

# **Jollibee Foods Corporation and Subsidiaries**

Consolidated Financial Statements  
December 31, 2017 and 2016  
and Years Ended December 31, 2017,  
2016 and 2015

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Jollibee Foods Corporation and Subsidiaries

### Opinion

We have audited the consolidated financial statements of Jollibee Foods Corporation (the Parent Company) and its subsidiaries (the Jollibee 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 Jollibee 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 Jollibee 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



### ***Accounting for Business Combination – Acquisition of Controlling Interest in SuperFoods Group***

In May 2017, the Jollibee Group, through its 99% owned subsidiary JSF Investments Pte. Ltd., obtained 10% additional interest resulting to 60% controlling interest over SF Vung Tau Joint Stock Company and Blue Sky Holdings Ltd. (collectively SuperFoods Group). The Jollibee Group recognized provisional goodwill of ₱2,507.8 million and trademarks of ₱4,145.0 million based on the preliminary purchase price allocation performed. We considered the accounting for this acquisition to be a key audit matter because it required a significant amount of management judgment and estimation in identifying the underlying acquired assets and liabilities and in determining their fair values, specifically the acquired property and equipment and trademarks.

The disclosures in relation to the acquisition of SuperFoods Group are included in Notes 4 and 11 to the consolidated financial statements.

#### ***Audit Response***

We evaluated the competence, capabilities and objectivity of the external appraiser who prepared the appraisal report for the property and equipment and the external valuation specialist who valued the trademarks by considering their qualifications, relevant experience and reporting responsibilities. We involved our internal specialist in the review of the methodologies and assumptions used in arriving at the fair values of the property and equipment and trademarks. We compared the key assumptions used such as the list prices and adjustment factors by reference to relevant market data for the valuation of property and equipment. We also compared the key assumptions in the valuation of trademarks such as revenue growth rate, long-term growth rate and royalty rate by reference to existing contractual terms, historical trends and relevant external information. We tested the parameters used in determining the discount rate against market data. We reviewed the presentation and disclosures in the consolidated financial statements.

#### ***Recoverability of Goodwill and Intangible Assets with Indefinite Life***

Goodwill and intangible assets with indefinite life account for 16.9% of the Jollibee Group's consolidated total assets as of December 31, 2017. They relate to several cash generating units (CGUs) mainly from Jollibee Group's acquisitions in the Philippines, the People's Republic of China, the United States of America and Vietnam. Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Jollibee Group is required to perform an annual impairment test on the amount of goodwill and intangible assets with indefinite life. These annual impairment tests are significant to our audit because the amounts are material to the consolidated financial statements. In addition, the determination of the recoverable amount of the CGUs to which the goodwill and intangible assets with indefinite life belong involves significant assumptions about the future results of business such as long-term revenue growth rates, earnings before interest, taxes, depreciation and amortization (EBITDA) and discount rates which are applied to the cash flow forecasts.

Refer to Notes 4 and 14 to the consolidated financial statements for the details on goodwill and intangible assets with indefinite life and the assumptions used in the forecasts.



*Audit Response*

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverable amounts of the CGUs. These assumptions include the long-term revenue growth rates, EBITDA and discount rates. We compared the forecasted long-term revenue growth rates and EBITDA against the historical data of the CGUs and inquired from management and operations personnel about the plans to support the forecast.

Furthermore, we tested the parameters used in the determination of discount rate against market data. We reviewed the weighted average cost of capital (WACC) used in the impairment test by comparing it with the WACC of comparable companies where the CGUs operate. We also reviewed the Jollibee Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible asset with indefinite life.

***Recoverability of Interest in a Joint Venture***

The Jollibee Group has an interest in a joint venture domiciled in a foreign country which accounts for 6.0% of the Jollibee Group's consolidated total assets as of December 31, 2017. Under PAS 36, *Impairment of Assets*, the Jollibee Group is required to assess whether there are facts and circumstances indicating that the carrying amount of an interest in a joint venture exceed the recoverable amount. Should there be indicators, the Jollibee Group is required to perform an impairment test on the amount of interest. This impairment test is significant to our audit because the amounts are material to the Jollibee Group's consolidated financial statements. In addition, the determination of the recoverable amount of the interest in a joint venture involves significant assumptions about the future results of the joint venture's operations such as long-term revenue growth rates, EBITDA and discount rates which are applied to the cash flow forecasts.

Refer to Note 11 to the consolidated financial statements for the details of interest in a joint venture and Note 4 for the discussion of management's judgments and estimates.

*Audit Response*

We involved our internal specialist in evaluating the methodologies and the assumptions used in determining the recoverable amount of the interest in a joint venture. These assumptions include long-term revenue growth rate, EBITDA and discount rate. We compared these assumptions against the historical data of the joint venture and inquired from management about the plans to support the forecast. We tested the parameters used in determining the discount rate against market data. Moreover, we reviewed the WACC used in the impairment test by comparing it with WACC of comparable companies in the region where this joint venture operates.

We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of an interest in a joint venture.



### ***Provisions and Contingencies***

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. This matter is significant to our audit because the estimation of the potential liability resulting from these litigations, claims and disputes requires significant management judgment. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and application of laws and rulings.

Refer to Note 17 for the disclosures about provisions and Note 29 for the disclosures about contingencies of the Jollibee Group.

#### *Audit Response*

We involved our internal specialist in evaluating management's assessment on whether provisions on the contingencies should be recognized, and the estimation of such amount. We also discussed the status of the litigations, claims and disputes with management. In addition, we read correspondences with the relevant government agencies, obtained replies from third party legal counsels, and any relevant laws and rulings on similar matters.

### ***Recoverability of Deferred Income Tax Assets***

The Parent Company and certain subsidiaries (foreign and local) have recognized deferred tax assets amounting to ₱4,372.7 million as at December 31, 2017. Of that amount, around 30.7% relates to net operating loss carryover and excess minimum corporate income tax over regular corporate income tax. Management estimated the recoverability of these deferred tax assets based on the forecasted taxable income taking into account the period in which they can be claimed in the Philippines, the People's Republic of China and the United States of America. The analysis of the recoverability of deferred tax assets is significant to our audit because the assessment process requires use of management judgment. It is also based on assumptions of future revenues and expenses as well as management's plans and strategies of the relevant taxable entities, including the Parent Company and certain subsidiaries.

Refer to Note 24 to the consolidated financial statements for the details of the deferred tax assets and Note 4 for the discussion of management's judgments and estimates.

#### *Audit Response*

We obtained an understanding of the Parent Company and its subsidiaries' deferred income tax calculation process and, together with our internal specialist, the applicable tax rules and regulations. We reviewed management's assessment on the availability of future taxable income in reference to financial forecasts and tax strategies. We evaluated management's forecast by comparing forecasts of future taxable income against approved budgets, historical performance of the relevant entities like past growth rates and with relevant external market information such as inflation. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.



## **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Philippine Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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 Jollibee 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 Jollibee Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Jollibee 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 Jollibee 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 Jollibee 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.

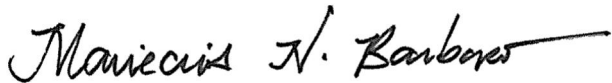
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 Mariecris N. Barbaso.

SYCIP GORRES VELAYO & CO.



Mariecris N. Barbaso

Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-A (Group A),

October 6, 2015, valid until October 5, 2018

Tax Identification No. 202-065-716

BIR Accreditation No. 08-001998-108-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621229, January 9, 2018, Makati City

April 6, 2018





**JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*(Amounts in Thousand Pesos)*

	December 31	
	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6, 30 and 31)	P21,107,474	P16,733,346
Short-term investments (Notes 6, 30 and 31)	1,413,400	726,002
Receivables (Notes 7, 30 and 31)	3,941,073	3,376,702
Inventories (Note 8)	6,835,514	5,987,346
Other current assets (Note 9)	3,843,555	3,545,339
Total Current Assets	37,141,016	30,368,735
<b>Noncurrent Assets</b>		
Available-for-sale financial assets (Notes 10, 30 and 31)	29,862	26,212
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	7,492,771	9,873,297
Property, plant and equipment (Note 12)	20,893,814	16,655,567
Investment properties (Note 13)	848,974	983,428
Goodwill and other intangible assets (Note 14)	15,730,239	9,086,742
Operating lease receivables (Notes 29, 30 and 31)	28,035	25,995
Derivative asset (Notes 11, 18, 30 and 31)	11,948	78,329
Deferred tax assets - net (Note 24)	3,908,813	2,585,495
Other noncurrent assets (Notes 15, 30 and 31)	3,698,423	3,044,552
Total Noncurrent Assets	52,642,879	42,359,617
	<b>P89,783,895</b>	<b>P72,728,352</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade payables and other current liabilities (Notes 16, 30 and 31)	P25,254,613	P21,960,567
Income tax payable	223,773	309,331
Current portion of long-term debt (Notes 18, 30 and 31)	1,216,219	1,561,516
Total Current Liabilities	26,694,605	23,831,414
<b>Noncurrent Liabilities</b>		
Noncurrent portion of long-term debt (Notes 18, 30 and 31)	14,901,052	10,593,850
Pension liability (Note 25)	1,489,546	1,658,178
Operating lease payables (Notes 29, 30 and 31)	2,051,567	1,792,897
Derivative liability (Notes 18, 30 and 31)	51,042	33,531
Provisions (Note 17)	825,109	30,501
Deferred tax liabilities - net (Note 24)	1,188,995	506,577
Total Noncurrent Liabilities	20,507,311	14,615,534
Total Liabilities	47,201,916	38,446,948
<b>Equity Attributable to Equity Holders of the Parent Company (Note 30)</b>		
Capital stock - net of subscription receivable (Note 19)	1,084,478	1,074,123
Additional paid-in capital (Note 19)	7,520,383	5,660,085
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and an associate (Note 11)	340,368	(20,811)
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	(461,769)	(608,801)
Unrealized gain on change in fair value of available-for-sale financial assets (Note 10)	6,758	4,291
Comprehensive income (loss) on derivative liability (Note 18)	11,949	(33,530)
Excess of cost over the carrying value of non-controlling interests acquired (Note 19)	(2,152,161)	(2,152,161)
Retained earnings (Note 19):		
Appropriated for future expansion	18,200,000	18,200,000
Unappropriated	16,413,140	11,659,531
	40,963,146	33,782,727
Less cost of common stock held in treasury (Note 19)	180,511	180,511
	40,782,635	33,602,216
<b>Non-controlling Interests (Note 11)</b>	<b>1,799,344</b>	<b>679,188</b>
Total Equity	42,581,979	34,281,404
	<b>P89,783,895</b>	<b>P72,728,352</b>

See accompanying Notes to Consolidated Financial Statements.



**JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(Amounts in Thousand Pesos, Except Per Share Data)*

	Years Ended December 31		
	2017	2016	2015
<b>REVENUES</b>			
Gross sales	₱126,229,530	₱108,992,341	₱96,471,243
Sales discount	(1,565,982)	(1,067,887)	(660,554)
Net sales	124,663,548	107,924,454	95,810,689
Royalty, set-up fees and others (Note 20)	6,913,003	5,887,016	4,969,029
	<b>131,576,551</b>	<b>113,811,470</b>	<b>100,779,718</b>
<b>COST OF SALES</b> (Note 21)	<b>107,658,140</b>	<b>92,815,488</b>	<b>82,891,701</b>
<b>GROSS PROFIT</b>	<b>23,918,411</b>	<b>20,995,982</b>	<b>17,888,017</b>
<b>EXPENSES</b>			
General and administrative expenses (Note 22)	13,905,845	11,861,440	10,288,043
Advertising and promotions	3,342,911	2,669,495	2,244,943
	<b>17,248,756</b>	<b>14,530,935</b>	<b>12,532,986</b>
<b>INTEREST INCOME (EXPENSE)</b> (Note 23)			
Interest income	259,567	286,913	257,783
Interest expense	(405,820)	(267,618)	(225,544)
	<b>(146,253)</b>	<b>19,295</b>	<b>32,239</b>
<b>EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES</b> - Net (Note 11)	<b>(282,645)</b>	<b>(337,145)</b>	<b>(189,086)</b>
<b>OTHER INCOME</b> (Note 23)	<b>2,098,753</b>	<b>1,582,923</b>	<b>1,236,757</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>8,339,510</b>	<b>7,730,120</b>	<b>6,434,941</b>
<b>PROVISION FOR INCOME TAX</b> (Note 24)			
Current	2,310,630	2,334,855	1,926,078
Deferred	(643,702)	(658,244)	(537,470)
	<b>1,666,928</b>	<b>1,676,611</b>	<b>1,388,608</b>
<b>NET INCOME</b>	<b>6,672,582</b>	<b>6,053,509</b>	<b>5,046,333</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Translation adjustments of foreign joint ventures and an associate (Note 11)	269,119	12,316	62,829
Translation adjustments of foreign subsidiaries	97,735	(137,728)	82,044
Comprehensive income (loss) on derivative liability (Note 18)	45,479	2,368	(31,464)
Net unrealized gain on change in fair value of available-for-sale financial assets - net of tax (Note 10)	2,467	4,291	-
	<b>414,800</b>	<b>(118,753)</b>	<b>113,409</b>
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gain (loss) on pension (Note 25)	147,032	(72,221)	(316,679)
	<b>561,832</b>	<b>(190,974)</b>	<b>(203,270)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱7,234,414</b>	<b>₱5,862,535</b>	<b>₱4,843,063</b>
<b>Net Income Attributable to:</b>			
Equity holders of the Parent Company (Note 28)	₱7,109,120	₱6,164,735	₱4,928,236
Non-controlling interests	(436,538)	(111,226)	118,097
	<b>₱6,672,582</b>	<b>₱6,053,509</b>	<b>₱5,046,333</b>
<b>Total Comprehensive Income Attributable to:</b>			
Equity holders of the Parent Company	₱7,665,277	₱5,970,688	₱4,738,416
Non-controlling interests	(430,863)	(108,153)	104,647
	<b>₱7,234,414</b>	<b>₱5,862,535</b>	<b>₱4,843,063</b>
<b>Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company</b> (Note 28)			
Basic	₱6.580	₱5.747	₱4.618
Diluted	6.494	5.643	4.528

See accompanying Notes to Consolidated Financial Statements.



**JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES**

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

(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and an Associate (Note 11)	Remeasurement Loss on Net Defined Benefit Plan - Net of tax (Note 25)	Unrealized Gain on Change in Fair Value of Available- for-Sale Financial Assets (Note 10)	Comprehensive Income (Loss) on Derivative Liability (Note 18)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Note 19)	Retained Earnings (Note 19)		Cost of Common Stock Held in Treasury (Note 19)		Non-controlling Interests (Note 11)	Total Equity
								Appropriated for Future Expansion	Unappropriated	Total	Total			
Balance at January 1, 2017	₱1,091,301	(₱17,178)	₱5,660,085	(₱20,811)	(₱608,801)	₱4,291	(₱33,530)	(₱2,152,161)	₱18,200,000	₱11,659,531	(₱180,511)	₱33,602,216	₱679,188	₱34,281,404
Net income	-	-	-	-	-	-	-	-	-	7,109,120	-	7,109,120	(436,538)	6,672,582
Other comprehensive income (loss)	-	-	-	361,179	147,032	2,467	45,479	-	-	556,157	-	556,157	5,675	561,832
Total comprehensive income (loss)	-	-	-	361,179	147,032	2,467	45,479	-	-	7,109,120	-	7,665,277	(430,863)	7,234,414
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	10,355	-	850,770	-	-	-	-	-	-	-	-	861,125	-	861,125
Cost of stock options granted (Note 26)	-	-	1,009,528	-	-	-	-	-	-	-	-	1,009,528	-	1,009,528
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(2,355,511)	-	(2,355,511)	-	(2,355,511)
Acquisition of minority interests (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	1,536,441	1,536,441
Arising from incorporation of a subsidiary (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	14,578	14,578
	10,355	-	1,860,298	-	-	-	-	-	-	(2,355,511)	-	(484,858)	1,551,019	1,066,161
Balances at December 31, 2017	₱1,101,656	(₱17,178)	₱7,520,383	₱340,368	(₱461,769)	₱6,758	₱11,949	(₱2,152,161)	₱18,200,000	₱16,413,140	(₱180,511)	₱40,782,635	₱1,799,344	₱42,581,979
Balance at January 1, 2016	₱1,086,149	(₱17,178)	₱5,055,293	₱107,225	(₱536,580)	₱-	(₱35,449)	(₱542,764)	₱10,200,000	₱15,487,039	(₱180,511)	₱30,623,224	₱1,133,366	₱31,756,590
Net income	-	-	-	-	-	-	-	-	-	6,164,735	-	6,164,735	(111,226)	6,053,509
Other comprehensive income (loss)	-	-	-	(128,036)	(72,221)	4,291	1,919	-	-	-	-	(194,047)	3,073	(190,974)
Total comprehensive income (loss)	-	-	-	(128,036)	(72,221)	4,291	1,919	-	-	6,164,735	-	5,970,688	(108,153)	5,862,535
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	5,152	-	363,468	-	-	-	-	-	-	-	-	368,620	-	368,620
Cost of stock options granted (Note 26)	-	-	241,324	-	-	-	-	-	-	-	-	241,324	-	241,324
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,992,243)	-	(1,992,243)	-	(1,992,243)
Acquisition of minority interests (Note 11)	-	-	-	-	-	-	-	(1,609,397)	-	-	-	(1,609,397)	(905,536)	(2,514,933)
Appropriation during the period (Note 19)	-	-	-	-	-	-	-	-	8,000,000	(8,000,000)	-	-	-	-
Arising from incorporation of a subsidiary (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	715,608	715,608
Arising from divestment of subsidiaries (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	(156,097)	(156,097)
	5,152	-	604,792	-	-	-	-	(1,609,397)	8,000,000	(9,992,243)	-	(2,991,696)	(346,025)	(3,337,721)
Balances at December 31, 2016	₱1,091,301	(₱17,178)	₱5,660,085	(₱20,811)	(₱608,801)	₱4,291	(₱33,530)	(₱2,152,161)	₱18,200,000	₱11,659,531	(₱180,511)	₱33,602,216	₱679,188	₱34,281,404



Equity Attributable to Equity Holders of the Parent Company

	Capital Stock (Note 19)	Subscriptions Receivable (Note 19)	Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign Subsidiaries and Interests in Joint Ventures and an Associate (Note 11)	Remeasurement Loss on Net Defined Benefit Plan - net of tax (Note 25)	Unrealized Gain on Available-for-Sale Financial Assets (Note 10)	Comprehensive Loss on Derivative Liability (Note 18)	Excess of Cost Over the Carrying Value of Non-controlling Interests Acquired (Notes 11 and 19)	Retained Earnings (Note 19)		Cost of Common Stock Held in Treasury (Note 19)	Total	Non-controlling Interests (Note 11)	Total Equity
									Appropriated for Future Expansion	Unappropriated				
Balance at January 1, 2015	₱1,081,040	(₱17,178)	₱4,452,162	(₱25,789)	(₱219,900)	₱-	(₱2,395)	(₱542,764)	₱10,200,000	₱12,445,662	(₱180,511)	₱27,190,327	₱887,694	₱28,078,021
Net income	-	-	-	-	-	-	-	-	-	4,928,236	-	4,928,236	118,097	5,046,333
Other comprehensive income (loss)	-	-	-	133,014	(316,680)	-	(33,054)	-	-	-	-	(216,720)	13,450	(203,270)
Total comprehensive income (loss)	-	-	-	133,014	(316,680)	-	(33,054)	-	-	4,928,236	-	4,711,516	131,547	4,843,063
Movements in other equity accounts:														
Issuances of and subscriptions to capital stock (Note 19)	5,109	-	429,919	-	-	-	-	-	-	-	-	435,028	-	435,028
Cost of stock options granted (Note 26)	-	-	173,212	-	-	-	-	-	-	-	-	173,212	-	173,212
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	-	(1,886,859)	-	(1,886,859)	-	(1,886,859)
Cash dividends received by non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	(63,503)	(63,503)
Arising from incorporation of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	177,628	177,628	177,628
	5,109	-	603,131	-	-	-	-	-	-	(1,886,859)	-	(1,278,619)	114,125	(1,164,494)
Balances at December 31, 2015	₱1,086,149	(₱17,178)	₱5,055,293	₱107,225	(₱536,580)	₱-	(₱35,449)	(₱542,764)	₱10,200,000	₱15,487,039	(₱180,511)	₱30,623,224	₱1,133,366	₱31,756,590



# JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousand Pesos)

	Years Ended December 31		
	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱8,339,510	₱7,730,120	₱6,434,941
Adjustments for:			
Depreciation and amortization (Notes 12, 13, 14, 15, 21 and 22)	4,745,166	3,995,868	3,425,677
Gain from the re-measurement of the previously held interest (Notes 11 and 23)	(1,328,733)	-	-
Interest expense (Note 23)	405,820	267,618	225,544
Accretion of debt issue cost (Note 18)	3,274	-	-
Impairment losses on:			
Receivables (Notes 7 and 22)	143,772	91,415	325,908
Inventories (Notes 8 and 22)	7,443	78,621	11,049
Other assets (Note 15)	122,759	-	-
Property, plant and equipment (Note 22)	431,939	42,731	-
Equity in net losses of joint ventures and an associate (Note 11)	282,645	337,145	189,086
Interest income (Note 23)	(259,567)	(286,913)	(257,783)
Deferred rent amortization - net (Note 29)	256,630	193,237	79,366
Stock options expense (Notes 22 and 26)	227,483	241,324	173,212
Loss (gain) on divestment of subsidiaries and interest in joint venture (Notes 11 and 23)	116,207	(66,695)	-
Reversals of impairment losses on:			
Receivables (Notes 7 and 22)	(20,705)	(3,188)	(4,606)
Inventories (Notes 8 and 22)	(53,819)	(18,129)	(12,047)
Property, plant and equipment (Notes 12 and 22)	(2,111)	(2,000)	-
Loss (gain) on disposals and retirements of:			
Property and equipment (Notes 12 and 22)	174,510	236,809	136,747
Investment properties (Notes 13 and 22)	(231,036)	-	-
Movement in pension liability (Notes 21, 22 and 25)	37,840	89,781	212,636
Provisions (Notes 17 and 23)	794,609	-	-
Net unrealized foreign exchange gain	(6,913)	(79,314)	(31,603)
Loss (gain) on movement in derivative assets (Note 18)	129,371	(3,298)	-
Income before working capital changes	14,316,094	12,845,132	10,908,127
Decreases (increases) in:			
Receivables	(532,690)	2,299,070	2,269,040
Inventories	(715,127)	(593,238)	494,396
Other current assets	(229,836)	327,544	(1,510,843)
Increases in trade payables and other current liabilities	2,176,062	1,865,217	2,976,473
Net cash generated from operations	15,014,503	16,743,725	15,137,193
Income taxes paid	(2,396,189)	(2,261,503)	(1,871,927)
Interest received	225,314	278,099	219,846
Net cash provided by operating activities	12,843,628	14,760,321	13,485,112
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Note 12)	(8,904,796)	(6,694,133)	(4,596,787)
Interest in joint ventures (Note 11)	(531,147)	(1,617,092)	(5,057,543)
Cash from acquired business - net of cash paid (Note 11)	105,251	113,358	-
Intangible assets (Note 14)	(69,634)	(23,706)	(99,980)
Minority interests (Note 11)	-	(2,070,159)	-
Market entry fee (Notes 11 and 15)	-	-	(93,870)
Available-for-sale financial assets (Note 10)	(450)	-	-
Advances to a joint venture (Note 11)	(1,059,786)	-	-
Proceeds from disposals of:			
Property, plant and equipment	362,288	92,730	46,049
Investment properties (Note 13)	365,490	-	-
Subsidiaries - net (Note 11)	-	96,486	-
Decreases (increases) in:			
Short term-investments	(687,398)	196,315	(922,317)
Interests in and advances to joint ventures, co-venturers and associates	337,960	-	-
Other noncurrent assets	(482,215)	(170,598)	(89,369)
Dividends received from non-controlling interests (Note 11)	20,037	-	-
Net cash used in investing activities	(10,544,400)	(10,076,799)	(10,813,817)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Cash dividends (Note 19)	<b>(₱2,347,164)</b>	(₱1,988,082)	(₱1,899,666)
Long-term debt (Note 18)	<b>(1,607,623)</b>	(929,558)	(734,360)
Short-term debt (Note 18)	-	(282,360)	(9,191,000)
Liability for acquisition of businesses (Note 11)	-	(94,852)	(87,775)
Proceeds from:			
Long-term debt (Note 18)	<b>5,517,281</b>	2,993,810	5,176,600
Issuances of and subscriptions to capital stock (Note 19)	<b>861,125</b>	368,620	435,029
Short-term debt (Note 18)	-	-	7,594,200
Contributions from non-controlling interests	<b>14,578</b>	715,608	177,628
Interest paid	<b>(360,856)</b>	(232,646)	(188,648)
Dividends paid to non-controlling interests	-	-	(63,503)
Net cash provided by financing activities	<b>2,077,341</b>	550,540	1,218,505
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,376,569</b>	5,234,062	3,889,800
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(2,441)</b>	1,724	(10,713)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>16,733,346</b>	11,497,560	7,618,473
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱21,107,474</b>	₱16,733,346	₱11,497,560



# JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

Jollibee Foods Corporation (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 11, 1978. The Parent Company and its subsidiaries (collectively referred to as “the Jollibee Group”) and affiliates are involved primarily in the development, operation and franchising of quick service restaurants (QSRs) under the trade names “Jollibee”, “Chowking”, “Greenwich”, “Red Ribbon”, “Yong He King”, “Hong Zhuang Yuan”, “Mang Inasal”, “Burger King”, “Highlands Coffee”, “Pho24”, “Hard Rock Cafe”, “Dunkin’ Donuts” and “Smashburger”. The other activities of the Jollibee Group include manufacturing and property leasing in support of the quick service restaurant systems and other business activities (see Notes 2 and 5). The corporate life of the Parent Company is fifty (50) years from the date of incorporation or until 2028.

The common shares of the Parent Company are listed and traded in the Philippine Stock Exchange (PSE) beginning July 14, 1993.

The registered office address of the Parent Company is 10/F Jollibee Plaza Building, 10 F. Ortigas Jr. Ave., Ortigas Center, Pasig City.

The consolidated financial statements as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 were reviewed and recommended for approval by the Audit Committee as well as approved and authorized for issuance by the Board of Directors (BOD) on April 6, 2018.

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

#### Basis of Preparation

The consolidated financial statements of the Jollibee Group have been prepared on a historical cost basis, except for the derivative assets and liabilities, and available-for-sale (AFS) financial assets, which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company’s functional and presentation currency. All values are rounded to the nearest thousand pesos, except par values, per share amounts, number of shares and when otherwise indicated.

#### Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

#### Changes in Accounting Policies

The Jollibee Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- 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*)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments did not have



any impact on the Jollibee Group's financial condition and performance.

- Amendments to 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).

The Jollibee Group has provided the required information in Note 34 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Jollibee Group did not present comparative information for the year ended December 31, 2016.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Jollibee Group applied the amendments retrospectively. However, their application has no effect on the Jollibee Group's financial position and performance as the Jollibee Group has no deductible temporary differences or assets that are in the scope of the amendments.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2017

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Jollibee Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Jollibee Group intends to adopt the following pronouncements when they become effective.

*Effective January 1, 2018*

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. The Jollibee Group is currently assessing the potential effect of the amendments on the consolidated financial statements.

- 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. 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 Jollibee Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Jollibee Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Jollibee Group's financial liabilities. The adoption will have an effect on the Jollibee Group's impairment of financial assets. The adoption will not have significant impact on the Jollibee Group's effective hedge since PFRS 9 does not change the general principles of how an entity accounts for effective hedges. The Jollibee Group is currently assessing the impact of adopting this standard.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Jollibee Group since none of the entities within the Jollibee Group have activities that are predominantly connected with insurance or issue insurance contracts.

- 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 PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Jollibee Group plans to adopt the new standard on the required effective date. The Jollibee Group is currently assessing the impact of the new standard to the Jollibee Group's consolidated financial statements.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint



venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively, with earlier application permitted. The Jollibee Group is currently assessing the impact of the amendments on its consolidated financial statements.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Since the Jollibee Group's current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) - 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Jollibee Group's current practice is in line with the clarifications issued, the Jollibee Group does not expect any effect on its consolidated financial statements upon adoption of this interpretation.



*Effective January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Jollibee Group is currently assessing the impact of adopting these amendments.

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Jollibee Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Jollibee Group is currently assessing the impact of these amendments on its consolidated financial statements.

- 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 Jollibee Group is currently assessing the impact of adopting this interpretation.

#### *Deferred Effectivity*

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2017 and for each of the three years in the period ended December 31, 2017.

Control is achieved when the Jollibee 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.

There is a general presumption that a majority of voting rights results in control. To support this presumption when the Jollibee Group has less than a majority of the voting or similar rights of an investee, the Jollibee 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; or,
- The Jollibee Group's voting rights and potential voting rights.



The Jollibee 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 Jollibee Group obtains control over the subsidiary and ceases when the Jollibee 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 consolidated financial statements from the date the Jollibee Group gains control until the date the Jollibee Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income 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 Jollibee Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Jollibee Group are eliminated in full on consolidation. The reporting dates of the Parent Company and the associate or joint ventures are identical and the latter's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances.

If the Jollibee 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 other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Jollibee Group had directly disposed of the related assets or liabilities.

Non-controlling interest represent the interests in the subsidiaries not held by the Parent Company, and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from equity attributable to holders of the Parent Company.

An increase or decrease in ownership interest in a subsidiary that does not result in a loss of control is accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in the Jollibee Group's relative interests in the subsidiary. The Jollibee Group recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the equity holders of the Parent Company. These include acquisitions of non-controlling interests of Greenwich, Yong He King, Mang Inasal and HBFPP. In particular cases where the Jollibee Group acquires non-controlling interest in a subsidiary at a consideration in excess of its carrying amount, the excess is charged to the "Excess of cost over the carrying value of non-controlling interests acquired" account under equity. These increases or decreases in the ownership interest in a subsidiary do not result in the recognition of a gain or loss.



The consolidated financial statements include the accounts of the Parent Company and the following wholly-owned and majority-owned subsidiaries as at December 31, 2017 and 2016:

	Country of Incorporation	Principal Activities	2017		2016	
			Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership
Fresh N' Famous Foods Inc. (Fresh N' Famous):	Philippines	Food service	100	-	100	-
Chowking Food Corporation USA	United States of America (USA)	Holding company	-	100	-	100
Zenith Foods Corporation (Zenith)	Philippines	Food service	100	-	100	-
Freemont Foods Corporation (Freemont)	Philippines	Food service	100	-	100	-
RRB Holdings, Inc. (RRBHI):	Philippines	Holding company	100	-	100	-
Red Ribbon Bakeshop, Inc. (RRBI)	Philippines	Food service	-	100	-	100
Red Ribbon Bakeshop, Inc. USA (RRBI USA)	USA	Food service	-	100	-	100
Mang Inasal Philippines Inc. (Mang Inasal) <sup>(d)</sup>	Philippines	Food service	100	-	100	-
Grandworth Resources Corporation (Grandworth):	Philippines	Leasing	100	-	100	-
Adgraphix, Inc. (Adgraphix)	Philippines	Digital printing	-	100	-	100
IConnect Multi Media Network, Inc. (IConnect)	Philippines	Advertising	-	60	-	60
JC Properties & Ventures Co.	Philippines	Dormant	-	50	-	50
Honeybee Foods Corporation (HFC):	USA	Food service	100	-	100	-
Tokyo Teriyaki Corporation (TTC)	USA	Food service	-	100	-	100
Honeybee Foods (Canada) Corporation (HFCC)	Canada	Food service	-	100	-	100
Jollibee Worldwide Pte. Ltd. (JWPL):	Singapore	Holding company	100	-	100	-
Regional Operating Headquarters of JWPL (JWS)	Philippines	Financial accounting, human resources and logistics services	-	100	-	100
Golden Plate Pte., Ltd. (GPPL):	Singapore	Holding company	-	100	-	100
- Golden Beeworks Pte. Ltd.	Singapore	Food service	-	60	-	60
- Golden Piatto Pte. Ltd. <sup>(c)</sup>	Singapore	Holding company	-	75	-	-
• Cibo Felice S.R.L. <sup>(a)</sup>	Italy	Food service	-	100	-	-
Golden Cup Pte. Ltd.	Singapore	Holding company	-	60	-	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	Republic of China (PRC)	Food service	-	100	-	100
Beijing New Hongzhuangyuan Food and Beverage Management Co., Ltd. (Hong Zhuang Yuan)	PRC	Food service	-	100	-	100
Southsea Binaries Ltd. (Southsea)	British Virgin Island (BVI)	Holding company	-	100	-	100
Beijing Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Shenzhen Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Hangzhou Yongtong Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Hangzhou Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Wuhan Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Tianjin Yong He King Food and Beverage Co., Ltd.	PRC	Food service	-	100	-	100
Happy Bee Foods Processing Pte. Ltd. (HBFPPL) <sup>(e)</sup>	Singapore	Holding company	-	100	-	100
- Happy Bee Foods Processing (Anhui) Co. Ltd. <sup>(e)</sup>	PRC	Food service	-	100	-	100
JSF Investments Pte. Ltd. (JSF):	Singapore	Holding company	-	99	-	99
- SF Vung Tau Joint Stock Company <sup>(b)</sup>	Vietnam	Holding company	-	60	-	-
• Highland Coffee Service Joint-stock Company <sup>(b)</sup>	Vietnam	Food service	-	100	-	-
• Quantum Corporation <sup>(b)</sup>	Vietnam	Food service	-	100	-	-
• Pho Viet Joint Stock Company <sup>(b)</sup>	Vietnam	Food service	-	100	-	-
• Pho 24 Service Trade Manufacture Corporation <sup>(b)</sup>	Vietnam	Food service	-	100	-	-
- Blue Sky Holdings Limited <sup>(b)</sup>	Hong Kong	Holding company	-	60	-	-
• Sino Ocean Limited <sup>(b)</sup>	Hong Kong	Food service	-	100	-	-
• Blue Sky Holdings (Macau) Limited <sup>(b)</sup>	Macau	Food service	-	100	-	-
Jollibee (China) Food & Beverage Management Co. Ltd.	PRC	Management company	-	100	-	100
Jollibee International (BVI) Ltd. (JIBL):	BVI	Holding company	-	100	-	100
- Jollibee Vietnam Corporation Ltd.	Vietnam	Food service	-	100	-	100
• Goldstar Food Trade and Service Company Ltd (GSC) <sup>(f)</sup>	Vietnam	Food service	-	100	-	100
- PT Chowking Indonesia	Indonesia	Food service	-	100	-	100
- PT Jollibee Indonesia	Indonesia	Dormant	-	100	-	100
- Jollibee (Hong Kong) Limited and Subsidiaries	Hong Kong	Dormant	-	85	-	85
- Belmont Enterprises Ventures Limited (Belmont):	BVI	Holding company	-	100	-	100
• Shanghai Belmont Enterprises Management and Adviser Co., Ltd. (SBEMAC)	PRC	Business management service	-	100	-	100
• Yong He Holdings Co., Ltd.	BVI	Holding company	-	100	-	100
• Centenary Ventures Ltd.	BVI	Holding company	-	100	-	100
Bee Good! Inc. (BGI)	USA	Holding company	-	100	-	100
Chanceux, Inc.	Philippines	Holding company	100	-	100	-
BK Titans Inc. (BK Titans)	Philippines	Holding company	-	54	-	54
- PFN Holdings Corporation	Philippines	Holding company	-	99	-	99
• PERF Restaurants, Inc. <sup>(g)</sup>	Philippines	Food service	-	100	-	100
Donut Magic Phils., Inc. (Donut Magic) <sup>(h)</sup>	Philippines	Dormant	100	-	100	-
Ice Cream Copenhagen Phils., Inc. (ICCP) <sup>(h)</sup>	Philippines	Dormant	100	-	100	-
Mary's Foods Corporation (Mary's) <sup>(h)</sup>	Philippines	Dormant	100	-	100	-
QSR Builders, Inc.	Philippines	Dormant	100	-	100	-
Jollibee USA	USA	Dormant	100	-	100	-

(a) On July 31, 2017, the Jollibee Group, through Golden Piatto Pte. Ltd. incorporated Cibo Felice in Italy.

(b) On May 10, 2017, the Jollibee Group, through JSF increase its shareholding in SF Vung Tau Joint Stock Company (SFVT) and Blue Sky Holdings Limited (Blue Sky) to 60%.

(c) On April 12, 2017, the Jollibee Group, through GPPL, incorporated Golden Piatto Pte. Ltd. to own and operate Jollibee restaurants in Italy.

(d) On April 22, 2016, the Parent Company acquired the remaining 30% stake in Mang Inasal.

(e) On November 23, 2016, the Jollibee Group, through JWPL obtained government and regulatory approval for the transfer of assets in Anhui and completed the acquisition of shares in HBFPPL to make its ownership 100%.

(f) On September 1, 2016, the Jollibee Group, through its wholly owned subsidiary, Jollibee Vietnam Company Ltd., acquired 100% equity of GSC.

(g) PERF Restaurants, Inc. also holds shares in PERF Trinoma and PERF MOA.

(h) On June 18, 2004, the stockholders of the Jollibee Group approved the Plan of Merger of the three dormant companies. The application is pending approval from the SEC as at December 31, 2017.



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### 3. Significant Accounting Policies

#### Current versus Noncurrent Classification

The Jollibee Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification.

An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Jollibee Group classifies all other assets as noncurrent.

A liability is classified as current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Jollibee Group classifies all other liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

#### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Jollibee Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs. Where the Jollibee Group has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use



of available and supportable market data as possible) and the cost approach (i.e., based on the amount required to replace the service capacity of an asset).

The Jollibee Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Jollibee Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Jollibee Group's management determines the policies and procedures for both recurring fair value measurement and non-recurring measurement. At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Jollibee Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Jollibee Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Cash and Cash Equivalents

Cash includes cash on hand and in 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 acquisition and are subject to an insignificant risk of change in value.

#### Short-term Investments

Short-term investments are deposits with original maturities of more than three months to one year from acquisition date.

#### Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### Financial Assets

##### *Initial Recognition and Measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial





assets are recognized initially at fair value plus, except for financial assets at FVPL, transaction costs that are attributable to the acquisition of the financial asset.

The Jollibee Group has no financial assets classified under the HTM investments category.

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

The Jollibee Group's financial assets include cash and cash equivalents, short-term investments, receivables, receivable from sale of business, security and other deposits and operating lease receivables.

#### *Subsequent Measurement*

*Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by PAS 39. The Jollibee Group has not designated any financial assets at FVPL. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at FVPL. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVPL.

This category generally applies to the Jollibee Group's derivative assets.

*Loans and Receivables.* This category is the most relevant to the Jollibee Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, except for short-term loans and receivables with no stated interest which are measured at undiscounted amounts less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is recognized in profit or loss. The losses arising from impairment are recognized also in profit or loss.

This category generally applies to cash and cash equivalents, short-term investments, receivables, refundable security and other deposits, operating lease receivables and employee car plan receivables.

*AFS Financial Assets.* AFS financial assets include equity investments. Equity investments classified as AFS financial assets are those that are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income and credited directly in equity until the investment is derecognized, at which time, the cumulative gain or loss is recognized in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from



equity to profit or loss. Dividends earned while holding AFS financial assets is recognized in profit or loss.

This category generally applies to golf and leisure club shares.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

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

When the Jollibee Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Jollibee Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Jollibee Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Jollibee Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Jollibee Group could be required to repay.

#### *Impairment of Financial Assets*

The Jollibee Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial Assets Carried at Amortized Cost.* For financial assets carried at amortized cost, the Jollibee Group first assesses whether impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Jollibee Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.



The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Jollibee Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognized in profit and loss to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

*AFS Financial Assets.* For AFS financial assets, the Jollibee Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss is removed from other comprehensive income and recognized in profit or loss. For unquoted equity investments that are not carried at fair value because such cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instruments, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Jollibee Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

## Financial Liabilities

### *Initial Recognition and Measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Jollibee Group's financial liabilities include loans and borrowings and derivative financial instruments.

### *Subsequent Measurement*

*Financial Liabilities at FVPL.* Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Jollibee Group that



are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied. The Jollibee Group has not designated any financial liability as at FVPL.

*Loans and Borrowings.* This is the category most relevant to the Jollibee Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs, including debt issue costs for the Jollibee Group's debts that are an integral part of the effective interest rate. The effective interest rate amortization is included as interest expense in the consolidated statement of comprehensive income.

This category generally applies to trade payables, and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificate) and long-term debts.

*Debt Issue Costs.* Debt issue costs are specific incremental costs, other than those paid to the lender, that are directly related to issuing a debt instrument. These are presented in the statements of financial position as a reduction from the related debt instrument and are amortized through the effective interest rate amortization process.

*Derecognition.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously. The Jollibee Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Jollibee Group and all of the counterparties.

#### Derivative Financial Instruments and Hedge Accounting

*Initial recognition and subsequent measurement.* The Group uses derivative financial instruments, such as cross currency swaps and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.



Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income and later reclassified to profit or loss when the hedge item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- Hedges of a net investment in a foreign operation.

The Jollibee Group's interest rate swap is cash flow hedge. The Jollibee Group has no fair value hedge and hedge of a net investment in a foreign operation as at December 31, 2017 and 2016.

At the inception of a hedge relationship, the Jollibee Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

*Cash Flow Hedges.* Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statements of comprehensive income. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized as "Comprehensive income (loss) on derivative liability" in the consolidated statements of comprehensive income, whereas any hedge ineffectiveness is immediately recognized in profit or loss.

The Jollibee Group has an interest rate swap for its exposure to volatility in interest rates.

Amounts recognized as other comprehensive are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or expense is recognized or when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met.



Inventories

Inventories are valued at the lower of cost and net realizable value. Costs are accounted for as follows:

- |   |   |  |
|---|---|--|
| Processed inventories   | - | Standard costing, which is reviewed on a quarterly basis and revised as necessary to approximate current costs determined using first in, first out (FIFO). Cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity. |
| Food supplies, packaging, store and other supplies, and novelty items | - | Standard costing which is reviewed on a quarterly basis and revised as necessary to approximate current costs determined using FIFO.   |

Net realizable value of processed inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of food supplies, packaging, store and other supplies is the current replacement cost. Food and other supplies are held for use in the production of processed inventories.

Net realizable value of novelty items is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Other Current Assets

Other current assets include deposits which pertain to advance payments to suppliers to be applied for future purchases, prepaid expenses which are paid in advance and recorded as asset before these are utilized; and creditable withholding taxes, which will be applied in the following year against corporate income tax or be claimed for refund with the Bureau of Internal Revenue. Prepaid expenses are amortized over time and recognized as expense as the benefit is derived from the asset.

Borrowing Cost

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

Property, Plant and Equipment

Property, plant and equipment, except land and construction in progress, are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.



The initial cost of property, plant and equipment consists of its purchase price, including import duties and nonrefundable taxes and any other costs directly attributable in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the asset. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

Depreciation and amortization are calculated on a straight-line basis over the following estimated useful lives of the assets:

Land improvements	5 years
Plant, buildings, commercial condominium units and improvements	5–40 years
Leasehold rights and improvements	2–10 years or term of the lease, whichever is shorter
Office, store and food processing equipment	1–15 years
Furniture and fixtures	3–5 years
Transportation equipment	3–5 years

The residual values, if any, useful lives and depreciation and amortization method of the assets are reviewed at the end of each financial period and adjusted prospectively, if appropriate.

Fully depreciated assets are retained in the accounts until they are disposed or retired.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Construction in progress represents assets under construction and is stated at cost less any impairment in value. This includes the cost of construction and other direct costs. Cost also includes interest on borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the relevant assets are completed and ready for use.

