	No impairment; Unsecured
Mega Asia (see Note 18b)	2016	-	-	295,787,902	-	-	438,610	-	178,861,779	Noninterest bearing; due and demandable	No impairment; Unsecured
	2015	-	-	295,787,902	-	-	14,605,941	-	146,334,285	Noninterest bearing; due and demandable	No impairment; Unsecured
	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		
	2015	₱31,500,736	₱6,645,244	₱893,134,042	₱685,463,530	₱175,532,352	₱68,090,870	₱136,157,822	₱393,851,472		

a. ARC Refreshments 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 ₱16.76 million in 2016 and 2015 (see Note 19).

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

b. ARC Refreshments 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 ₱175.79 million in 2016 and 2015. Mega Asia also provides professional services in all plants except Antipolo. Under the agreement, ARC Refreshments shall pay a fixed monthly service fee of ₱14.00 million starting February 1, 2014. Effective January 1, 2015, fixed monthly service fee was reduced to ₱10.00 million per month (see Note 14).

ARC Refreshments made advances to Mega Asia in relation to the payment of bunker fuel oil in Canlubang, Laguna. Outstanding receivables as of December 31, 2016 and 2015 amounted to ₱0.43 million and ₱14.61 million, respectively.

c. Bev-pack is a supplier of caps for ARC Refreshments' production of 800 ml bottled softdrinks. Total purchases made amounted to ₱259.06 million and ₱253.44 million in 2016 and 2015, respectively. Purchases are covered with approved Purchase Order form based on the projected requirements of production.

d. On February 1, 2015, ARC Refreshments entered into various lease agreements with Zest-O for the use of its land and building facilities, and bottling equipment in Kaybiga, Novaliches and Canlubang, Laguna. Total rent expense amounted to ₱94.93 million and ₱116.37 million, in 2016 and 2015, respectively (see Note 19).

On February 1, 2014, ARC Refreshments 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, 2016 and 2015 amounted to ₱153.96 million and ₱180.56 million, respectively.

Zest-O has tolling arrangements with the Group as a Contract Packer and Filler for carbonated beverages in PET bottles. Total tolling expense amounted to ₱13.27 million and ₱11.84 million in 2016 and 2015, respectively.

Zest-O billed the Group for its share in administrative expenses amounting to ₱138.65 million and ₱118.42 million in 2016 and 2015, respectively.

Zest-O has a supply agreement with the Group 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 ₱27.47 million and ₱69.14 million in 2016 and 2015, respectively.

Zest-O is a distributor of ARC Refreshments' 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 ₱21.15 million and ₱27.21 million in 2016 and 2015, 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 ₱4.69 million and ₱4.13 million in 2016 and 2015, respectively.

Solmac is also the supplier of labels and cartons used in one-way products as well as some marketing materials. Total purchases amounted to nil and ₱0.20 million in 2016 and 2015, respectively.

- f. On February 1, 2014, ARC Refreshments entered into a lease agreement with SMI for the use of its 16,398 sq. meter land in Antipolo. Total rent expense amounted to ₱6.66 million in 2016 and 2015.
- g. ARC Refreshments 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 2016 and 2015 amounted to ₱3.96 million and ₱4.29 million, respectively.

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

	2016	2015	2014
Salaries and wages	₱29,577,911	₱23,734,401	₱17,569,280
Allowances and benefits	1,791,740	1,934,791	1,484,500
	₱31,369,651	₱25,669,192	₱19,053,780

19. Lease Agreements

Lease Agreements with Mega Asia

- a. ARC Refreshments entered into a lease agreement with Mega Asia, a related party, 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, 2016 and 2015 (see Note 7). Rent expense amounted to ₱27.36 million in 2016 and 2015 and ₱25.08 million in 2014.
- b. ARC Refreshments 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, 2016 and 2015 (see Note 7). Rent expense amounted to ₱33.20 million in 2016 and 2015 and ₱30.43 million in 2014.
- c. ARC Refreshments 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, 2016 and 2015 (see Note 7). Rent expense amounted to ₱46.64 million in 2016 and 2015 and ₱42.75 million in 2014.
- d. ARC Refreshments 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, 2016 and 2015 (see Note 7). Rent expense amounted to ₱31.66 million in 2016 and 2015 and ₱29.02 million in 2014.
- e. ARC Refreshments 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, 2016 and 2015. Rent expense amounted to ₱36.94 million in 2016 and 2015 and ₱33.86 million in 2014.

The above lease agreements require ARC Refreshments 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, 2016 and 2015 (see Note 7).

Lease Agreements with Zest-O

- a. On February 1, 2014, ARC Refreshments 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 ARC Refreshments 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 ₱27.86 million in 2016 and 2015 and ₱25.54 million in 2014.

- b. ARC Refreshments 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 2016 and 2015 and ₱15.91 million in 2014.
- c. ARC Refreshments 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 ₱1.04 million, ₱12.47 million and ₱11.43 million in 2016, 2015 and 2014, respectively.
- d. On February 1, 2014, ARC Refreshments 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 ARC Refreshments 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 ₱28.42 million in 2016 and 2015 and ₱26.05 million in 2014.
- e. ARC Refreshments 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 2016 and 2015 and ₱17.72 million in 2014.
- f. ARC Refreshments 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 ₱0.91 million, ₱10.92 million and ₱10.01 million in 2016, 2015 and 2014, respectively.

Others

- a. ARC Refreshments 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 ₱16.76 million in 2016 and 2015 and ₱15.36 million in 2014.
- b. ARC Refreshments 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 ₱6.66 million in 2016 and 2015 and ₱6.11 million in 2014.
- c. ARC Refreshments 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 and ₱5.88 million in 2016 and 2015, respectively.

- d. ARC Refreshments 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 ₱1.58 million in 2016.
- e. ARC Refreshments entered into a lease agreements with R. Florente Pawnshop & Jewelry, Inc., for a lease of office space located in Iloilo City. The lease shall be for one (1) year commencing from May 16, 2016 to May 15, 2017, renewable by mutual consent. Rent expense amounted to ₱0.08 million in 2016.

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

	2016	2015
Within one year	₱67,072,149	₱304,741,808
After one year but not more than five years	18,785,604	36,689,892

20. Retirement Benefits 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, 2016 and 2015.

The net retirement benefits costs recognized in the statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014
Service cost	₱16,225,651	₱32,805,444	₱29,057,014
Net interest cost	4,564,898	4,018,159	2,957,953
Retirement benefits costs	₱20,790,549	₱36,823,603	₱32,014,967

Retirement benefits liability recognized in the statements of financial position as of December 31, 2016, 2015 and 2014 are as follows:

	2016	2015
Present value of defined benefit obligation	₱117,252,702	₱205,359,730
Fair value of plan assets	(115,200,949)	(112,038,569)
Balance at end of year	₱2,051,753	₱93,321,161

The present value of defined benefit retirement obligation as of December 31, 2016, 2015 and 2014 are as follow:

	2016	2015
Balance at beginning of year	₱205,359,730	₱167,549,022
Service cost	16,225,651	32,805,444
Interest cost	10,045,377	7,514,909
Benefits paid	(441,504)	(298,304)

(Forward)

	2016	2015
Remeasurement losses (gains) arising from:		
Experience adjustments	(₱96,146,223)	(₱2,211,341)
Changes in financial assumptions	(17,790,329)	-
Balance at end of year	₱117,252,702	₱205,359,730

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:

	2016	2015
Balance at beginning of year	₱112,038,569	₱77,961,954
Interest income	5,480,480	3,496,750
Benefits paid	(441,504)	(298,304)
Contributions	10,859	33,048,963
Actuarial gain (loss) from experience adjustments	(1,887,455)	(2,170,794)
Balance at end of year	₱115,200,949	₱112,038,569

The assets of the Plan are being held by a trustee bank. The investing decisions of the Plan are made by certain officers of ARC RC duly authorized by the BOD.

The net plan assets available for benefits are as follows:

	Carrying amounts	Fair values
Cash and cash equivalents	₱51,882,125	₱51,882,125
Short-term investments	9,545,527	9,545,527
Long-term investments	53,773,296	53,773,296
	₱115,200,948	₱115,200,948

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:

	2016	2015
Discount rate	5.38%	4.89%
Future salary increases	5%	8%
Expected average future service years of employees	26	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, 2016, assuming all other assumptions were held constant:

2016	Increase (Decrease)	Amount
Discount rate	+1%	(P20,358,000)
	-1%	25,619,000
Future salary increase rate	+1%	24,653,000
	-1%	(20,054,000)

The average duration of the accrued retirement fund at the end of the reporting date is 26 years.