#### Investment Properties

Investment properties consist of land and buildings and building improvements held by the Jollibee Group for capital appreciation and rental purposes. Investment properties, except land, are carried at cost, including transaction costs, less accumulated depreciation and amortization and any impairment in value. Cost also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Land is carried at cost less any impairment in value.

The depreciation of buildings and building improvements are calculated on a straight-line basis over the estimated useful lives of the assets which are five (5) to twenty (20) years.

The residual values, if any, useful lives and method of depreciation and amortization of the assets are reviewed at each financial year-end and adjusted prospectively, if appropriate.



Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers to investment property are made only when there is a change in use, evidenced by ending of ownership-occupation, or commencement of an operating lease to another party. Transfers from investment property are made only when there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Jollibee Group as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

#### Business Combinations

Business combinations are accounted for using the acquisition method. Applying the acquisition method requires the (a) determination whether the Jollibee Group will be identified as the acquirer; (b) determination of the acquisition date; (c) recognition and measurement of the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree; and (d) recognition and measurement of goodwill or a gain from a bargain purchase.

When the Jollibee Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at acquisition date.

The cost of an acquisition is measured as the aggregate of the (a) consideration transferred by the Jollibee Group, measured at acquisition-date fair value, (b) amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of the Jollibee Group's previously held equity interest in the acquiree in a business combination achieved in stages. Acquisition costs incurred are expensed and included in "General and administrative expenses" account in the consolidated statement of comprehensive income.

*Initial Measurement of Non-controlling Interest.* For each business combination, the Jollibee Group measures the non-controlling interest in the acquiree using the proportionate share of the acquiree's fair value of identifiable net assets.

*Business Combination Achieved in Stages.* In a business combination achieved in stages, the Jollibee Group remeasures its previously held equity interests in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

*Measurement Period.* If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Jollibee Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the Jollibee Group receives the information it was seeking about facts and circumstances that existed as at the acquisition date or learns that more information is not obtainable. The measurement period does not exceed one year from the acquisition date.

*Contingent Consideration or Earn-out.* Any contingent consideration or earn-out in relation to a business combination is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognized in profit or loss.





*Initial Measurement of Goodwill or Gain on a Bargain Purchase.* Goodwill is initially measured by the Jollibee Group at cost being the excess of the total consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as gain on a bargain purchase. Before recognizing a gain on a bargain purchase, the Jollibee Group determines whether it has correctly identified all of the assets acquired and all of the liabilities assumed and recognize any additional assets or liabilities that are identified in that review.

*Subsequent Measurement of Goodwill.* Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

*Impairment Testing of Goodwill.* For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Jollibee Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Jollibee Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment as defined in PFRS 8, *Operating Segments*, before aggregation.

*Frequency of Impairment Testing.* Irrespective of whether there is any indication of impairment, the Jollibee Group tests goodwill acquired in a business combination for impairment annually as at December 31 and more frequently when circumstances indicate that the carrying amount is impaired.

*Allocation of Impairment Loss.* An impairment loss is recognized for a CGU if the recoverable amount of the unit or group of units is less than the carrying amount of the unit or group of units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit or group of units first to reduce the carrying amount of goodwill allocated to the CGU or group of units and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units. In allocating the impairment loss, the Jollibee Group cannot reduce the carrying amount of an asset below the highest of its fair value less costs of disposal if measurable, its value in use if determinable and zero.

#### Intangible Assets

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment



continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Amortization of computer software, trademarks and other intangible assets are calculated on a straight-line basis over the following estimated useful lives of the assets:

Computer software	10 years
Trademark	5 years
Other intangible assets	5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Interests in and Advances to Joint Ventures, Co-venturers and Associates

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not in control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Jollibee Group's investments in its associates and joint ventures are accounted for using the equity method based on the percentage share of ownership and capitalization. Interests in joint ventures are accounted for under the equity method from the date the joint control is obtained.

Under the equity method, the Jollibee Group's investments in joint ventures and associates are carried in the consolidated statement of financial position at cost plus the Jollibee Group's share in post-acquisition changes in the net assets of associates or joint ventures, less any impairment in value. Goodwill relating to the associates or joint ventures is included in the carrying amount of the investment and is not amortized. The consolidated statement of comprehensive income includes the Jollibee Group's share in the financial performance of the associates or joint ventures. The Jollibee Group's share in profit or loss of the associates is shown on the face of the consolidated statement of comprehensive income as "Equity in net losses of joint ventures and associates - net", which is the profit or loss attributable to equity holders of the joint ventures and associates.

When the Jollibee Group's share of losses in the associates or joint ventures equals or exceeds its interest, including any other unsecured receivables, the Jollibee Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates or joint ventures. Where there has been a change recognized directly in the equity of the associate or joint venture, the Jollibee Group recognizes its share in any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Parent Company and the associate or joint ventures are identical and the latter's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances. Unrealized gains arising from transactions with the associates or joint ventures are eliminated to the extent of the Jollibee Group's interests in the associates or joint ventures against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment in the asset transferred.



The Jollibee Group ceases to use the equity method of accounting on the date from which it no longer has joint control in the joint ventures, no longer has significant influence over the associates, or when the interest becomes held for sale.

Upon loss of significant influence over the associate or joint control over the joint ventures, the Jollibee Group measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former associate or former jointly controlled entities upon loss of significant influence or joint control, and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining interest in the former jointly controlled entity constitutes significant influence, it is accounted for as interest in an associate.

#### Impairment of Nonfinancial Assets

The carrying values of interests in and advances to joint ventures, co-venturers and associates, property, plant and equipment, investment properties, goodwill and other intangible assets, and other noncurrent assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or CGU are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value on a systematic basis over its remaining useful life.

#### Equity

*Capital Stock and Additional Paid-in Capital.* Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Additional paid-in capital is also credited for the cost of the Jollibee Group's equity settled share-based payments to its employees.

*Subscriptions Receivable.* Subscriptions receivable represents the unpaid balance of the subscription price for subscribed common stock of the Parent Company.



*Retained Earnings.* Retained earnings represent the Jollibee Group's accumulated earnings, net of dividends declared. The balance includes accumulated earnings of subsidiaries, joint ventures and associates, which are not available for dividend declaration.

*Dividends.* The Jollibee Group recognizes a liability to make cash distribution to its equity holders when the distribution is authorized and the distribution is no longer at the discretion of the Jollibee Group. A corresponding amount is recognized directly in the equity. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the reporting period.

*Other Comprehensive Income.* Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognized in profit or loss. These include cumulative translation adjustments, gains or losses on derivatives designated as hedging instruments in an effective hedge, unrealized gains or losses on AFS financial assets, remeasurement gains or losses on pension and their income tax effects.

*Treasury Shares.* Acquisitions of treasury shares are recorded at cost. The total cost of treasury shares is shown in the consolidated statement of financial position as a deduction from the total equity. Upon re-issuance or resale of the treasury shares, cost of common stock held in treasury account is credited for the cost of the treasury shares determined using the simple average method. Gain on sale is credited to additional paid-in capital. Losses are charged against additional paid-in capital but only to the extent of previous gain from original issuance, sale or retirement for the same class of stock. Otherwise, losses are charged to retained earnings.

#### Revenues

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Jollibee Group and the amount of revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, sales taxes and duties. The Jollibee Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Jollibee Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the customers, which is normally upon delivery. Sales returns and sales discounts are deducted from sales to arrive at net sales shown in the consolidated statement of comprehensive income.

*Royalty Fees.* Revenue from royalty fees is recognized as the royalty accrues based on a certain percentage of the franchisees' net sales in accordance with the franchise agreements.

*Set-up Fees.* Revenue from set-up fees is recognized when all services or conditions relating to the payment of set-up fees have been substantially performed.

*Service Fees.* Revenue is recognized in the period in which the service has been rendered.

*Rent Income.* Rent income from operating leases is recognized on a straight-line basis over the lease terms.



*Interest Income.* Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

*Other Income.* Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Jollibee Group through an increase in asset or reduction in liability and that can be measured reliably.

#### Cost and Expenses

Cost and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized as incurred.

Advertising and promotions expenses include costs incurred for advertising schemes and promotional activities for new products. The amount of expenses incurred by the Jollibee Group is reduced by the network advertising and promotional costs reimbursed by the Jollibee Group's franchisees.

#### Pension Benefits

The pension 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.

Pension Expense comprises the following:

- Service cost
- Net interest on the 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 part of pension expense. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the pension liability or asset is the change during the period in the liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the pension liability or asset. Net interest on the pension liability or asset is recognized under "Cost of sales" and "General and administrative expenses" in the consolidated statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan liability or 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.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Jollibee Group, nor can they be paid directly to the Jollibee Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the



present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Jollibee Group also participates in various government-defined contribution schemes for the PRC-based and USA-based subsidiaries. Under these schemes, pension benefits of existing and retired employees are guaranteed by the local pension benefit plan, and each subsidiary has no further obligations beyond the annual contribution.

#### Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. Jollibee Group recognizes undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period.

#### Share-based Payments

The Jollibee Group has stock option plans granting its management and employees an option to purchase a fixed number of shares of stock at a stated price during a specified period (“equity-settled transactions”).

The cost of the options granted to the Jollibee Group’s management and employees that becomes vested is recognized in profit or loss over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant management and employees become fully entitled to the award (“vesting date”).

The fair value is determined using the Black-Scholes Option Pricing Model. The cumulative expense recognized for the share-based transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Jollibee Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit in profit or loss or the investment account for a period represents the movement in cumulative expense recognized as of the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of a share-based award are modified, at a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment agreement, or is otherwise beneficial to the management and employees as measured at the date of modification.

Where a share-based award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if there were a modification of the original award.

#### Research Costs

Research costs are expensed as incurred.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the agreement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.



*Jollibee Group as Lessee.* Leases which do not transfer to the Jollibee Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred. Contingent rent is recognized as expense in the period in which they are incurred.

*Jollibee Group as Lessor.* Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the operating lease receivable and recognized over the lease term on the same basis as rent income. Rent income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

#### Provisions

Provisions are recognized when the Jollibee 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 interest expense.

#### Foreign Currency Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. Each entity in the Jollibee Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of subsidiaries domiciled and operating in the Philippines are also determined to be the Philippine Peso. Where the functional currency is the Philippine Peso, transactions in foreign currencies are recorded in Philippine Peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at reporting date. All differences are recognized in profit or loss. Non-monetary 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.

The functional currencies of the Jollibee Group's foreign operations are US dollar (USD), PRC Renminbi (RMB), Indonesia rupiah, Vietnam dong, Singapore dollar and Hong Kong dollar. As of the reporting date, the assets and liabilities of foreign subsidiaries are translated into the presentation currency of the Parent Company at the rate of exchange ruling at the reporting date while the income and expense accounts are translated at the weighted average exchange rates for the year. The resulting translation differences are included in equity under the account "Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and an associate". On disposal of a foreign subsidiary, the accumulated exchange differences are recognized in profit or loss.

#### Taxes

*Current Tax.* Current 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 are enacted or substantively enacted at reporting date.



Current income tax relating to items recognized directly in equity is recognized in equity (not in the profit or loss). Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward benefits of excess of MCIT over RCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interest in joint ventures and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax 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 liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transactions, affects neither the accounting profit nor taxable profit; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in another equity account.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as reduction in goodwill, as long as it does not exceed goodwill, if it was incurred during the measurement period or recognize in profit or loss.





Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Value Added Tax (VAT)*. Revenue, expenses and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as part of “Trade payables and other current liabilities” account in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as part of “Other current assets” account in the consolidated statement of financial position.

#### Earnings per Share (EPS) Attributable to Equity Holders of the Parent Company

Basic EPS is calculated by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any.

Diluted EPS is computed by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the period, adjusted for any potential common shares resulting from the assumed exercise of outstanding stock options. Outstanding stock options will have dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option.

Where the EPS effect of the shares to be issued to management and employees under the stock option plan would be anti-dilutive, the basic and diluted EPS would be stated at the same amount.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

#### Business Segments

The Jollibee Group is organized and managed separately according to the nature of operations and geographical locations of businesses. The three major operating businesses of the Jollibee Group are food service, franchising and leasing while geographical segments are segregated to Philippine businesses and international businesses. These operating and geographical businesses are the basis upon which the Jollibee Group reports its primary segment information presented in Note 5.

#### Events after the Reporting Period

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



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#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the consolidated financial statements and related notes at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future. The Jollibee Group believes the following represents a summary of these significant judgments, estimates and assumptions and the related impact and associated risks on the Jollibee Group's consolidated financial statements.

##### Judgments

In the process of applying the Jollibee Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

*Functional Currency.* Management has determined that the functional and presentation currency of the Parent Company and its Philippine-based subsidiaries is the Philippine peso, being the currency of the primary environment in which the Parent Company and its major subsidiaries operate. The functional currencies of its foreign operations are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to Philippine peso which is the Parent Company's functional and presentation currency.

*Operating Lease Commitments - Jollibee Group as Lessee.* The Jollibee Group has entered into commercial property leases for its QSRs and offices as a lessee. Management has determined, based on an evaluation of the terms and condition of the arrangements that all the significant risks and benefits of ownership of these properties, which the Jollibee Group leases under various lease arrangements, remain with the lessors. Accordingly, the leases are accounted for as operating leases.

Rent expense amounted to ₱10,236.6 million, ₱8,704.5 million and ₱7,841.9 million in 2017, 2016 and 2015, respectively (see Notes 21, 22 and 29).

*Operating Lease Commitments - Jollibee Group as Lessor.* The Jollibee Group has entered into commercial property leases on its investment property portfolio and various sublease agreements. Management has determined, based on an evaluation of the terms and conditions of the arrangements, that the Jollibee Group retains all the significant risks and benefits of ownership of the properties which are leased out. Accordingly, the leases are accounted for as operating leases.

Rent income amounted to ₱57.2 million, ₱91.4 million and ₱92.4 million in 2017, 2016 and 2015, respectively (see Notes 13, 20 and 29).

*Assessing Joint Control of an Arrangement and the Type of Arrangement.* Joint control is the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Jollibee Group assessed that it has joint control in all joint arrangements by virtue of a contractual agreement with other stockholders. The Jollibee Group's joint ventures have separate legal entities and the shareholders have right to their net assets (see Note 11).

##### *Material Partly-Owned Subsidiaries*

The consolidated financial statements include additional information about subsidiaries that have non-controlling interests that are material to the Jollibee Group (see Note 11). Management determined material partly-owned subsidiaries as those with balance of non-controlling interest greater than 5% of total non-controlling interests and those subsidiaries which type of activities they engage in is important to the Jollibee Group as at end of the year.



*Material Associates and Joint Ventures*

The consolidated financial statements include additional information about associates and joint ventures that are material to the Jollibee Group (see Note 11). Management determined material associates and joint ventures as those associates and joint ventures where the Jollibee Group's carrying amount of investment is greater than 5% of the total investments in an associate and interests in joint ventures as at end of the year.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at reporting date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Jollibee Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to changes on market circumstances arising beyond the control of the Jollibee Group. Such changes are reflected in the assumptions when they occur.

*Determination of Purchase Price Allocation.* In 2017, the Jollibee Group, through JSF, increased its ownership interest in SF Vung Tau Joint Stock Company and Blue Sky Holdings Ltd. (collectively SuperFoods Group) from 50% to 60% ownership interest for a total consideration of ₱4,812.5 million (see Note 11). In identifying the assets acquired and liabilities assumed, management has determined that part of the assets being acquired pertains to the trademarks of Highlands Coffee and Pho 24. Further, management has measured the trademarks and the property, plant and equipment that were acquired using the appraisal reports that were prepared by the external appraiser. The trademarks were valued using the relief-from-royalty method wherein fair value of trademarks is based on cost savings from owning the trademarks. Significant assumptions and estimates used include comparable royalty rates, long-term growth rates, discount rates based on available market data and revenue growth rate forecasts. The property, plant and equipment were valued using the replacement cost, specifically reproduction cost less depreciation for physical deterioration, functional and economic obsolescence. Adjustments were made to reproduction cost to reflect depreciation.

*Recoverability of Goodwill and Other Intangible Assets.* The Jollibee Group determines whether goodwill and other intangible assets with indefinite useful life is impaired at least on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating the value in use requires the Jollibee Group to make an estimate of the expected long-term growth rates and earnings before interest, taxes, depreciation and amortization (EBITDA) from the CGU and also consider market data in determining discount rate in order to calculate the present value of those cash flows.

Management has determined that goodwill and other intangible assets are not impaired. The carrying amount of goodwill and other intangible assets amounted to ₱15,730.2 million and ₱9,086.7 million as at December 31, 2017 and 2016, respectively (see Note 14).

*Recoverability of Interests in and Advances to Joint Ventures, Co-venturers and Associates.* The Jollibee Group performs impairment test of its interests in and advances to joint ventures, co-venturers and associates when there are facts and circumstances indicating that their carrying amounts exceed their recoverable amounts. Determining the recoverable amount of assets, which requires the determination of future cash flows expected to be generated from the continued operations of joint ventures and associates, requires the Jollibee Group to make significant assumptions that can materially affect the consolidated financial statements. These assumptions include long-term growth rates, EBITDA and discount rate. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial position and performance.



The gain (loss) from divestment of subsidiaries and interest in a joint venture recognized in 2017, 2016 and 2015 amounted to (₱116.2 million), ₱66.7 million and nil, respectively (see Notes 11 and 23). The carrying amount of interests in and advances to joint ventures, co-venturers and associates amounted to ₱7,492.8 million and ₱9,873.3 million as at December 31, 2017 and 2016, respectively (see Note 11).

*Realizability of Deferred Tax Assets.* The carrying amounts of deferred tax assets at each reporting date is reviewed and reduced to the extent that sufficient taxable profits are available to allow all or part of the deferred tax assets to be utilized. The Jollibee Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income. This forecast is based on future expectations on revenue and expenses as well as management's plans and strategies for the relevant entities.

The carrying amount of deferred tax assets amounted to ₱4,372.7 million and ₱2,894.1 million as at December 31, 2017 and 2016, respectively (see Note 24).

*Provisions and Contingencies.* The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the Jollibee Group's legal counsels and based upon an analysis of potential results (see Note 17). The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and application of laws and rulings. Management believes that the ultimate liability, if any, with respect to the litigations, claims and disputes will not materially affect the financial position and performance of the Jollibee Group.

Total outstanding provisions amounted to ₱825.1 million and ₱30.5 million as at December 31, 2017 and 2016, respectively (see Notes 17 and 29).

*Recoverability of Property, Plant and Equipment and Investment Properties.* The Jollibee Group performs impairment review of property, plant and equipment and investment properties when certain impairment indicators are present. Determining the fair value of assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Jollibee Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Jollibee Group to conclude that the assets are impaired. Any resulting impairment loss could have a material adverse impact on the Jollibee Group's financial position and performance.

Reversal of impairment loss amounted to ₱2.1 million, ₱2.0 million and nil in 2017, 2016 and 2015, respectively, while the provision for impairment loss amounted to ₱431.9 million, ₱42.7 million and nil in 2017, 2016 and 2015, respectively (see Notes 12 and 22).

The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱21,742.8 million and ₱17,639.0 million as at December 31, 2017 and 2016, respectively (see Notes 12 and 13).

*Impairment of Receivables.* The Jollibee Group maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Jollibee Group's relationship with the customers and counterparties, average age of accounts and collection experience. The Jollibee Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is done quarterly and annually using a combination of specific and collective assessments. The amount and timing of recorded expenses for any period would differ if the Jollibee Group made different judgments or utilized different methodologies. An increase in allowance account would increase general and administrative expenses and decrease current assets.



Provision for impairment loss on receivables in 2017, 2016 and 2015 amounted to ₱143.8 million, ₱91.4 million and ₱325.9 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱20.7 million, ₱3.2 million and ₱4.6 million were recognized in 2017, 2016 and 2015, respectively (see Note 22). The carrying amount of receivables amounted to ₱3,941.1 million and ₱3,376.7 million as at December 31, 2017 and 2016, respectively (see Note 7).

*Net Realizable Value of Inventories.* The Jollibee Group writes down inventories to net realizable value, through the use of an allowance account, whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

The estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amounts the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed on a regular basis to reflect the accurate valuation in the financial records.

The Jollibee Group assessed that the net realizable value for some inventories is lower than cost, hence, it recognized provision for inventory obsolescence amounting to ₱7.4 million, ₱78.6 million and ₱11.0 million in 2017, 2016 and 2015, respectively (see Note 22).

In addition, reversal of previously recognized provisions amounting to ₱53.8 million, ₱18.1 million and ₱12.0 million were recognized in 2017, 2016 and 2015, respectively (see Note 22). The carrying amount of inventories amounted to ₱6,835.5 million and ₱5,987.3 million as at December 31, 2017 and 2016, respectively (see Note 8).

*Present Value of Defined Benefit Obligation.* The pension expense as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates and the future salary increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

Future salary increases are based on budgetary salary increases.

The carrying amount of pension liability amounted to ₱1,489.5 million and ₱1,658.2 million as at December 31, 2017 and 2016, respectively (see Note 25).

*Share-based Payments.* The Parent Company measures the cost of its equity-settled transactions with management and employees by reference to the fair value of the equity instruments at the grant date. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. The estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about these inputs. The fair value of the share option is being determined using the Black-Scholes Option Pricing Model. The expected life of the stock options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of the Parent Company.



Total expense arising from share-based payment recognized by the Jollibee Group amounted to ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, respectively (see Notes 22 and 26).

*Estimation of Useful Lives of Property, Plant and Equipment, Investment Properties and Intangible Assets with Definite Useful Lives.* The Jollibee Group estimates the useful lives of property, plant and equipment, investment properties and intangible assets with definite useful lives based on the period over which the property, plant and equipment, investment properties and intangible assets are expected to be available for use and on the collective assessment of the industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment, investment properties and intangible assets are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of the said assets. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amount and timing of recording the depreciation and amortization for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, investment properties and intangible assets would increase the recorded depreciation and amortization and decrease noncurrent assets.

There was no change in the estimated useful lives of property, plant and equipment, investment properties and intangible assets in 2017 and 2016.

*Derivative on Put / Call Rights on SJBFLC.* The Jollibee Group has a derivative arising from put / call rights on the controlling interest in SJBFLC.

The derivative from put / call rights derive value from the fair value of SJBFLC's equity, which considers forecasted cash flows from its operations and its cost of capital, and the price to exercise such put / call rights, which consider SJBFLC's EBITDA near transaction date and exit multiples based on SJBFLC's achievement of sales targets. Such derivative is valued using discounted cash flows model, which also takes into account assumptions on the volatility of the fair value of SJBFLC's equity and discount rate to arrive at present value, among others. Changes in the assumptions mentioned above can result to change in the amount recognized as derivative and may result to either a derivative asset or liability as recognized in the consolidated statements of financial position.

The Jollibee Group recognized a derivative liability amounting to ₱51.0 million as at December 31, 2017 and a derivative asset amounting to ₱78.3 million as at December 31, 2016 from put / call rights (see Note 11).

*Fair Value of Financial Assets and Liabilities.* When the fair values of financial assets and financial liabilities recorded or disclosed in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair value of financial assets and liabilities are discussed in Note 31.



## 5. Segment Information

For management purposes, the Jollibee Group is organized into segments based on the nature of the products and services offered and geographical locations. The Executive Management Committee monitors the operating results of its segments separately for resource allocation and performance assessment. Segment results are evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

### Business Segments

The Jollibee Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

- The food service segment is involved in the operations of QSRs and the manufacture of food products to be sold to Jollibee Group-owned and franchised QSR outlets.
- The franchising segment is involved in the franchising of the Jollibee Group's QSR store concepts.
- The leasing segment leases store sites mainly to the Jollibee Group's independent franchisees.

The following tables present certain information on revenues, expenses, assets and liabilities and other segment information of the different business segments as at and for the years ended December 31, 2017, 2016 and 2015:

	2017				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱124,972,802	₱6,038,664	₱565,085	₱-	₱131,576,551
Inter-segment revenues	38,836,601	2,928,473	8,205,610	(49,970,684)	-
Segment revenues	163,809,403	8,967,137	8,770,695	(49,970,684)	131,576,551
Segment expenses	(162,923,487)	(2,928,473)	(8,396,342)	49,970,684	(124,277,618)
Impairment losses on receivables, inventories, property, plant and equipment and other assets - net of reversals	(629,278)	-	-	-	(629,278)
Equity in net losses of joint ventures and associates - net	(282,645)	-	-	-	(282,645)
Other segment income	2,072,932	-	25,821	-	2,098,753
<b>Segment result</b>	<b>₱2,046,925</b>	<b>₱6,038,664</b>	<b>₱400,174</b>	<b>₱-</b>	<b>8,485,763</b>
Interest income					259,567
Interest expense					(405,820)
Income before income tax					8,339,510
Provision for income tax					(1,666,928)
<b>Net income</b>					<b>₱6,672,582</b>
<b>Assets and Liabilities</b>					
Segment assets	₱85,523,719	₱-	₱351,363	₱-	₱85,875,082
Deferred tax assets - net	3,908,103	-	710	-	3,908,813
<b>Consolidated assets</b>	<b>₱89,431,822</b>	<b>₱-</b>	<b>₱352,073</b>	<b>₱-</b>	<b>₱89,783,895</b>
Segment liabilities	₱29,587,940	₱-	₱83,937	₱-	₱29,671,877
Deferred tax liabilities - net	1,188,995	-	-	-	1,188,995
Long-term debt - including current portion	16,117,271	-	-	-	16,117,271
Income tax payable	221,713	-	2,060	-	223,773
<b>Consolidated liabilities</b>	<b>₱47,115,919</b>	<b>₱-</b>	<b>₱85,997</b>	<b>₱-</b>	<b>₱47,201,916</b>
<b>Other Segment Information</b>					
Capital expenditures	₱8,974,430	₱-	₱-	₱-	₱8,974,430
Depreciation and amortization	4,739,924	-	5,242	-	4,745,166



	2016				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱108,263,045	₱5,268,921	₱279,504	₱-	₱113,811,470
Inter-segment revenues	33,576,257	1,757,050	5,386,826	(40,720,133)	-
Segment revenues	141,839,302	7,025,971	5,666,330	(40,720,133)	113,811,470
Segment expenses	(140,568,751)	(1,757,050)	(5,551,305)	40,720,133	(107,156,973)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	(189,450)	-	-	-	(189,450)
Equity in net losses of joint ventures and associates - net	(337,145)	-	-	-	(337,145)
Other segment income	1,576,667	-	6,256	-	1,582,923
<b>Segment result</b>	<b>₱2,320,623</b>	<b>₱5,268,921</b>	<b>₱121,281</b>	<b>₱-</b>	<b>7,710,825</b>
Interest income					286,913
Interest expense					(267,618)
Income before income tax					7,730,120
Provision for income tax					(1,676,611)
<b>Net income</b>					<b>₱6,053,509</b>
<b>Assets and Liabilities</b>					
Segment assets	₱69,760,738	₱-	₱382,119	₱-	₱70,142,857
Deferred tax assets - net	2,582,785	-	2,710	-	2,585,495
<b>Consolidated assets</b>	<b>₱72,343,523</b>	<b>₱-</b>	<b>₱384,829</b>	<b>₱-</b>	<b>₱72,728,352</b>
Segment liabilities	₱25,391,995	₱-	₱83,679	₱-	₱25,475,674
Deferred tax liabilities - net	506,577	-	-	-	506,577
Long-term debt - including current portion	12,155,366	-	-	-	12,155,366
Income tax payable	307,505	-	1,826	-	309,331
<b>Consolidated liabilities</b>	<b>₱38,361,443</b>	<b>₱-</b>	<b>₱85,505</b>	<b>₱-</b>	<b>₱38,446,948</b>
<b>Other Segment Information</b>					
Capital expenditures	₱6,717,839	₱-	₱-	₱-	₱6,717,839
Depreciation and amortization	3,990,980	-	4,888	-	3,995,868

	2015				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	₱96,052,831	₱4,518,123	₱208,764	₱-	₱100,779,718
Inter-segment revenues	31,188,088	1,493,169	4,284,181	(36,965,438)	-
Segment revenues	127,240,919	6,011,292	4,492,945	(36,965,438)	100,779,718
Segment expenses	(126,142,364)	(1,493,169)	(4,434,288)	36,965,438	(95,104,383)
Impairment losses on receivables and inventories - net of reversals	(320,304)	-	-	-	(320,304)
Equity in net losses of joint ventures and an associate	(189,086)	-	-	-	(189,086)
Other segment income	1,229,687	-	7,070	-	1,236,757
<b>Segment result</b>	<b>₱1,818,852</b>	<b>₱4,518,123</b>	<b>₱65,727</b>	<b>₱-</b>	<b>6,402,702</b>
Interest income					257,783
Interest expense					(225,544)
Income before income tax					6,434,941
Provision for income tax					(1,388,608)
<b>Net income</b>					<b>₱5,046,333</b>
<b>Other Segment Information</b>					
Capital expenditures	₱4,696,767	₱-	₱-	₱-	₱4,696,767
Depreciation and amortization	3,431,249	-	4,428	-	3,435,677

### Geographical Segments

The Jollibee Group's geographical segments are based on the location of the assets producing revenues in the Philippines and in other locations (which includes PRC, USA, UAE, Hongkong, Brunei, Saudi Arabia, Singapore, Kuwait, Qatar and Vietnam). Sales to external customers disclosed in the geographical segments are based on the geographical location of the customers.

Majority of the Jollibee Group's revenues were generated from the Philippines, which is the Parent Company's country of domicile.





The Jollibee Group does not have a single external customer which revenue amounts to 10% or more of the Jollibee Group's revenues.

The following tables present segment revenues, segment assets and capital expenditures of the Jollibee Group's geographical segments:

	<b>2017</b>			
	<b>Philippines</b>	<b>International</b>	<b>Eliminations</b>	<b>Consolidated</b>
Segment revenues	<b>₱103,157,177</b>	<b>₱28,937,959</b>	<b>(₱518,585)</b>	<b>₱131,576,551</b>
Segment assets	<b>47,459,418</b>	<b>38,415,664</b>	-	<b>85,875,082</b>
Capital expenditures	<b>7,382,960</b>	<b>1,591,470</b>	-	<b>8,974,430</b>

	<b>2016</b>			
	<b>Philippines</b>	<b>International</b>	<b>Eliminations</b>	<b>Consolidated</b>
Segment revenues	<b>₱90,625,295</b>	<b>₱23,594,721</b>	<b>(₱408,546)</b>	<b>₱113,811,470</b>
Segment assets	<b>42,562,829</b>	<b>27,580,028</b>	-	<b>70,142,857</b>
Capital expenditures	<b>5,493,783</b>	<b>1,224,056</b>	-	<b>6,717,839</b>

	<b>2015</b>			
	<b>Philippines</b>	<b>International</b>	<b>Eliminations</b>	<b>Consolidated</b>
Segment revenues	<b>₱78,421,701</b>	<b>₱22,675,693</b>	<b>(₱317,676)</b>	<b>₱100,779,718</b>
Capital expenditures	<b>3,547,641</b>	<b>1,149,126</b>	-	<b>4,696,767</b>

## 6. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	<b>2017</b>	<b>2016</b>
Cash on hand	<b>₱344,976</b>	<b>₱295,716</b>
Cash in banks	<b>15,120,958</b>	<b>9,672,006</b>
Short-term deposits	<b>5,641,540</b>	<b>6,765,624</b>
	<b>₱21,107,474</b>	<b>₱16,733,346</b>

Cash in banks earn interest at the respective savings or special demand deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Jollibee Group, and earn interest at the respective short-term deposit rates.

The Jollibee Group also has short-term investments amounting to ₱1,413.4 million and ₱726.0 million as at December 31, 2017 and 2016, respectively. These pertain to deposits with maturities of more than three months but less than a year.

Interest income earned from cash and cash equivalents and short-term investments amounted to ₱149.3 million, ₱136.7 million and ₱118.0 million in 2017, 2016 and 2017, respectively (see Note 23).



## 7. Receivables

This account consists of:

	2017	2016
Trade	<b>₱4,224,981</b>	₱3,608,583
Less allowance for impairment loss	<b>690,119</b>	579,792
	<b>3,534,862</b>	3,028,791
Advances to employees	<b>144,791</b>	112,652
Current portion of employee car plan receivables	<b>88,971</b>	83,383
Interest receivable	<b>11,911</b>	10,807
Others	<b>160,538</b>	141,069
	<b>₱3,941,073</b>	₱3,376,702

The terms and conditions of the receivables are as follows:

- Trade receivables are noninterest-bearing and are generally settled on 30-60 day terms.
- Advances to employees, current portion of employee car plan receivables and other receivables are normally collectible within the next financial year. Other receivables consist of receivables from the retirement plan, the Social Security System (SSS) and insurance claims.

The movements in the allowance for impairment loss on trade receivables as at December 31 are as follows:

	2017	2016
Balance at beginning of year	<b>₱579,792</b>	₱520,055
Provisions (see Note 22)	<b>143,772</b>	91,415
Reversals (see Note 22)	<b>(20,705)</b>	(3,188)
Write-offs	<b>(12,797)</b>	(29,327)
Translation adjustments	<b>57</b>	837
Balance at end of year	<b>₱690,119</b>	₱579,792

The provisions in 2017 and 2016 resulted from specific and collective impairment assessments on trade receivables performed by the Jollibee Group.

## 8. Inventories

This account consists of:

	2017	2016
At cost:		
Food supplies and processed inventories	<b>₱6,377,956</b>	₱5,458,186
Packaging, store and other supplies	<b>434,999</b>	461,630
	<b>6,812,955</b>	5,919,816
At net realizable value -		
Novelty items	<b>22,559</b>	67,530
Total inventories at lower of cost and net realizable value	<b>₱6,835,514</b>	₱5,987,346



The cost of novelty items carried at net realizable value amounted to ₱55.1 million and ₱146.2 million as at December 31, 2017 and 2016, respectively.

The movements in the allowance for inventory obsolescence for novelty items as at December 31 are as follows:

	2017	2016
Balance at beginning of year	₱78,647	₱18,180
Reversals (see Note 22)	(53,819)	(18,129)
Provisions (see Note 22)	7,443	78,621
Translation adjustments	294	(25)
<b>Balance at end of year</b>	<b>₱32,565</b>	<b>₱78,647</b>

## 9. Other Current Assets

This account consists of:

	2017	2016
Deposits to suppliers and other third parties	₱1,417,735	₱1,278,972
Prepaid expenses:		
Taxes	1,499,728	1,019,538
Rent	526,809	625,560
Insurance and others	211,505	288,887
Receivable from sale of business (see Note 11)	76,400	214,836
Supplies	111,378	117,546
<b>Total</b>	<b>₱3,843,555</b>	<b>₱3,545,339</b>

Terms and conditions of other current assets are as follows:

- Deposits to suppliers and other third parties are generally applied to purchase of inventories and availment of services within the next financial year.
- Prepaid taxes mainly represent creditable withholding taxes that can be applied in the following year against the corporate income tax due or can be claimed as tax refund from the BIR. This also includes prepaid real property taxes which are expected to be utilized within the next twelve months.
- Prepaid rent pertains to the rent of store and office spaces that are paid in advance. Prepaid rent, insurance and others are normally utilized within the next financial period.
- Receivable from sale of business pertains to the current portion of receivables from Guangxi Zong Kai Food Beverage Investment Company Limited (GZK) as a result of the Jollibee Group's divestment in SPW (see Note 11).
- Supplies consist of various office and administrative supplies.



## 10. Available-for-Sale Financial Assets

This account consists mainly of shares in golf and leisure clubs as at December 31, 2017 and 2016.

The movements in this account are as follows:

	2017	2016
Balance at beginning of the year	P26,212	P21,462
Additions	450	-
Change in fair value	3,200	4,750
Balance at end of the year	P29,862	P26,212

The movement in unrealized gain on change in fair value of AFS financial assets account in 2017 and 2016 are as follows:

	2017	2016
Balance at beginning of the year	P4,750	P-
Unrealized gain due to change in fair value	3,200	4,750
Balance at end of the year	P7,950	P4,750

## 11. Business Combinations, Incorporation of New Subsidiaries, Interests in and Advances to Joint Ventures, Co-venturers and Associates, Divestments and Cessation of Operations

### A. Business Combinations

#### *Business Combination Achieved in Stages*

*SuperFoods Group.* On January 20, 2012, upon fulfillment of certain legal and regulatory requirements in Vietnam, the Jollibee Group, through JWPL, acquired effective ownership of 50% share in the business of the SuperFoods Group (includes SF Vung Tau Joint Stock Company (SFVT), Highlands Coffee Service JSC, Quantum Corp., Pho24 Corp., Blue Sky Holdings Limited Hongkong (Blue Sky), Sino Ocean Asia Limited Hongkong and Blue Sky Holdings Limited Macau) through formation of joint ventures. This consists of a 49% share in SFVT in Vietnam and a 60% share in Blue Sky in Hongkong (the SuperFoods Group Holding Companies). The formation of joint ventures is an implementation of the Framework Agreement made on May 20, 2011 between the Jollibee Group, through JSF, a 99% subsidiary of JWPL, and its co-venturers, Viet Thai International Joint Stock Company (VTIJS) and Viet Thai International Company Limited (VTI) (collectively, VTI Group). The SuperFoods Group operates the chain of Highlands Coffee shops, Pho 24 restaurants and Hard Rock Cafe stores, whose market is mostly in Vietnam, Hong Kong and Macau. The Framework Agreement provided for the Jollibee Group to contribute a total of USD25.0 million (P1,079.6 million) to gain 50% effective ownership in the joint ventures. Loans and deposits were made to the SuperFoods Group and the co-venturers prior to the formation of the joint ventures in 2012.

Pursuant to the Framework Agreement, the preliminary consideration for the 50% share in SuperFoods Group amounted to a cash payment of USD25.0 million (P1,079.6 million) in 2011.

On October 22, 2015, JSF contributed additional investment in SuperFoods Group amounting to USD0.7 million (P34.1 million).



The Supplemental Agreement further provides that JWPL shall be required to pay the co-venturers an additional amount in 2016 based upon achieving a positive amount determined in accordance with a formula contained in the agreement (earn-out formula). Based on management's assessment using the earn-out formula, no additional consideration needs to be recognized as at January 20, 2012, date of acquisition, and as at December 31, 2012 to 2016.

In accordance with the Framework Agreement, the Jollibee Group, through JSF, extended loans to SurperFoods Group. First and Second Supplements to the Loan Agreement were executed that basically extended the loan due dates.

On November 18, 2016, the Jollibee Group, through JSF, entered into an agreement with its co-venturers, VTIJS, to make SuperFoods Group a public company by listing in the Vietnam Stock Exchange with an Initial Public Offering (IPO) on or before July 2019. As part of the agreement, the ownership of the SuperFoods Group will be adjusted with the Jollibee Group, owning 60% of the joint venture and VTI owning 40%. With this agreement, the following loan structures were amended, as documented in the Third and Fourth Supplements to the Loan Agreement signed on December 29, 2016 and March 28, 2017, respectively.

#### Advances to SuperFoods Group

*Advances to SFVT.* On April 30, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱41.2 million) payable in February 2014 but was extended to September 30, 2017. The loan bears interest of 5% per annum. With the extension to September 30, 2017, the sum of principal and the accumulated interest as at April 2015, were subjected to 4.99% interest per annum. The loan was agreed to be used for general corporate purposes. Total interest from this loan recognized as interest income amounted to USD0.003 million (₱0.1 million), USD0.06 million (₱2.8 million) and USD0.05 million (₱2.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

On August 22, 2013, an additional loan was extended to the co-venturers in the SuperFoods Group amounting to USD1.0 million (₱44.1 million) payable in August 2014 but was extended to September 30, 2017. As at August 21, 2014, the principal was subject to 5% interest per annum. However, with the extension to September 30, 2017, the sum of principal and the accumulated interest starting August 22, 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.003 million (₱0.1 million), USD0.06 million (₱2.8 million) and USD0.05 million (₱2.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

The loans granted on April 30, 2013 and August 22, 2013, including accrued interests as at May 10, 2017, were converted to additional equity on SFVT upon the completion of the Settlement Transaction Documents and the approval of certain legal and regulatory requirements in Vietnam on May 10, 2017 as provided in the Third Supplement to the Loan Agreement signed on December 29, 2016.

*Advances to Blue Sky.* On June 10, 2011, a loan was extended to Blue Sky, the Hong Kong-based holding company, amounting to USD5.0 million (₱216.0 million) payable in June 2014. As at June 2014, the principal was subject to 5% interest per annum. However, with the extension of the due date to September 30, 2017, the sum of principal and the accumulated interest as at June 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.01 million (₱0.7 million), USD0.3 million (₱15.4 million) and USD0.3 million (₱14.7 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.



On May 7, 2012, an additional loan was extended to Blue Sky amounting to USD2.5 million (₱105.9 million) payable in May 2014. As at May 9, 2014, the principal was subjected to 5% interest per annum. However, with the extension of the due date to September 30, 2017, the sum of principal and the accumulated interest starting May 10, 2014 were subjected to 4.99% interest per annum. Total interest from this loan recognized as interest income amounted to USD0.01 million (₱0.3 million), USD0.1 million (₱7.4 million) and USD0.1 million (₱7.1 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

With the Third Supplement to the Loan Agreement signed on December 29, 2016 and upon the completion of the Settlement Transaction Documents, the loans to Blue Sky including accrued interests as at May 10, 2017 were converted into equity except for the balance of USD2.9 million (₱145.8 million). The carrying value of the remaining loan of Blue Sky to the Parent Company is eliminated in the consolidation process as at December 31, 2017.

The conversion of the loans and related accrued interests into equity is part of the agreement entered into by the Jollibee Group with VTI Group in adjusting the ownership in SuperFoods Group.

On May 10, 2017, a key step in the plan to list SuperFoods Group as a public company in the Vietnam Stock Exchange was completed by adjusting the ownership interest in the SuperFoods Group to 60% Jollibee Group and 40% VTI Group from its previous 50-50 ownership share. As a result, Jollibee Group obtained control over SuperFoods Group and started consolidating these companies as of acquisition date.

To help fund the SuperFoods Group's expansion plans, the Jollibee Group will henceforth take the lead in the former's capital raising activities and will work with various financial institutions in Vietnam and other part of Asia in this undertaking.

The details of the Jollibee Group's interests in the SuperFoods Group as at December 31 are as follows:

	2017	2016
Interest in a joint venture – cost	<b>₱1,120,659</b>	₱1,120,659
Cumulative equity in net losses:		
Balance at beginning of year	<b>(367,155)</b>	(323,331)
Equity in net earnings (loss) for the period	<b>17,484</b>	(43,824)
Balance at transfer date/end of year	<b>(349,671)</b>	(367,155)
Transferred to investment in a subsidiary in 2017	<b>(770,988)</b>	–
	–	753,504
Advances to SuperFoods Group:		
Balance at beginning of year	<b>604,638</b>	559,825
Converted to equity during the year	<b>(458,871)</b>	–
Accrual of interest	–	28,441
Transferred to advances to a subsidiary	<b>(145,767)</b>	–
Translation adjustments and others	–	16,372
Balance at end of year	–	604,638
	<b>₱–</b>	₱1,358,142



The fair value of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were as follows:

Cash and cash equivalents	₱105,251
Receivables	99,746
Inventories	86,664
Other current assets	137,035
Property, plant and equipment (see Note 12)	846,327
Trademarks (see Note 14)	4,145,013
Other noncurrent assets	223,240
<u>Total identifiable assets acquired</u>	<u>5,643,276</u>
Less:	
Trade payables and other current liabilities	488,645
Loans and other noncurrent liabilities (see Note 18)	569,523
Deferred tax liability	744,006
<u>Total identifiable liabilities assumed</u>	<u>1,802,174</u>
<u>Net identifiable assets acquired</u>	<u>₱3,841,102</u>

The Jollibee Group's investment in SuperFoods Group was previously accounted for as investment in a joint venture. In accordance with PFRS 3, with the Jollibee Group's acquisition of control over SuperFoods Group in 2017, the fair value of the previously held interest amounted to ₱2,099.7 million and the resulting gain from the re-measurement of the 50% previously held interest amounted to ₱1,328.7 million. A total of ₱2,712.7 million loan to SuperFoods Group was also converted to equity which was included in the consideration transferred.