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

More than 1 year to 5 years	P14,152,000
More than 5 years to 10 years	12,232,000

21. Income Taxes

The current provision for income tax in 2016, 2015 and 2014 represents the regular corporate income tax.

The components of the Group's net deferred tax assets (liabilities) as of December 31, 2016 and 2015 are as follow:

	2016	2015
<i>Deferred tax assets</i>		
Retirement benefits liability	P22,896,534	P16,662,627
Unamortized past service costs	1,031,254	1,215,304
Allowance for inventory obsolescence and condemnation	947,258	677,774
Straight-line adjustment on rent	682,340	3,763,465
Unrealized foreign exchange loss	636,308	-
Allowance for impairment losses on receivables	327,430	369,993
	26,521,124	22,689,163
Deferred tax liability on unrealized foreign exchange loss	-	(51,876)
	26,521,124	22,637,287
Deferred tax asset (liability) on retirement benefits liability recognized directly in equity	(22,281,008)	11,333,721
Net deferred tax asset	P4,240,116	P33,971,008

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, 2016, the Group has NOLCO that can be claimed as deductions against future taxable income amounting to P17.78 million which will expire in 2017.

The following are the movements in NOLCO:

	2016	2015	2014
Balances at beginning of year	₱272,085,501	₱274,106,625	₱5,264,900
Application	(153,262,006)	(2,021,124)	17,704,431
Expiration	(101,037,179)	-	-
Balances at end of year	₱17,786,316	₱272,085,501	₱22,969,331

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:

	2016	2015	2014
Income tax at statutory tax rate	₱760,241,012	₱776,900,445	₱738,112,856
Reductions in income tax resulting from:			
Nondeductible expenses	1,575,007	6,709,603	8,165,208
Changes in previously unrecognized deferred income taxes	(42,401,540)	(606,337)	5,311,329
Interest income already subjected to final tax	(3,694,279)	(2,287,040)	(10,825,148)
Nontaxable income	(147,563)	(563,876)	(2,127,165)
Movement in deferred tax from net asset acquisition	-	-	(32,687,391)
	₱715,572,637	₱780,152,795	₱705,949,689

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

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.

	2016				
	Neither Past Due Nor impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents*	₱1,752,123,347	₱-	₱-	₱-	₱1,752,123,347
Trade and other receivables	-	₱414,048,132	-	1,091,432	415,139,564
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	₱414,048,132	₱-	₱1,091,432	₱2,534,612,108

*Excluding cash on hand amounting to ₱131.27 million.

**Under "Other current assets"

***Under "Other non-current assets"

	2015				
	Neither Past Due Nor impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents*	₱934,077,766	₱-	₱-	₱-	₱934,077,766
Trade and other receivables	-	370,397,142	-	1,233,310	371,630,452
Security deposits**	350,349,197	-	-	-	350,349,197
Total credit risk exposure	₱1,284,426,963	₱370,397,142	₱-	₱1,233,310	₱1,656,057,415

*Excluding cash on hand amounting to ₱119.10 million.

**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, 2016 and 2015. 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:

	2016					Total
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year		
	₱					
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

	2015					Total
	Due and Demandable	Within 6 Months	6 to 12 Months	Over 1 year		
	₱					
Trade and other payables*	₱2,533,174,470	₱-	₱-	₱-	₱-	₱2,533,174,470
Short-term loans payable	-	497,439,728	-	-	-	497,439,728
Dividends payable	22,192,003	-	-	-	-	22,192,003
	₱					
	₱2,555,366,473	₱497,439,728	₱-	₱-	₱-	₱3,052,806,201

*Excluding statutory payables amounting to ₱48.61 million

The Group has financial assets of ₱2,665.88 million and ₱1,775.16 million as of December 31, 2016 and 2015, 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, 2016 and 2015, are as follows:

	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

	2015			
	Original Currency in \$	Translated in ₱	Original Currency in €	Translated in ₱
Financial assets:				
Cash and cash equivalents	\$307,926	₱14,490,998	€74,502	₱3,854,733
Financial liabilities:				
Trade and other payables	(80,001,417)	(3,764,866,684)	–	–
Net exposure	(\$79,693,491)	(₱3,750,375,686)	€74,502	₱3,854,733

As of December 31, 2016 and 2015, the exchange rate of the Philippine peso to the USD is ₱49.72 and ₱47.06, respectively, while the exchange rate for EUR as of December 31, 2016 and 2015 is ₱51.84 and ₱51.74, 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 and equity				
2016	₱2,579,508	(₱2,579,508)	₱1,508	(₱1,508)
2015	(₱187,518,784)	₱187,518,784	₱192,741	(₱192,741)

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, 2016 and 2015:

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, 2016, 2015 and 2014.

The following table summarizes what the Group considers as its total capital as of December 31, 2016 and 2015:

	2016	2015
Capital stock	₱1,068,393,223	₱1,068,393,223
Additional paid-in capital	1,153,568,289	1,153,568,289
Retained earnings	3,315,543,539	1,849,549,228
	₱5,537,505,051	₱4,071,510,740

23. Note to Consolidated Statement of Cash flows

Operating Activity

- Creditable withholding taxes under "Other current assets" amounting to ₱9.68 million were applied against income tax payable in 2016.

24. Basic/Diluted Earnings Per Share

Basic and dilutive EPS is computed as follows:

	2016	2015	2013
Net income	₱1,818,564,071	₱1,809,193,657	₱1,754,426,497
Weighted average number of common shares outstanding	1,068,393,223	1,068,393,223	1,068,393,223
Basic and diluted EPS	₱1.70	₱1.69	₱1.64

As at December 31, 2016 and 2015, 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, Canlubang, 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, 2016, 2015 and 2014, respectively, are as follows:

	2016	2015	2014
	₱		
Net sales - external customers	11,378,313,250	₱11,262,933,328	₱10,352,147,129
Net income	1,660,398,460	1,783,685,604	1,729,168,057
Total assets	7,919,345,565	7,240,923,025	6,858,253,354
Total liabilities	2,614,589,956	3,326,801,736	3,139,707,226

Reconciliation of net income:

	2016	2015	2014
Segment net income	₱1,660,398,460	₱1,783,685,604	₱1,729,168,057
General and administrative	163,721,401	19,862,327	28,889,014
Others - net	-	9,872,450	(9,736,528)
Share in net income of joint venture	491,875	1,471,937	233,633
Interest income	856,277	764,985	24,879,005
Foreign exchange gain - net	101,179	166,304	14,361
Provision for income tax	(7,005,121)	(6,157,265)	(12,267,948)
Interest expense	-	(472,685)	(6,753,097)
Tolling revenues	-	-	(184,649,991)
Cost of sales and services	-	-	184,649,991
Group net income	₱1,818,564,071	₱1,809,193,657	₱1,754,426,497

Reconciliation of assets and liabilities:

	2016	2015
Segment assets	₱7,919,345,565	₱7,240,923,025
Cash and cash equivalents	388,943,145	102,874,934
Interest in a joint venture	42,111,039	41,619,164
Other current assets	38,388,728	14,351,544
Property, plant and equipment	1,833,373	1,076,464
Trade and other receivables	747,215	65,529
Short-term investments	-	-
Deferred income tax assets - net	-	-
Group assets	₱8,391,369,065	₱7,405,910,660
Segment liabilities	₱2,614,589,956	₱3,326,801,735
Dividends payable	12,769,248	22,192,003
Stock acquisition payable	-	17,000,000
Income tax payable	-	-
Trade and other payables	(49,846,785)	(5,148,470)
Group liabilities	₱2,577,512,419	₱3,360,845,268

26. Subsequent Events

1. On February 9, 2017, ARC Refreshments was authorized to appropriate ₱2.67 billion to be taken from its retained earnings for the following purposes:
 - a. ₱1.01 billion is allotted for the declaration of cash dividend for stockholders of record as of December 31, 2016 at P2.30 per share which shall be issued in proportion to the shareholdings of individual stockholders and to be released on or before March 15, 2017.
 - b. ₱0.56 billion is allotted for the declaration of stock dividend for stockholders of record as of December 31, 2016 which shall be issued in proportion to the shareholdings of individual stockholders and to be released on or before March 15, 2017; and
 - c. ₱1.10 billion is allotted for the proposed expansion project of the Project of the Corporation to commence on March 2017.

2. On February 2017, ARC Refreshments renewed and extended its existing lease of land and building with Zest-O, Mega Asia, SMI and Asiawide for three (3) years starting from February 1, 2017 to January 31, 2020.