The non-controlling interest was recognized as a proportion of the net assets acquired.

The amount of provisional goodwill recorded at acquisition date amounted to ₱2,507.8 million determined as follows:

Fair value of consideration transferred:	
<u>Fair value of previously held interest</u>	<u>₱2,099,721</u>
Advances converted to equity:	
Advances to VTI Group (see Part D of this note)	2,253,870
Advances to SuperFoods Group	458,871
	<u>2,712,741</u>
<u>Non-controlling interest's share in the net assets acquired</u>	<u>1,536,441</u>
<u>Aggregate amount</u>	<u>6,348,903</u>
<u>Less acquisition date - fair value of net assets acquired</u>	<u>3,841,102</u>
<u>Goodwill (see Note 14)</u>	<u>₱2,507,801</u>
The net cash inflow from the acquisition is as follows:	
<u>Cash acquired from subsidiary</u>	<u>₱105,251</u>

The provisional goodwill of ₱2,507.8 million is attributable to synergies and other benefits from the acquisition of SuperFoods Group.

From the acquisition date, SuperFoods Group contributed ₱67.3 million net income to the Jollibee Group. If the business combination had taken place at the beginning of 2017, contribution to consolidated revenue and net income for the year would have been ₱3,715.0 million and ₱100.9 million, respectively.



Summarized financial information of the SuperFoods Group based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements for the year ended December 31, 2016 are as follows:

Current assets	₱564,801
Noncurrent assets	1,244,239
<b>Total assets</b>	<b>₱1,809,040</b>
Current liabilities	₱772,840
Noncurrent liabilities	1,032,085
<b>Total liabilities</b>	<b>₱1,804,925</b>
Cash and cash equivalents	₱69,880
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-
Noncurrent financial liabilities (excluding provisions)	1,032,085

The amounts of the income and expense accounts for the period ended May 10, 2017 and for the year ended December 31, 2016 include the following:

	<b>May 2017</b>	December 2016
Revenues	<b>₱1,467,717</b>	₱3,213,339
Depreciation and amortization	<b>67,865</b>	201,971
Interest income	<b>1,456</b>	6
Interest expense	<b>24,284</b>	74,645
Provision for income tax	<b>27,406</b>	38,727
Net income (loss)	<b>34,968</b>	(87,648)
Total comprehensive income (loss)	<b>34,968</b>	(87,648)
		2016
Net assets		₱4,115
Proportion of the Jollibee Group's ownership		50%
		2,057
Goodwill		708,891
Cumulative translation adjustments		42,556
		<b>₱753,504</b>

*Business Combination through Acquisition of Equity Shares*

Acquisition in 2016

*Goldstar Food Trade and Service Company Ltd (GSC).* The Jollibee Group, through its wholly-owned subsidiary, Jollibee Vietnam Corporation Ltd., entered into a Capital Transfer Agreement to acquire 100% equity of GSC, a local Vietnamese company operating as miscellaneous food stores in Pho Tu, Vietnam. The capital transfer was for a cash consideration of USD0.2 million (₱8.6 million). The transfer was duly approved by the government of Vietnam in September 2016.





The fair value of the identifiable assets acquired and liabilities assumed as at the date of the acquisition were as follows:

Cash and cash equivalents	₱121,959
Receivables	1,480
Inventories	15,886
Other current assets	80,447
Property, plant and equipment (see Note 12)	174,088
Other noncurrent assets	19,400
<u>Total identifiable assets acquired</u>	<u>413,260</u>
Less:	
Trade payables and other current liabilities	213,463
Short-term loans	358,127
<u>Total identifiable liabilities assumed</u>	<u>571,590</u>
<u>Net identifiable liabilities assumed</u>	<u>₱158,330</u>

The amount of final goodwill recorded at acquisition date amounted to ₱166.9 million, determined as follows:

Fair value of the consideration transferred:	
Cash consideration	₱8,601
Add acquisition date - net of the fair value of liabilities assumed	158,330
<u>Goodwill (see Note 14)</u>	<u>₱166,931</u>

The net cash inflow from the acquisition is as follows:	
Cash acquired from subsidiary	₱121,959
Less cash paid on acquisition	8,601
<u>Total</u>	<u>₱113,358</u>

The goodwill of ₱166.9 million recognized arising from the acquisition of GSC consists largely of the synergies and economies of scale expected from combining the operations of GSC and the Jollibee Group.

In 2016, GSC contributed ₱15.9 million net income to the Jollibee Group. If the acquisition had taken place at the beginning of 2016, revenues would have been ₱169.5 million and net income for the Jollibee Group would have been ₱49.2 million in 2016.

#### *Business Combination through Purchase of Assets*

*Chowking US Operations.* On May 27, 2011, the Jollibee Group, through its wholly-owned subsidiary, TTC, entered into an Asset Purchase Agreement with Fortune Capital Corporation (FCC), owner and operator of all Chowking stores in the USA as the master licensee therein, to purchase the property and equipment, inventories and security deposits of the twenty (20) existing stores of FCC. The purchase consideration amounted to USD16.0 million (₱693.3 million). The Jollibee Group paid USD12.0 million (₱520.0 million) of the total consideration as at December 31, 2011, balance is payable over the next five (5) years.

The balance of the liability for acquisition of Chowking US operations amounting to USD0.7 million (₱34.6 million) in 2015 was fully settled on May 27, 2016.

With this acquisition, the Jollibee Group took a more active role to further the growth of the Chowking business in the USA.



## B. Incorporation of New Subsidiaries

*Golden Piatto Pte. Ltd. (Golden Piatto).* On March 31, 2017, the Jollibee Group, through its wholly owned subsidiary, GPPL, entered into an agreement with Blackbird Holdings Pte. Ltd. (Blackbird) to own and operate Cibo Felice S. R. L. (Cibo Felice), the first Jollibee store in Italy. As at December 31, 2017, Cibo Felice has not yet started its commercial operations.

Golden Piatto incorporated on April 12, 2017, is 75% owned by GPPL and 25% owned by Blackbird. GPPL and Blackbird have committed to invest up to EUR1 million (₱60.2 million) to Golden Piatto, of which EUR0.8 million (₱48.2 million) will be contributed by GPPL in proportion to its ownership in the business. As at December 31, 2017, capital contribution of GPPL to Golden Piatto amounted to USD0.9 million (₱43.7 million).

*Honeybee Foods (Canada) Corporation (HFCC).* On May 7, 2015, the Jollibee Group, through HFC, incorporated HFCC to own and operate Jollibee restaurants in Canada. As at December 31, 2017, no capital investment has been made other than the investment to incorporate.

HFCC's first Jollibee store located in Winnipeg, Canada started its commercial operations on December 15, 2016.

*Golden Cup Pte. Ltd. (Golden Cup).* On December 19, 2014, the Jollibee Group, through JWPL, entered into a joint agreement to form Golden Cup together with Jasmine Asset Holding Ltd. (Jasmine), to own and operate Dunkin' Donuts restaurants in the PRC.

JWPL owns 60% of the business and Jasmine owns the other 40%. JWPL and Jasmine have committed to invest up to USD300.0 million to the Joint Venture, of which up to USD180.0 million will be contributed by JWPL in proportion to its ownership in the business. Golden Cup was incorporated on December 22, 2014. The first store started its commercial operations in February 2016.

As at December 31, 2017 and 2016, capital contributions of the Jollibee Group to Golden Cup amounted to USD27.6 million (₱1,340.0 million).

Pursuant to the Master Franchise Agreement signed on January 5, 2015 between Dunkin' Donuts Franchising LLC and Golden Cup, a market entry fee amounting to USD2.1 million (₱93.9 million) was paid by Golden Cup to Dunkin' Donuts on the signing date (see Note 15).

## C. Material Non-Controlling Interest

The Jollibee Group has subsidiaries with material non-controlling interest as provided below.

Proportion of equity interest held by non-controlling interest:

	Country of incorporation and operation	2017	2016	2015
GCPL	Singapore	40%	40%	—
Mang Inasal	Philippines	—	—	30%
HBFPPL	Singapore	—	—	30%
San Ping Wang	PRC	—	—	45%



During 2016, the following non-controlling interest were derecognized either by acquisition of the minority interest or by divestment of interest as set out below:

Mang Inasal

On April 22, 2016, the Parent Company acquired the remaining 30% minority stake in Mang Inasal for the purchase price of ₱2,000.0 million in a cash transaction. The acquisition resulted to Mang Inasal becoming a wholly owned subsidiary of the Parent Company.

The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition, amounting to ₱1,217.6 million, was recognized under the “Excess of cost over the carrying value of non-controlling interests acquired”, a separate component of “Equity Attributable to Equity Holders of the Parent Company” in the consolidated statements of financial position (see Note 19).

HBFPPL

On February 23, 2016, JWPL entered into an agreement with Hua Xia Harvest Holdings Pte. Ltd. (Hua Xia) to acquire Hua Xia’s 30% equity shareholding in its subsidiary, HBFPPL. Under the terms of the agreement, Hua Xia shall sell and convey to JWPL its 30% equity interests in HBFPPL while HBF-Anhui shall sell and convey to Hua Xia’s nominee entity the assets and contracts related to the third-party supply business.

The acquisition by JWPL was completed on November 21, 2016 with the approval of the China government on the transfer of assets related to the third-party supply business. This resulted to a loss on transfer of assets amounting to ₱8.2 million which is recognized in the statements of comprehensive income (see Note 23). The transfer of the 30% equity was approved and registered in Singapore on November 22, 2016. With the transfer, JWPL now owns 100% of HBFPPL.

The purchase price was USD10.3 million (₱514.9 million). The difference between the acquisition cost and the carrying value of the minority interest at the date of the acquisition amounting to ₱391.8 million was recognized under the “Excess of cost over the carrying value of non-controlling interests acquired” (see Note 19).

San Pin Wang

See Part E of this note for the discussion on the divestment of San Pin Wang.

The summarized financial information of GCPL in 2017 and 2016 are provided below. These information are based on amounts before intercompany elimination.

*Summarized Statements of Comprehensive Income*

	2017	2016
Revenues	<b>₱318,082</b>	₱100,920
Net loss	<b>(674,982)</b>	(324,509)
Other comprehensive income	<b>8,109</b>	8,269
Total comprehensive loss	<b>(666,873)</b>	(316,240)
Total comprehensive loss attributable to non-controlling interests	<b>(266,749)</b>	(126,496)
Dividends paid to non-controlling interests	-	-



*Summarized Statements of Financial Position*

	2017	2016
Current assets	<b>₱1,513,179</b>	₱2,001,100
Noncurrent assets	<b>373,698</b>	439,532
Current liabilities	<b>709,617</b>	596,500
Noncurrent liabilities	-	-
Total equity	<b>1,177,260</b>	1,844,132
Equity attributable to non-controlling interests	<b>470,904</b>	737,653

*Summarized Cash Flow Information*

	2017	2016
Net cash used in operating activities	<b>(₱430,134)</b>	₱31,950
Net cash provided by investing activities	<b>57,512</b>	(237,729)
Net cash provided by financing activities	-	1,789,020
Net decrease in cash and cash equivalents	<b>(372,622)</b>	1,583,241

D. Interests in and Advances to Joint Ventures, Co-venturers and Associates

	2017	2016
Interests in joint ventures:		
SJBF LLC	<b>₱5,460,055</b>	₱5,258,923
Cargill Joy Poultry Meats Production, Inc.	<b>151,458</b>	229,481
Golden Bee Foods Restaurant LLC	<b>198,767</b>	100,163
WJ Investments Limited	-	151,629
SuperFoods Group	-	753,504
	<b>5,810,280</b>	6,493,700
Interests in associates:		
Entrek (B) SDN BHD	<b>137,237</b>	112,227
Cargill Joy Poultry Realty, Inc.	<b>9,664</b>	9,984
	<b>146,901</b>	122,211
Advances to:		
VTI Group	<b>1,535,590</b>	2,652,748
SuperFoods Group	-	604,638
	<b>1,535,590</b>	3,257,386
	<b>₱7,492,771</b>	₱9,873,297

*Interests in Joint Ventures*

*Advances to VTI Group.* The details of the Jollibee Group's advances to VTI Group as at December 31 are as follows:

	2017	2016
Balance at beginning of year	<b>₱2,652,748</b>	₱1,988,400
Converted to equity during the year	<b>(2,253,870)</b>	-
Additions during the year	<b>1,059,786</b>	447,480
Accrual of interest	<b>38,952</b>	89,200
Translation adjustments and others	<b>37,974</b>	127,668
Balance at end of year	<b>₱1,535,590</b>	₱2,652,748



Loan to VTI Group amounting to USD35.0 million (₱1,523.9 million), extended on June 9, 2011, is payable in December 2016. In accordance with the Fourth Supplement to the Loan Agreement signed on March 28, 2017, the due date of the loan was further extended to May 31, 2017. This loan is secured by a mortgage by the VTI Group of all their shares in SuperFoods Group.

The loan bears interest of 5% per annum payable in lump sum on the due date. The loan was agreed to be used for general corporate purposes. Total interest from this loan, recognized as interest income, amounted to USD0.6 million (₱31.6 million), USD1.8 million (₱88.5 million) and USD1.8 million (₱88.2 million) for the period ended May 10, 2017 and years ended December 31, 2016 and 2015, respectively.

The Third Supplement to the Loan Agreement signed on December 29, 2016 provides the assignment of the USD35.0 million (₱1,735.3 million) loan receivable including accrued interests as at December 31, 2016 from JSF to JWPL. With the completion of the Settlement Transaction Documents and upon the approval of certain legal and regulatory requirements in Vietnam on May 10, 2017, the loan, including interests as at the same day, was contributed as additional capital to the SuperFoods Group.

On December 14, 2016, a loan of USD9.0 million (₱447.5 million) was extended to the VTI Group with an interest rate of 3.5% per annum. The loan was agreed to be used for SuperFoods Group's capital needs. The loan is part of the total agreed loan of USD30.0 million payable in eight (8) years from the first utilization date. On June 2, 2017, the additional loan of USD21.0 million (₱1,060.0 million) was granted to the VTI Group. The loan is secured by pledged shares in SFVT and Blue Sky which will be released in proportion to the amount of the principal paid. Total interest from this loan recognized as interest income amounted to USD0.8 million (₱37.6 million) and USD0.1 million (₱0.8 million) for the years ended December 31, 2017 and 2016.

*SuperFoods Group.* See Part A of this note for the discussion on the Interest and advances to SuperFoods Group.

*SJBF LLC (SJBF).* On October 8, 2015, the Jollibee Group, through JWPL, incorporated Bee Good! Inc. (BGI) in the state of Delaware, USA.

On October 13, 2015, BGI entered into an agreement with Smashburger Master LLC (Master) to acquire 40% of the outstanding equity interest of SJBF, the parent company of the entities comprising the Smashburger business, a fast casual better burger restaurant business based in the United States.

The consideration for BGI's 40% stake in SJBF amounted to USD99.5 million (₱4,629.5 million). Thereafter, a post-closing adjustment of USD0.8 million (₱36.6 million) to the purchase price at the closing date was recognized based on a pre-agreed mechanism with Master. The Jollibee Group settled with Master USD99.5 million (₱4,629.5 million) of the transaction price in December 2015. The remaining USD0.8 million (₱36.6 million) was settled in January 2016. In addition, acquisition-related costs consisting of professional fees for the Jollibee Group's financial, tax, accounting and legal advisors for the transaction amounted to ₱221.8 million.

In February 2016, September 2016 and November 2016, BGI made additional investments to SJBF amounting to USD4.0 million (₱189.0 million), USD4.6 million (₱221.4 million) and USD8.0 million (₱397.8 million), respectively.

On September 7, 2017 and March 24, 2017, BGI made additional investments to SJBF amounting to USD2.5 million (₱128.5 million) and USD8.0 million (₱402.6 million), respectively. The additional investments did not change BGI's equity interest in SJBF.



The agreement between BGI and Master dated October 27, 2015 provides for a mechanism wherein Master can sell or BGI can purchase up to an additional 35% equity interest in SJBF (First Put/Call Right) between January 1, 2018 and January 1, 2021, and up to an additional 25% equity interest from the closing date or after expiration of the First Put/Call Right and five years thereafter (Second Put/Call Right). The purchase price of the remaining 60% will be based on the achievement of certain financial performance targets agreed between BGI and Master.

However, on March 14, 2017, BGI and Master have amended their original agreement to enable BGI to purchase more shares in SJBF. With the amendment, BGI shall be entitled to purchase from Master an additional 45% of SJBF shares between the years 2018 and 2021, and to acquire the balance of 15% between 2019 at the earliest and 2026 at the latest.

On March 8, 2018, BGI executed the Purchase Agreement with Master for the acquisition of an additional 45% share of SJBF. This will increase BGI's ownership in SJBF from current 40% to 85%. The transaction, valued at USD100.0 million (₱5.2 billion), is expected to be completed in one to two months subject to government approvals in the USA and meeting certain closing conditions. JFC will pay Master through BGI in cash.

As a result of the first and second Put/Call Rights in the agreement, the Jollibee Group allocated ₱75.0 million of the purchase price to a derivative asset in 2015, representing the fair value of the First and Second Put/Call Rights on transaction date. The Jollibee Group recognized a derivative liability amounting to ₱51.0 million as at December 31, 2017 and a derivative asset amounting to ₱78.3 million as at December 31, 2016 related to Put/Call Rights. The marked-to-market loss in 2017 amounted to ₱129.3 million and the marked-to-market gain in 2016 amounted to ₱3.3 million (see Note 23).

The details of Jollibee Group's interest in SJBF as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture - cost:		
Balance at beginning of year	₱5,620,834	₱4,812,854
Additions during the year	531,147	807,980
Balance at end of year	6,151,981	5,620,834
Cumulative equity in net losses:		
Balance at beginning of year	(361,911)	(70,122)
Equity in net loss during the year	(330,015)	(291,789)
Balance at end of year	(691,926)	(361,911)
	<b>₱5,460,055</b>	<b>₱5,258,923</b>

Summarized financial information of SJBF based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	₱2,024,938	₱1,910,435
Noncurrent assets	4,792,879	5,886,847
Total assets	<b>₱6,817,817</b>	<b>₱7,797,282</b>
Current liabilities	₱5,164,688	₱1,287,258
Noncurrent liabilities	941,102	5,439,780
Total liabilities	<b>₱6,105,790</b>	<b>₱6,727,038</b>



The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	<b>₱1,459,318</b>	₱1,338,834
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	<b>4,047,423</b>	-
Noncurrent financial liabilities (excluding provisions)	<b>20,613</b>	4,217,929

The amounts of the income and expense accounts include the following:

	2017	2016	2015
Revenues	<b>₱9,905,070</b>	₱10,318,671	₱1,590,617
Depreciation and amortization	<b>599,675</b>	576,811	85,023
Interest expense	<b>340,820</b>	332,618	45,588
Net loss	<b>(825,038)</b>	(729,474)	(175,304)
Total comprehensive loss	<b>(825,038)</b>	(729,474)	(175,304)

	2017	2016
Net assets	<b>₱712,027</b>	₱1,070,244
Proportion of the Jollibee Group's ownership	<b>40%</b>	40%
Goodwill	<b>284,811</b>	428,098
Cumulative translation adjustments	<b>4,837,671</b>	4,837,671
	<b>337,573</b>	(6,846)
	<b>₱5,460,055</b>	₱5,258,923

*Cargill Joy Poultry Meats Productions, Inc. (Cargill Joy Poultry).* On May 24, 2016, the Parent Company entered into an agreement with Cargill Philippines, Inc., a wholly owned subsidiary of Cargill, Inc. (Cargill), to establish a joint venture entity to build and operate a poultry processing plant in Sto. Tomas, Batangas, Philippines. Cargill will oversee the setting up, management and operations of this facility.

The joint venture entity, incorporated as Cargill Joy Poultry Meats Production, Inc., is 70% owned by Cargill and 30% owned by the Parent Company. This entity will create an estimated 1,000 new full-time jobs and develop new opportunities in the farming community in Batangas and nearby provinces as local poultry farmers are contracted to grow chicken to supply the requirements of the processing plant. The poultry processing plant started its commercial operations on December 5, 2017.

The details of Jollibee Group's interest in Cargill Joy Poultry as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture – cost	<b>₱233,406</b>	₱233,406
Cumulative equity in net losses:		
Balance at beginning of year	<b>(3,925)</b>	-
Equity in net loss during the year	<b>(78,023)</b>	(3,925)
Balance at end of year	<b>(81,948)</b>	(3,925)
	<b>₱151,458</b>	₱229,481



Summarized financial information of the Cargill Joy Poultry based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	<b>₱992,531</b>	₱769,608
Noncurrent assets	<b>1,600,832</b>	-
<b>Total Assets</b>	<b>₱2,593,363</b>	₱769,608
Current liabilities	<b>₱2,060,619</b>	₱4,672
Noncurrent liabilities	<b>27,884</b>	-
<b>Total liabilities</b>	<b>₱2,088,503</b>	₱4,672

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	<b>₱83,406</b>	₱631,739
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	<b>375,116</b>	1,105
Noncurrent financial liabilities (excluding provisions)	<b>27,884</b>	-

The amounts of the income and expense accounts include the following:

	2017	2016
Revenues	<b>₱1,929,850</b>	₱-
Depreciation and amortization	<b>5,510</b>	-
Taxes and licenses	<b>6,890</b>	-
Interest income	<b>6,727</b>	8,643
Interest expense	<b>1,091</b>	-
Net loss	<b>(260,076)</b>	(13,083)
Total comprehensive loss	<b>(260,076)</b>	(13,083)
	<b>2017</b>	2016
Net assets	<b>₱504,860</b>	₱764,936
Proportion of the Jollibee Group's ownership	<b>30%</b>	30%
	<b>₱151,458</b>	₱229,481

*Golden Bee Foods Restaurants LLC (Golden Bee).* On February 25, 2014, the Jollibee Group, through GPPL, signed a joint agreement with Golden Crown Foods LLC (GCFL) to establish a joint venture entity to own and operate the Jollibee brand in the United Arab Emirates.

The joint venture entity, incorporated as Golden Bee on January 28, 2015, is 49% owned by GPPL and 51% owned by GCFL. GPPL and GCFL will share joint control and management of Golden Bee.

As at December 31, 2017, the Jollibee Group has invested USD0.8 million (₱33.9 million) in Golden Bee. The first store started commercial operations on May 4, 2015.





The details of the Jollibee Group's interest in the Golden Bee joint venture as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture - cost	<b>₱33,926</b>	₱33,926
Cumulative equity in net earnings:		
Balance at beginning of year	66,237	14,017
Equity in net earnings during the year	118,641	52,220
Dividends received during the year	(20,037)	-
Balance at end of year	<b>164,841</b>	66,237
	<b>₱198,767</b>	₱100,163

Summarized financial information of Golden Bee based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	<b>₱371,611</b>	₱92,129
Noncurrent assets	<b>258,303</b>	209,806
Total assets	<b>₱629,914</b>	₱301,935
Current liabilities	<b>₱224,935</b>	₱96,606

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	<b>₱142,980</b>	₱30,527
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	-	-

The amounts of the income and expense accounts include the following:

	2017	2016	2015
Revenues	<b>₱1,313,210</b>	₱689,150	₱203,010
Depreciation and amortization	<b>54,539</b>	14,652	2,531
Net income	<b>242,124</b>	106,571	28,607
Total comprehensive income	<b>242,124</b>	106,571	28,607
	<b>2017</b>	<b>2016</b>	
Net assets	<b>₱404,979</b>	₱205,329	
Proportion of the Jollibee Group's ownership	<b>49%</b>	49%	
	<b>198,440</b>	100,611	
Cumulative translation adjustments	<b>327</b>	(448)	
	<b>₱198,767</b>	₱100,163	

*WJ Investments Limited (WJ)*

See Part F of this note for the discussion on the cessation of WJ's operations.



*Interest in Associates*

*Entrek (B) SDN BHD (Entrek).* The Jollibee Group, through JIBL, has 1/3 or 33.3% ownership in Entrek, a company that operates Jollibee stores in Brunei.

The details of the Jollibee Group's interest in Entrek as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in an associate - cost	<b>₱16,660</b>	₱16,660
Cumulative equity in net earnings:		
Balance at beginning of year	95,567	75,612
Equity in net earnings during the year	25,010	19,955
Balance at end of year	<b>120,577</b>	95,567
	<b>₱137,237</b>	₱112,227

Summarized financial information of Entrek based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	<b>₱631,739</b>	₱523,344
Noncurrent assets	<b>199,488</b>	141,509
Total assets	<b>₱831,227</b>	₱664,853
Current liabilities	<b>₱330,429</b>	₱270,199
Noncurrent liabilities	<b>5,427</b>	4,505
Total liabilities	<b>₱335,856</b>	₱274,704

The amounts of the income and expense accounts include the following:

	2017	2016	2015
Revenues	<b>₱733,217</b>	₱629,123	₱507,255
Depreciation	<b>38,381</b>	32,177	21,016
Net income	<b>75,031</b>	59,865	40,694
Total comprehensive income	<b>75,031</b>	59,865	40,694
	<b>2017</b>	<b>2016</b>	
Net assets	<b>₱495,371</b>	₱390,149	
Proportion of the Jollibee Group's ownership	<b>33.33%</b>	33.33%	
	<b>165,124</b>	130,050	
Impairment loss recognized in 2011	<b>(16,660)</b>	(16,660)	
Cumulative translation adjustments	<b>(11,227)</b>	(1,163)	
	<b>₱137,237</b>	₱112,227	

*Cargill Joy Poultry Realty, Inc. (Cargill Joy Realty).* On May 24, 2016, the Parent Company entered into an agreement with Cargill Philippines to establish Cargill Joy Realty, which lease the land where the Cargill Joy Poultry plant is located.



The details of the Jollibee Group's interest in Cargill Joy Realty as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in an associate – cost	<b>₱10,586</b>	₱10,586
Cumulative equity in net losses:		
Balance at beginning of year	(602)	–
Equity in net loss during the year	(320)	(602)
Balance at end of year	(922)	(602)
	<b>₱9,664</b>	₱9,984

Summarized financial information of Cargill Joy Realty based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	<b>₱6,035</b>	₱25,724
Noncurrent assets	<b>62,152</b>	61,440
Total assets	<b>₱68,187</b>	₱87,164
Current liabilities	<b>₱689</b>	₱18,338
Noncurrent liabilities	<b>35,285</b>	35,546
Total liabilities	<b>₱35,974</b>	₱53,884

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	<b>₱5,746</b>	₱25,548
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	<b>185</b>	2
Noncurrent financial liabilities	<b>35,285</b>	35,546

The amounts of the income and expense accounts include the following:

	2017	2016
Revenues	<b>₱1,400</b>	₱–
Taxes and licenses	<b>60</b>	1,358
Interest expense	<b>1,414</b>	350
Net loss	<b>(1,067)</b>	(2,005)
Total comprehensive loss	<b>(1,067)</b>	(2,005)
	<b>2017</b>	<b>2016</b>
Net assets	<b>₱32,213</b>	₱33,280
Proportion of the Jollibee Group's ownership	<b>30%</b>	30%
	<b>₱9,664</b>	₱9,984



### E. Divestments

*San Pin Wang.* On March 9, 2012, the Jollibee Group, through JWPL, completed its acquisition of 55% equity interest of Guangxi San Pin Wang Food and Beverage Management Company Limited (San Pin Wang) which operates the San Pin Wang beef noodle business in South China. The other 45% of San Pin Wang is held by GZK.

A contingent consideration had been agreed as part of the purchase agreement with GZK. This consideration is contingent on meeting target net income after tax of San Pin Wang for the next three years. In May 2013, the Jollibee Group paid RMB7.5 million (₱50.1 million) as the contingent consideration for the year 2012. In May 2015, another payment was made amounting to RMB6.8 million (₱50.1 million) as the contingent consideration for the year 2014. The remaining final contingent consideration for the year 2015 amounting to RMB3.3 million (₱23.6 million) was fully settled on May 13, 2016.

On December 30, 2016, JWPL divested its shareholdings in San Pin Wang making GZK the 100% registered owner of San Pin Wang. This resulted to a gain on sale of ₱158.9 million which is recognized in the statements of comprehensive income (see Note 23). The divestment is part of the Jollibee Group's intention to focus on building its Yonghe King business, its largest business in China.

The consideration for the 55% stake of JWPL of about RMB90.0 million (₱644.5 million) is payable in five tranches, as follows:

Tranche	Date	Amount
1	December 19, 2016	RMB25,000
2	December 28, 2016	25,000
3	January 20, 2017	20,000
4	October 30, 2017	10,000
5	October 30, 2018	10,000
		<u>RMB90,000</u>

The first tranche was collected on December 31, 2016. The second to fourth tranches are shown as part of "Other current assets" and the fifth tranche is included as part of "Other noncurrent assets" in the consolidated statements of financial position as at December 31, 2016 (see Notes 9 and 15).

The second and third tranches were collected in January 2017 and the fourth tranche on October 27, 2017. Consequently, the fifth tranche is shown as part of "Other current assets" in the consolidated statements of financial position as at December 31, 2017 (see Note 9).

*ChowFun.* On March 31, 2011, the Jollibee Group, through its wholly-owned subsidiary, JWPL, acquired from Aspen Partners, LLC 2,400 shares of ChowFun Holdings, LLC (Chowfun) for USD3.4 million (PHP139.6 million), bringing its equity share to ChowFun to 80.55%. ChowFun is the developer and owner of Jinja Bar and Bistro in New Mexico, USA.

On December 31, 2016, the Jollibee Group divested its shareholdings in ChowFun for a consideration of USD1.6 million (₱79.6 million). The divestment was completed on December 23, 2016. ChowFun paid JWPL to redeem JWPL's 2,900 Class A Membership Units, equivalent to 80.55% equity shares. This resulted to a loss on sale of ₱84.0 million which is recognized in the statements of comprehensive income (see Note 23). The divestment is part of Jollibee Group's intention to concentrate its resources in building its larger businesses.



F. Cessation of Operations

*WJ Investments Limited (WJ)*. On August 22, 2012, the Jollibee Group, through JWPL and GPPL, entered into an agreement with Hoppime Ltd., a subsidiary of Wowprime Corporation of Taiwan (Wowprime) and some key executives of Wowprime, to establish a joint venture entity to own and operate the 12 Hotpot brand in the People’s Republic of China, Hong Kong and Macau. The “12 Hotpot” restaurant is known in Taiwan for its low-priced hotpot dishes.

The joint venture entity, incorporated as WJ Investments Limited (WJ), is 48%-owned by the Jollibee Group and 48%-owned by Wowprime’s subsidiary and executives. The remaining 4% is owned by certain individuals with experience in the retail sector in China. Through their subsidiaries, Jollibee and Wowprime have joint control and management of WJ.

On October 31, 2017, WJ ceased the operations of the 16 stores of the 12 Hotpot brand in the People’s Republic of China to focus in building the Jollibee Group’s larger and fast-growing business in China and other parts of the world. With this, WJ will be dissolved and liquidated. The Jollibee Group recognized a loss of ₱116.2 million in the statements of comprehensive income in 2017 (see Note 23).

The details of Jollibee Group’s interest in WJ as at December 31, 2017 and 2016 are as follows:

	2017	2016
Interest in a joint venture – cost	<b>₱414,872</b>	₱414,872
Cumulative equity in net losses:		
Balance at beginning of year	<b>(263,243)</b>	(194,063)
Equity in net loss during the year	<b>(35,422)</b>	(69,180)
Balance at end of year	<b>(298,665)</b>	(263,243)
Loss on cessation of operations (see Note 23)	<b>(116,207)</b>	–
	<b>₱–</b>	₱151,629

Summarized financial information of WJ based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2017	2016
Current assets	<b>₱245,850</b>	₱282,556
Noncurrent assets	<b>77,700</b>	107,872
Total assets	<b>₱323,550</b>	₱390,428
Current liabilities	<b>₱43,060</b>	₱54,592
Noncurrent liabilities	<b>548</b>	–
	<b>₱43,608</b>	₱54,592

The amounts of assets and liabilities above include the following:

	2017	2016
Cash and cash equivalents	<b>₱235,008</b>	₱238,079
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–	–



The amounts of the income and expense accounts include the following:

	2017	2016	2015
Revenues	<b>₱328,479</b>	₱411,844	₱411,197
Depreciation and amortization	<b>30,380</b>	43,268	46,811
Interest income - net	<b>357</b>	6,673	3,309
Net loss	<b>(73,796)</b>	(144,126)	(172,407)
Total comprehensive loss	<b>(73,796)</b>	(144,126)	(172,407)
	<b>2017</b>	<b>2016</b>	
Net assets	<b>₱279,942</b>	₱335,836	
Proportion of the Jollibee Group's ownership	<b>48%</b>	48%	
	<b>134,372</b>	161,201	
Cumulative translation adjustments	<b>(18,165)</b>	(9,572)	
	<b>116,207</b>	151,629	
Loss on cessation of operations	<b>(116,207)</b>	-	
	<b>₱-</b>	₱151,629	

## 12. Property, Plant and Equipment

The rollforward analysis of property, plant and equipment are as follows:

	2017							
	Land and Land Improvements	Plant, Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
<b>Cost</b>								
Balance at beginning of year	₱673,250	₱2,743,294	₱17,177,082	₱15,529,426	₱1,230,895	₱611,648	₱902,457	₱38,868,052
Additions	-	125,603	1,378,159	1,357,891	120,455	62,795	5,859,893	8,904,796
Acquisition of a subsidiary (see Note 11)	-	345,548	18,615	447,010	-	54	35,100	846,327
Retirements and disposals	-	(32,056)	(855,947)	(645,084)	(52,011)	(6,276)	(266,498)	(1,857,872)
Reclassifications	-	146,073	2,497,428	1,383,419	141,582	2,008	(4,170,510)	-
Translation adjustments	264	17,065	246,509	104,869	865	2,037	10,411	382,020
Balance at end of year	673,514	3,345,527	20,461,846	18,177,531	1,441,786	672,266	2,370,853	47,143,323
<b>Accumulated Depreciation and Amortization</b>								
Balance at beginning of year	7,564	1,246,145	9,737,843	9,978,599	802,982	396,621	-	22,169,754
Depreciation and amortization (see Notes 21 and 22)	-	192,164	1,938,143	2,236,415	220,570	73,631	-	4,660,923
Retirements and disposals	-	(32,047)	(628,037)	(583,365)	(40,843)	(6,177)	-	(1,290,469)
Reclassifications	-	-	5,686	(263)	(5,423)	-	-	-
Translation adjustments	-	2,951	192,511	67,931	1,597	1,618	-	266,608
Balance at end of year	7,564	1,409,213	11,246,146	11,699,317	978,883	465,693	-	25,806,816
<b>Accumulated Impairment Losses</b>								
Balance at beginning of year	-	-	-	42,731	-	-	-	42,731
Additions (see Note 22)	-	-	-	431,939	-	-	-	431,939
Write-offs	-	-	-	(30,605)	-	-	-	(30,605)
Reversals (see Note 22)	-	-	-	(2,111)	-	-	-	(2,111)
Translation adjustments	-	-	-	739	-	-	-	739
Balance at end of year	-	-	-	442,693	-	-	-	442,693
<b>Net Book Value</b>	<b>₱665,950</b>	<b>₱1,936,314</b>	<b>₱9,215,700</b>	<b>₱6,035,521</b>	<b>₱462,903</b>	<b>₱206,573</b>	<b>₱2,370,853</b>	<b>₱20,893,814</b>

	2016							
	Land and Land Improvements	Plant, Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
<b>Cost</b>								
Balance at beginning of year	₱669,735	₱2,873,961	₱14,912,782	₱13,759,957	₱1,123,037	₱542,761	₱1,267,898	₱35,150,131
Additions	-	5,642	1,174,705	1,398,054	137,559	87,482	3,890,691	6,694,133
Acquisition of a subsidiary (see Note 11)	-	-	134,860	92,924	1,820	-	46	229,650
Divestments	-	(253,293)	(278,354)	(357,315)	(65,829)	(7,114)	(2,728)	(964,633)
Retirements and disposals	-	(400)	(1,243,336)	(890,892)	(129,080)	(14,565)	(104,532)	(2,382,805)
Reclassifications (see Note 13)	-	124,376	2,401,801	1,488,539	150,393	3,155	(4,151,214)	17,050
Translation adjustments	3,515	(6,992)	74,624	38,159	12,995	(71)	2,296	124,526
Balance at end of year	673,250	2,743,294	17,177,082	15,529,426	1,230,895	611,648	902,457	38,868,052

(Forward)



2016

	Land and Land Improvements	Plant, Buildings, Commercial Condominium Units and Improvements	Leasehold Rights and Improvements	Office, Store and Food Processing Equipment	Furniture and Fixtures	Transportation Equipment	Construction in Progress	Total
<b>Accumulated Depreciation and Amortization</b>								
Balance at beginning of year	₱7,528	₱1,157,960	₱9,138,113	₱9,206,534	₱750,596	₱340,248	₱-	₱20,600,979
Depreciation and amortization (see Notes 21 and 22)	36	81,479	1,729,314	1,848,220	177,586	70,984	-	3,907,619
Acquisition of a subsidiary (see Note 11)	-	-	23,372	32,190	-	-	-	55,562
Divestments	-	(9,721)	(123,369)	(288,583)	(7,076)	(3,292)	-	(432,041)
Retirements and disposals	-	(39)	(1,064,683)	(851,189)	(126,081)	(11,274)	-	(2,053,266)
Reclassifications (see Note 13)	-	17,050	7,744	(7,725)	(7)	(12)	-	17,050
Translation adjustments	-	(584)	27,352	39,152	7,964	(33)	-	73,851
Balance at end of year	7,564	1,246,145	9,737,843	9,978,599	802,982	396,621	-	22,169,754
<b>Accumulated Impairment Losses</b>								
Balance at beginning of year	-	-	-	2,000	-	-	-	2,000
Additions (see Note 22)	-	-	-	42,731	-	-	-	42,731
Reversals (see Note 22)	-	-	-	(2,000)	-	-	-	(2,000)
Balance at end of year	-	-	-	42,731	-	-	-	42,731
<b>Net Book Value</b>	<b>₱665,686</b>	<b>₱1,497,149</b>	<b>₱7,439,239</b>	<b>₱5,508,096</b>	<b>₱427,913</b>	<b>₱215,027</b>	<b>₱902,457</b>	<b>₱16,655,567</b>

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores. As at December 31, 2017 and 2016, no borrowing cost has been capitalized.

Loss on disposals and retirements of property, plant and equipment amounted to ₱174.5 million, ₱236.8 million and ₱136.7 million in 2017, 2016 and 2015, respectively (see Note 22).

The cost of fully depreciated property, plant and equipment still in use amounted to ₱12,935.4 million and ₱9,929.9 million as at December 31, 2017 and 2016, respectively.

The Jollibee Group performed impairment assessments of its fixed assets considering that there are observable indications that the assets' values have significantly declined during the period as a result of the passage of time. Consequently, allowance for impairment loss on office, store and food processing equipment amounted to ₱442.7 million and ₱42.7 million as at December 31, 2017 and 2016, respectively.

No property, plant and equipment as at December 31, 2017 and 2016 have been pledged as security or collateral.

### 13. Investment Properties

The rollforward analysis of this account follows:

	2017		
	Buildings and Building		Total
	Land	Improvements	
<b>Cost</b>			
Balance at beginning of year	₱983,428	₱182,901	₱1,166,329
Retirements and disposals	(134,454)	(3,524)	(137,978)
Balance at end of year	848,974	179,377	1,028,351
<b>Accumulated Depreciation and Amortization</b>			
Balance at beginning of year	-	182,901	182,901
Retirements and disposals	-	(3,524)	(3,524)
Balance at end of year	-	179,377	179,377
<b>Net Book Value</b>	<b>₱848,974</b>	<b>₱-</b>	<b>₱848,974</b>



	2016		
	Land	Buildings and Building Improvements	Total
<b>Cost</b>			
Balance at beginning of year	₱983,428	₱199,951	₱1,183,379
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of year	983,428	182,901	1,166,329
<b>Accumulated Depreciation and Amortization</b>			
Balance at beginning of year	–	185,266	185,266
Depreciation (see Notes 21 and 22)	–	14,685	14,685
Reclassifications (see Note 12)	–	(17,050)	(17,050)
Balance at end of year	–	182,901	182,901
<b>Net Book Value</b>	<b>₱983,428</b>	<b>₱–</b>	<b>₱983,428</b>

In 2016, the Jollibee Group transferred cost of fully depreciated units of a building from investment property to owner-occupied property.

The cost of fully depreciated buildings and building improvements still being leased out by the Jollibee Group amounted to ₱178.1 million and ₱182.0 million as at December 31, 2017 and 2016, respectively.

The Jollibee Group's investment properties have an aggregate fair value of ₱1,747.3 million as at December 31, 2017 as determined by independent appraisers who holds a recognized and relevant professional qualification. The fair value represents the amount at which the assets and liabilities can be exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions in accordance with International Valuation Standards.

In determining the fair value of the investment properties, the independent appraisers used the market data approach for land and cost approach for buildings and building improvements. For land, fair value is based on sales and listings of comparable properties within the vicinity after adjustments for differences in location, size and shape of the lot, time elements and other factors between the properties and their comparable properties. For buildings and building improvements, fair value is based on the current cost to replace the properties in accordance with prevailing market prices for materials, labor, and contractors' overhead, profit and fees in the locality after adjustments for depreciation due to physical deterioration, and functional and economic obsolescence based on personal inspection of the buildings and building improvements and in comparison to similar properties. Fair value hierarchy disclosures for investment properties have been provided in Note 31.

Rent income derived from income-generating properties amounted to ₱27.8 million, ₱31.6 million and ₱31.6 million in 2017, 2016 and 2015, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱28.9 million, ₱15.1 million and ₱24.8 million in 2017, 2016 and 2015, respectively.

In 2017, the Parent Company sold its land located at Sta. Rosa Laguna and Luisita Industrial Park in Tarlac for a total consideration of ₱365.5 million. Net gain arising from the disposals of these investment properties amounted to ₱231.0 million (see Note 22).





In 2015, the Parent Company entered into an agreement to develop a commercial and office condominium building (the “Project”) in a parcel of its land in consideration for cash and assigned units in the Project. The completion of the transaction is conditional upon fifty percent (50%) completion of the Project, as certified by the general contractor of the Project, and when all of the assigned units are fully constructed.

No investment properties as at December 31, 2017 and 2016 have been pledged as security or collateral for the Jollibee Group’s debts.

#### 14. Goodwill and Other Intangible Assets

This account consists of:

	2017	2016
Goodwill (Note 11)	<b>₱9,050,223</b>	₱6,542,422
Trademarks (Note 11)	<b>6,149,269</b>	2,004,256
Computer software, net of accumulated amortization	<b>512,589</b>	513,337
Other intangible assets, net of accumulated amortization	<b>18,158</b>	26,727
	<b>₱15,730,239</b>	₱9,086,742

##### *Goodwill and Trademarks*

Goodwill and trademarks acquired through business combinations are attributable to the following group of CGUs as at December 31:

	2017	2016
Goodwill:		
SuperFoods Group (see Note 11)	<b>₱2,507,801</b>	₱-
Hong Zhuang Yuan	<b>2,497,253</b>	2,497,253
Mang Inasal	<b>1,781,267</b>	1,781,267
Red Ribbon Bakeshop:		
Philippine operations	<b>737,939</b>	737,939
US operations	<b>434,651</b>	434,651
Yong He King	<b>535,281</b>	535,281
Chowking US operations	<b>383,855</b>	383,855
GSC (see Note 11)	<b>166,931</b>	166,931
Burger King	<b>5,245</b>	5,245
	<b>9,050,223</b>	6,542,422
Trademarks:		
SuperFoods Group (see Note 11)		
Highlands Coffee	<b>3,681,912</b>	-
Pho 24	<b>463,101</b>	-
Mang Inasal	<b>2,004,256</b>	2,004,256
	<b>6,149,269</b>	2,004,256
Goodwill and trademarks	<b>₱15,199,492</b>	₱8,546,678

##### *Computer Software*

The Jollibee Group’s computer software pertains to the Enterprise Resource Planning (ERP) system which the Jollibee Group started to use on August 1, 2014.



The rollforward analysis of the Jollibee Group's computer software as at December 31 are as follows:

	2017	2016
<b>Cost</b>		
Balance at beginning of year	₱670,762	₱656,177
Additions	69,498	14,585
Balance at end of year	740,260	670,762
<b>Accumulated Amortization</b>		
Balance at beginning of year	157,425	96,935
Amortizations (see Note 22)	70,246	60,490
Balance at end of year	227,671	157,425
<b>Net Book Value</b>	<b>₱512,589</b>	<b>₱513,337</b>

*Other Intangible Assets*

The Jollibee Group's other intangible assets include other trademarks and patents amortized over its useful life of five years.

The roll forward analysis of other intangible assets as at December 31 are as follows:

	2017	2016
<b>Cost</b>		
Balance at beginning of year	₱56,983	₱47,863
Additions	136	9,120
Balance at end of year	57,119	56,983
<b>Accumulated Amortization</b>		
Balance at beginning of year	30,256	21,753
Amortizations (see Note 22)	8,705	8,503
Balance at end of year	38,961	30,256
<b>Net Book Value</b>	<b>₱18,158</b>	<b>₱26,727</b>

*Impairment Testing of Goodwill and Trademark*

Goodwill acquired through business combinations have been allocated to nine (9) groups of CGUs, which are subsidiaries of the Parent Company, owned directly or indirectly. The recoverable amounts of the groups of CGUs have been determined based on value in use calculations using cash flow projections from financial budgets approved by the BOD covering a five-year period. Furthermore, the trademark of Mang Inasal and SuperFoods Group are allocated to the CGU of Mang Inasal and SuperFoods Group, respectively.

The calculation of value in use is most sensitive to the following assumptions which vary per geographical location:

CGUs	Geographical Location	Pre-tax Discount Rate	Long-term Revenue Growth Rate
Hong Zhuang Yuan	PRC	10.2%	6.4%
Mang Inasal	Philippines	12.5%	6.8%
Red Ribbon Bakeshop:			
Philippine operations	Philippines	12.5%	6.8%
US operations	USA	10.5%	2.1%
Yong He King	PRC	10.6%	6.4%
Chowking US operations	USA	10.2%	2.1%
Burger King	Philippines	14.9%	6.8%
Goldstar	Vietnam	13.3%	6.2%
SuperFoods Group	Vietnam	13.8%	6.2%



Key assumptions with respect to the calculation of value in use of the groups of CGUs as at December 31, 2017 and 2016 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

- a) Discount rates - discount rates represent the current market assessment of the risks specific to each group of CGUs, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Jollibee Group's group of CGUs, derived from weighted average cost of capital (WACC) of each group of CGUs. The WACC takes into account both the cost of debt and equity. The cost of equity is calculated using the Capital Asset Pricing Model (CAPM). The cost of debt is based on the assumed interest-bearing borrowings each group of CGUs is obliged to service. CGU-specific risk is incorporated by applying individual alpha and beta factors. The beta factors are evaluated annually based on publicly available market data.
- b) Long-term growth rates - rates are determined in consideration of historical and projected results, as well as the economic environment where the group of CGUs operates.
- c) EBITDA - is based on the most recent value achieved in the year preceding the start of the budget period, and adjusted for planned efficiency improvement, if any.

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

No impairment losses were recognized for goodwill and trademarks for the year ended December 31, 2017 and 2016.

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## 15. Other Noncurrent Assets

This account consists of:

	2017	2016
Security and other deposits (see Notes 30 and 31)	<b>₱2,464,995</b>	₱2,103,707
Noncurrent portion of:		
Rent and other long-term prepayments	<b>494,363</b>	379,393
Employee car plan receivables (see Notes 30 and 31)	<b>186,000</b>	130,584
Prepaid market entry fee - net of accumulated amortization of ₱9.9 million and ₱4.6 million in 2017 and 2016, respectively (see Notes 11 and 22)	<b>94,786</b>	99,626
Returnable containers and others	<b>71,910</b>	21,121
Deferred rent expense	<b>72,338</b>	49,196
Deferred compensation	<b>26,319</b>	17,710
Receivable from sale of business (see Note 11)	-	71,612
Other assets	<b>287,712</b>	171,603
	<b>₱3,698,423</b>	₱3,044,552



Terms and conditions of other noncurrent assets are as follows:

- Security and other deposits generally represent deposits for operating leases entered into by the Jollibee Group as lessee. The security deposits are recoverable from the lessors at the end of the lease terms, which range from three to twenty years. These are carried at amortized cost. The discount rates used range from 2.44%-5.71% and 2.36%-5.38% in 2017 and 2016, respectively. The difference between the fair value at initial recognition and the notional amount of the security deposits is charged to “Deferred rent expense” account and amortized on straight-line basis over the lease terms.
- Employee car plan receivables are presented at amortized cost. The difference between the fair value at initial recognition and the notional amount of the employees’ car plan receivables is recognized as deferred compensation and is amortized on a straight-line basis over the credit period.

Accretion of interest on security and other deposits and employee car plan receivables amounted to ₱33.1 million, ₱25.2 million and ₱19.8 million in 2017, 2016 and 2015, respectively (see Note 23).

- Prepaid market entry fee represents upfront fee paid to the franchisor prior to the operations of Dunkin’ Donuts restaurants in the PRC (see Note 11). Market entry fee is amortized over twenty (20) years effective February 2016, start of Dunkin’ Donuts operations.

The rollforward analysis of prepaid market entry fee as at December 31 is as follows:

	2017	2016
<b>Market Entry Fee</b>		
Balance at beginning and end of year	<b>₱93,870</b>	₱93,870
<b>Accumulated Amortization</b>		
Balance at beginning of year	<b>4,571</b>	-
Amortizations (see Note 22)	<b>5,292</b>	4,571
Balance at end of year	<b>9,863</b>	4,571
Translation adjustment	<b>10,779</b>	10,327
	<b>₱94,786</b>	₱99,626

- Receivable from sale of business pertains to noncurrent portion of receivables from GZK as a result of the Jollibee Group’s divestment in SPW (see Note 11).
- Other assets represent tools for repairs and maintenance of office and store equipment which were still unused as at December 31, 2017 and 2016.



## 16. Trade Payables and Other Current Liabilities

This account consists of:

	2017	2016
Trade	<b>₱10,877,674</b>	₱9,944,749
Accruals for:		
Salaries, wages and employee benefits	<b>1,864,278</b>	1,406,605
Store operations	<b>1,887,316</b>	1,397,179
Advertising and promotions	<b>1,571,660</b>	1,206,902
Rent	<b>1,053,952</b>	923,430
Repairs and maintenance	<b>482,739</b>	300,594
Utilities	<b>423,596</b>	393,389
Freight	<b>388,992</b>	374,225
Corporate events	<b>274,086</b>	250,673
Operating supplies	<b>280,753</b>	326,017
Professional fees	<b>212,739</b>	203,089
Security	<b>161,304</b>	140,547
Trainings and seminars	<b>95,045</b>	124,801
Interest (Note 18)	<b>83,117</b>	51,384
Communication	<b>78,095</b>	76,569
Transportation and travel	<b>49,247</b>	54,131
Insurance	<b>21,833</b>	20,207
Service fees and others	<b>1,348,608</b>	1,455,559
Local and other taxes payable	<b>1,939,187</b>	1,599,791
Customers' deposits	<b>798,352</b>	617,218
Unearned revenue from gift certificates	<b>171,891</b>	147,098
Dividends payable	<b>56,053</b>	47,705
Other current liabilities	<b>1,134,096</b>	898,705
	<b>₱25,254,613</b>	₱21,960,567

The terms and conditions of the above liabilities are as follows:

- Trade payables to suppliers are noninterest-bearing and are normally settled on a 30 to 60-day term.
- Accrued expenses are noninterest-bearing and are normally settled within the next financial year. Other accrued liabilities consist of charges related to representations and other miscellaneous expenses.
- Customers' deposits pertain to security deposits from operating leases with franchisees, which are refundable at the end of the lease term, deposits for kiddie party packages and deposits from franchisees for the sale of store assets.

Accretion of interest on customer's deposits amounted to ₱13.2 million, ₱20.4 million and ₱19.9 million in 2017, 2016 and 2015, respectively (see Note 23).

- Other current liabilities consist of staled checks, amounts payable for mascots and various subscriptions in newspapers given to customers as a complementary to their meals.



## 17. Provisions

In 2017, the Jollibee Group recognized provision amounting to ₱794.6 million. Consequently, the Jollibee Group has outstanding provisions amounting to ₱825.1 million and ₱30.5 million as at December 31, 2017 and 2016, respectively, consisting mainly of provisions for asserted claims which are normal to its business.

These include estimates of legal services, settlement amounts and other costs of claims made against the Jollibee Group. Other information on the claims is not disclosed as this may prejudice the Jollibee Group's position on such claims (see Note 29).

## 18. Short and Long-term Debts

### Short-term Debt

On February 12, 2015, JWPL availed a short-term loan from a local bank amounting to USD6.0 million (₱282.4 million) with an interest rate of 1.5% per annum, subject to monthly repricing. The principal of USD6.0 million (₱276.4 million) and interest amounting to ₱1.0 million were paid in full on February 5, 2016, the date of maturity.

Interest expense recognized on short-term debt amounted to ₱0.2 million and ₱52.4 million in 2016 and 2015, respectively (see Note 23).

### Long-term Debt

The long-term debt consists of the following:

	2017	2016
Principal	₱16,149,740	₱12,165,608
Unamortized debt issue cost	(32,469)	(10,242)
	<b>₱16,117,271</b>	<b>₱12,155,366</b>

The details of long-term debt follow:

	2017	2016
<u>USD-denominated:</u>		
Loan 1	₱4,881,067	₱5,469,200
Loan 2	124,800	621,500
Loan 3	-	298,320
Loan 4	1,482,624	1,491,600
Loan 5	395,367	397,760
Loan 6	199,680	198,880
Loan 7	294,528	293,348
<u>VND-denominated (see Note 11):</u>		
Loan 8	142,293	-
Loan 9	122,998	-
Loan 10	151,383	-
<u>PHP-denominated:</u>		
Loan 11	1,467,955	1,481,591
Loan 12	798,933	798,133
Loan 13	871,583	995,584
Loan 14	1,592,000	-
Loan 15	2,089,500	-



	2017	2016
PHP-denominated:		
Loan 16	<b>₱796,000</b>	₱-
Loan 17	<b>597,000</b>	-
Loan 18	<b>109,560</b>	109,450
	<b>16,117,271</b>	12,155,366
Less current portion - net of debt issue costs of ₱2.4 million and ₱0.6 million in 2017 and 2016, respectively	<b>1,216,219</b>	1,561,516
	<b>₱14,901,052</b>	₱10,593,850

*USD-denominated loans of JWPL.* Loan 1 consists of a 10-year unsecured loan acquired from a local bank on October 21, 2015 amounting to USD110.0 million (₱5,111.7 million) subject to a variable interest rate based on three-month London Interbank Offered Rate (LIBOR) plus spread of 1.20% which is payable and is reset on a quarterly basis. The spread applies provided the Republic of the Philippines' 5-year credit default swap remains under 1.10%. The principal is payable in quarterly installments commencing on January 23, 2017 up to October 21, 2025, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱4,881.1 million and ₱5,469.2 million, respectively.

Loan 2 consists of a 5-year unsecured loan acquired on February 25, 2013 amounting to USD40.0 million (₱1,632.0 million) subject to quarterly interest repricing with one-time option to fix in the future. The interest rate is based on three-month US Dollar LIBOR plus spread of 1.0%. The principal is payable in sixteen (16) quarterly installments commencing on May 26, 2014 up to February 26, 2018, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱124.8 million and ₱621.5 million, respectively.

Under the loan agreements above (Loans 1 and 2), the Parent Company as the guarantor is subject to certain debt covenants which include among others, maintaining a Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. As at December 31, 2017 and 2016, the Parent Company is in compliance with the terms of the loan covenants.

Loan 3 consists of a 4-year unsecured loan acquired on October 25, 2013 amounting to USD18.0 million (₱777.8 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% subject to interest repricing every quarter. The principal is payable in twelve (12) quarterly installments commencing on January 25, 2015 up to October 25, 2017, the date of maturity. As at December 31, 2017 and 2016, the carrying value of the loan amounted to nil and ₱298.3 million, respectively. The loan was fully settled on October 25, 2017.

Loan 4 consists of an 8-year unsecured loan acquired on November 29, 2016 amounting to USD30.0 million (₱1,491.9 million) with an interest rate of 3.0% per annum. The principal is payable in six (6) yearly installments commencing on November 29, 2017 up to November 29, 2022 amounting to USD0.3 million, and the remaining balance on November 29, 2024, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱1,482.6 million and ₱1,491.6 million, respectively.

The loan agreements above (Loans 3 and 4), provide certain restrictions and requirements with respect to maintaining financial ratios, which include maintaining a Debt-to-Equity ratio of 3.0 or below and Debt Service Coverage ratio of at least 1.3. As at December 31, 2017 and 2016, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.



Loan 5 consists of a 6-year unsecured loan acquired on November 29, 2016 amounting to USD8.0 million (₱397.8 million) with an interest rate based on interpolated ROP 2021 and ROP 2024 plus spread of 0.5%. The principal is payable in five (5) yearly installments commencing on November 29, 2017 up to November 29, 2021 amounting to USD0.08 million, and the remaining balance on November 29, 2022, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱395.4 million and ₱397.8 million, respectively.

*USD-denominated loans of HBFPPPL.* Loan 6 consists of a 5-year unsecured loan acquired on May 8, 2013 amounting to USD4.0 million (₱163.3 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% subject to repricing every quarter. The principal is payable on May 7, 2018, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱199.7 million and ₱198.9 million, respectively.

Loan 7 consists of a 5-year unsecured loan acquired on April 25, 2014 amounting to USD5.9 million (₱257.5 million) with an interest rate of 1.48% subject to repricing every quarter. The principal is payable on April 24, 2019, the maturity date. As at December 31, 2017 and 2016, the carrying value of the loan amounted to ₱294.5 million and ₱293.3 million, respectively.

Under the loan agreements above (Loans 5 to 7), the Parent Company as the guarantor is subject to certain restrictions and requirements with respect to maintaining financial ratios, which include Debt-to-Equity ratio and Debt-to-EBITDA ratio not to exceed 3.0. As at December 31, 2017 and 2016, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

*VND-denominated loans of SuperFoods Group.* Loan 8 consists of a 5-year loan acquired from a local bank in Vietnam on February 19, 2014 amounting to VND118.0 billion (₱250.2 million). The loan is subject to a variable interest rate based on thirty (30) day Vietnam Interbank Offered Rates plus spread of 1.5%. The principal is payable in monthly installments commencing on the 13th month after the first utilization date until the maturity date. As at December 31, 2017, the carrying value of the loan amounted to ₱142.3 million.

Loan 9 consists of a 5-year loan acquired on December 30, 2015 from a local bank in Vietnam amounting to VND68.0 billion (₱146.7 million). The loan is subject to a variable interest rate based on three-month VND COF plus spread of 1.5%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month after the first utilization. As at December 31, 2017, the carrying value of the loan amounted to ₱123.0 million.

Loan 10 consists of a 5-year loan acquired on April 3, 2017 from a local bank in Vietnam amounting to VND68.0 billion (₱151.2 million) with an interest rate of 6.10% subject to quarterly repricing. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from the first drawdown date. As at December 31, 2017, the carrying value of the loan amounted to ₱151.4 million.

*PHP-denominated loans of the Parent Company.* On December 9, 2013, the Parent Company refinanced its ₱1,500.0 million term loan from a local bank due on December 16, 2013 by availing a term loan of the same amount (Loan 11). The loan is payable over five years and six months from the date of drawdown with annual principal repayments of ₱15.0 million starting on the 30th month from the date of drawdown and ₱1,455.0 million upon maturity. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury Fixing (PDST-F) rate plus spread of 1.25%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the Bangko Sentral ng Pilipinas (BSP) Overnight Reverse Repurchase Agreement Rate. The loan was drawn on December 16, 2013 and will mature on June 17, 2019. The Parent Company incurred debt issue costs of ₱7.5 million, representing documentary stamp tax, in relation to this loan in 2013. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any





interest payment date based on the PDST-F rate for the remaining term of the loan and the spread of 1.0%. The Parent Company also has an option to prepay the loan in full or in multiples of ₱10.0 million on any interest payment date.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016.

Loan 12 consists of a 5-year unsecured loan acquired from a local bank on April 21, 2014 amounting to ₱800.0 million. The loan is subject to a variable interest rate based on three-month PDST-F rate plus spread of 1.0%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on the BSP Special Deposit Account (SDA) Rate plus spread of 1.0% or BSP Overnight Borrowing Rate plus spread of 1.0%. The Parent Company incurred debt issue costs of ₱4.0 million, representing documentary stamp tax, in relation to this loan in 2014. The principal is payable on April 21, 2019, the date of maturity. The Parent Company has an option to convert the variable interest rate into a fixed interest rate based on a five-year treasury securities benchmark yield plus spread of 1.0% on the date the option to convert is exercised, subject to an annual interest rate floor of 4.75%. The Parent Company also has an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016.

Loan 13 consists of 5-year unsecured loan acquired from a local bank on April 22, 2016 amounting to ₱1,000.0 million. The loan is subject to a variable interest rate based on three-month Philippine Dealing System Treasury - Reference Rate Two (PDST-R2) plus spread of 0.55%, subject to repricing every quarter, and to an interest rate floor of BSP SDA. Provided, however that on any Interest Payment Date, in lieu of a floating interest rate, the Parent Company shall have a one-time option to convert into a fixed-interest rate loan not later than 730 days from drawdown date. The conversion to fixed interest rate is based on the applicable PDST-R2 rate plus spread of 2% if the option is exercised from day 1 to day 365 from drawdown date and based on the applicable PDST-R2 rate plus spread of 2.75% if the option is exercised from day 366 to day 730 from drawdown date. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱62.5 million. The Parent Company incurred debt issue cost of ₱5.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to prepay the loan in part or in full on any interest payment date.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 and below. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016.

Loan 14 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱1,600.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 plus spread of 0.50%, which is payable and repriced on a quarterly basis, and to an interest rate floor of 2.70%. Provided, however that on any interest payment date, but in no case later than 365 days from the initial drawdown date, in lieu of a floating interest rate, the Parent Company shall have a one-time option to convert into a fixed-interest rate loan based on the applicable three-month PDST-R2 rate plus spread of 0.60%. The



principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱100.0 million. The Parent Company incurred debt issue cost of ₱8.0 million, representing documentary stamp tax, for this loan. The Parent Company also has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

Loan 15 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱2,100.0 million. The loan is subject to a variable interest rate based on the simple average of the five (5) trading days of the three-month Treasury Securities Benchmark Yield, as published in the PDST-R2 page of the PDEX preceding and inclusive of the Interest Rate Setting Date plus spread of 0.50%. The principal is payable on December 22, 2022, the date of maturity with an option to prepay the loan, wholly or partially, without penalty at any time during the term of the loan subject to certain conditions. The Parent Company incurred debt issue cost of ₱10.5 million, representing documentary stamp tax, for this loan.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

Loan 16 consists of 5-year unsecured loan acquired from a local bank on December 22, 2017 amounting to ₱800.0 million. The loan is subject to a variable interest based on the simple average of the preceding five (5) days of the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱50.0 million. The Parent Company incurred debt issue cost of ₱4.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.

Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

Loan 17 consists of 5-year unsecured loan acquired from a local bank on December 27, 2017 amounting to ₱600.0 million. The loan is subject to a variable interest equal to the three-month PDST-R2 rate plus spread of 0.50%, which is payable and is reset on a quarterly basis, and to an interest rate floor based on BSP Overnight Deposit Facility Rate plus 0.50%. The principal is payable in sixteen (16) quarterly installments commencing on the 15th month from drawdown date amounting to ₱37.5 million. The Parent Company incurred debt issue cost of ₱3.0 million, representing documentary stamp tax, for this loan. The Parent Company has an option to convert the variable interest rate into a fixed interest rate on any interest payment date but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on a five year PDST-R2 rate plus spread of 0.75%. The Parent Company also has an option to prepay the loan in part or in full on any interest payment date subject to certain conditions.



Under the loan agreement, the Parent Company is subject to certain debt covenants which include among others, the maintenance of a required Debt-to-Equity ratio and Debt-to-EBITDA ratio of 3.0 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017.

The Parent Company's PHP denominated long-term debt (Loans 11 to 17) amounts to ₱8,213.0 million and ₱3,275.3 million, net of unamortized debt issue cost of ₱32.0 million and ₱9.7 million as at December 31, 2017 and 2016, respectively. The current portion amounted to ₱261.8 million and ₱139.4 million, net of debt issue costs of ₱3.2 million and ₱0.6 million as at December 31, 2017 and 2016, respectively.

*PHP-denominated loan of PERF Restaurants, Inc. (PERF).* Loan 18 is a 5-year unsecured loan acquired from local a bank on December 21, 2016 amounting to ₱110.0 million with an interest rate based on three-month PDST-R2 plus spread of 1.0% with interest rate floor computed as BSP Overnight Deposit Facility Rate plus spread of 0.5%. PERF incurred debt issue costs of ₱0.6 million, representing documentary stamp tax, in relation to this loan in 2016. The carrying amount of the loan is ₱109.6 million and ₱109.5 million, net of unamortized debt issue cost of ₱0.4 million and ₱0.6 million as at December 31, 2017 and 2016, respectively.

The loan is guaranteed by the Parent Company. Consequently, the Parent Company is subject to certain debt covenants which include, among others, maintaining a Debt-to-Equity ratio of 3.0 or below and Debt-to-Service Coverage ratio of at least 1.3. The Parent Company is in compliance with these debt covenants as at December 31, 2017 and 2016, respectively.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱392.6 million, ₱247.0 million and ₱153.2 million in 2017, 2016 and 2015, respectively (see Note 23).

The future expected principal settlements of the Jollibee Group's loans follow:

	2017	2016
2017	₱-	₱1,562,102
2018	<b>1,218,583</b>	1,508,110
2019	<b>4,320,923</b>	3,131,582
2020	<b>1,752,102</b>	250,000
2021 to 2025	<b>8,858,132</b>	5,713,813
	<b>16,149,740</b>	12,165,607
Less debt issue costs	<b>(32,469)</b>	(10,242)
	<b>₱16,117,271</b>	₱12,155,365

#### Embedded Derivatives

Certain long-term loans of the Jollibee Group include provisions for an option to convert the variable interest rate into a fixed interest rate. Certain long-term loans are also subject to an interest rate floor. In addition, the Jollibee Group's long-term loans generally provide an option to pre-pay the loan in full before the maturity date.

The Jollibee Group assessed that the derivatives embedded in the loan contracts need not be bifurcated since they are clearly and closely related to the economic characteristics and risks of the host loan contract and do not qualify for separate accounting as at December 31, 2017 and 2016.



Freestanding Derivatives, Hedges and Hedge Effectiveness Testing

On November 20, 2015, the Jollibee Group entered into an Interest Rate Swap (IRS) with a bank to convert its exposure in the variable interest rate of Loan 1 to a fixed interest rate. The IRS will terminate and the loan will mature simultaneously on October 21, 2025. The Jollibee Group has designated the IRS as a cash flow hedge.

The IRS with a notional amount equal to the principal amount of the loan requires the Jollibee Group to pay fixed interest payments at 3.36% in exchange of variable interest payments at three-month LIBOR plus spread of 1.20% from the bank throughout the term of the IRS on the notional amount. The IRS settles quarterly on a net basis.

The fair value of the IRS amounted to ₱11.9 million and ₱33.5 million as at December 31, 2017 and 2016, respectively, which were presented as a derivative asset and derivative liability, respectively, in the statements of financial position. The terms of the IRS approximately match the terms of the interest payments on the loan. Accordingly, there is no hedge ineffectiveness to be recognized in profit or loss.

Unrealized income (loss) of ₱45.5 million, ₱1.4 million and (₱34.9 million) were recognized in other comprehensive income in 2017, 2016 and 2015, respectively.

In 2012, PERF converted a loan into a deliverable cross-currency swap transaction to hedge in full the foreign currency risk and interest rate risk on its floating rate. Under the cross-currency swap, PERF received at inception PHP notional amount of ₱149.2 million and paid USD notional amount of USD3.4 million based on the PHP/USD spot reference rate of ₱43.87. At every interest payment date, PERF received variable interest based on 3-month US Dollar LIBOR plus spread and paid fixed interest rate. At maturity date, PERF received USD notional amount of USD3.4 million and paid PHP notional amount of ₱149.2 million. The USD receipts from the cross-currency swap corresponded to the expected interest fixed principal amount due on the hedged loan. Similar to the hedged loan, the cross-currency swap was non-amortizing and it matured on December 20, 2016.

Effectively, the cross-currency swap transformed the floating rate USD loan into fixed rate PHP loan. The foreign exchange revaluation of the hedged loan, amounting to ₱10.9 million was recognized in other comprehensive income in 2016.

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19. **Equity**

a. **Capital Stock**

The movements in the account are as follows:

	2017	2016
Authorized - ₱1 par value	<b>₱1,450,000</b>	₱1,450,000
Issued and subscribed:		
Balance at beginning of year	<b>₱1,091,301</b>	₱1,086,149
Issuances during the year	<b>10,355</b>	5,152
Balance at end of year	<b>1,101,656</b>	1,091,301
Subscriptions receivable	<b>(17,178)</b>	(17,178)
	<b>₱1,084,478</b>	₱1,074,123



The total number of shareholders of the Parent Company is 3,042 and 3,075 as at December 31, 2017 and 2016, respectively.

b. Additional Paid-in-Capital

The movements in the Additional paid in-capital pertain to the difference between the exercise prices of stock options exercised and the par value of Parent Company's shares. In 2017 and 2016, stock options totaling 10,354,270 shares and 5,151,895 shares, respectively, were exercised (see Note 26). These resulted to an additional paid in capital amounting to ₱850.8 million and ₱363.5 million in 2017 and 2016, respectively.

Stock options expense, amounting to ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, respectively, were also recognized as part of additional paid in capital (see Notes 22 and 26).

In 2017, the Parent Company recognized deferred tax assets on MSOP and ELTIP, resulting to additional paid-in capital of ₱782.0 million.

As at December 31, 2017 and 2016, total additional-paid in capital amounted to ₱7,520.4 million and ₱5,660.1 million, respectively.

c. Treasury Shares

The cost of common stock of the Parent Company held in treasury of ₱180.5 million consists of 16,447,340 shares as at December 31, 2017 and 2016.

d. Excess of Cost over the Carrying Value of Non-controlling Interests Acquired

The amount of excess of cost over the carrying value of non-controlling interests acquired as at December 31, 2017 and 2016, recognized as part of "Equity Attributable to Equity Holders of the Parent Company" section in the consolidated statements of financial position, resulted from the following acquisitions of non-controlling interests:

20% of Greenwich in 2006	₱168,257
15% of Belmont in 2007	375,721
40% of Adgraphix in 2010	(1,214)
30% of Mang Inasal in 2016 (see Note 11)	1,217,615
30% of HBFPPPL in 2016 (see Note 11)	391,782
	₱2,152,161

e. Retained Earnings

The Jollibee Group has a cash dividend policy of declaring one-third of the Jollibee Group's net income for the year as cash dividends. It uses best estimate of its net income as basis for declaring cash dividends. Actual cash dividends per share declared as a percentage of the EPS are 33.1%, 32.4% and 38.3% in 2017, 2016 and 2015, respectively.

The Parent Company's retained earnings available for dividend declaration, computed based on the guidelines provided in SEC Memorandum Circular No. 11, amounted to ₱10,876.0 million, ₱6,046.3 million and ₱11,409.3 million as at December 31, 2017, 2016 and 2015, respectively.



The Parent Company's cash dividend declarations for 2017, 2016 and 2015 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
<i>(In Thousands, except dividend per share)</i>				
<b>2017</b>				
April 5	April 21	May 5	<b>₱1.00</b>	<b>₱1,077,527</b>
November 10	November 27	December 11	<b>1.18</b>	<b>1,277,984</b>
			<b>₱2.18</b>	<b>₱2,355,511</b>
<b>2016</b>				
April 6	April 21	May 6	₱0.86	₱919,435
November 11	November 28	December 12	1.00	1,072,808
			₱1.86	₱1,992,243
<b>2015</b>				
April 7	May 7	May 29	₱0.80	₱851,350
November 9	November 25	December 9	0.97	1,035,510
			₱1.77	₱1,886,860

An important part of the Jollibee Group's growth strategy is the acquisition of new businesses in the Philippines and abroad. Examples were acquisitions of 85% of Yonghe King in 2004 in PRC (₱1,200.0 million), 100% of Red Ribbon in 2005 (₱1,700.0 million), the remaining 20% minority share in Greenwich in 2007 (₱384.0 million), the remaining 15% share of Yonghe King in 2007 (₱413.7 million), 100% of Hong Zhuang Yuan restaurant chain in PRC in 2008 (₱2,600.0 million), 70% of Mang Inasal in 2010 (₱2,976.2 million), 100% of Chowking US operations in 2011 (₱693.3 million), 48% of WJ Investments Limited in 2012 (₱98.0 million), 40% of SJBFL LLC, the parent company of the entities comprising the Smashburger business in US (₱4,812.8 million), including transaction costs in 2015, the remaining 30% minority share each in Mang Inasal (₱2,000.0 million) and HBFPPPL (₱514.9 million), acquisition of GSC (₱8.6 million) in 2016 and the acquisition of additional 10% share in SuperFoods Group (₱2,712.7 million) in 2017.

The Jollibee Group plans to continue to make substantial acquisitions in the coming years. The Jollibee Group uses its cash generated from operations to finance these acquisitions and capital expenditures. These limit the amount of cash dividends that it can declare and pay, making the level of the retained earnings higher than the paid-up capital stock.

In support of the Jollibee Group's strategy, the BOD approved additional appropriations of ₱8,000.0 million, ₱5,200.0 million, ₱3,800.0 million and ₱1,200.0 million on April 6, 2016, April 11, 2013, February 15, 2012 and in 2009, respectively, for future acquisitions and capital expenditures.

Details of the appropriated retained earnings as at December 31, 2017 and 2016 follow:

Projects	Timeline	Amount
Capital Expenditures	2013 - 2018	₱10,600,000
Acquisition of Businesses	2013 - 2018	7,600,000
		<b>₱18,200,000</b>

The unappropriated retained earnings of the Parent Company is also restricted to the extent of cost of common stock held in treasury amounting to ₱180.5 million as well as the undistributed



retained earnings of its subsidiaries which amounted to ₱3,525.2 million, ₱3,664.8 million and ₱2,718.1 million as at December 31, 2017, 2016 and 2015, respectively.

In relation with the SRC Rule 68, as Amended (2011), Annex 68-D, below is the summary of the Parent Company's track record of registration of securities.

	Number of Shares registered	Initial issue/offer price	Listing Date	Number of holders of securities as at December 31	
				2017	2016
Common shares	75,000,000	₱9	July 14, 1993	3,042	3,075

## 20. Royalty, Set-up Fees and Others

This account consists of:

	2017	2016	2015
Royalty fees	<b>₱5,614,447</b>	₱4,959,568	₱4,329,041
Set-up fees	<b>424,217</b>	309,354	189,083
Service fees	<b>380,149</b>	119,262	65,727
Scrap sales	<b>199,077</b>	154,628	146,660
Rent income (see Notes 13 and 29)	<b>57,234</b>	91,387	92,424
Other revenues	<b>237,879</b>	252,817	146,094
	<b>₱6,913,003</b>	₱5,887,016	₱4,969,029

The Jollibee Group has existing Royalty and Service Agreements with independent franchisees for the latter to operate quick service restaurant outlets under the "Jollibee", "Chowking", "Greenwich", "Red Ribbon", "Mang Inasal", "Yong He King", "Hong Zhuang Yuan", "Highlands Coffee" and "Pho 24" concepts and trade names. In consideration thereof, the franchisees agree to pay set-up fees and monthly royalty fees equivalent to a certain percentage of the franchisees' net sales.

The Jollibee Group's franchisees pay service fees for various services, including repairs and maintenance services, rendered by the Jollibee Group's personnel.

Other revenues pertain to delivery fees and other miscellaneous revenues earned by the Jollibee Group.

## 21. Cost of Sales

This account consists of:

	2017	2016	2015
Cost of inventories	<b>₱62,725,504</b>	₱54,475,007	₱49,202,290
Personnel costs:			
Salaries, wages and other employee benefits	<b>11,021,803</b>	10,472,700	9,870,706
Pension expense (see Note 25)	<b>168,059</b>	171,515	153,311
Rent (see Note 29)	<b>9,719,896</b>	8,234,530	7,450,952
Contracted services	<b>7,305,046</b>	4,875,092	3,194,297
Electricity and other utilities	<b>4,587,166</b>	4,022,779	3,808,056

(Forward)



	2017	2016	2015
Depreciation and amortization (see Notes 12 and 13)	<b>₱4,307,821</b>	₱3,542,624	₱3,084,155
Supplies	<b>2,570,007</b>	2,155,033	1,887,540
Repairs and maintenance	<b>1,218,581</b>	1,327,943	1,107,659
Security and janitorial	<b>795,773</b>	638,303	502,856
Communication	<b>227,195</b>	190,811	160,537
Professional fees	<b>57,575</b>	34,972	25,266
Representation and entertainment	<b>39,191</b>	33,181	33,039
Others	<b>2,914,523</b>	2,640,998	2,411,037
	<b>₱107,658,140</b>	₱92,815,488	₱82,891,701

Others consist of delivery costs, insurance and other miscellaneous expenses.

## 22. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel costs:			
Salaries, wages and other employee benefits	<b>₱6,850,398</b>	₱5,543,159	₱4,837,802
Stock options expense (see Notes 19 and 26)	<b>227,483</b>	241,324	173,212
Pension expense (see Note 25)	<b>194,781</b>	192,266	159,325
Taxes and licenses	<b>1,394,412</b>	1,271,104	1,143,765
Professional fees	<b>825,264</b>	608,586	418,556
Transportation and travel	<b>577,374</b>	504,469	438,990
Rent (see Note 29)	<b>516,717</b>	470,004	390,934
Contracted services	<b>474,622</b>	499,533	544,279
Depreciation and amortization (see Notes 12, 13, 14 and 15)	<b>437,345</b>	453,244	341,522
Impairment in value of:			
Property, plant and equipment (see Note 12)	<b>431,939</b>	42,731	-
Receivables (see Note 7)	<b>143,772</b>	91,415	325,908
Other assets	<b>122,759</b>	-	-
Inventories (see Note 8)	<b>7,443</b>	78,621	11,049
Corporate events	<b>192,187</b>	161,628	163,136
Repairs and maintenance	<b>157,495</b>	191,253	136,228
Membership and subscriptions	<b>139,552</b>	112,110	94,812
Training	<b>134,448</b>	161,683	101,565
Communication	<b>116,101</b>	98,769	113,654
Donations	<b>93,294</b>	82,642	105,831
Supplies	<b>89,641</b>	78,769	74,257
Representation and entertainment	<b>70,282</b>	53,781	64,585
Reversals of provision for impairment on:			
Inventories (see Note 8)	<b>(53,819)</b>	(18,129)	(12,047)
Receivables (see Note 7)	<b>(20,705)</b>	(3,188)	(4,606)
Property, plant and equipment (see Note 12)	<b>(2,111)</b>	(2,000)	-
Loss (gain) on retirement and disposals of:			
Investment properties (see Note 13)	<b>(231,036)</b>	-	-
Property, plant and equipment (see Note 12)	<b>174,510</b>	236,809	136,747

(Forward)





	2017	2016	2015
Electricity and other utilities	<b>₱55,806</b>	₱52,596	₱56,807
Association dues	<b>51,994</b>	50,517	52,509
Security and janitorial	<b>24,408</b>	22,464	19,606
Insurance	<b>21,182</b>	16,782	16,147
Others	<b>688,307</b>	568,498	383,470
	<b>₱13,905,845</b>	₱11,861,440	₱10,288,043

### 23. Interest Income (Expense) and Other Income (Expense)

	2017	2016	2015
Interest income:			
Cash and cash equivalents and short-term investments (see Note 6)	<b>₱149,298</b>	₱136,671	₱118,032
Loans and advances* (see Note 11)	<b>77,120</b>	125,070	119,977
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	<b>33,149</b>	25,172	19,774
	<b>₱259,567</b>	₱286,913	₱257,783

\*Including interest income of other subsidiaries other than those mentioned in Note 11.

	2017	2016	2015
Interest expense:			
Long-term debt (see Note 18)	<b>(₱392,589)</b>	(₱247,036)	(₱153,206)
Accretion of customers' deposits (see Note 16)	<b>(13,231)</b>	(20,354)	(19,894)
Short-term debt (see Note 18)	<b>–</b>	(228)	(52,444)
	<b>(₱405,820)</b>	(₱267,618)	(₱225,544)

	2017	2016	2015
Other income (expense):			
Gain from the re-measurement of the previously held interest (see Note 11)	<b>₱1,328,733</b>	₱–	₱–
Write-off of liabilities	<b>1,547,166</b>	1,111,924	905,088
Provisions (see Note 17)	<b>(794,609)</b>	–	–
Rebates and suppliers' incentives	<b>189,452</b>	206,712	228,961
Bank charges	<b>(165,348)</b>	(118,627)	(108,181)
Marked-to-market gain (loss) on derivatives (see Note 11)	<b>(129,371)</b>	3,298	–
Divestment of subsidiaries and interest in a joint venture (see Note 11)	<b>(116,207)</b>	66,695	–
Penalties and charges	<b>69,610</b>	53,274	45,336
Foreign exchange gain (loss) - net	<b>(63,535)</b>	41,485	36,823
Charges to franchisees	<b>18,979</b>	19,858	18,265
Other rentals	<b>17,484</b>	16,392	13,821
Pre-termination of operating leases	<b>15,884</b>	9,528	3,461
Insurance claims and others	<b>180,515</b>	172,384	93,183
	<b>₱2,098,753</b>	₱1,582,923	₱1,236,757

In the normal course of business, the Jollibee Group accrues liabilities based on management's best estimate of costs incurred, particularly in cases when the Jollibee Group has not yet received final billings from suppliers and vendors. There are also ongoing negotiations and reconciliations with



suppliers and vendors on certain liabilities recorded. These balances are continuously reviewed by management and are adjusted based on these reviews, resulting to write-off of certain liabilities as other income.

## 24. Income Taxes

The Jollibee Group's provision for current income tax consists of the following:

	2017	2016	2015
Final tax withheld on:			
Royalty income	<b>₱1,260,352</b>	₱1,120,247	₱965,199
Interest income	<b>16,349</b>	16,135	10,891
RCIT:			
With Optional Standard Deduction (OSD)	<b>369,839</b>	214,249	229,912
With itemized deduction	<b>306,010</b>	805,092	552,757
MCIT	<b>336,152</b>	179,132	167,319
Capital gains	<b>21,928</b>	-	-
	<b>₱2,310,630</b>	₱2,334,855	₱1,926,078

RCIT consists of corporate income taxes from the Jollibee Group's operations in the Philippines, PRC, USA and Singapore.

For the years ended December 31, 2017 and 2016, Zenith, Grandworth and RRBHI, wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. The net tax benefit (loss) from the availment of OSD amounted to (₱15.3 million), ₱57.9 million and ₱40.4 million in 2017, 2016 and 2015, respectively.

The components of the Jollibee Group's recognized net deferred tax assets as at December 31 follow:

	2017	2016
Deferred tax assets:		
MSOP and ELTIP	<b>₱1,033,184</b>	₱-
NOLCO:		
Philippine-based entities	<b>553,035</b>	844,872
PRC-based entities	<b>250,973</b>	228,101
USA-based entities	<b>7,218</b>	-
Operating lease payables	<b>566,066</b>	470,202
Pension liability and other benefits	<b>551,921</b>	545,489
Excess of MCIT over RCIT	<b>513,072</b>	460,009
Accrued royalty fees of US based entities	<b>497,590</b>	-
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	<b>105,190</b>	109,328
Unrealized foreign exchange loss	<b>62,395</b>	17,918
Unaccreted discount on security deposits and employee car plan receivables	<b>53,992</b>	21,236
Unamortized past service costs	<b>9,689</b>	13,146
Others	<b>15,136</b>	8,390
	<b>4,219,461</b>	2,718,691

(Forward)



	2017	2016
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	₱69,281	₱711
State income taxes	82,382	-
Unrealized foreign exchange gain	57,342	43,292
Prepaid rent	46,768	60,796
Unaccreted discount on employee car plan receivables and security deposits	23,172	14,907
Operating lease receivables	17,049	3,708
Deferred rent expense	13,461	9,322
Unrealized gain on change in fair value of AFS financial assets	1,193	460
	<b>310,648</b>	133,196
Deferred tax assets - net	<b>₱3,908,813</b>	₱2,585,495

The components of the Jollibee Group's recognized net deferred tax liabilities as at December 31 follow:

	2017	2016
Deferred tax assets:		
Allowance for impairment loss on receivables and inventories	₱85,041	₱84,942
Pension liability and other benefits	40,905	41,605
Excess of MCIT over RCIT	18,359	24,921
Operating lease payables	7,142	8,371
Unaccreted discount on security deposits and employee car plan receivables	1,790	1,022
Unrealized foreign exchange loss	14	33
NOLCO - Philippine-based	-	10,474
Unamortized past service costs	-	3,997
	<b>153,251</b>	175,365
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	1,340,894	677,106
Unaccreted discount on employee car plan receivables, security and product security deposits	1,338	4,183
Unrealized foreign exchange gain	14	653
	<b>1,342,246</b>	681,942
Deferred tax liabilities - net	<b>₱1,188,995</b>	₱506,577

The rollforward analysis of the net deferred tax assets and liabilities of the Jollibee Group follows:

	2017	2016
Balance at beginning of year	₱2,078,918	₱1,408,489
Additions	685,089	643,506
Income tax effect of other remeasurements of net defined benefit plan	(59,440)	29,646
Translation adjustments	15,251	(2,723)
	<b>₱2,719,818</b>	₱2,078,918



OSD

The availment of the OSD method also affected the recognition of several deferred tax assets and liabilities. Deferred tax assets and liabilities, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which the Jollibee Group expects to recover or settle the underlying assets and liabilities, for which the deferred tax assets and liabilities were initially recognized, would not result to any future tax consequence under the OSD method. Meanwhile, deferred tax assets and liabilities, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under OSD method. Hence, the tax base of these deferred tax assets and liabilities is reduced by the 40% allowable deduction provided for under the OSD method.

Accordingly, the Jollibee Group's deferred tax assets and liabilities, which were not recognized due to the use of the OSD method, are as follows:

	2017	2016
Deferred tax assets:		
Allowance for impairment losses on receivables and nonfinancial assets	<b>₱30,421</b>	₱20,341
Pension liability and other benefits	<b>23,121</b>	17,932
Operating lease payables	<b>13,429</b>	18,917
Unaccredited discount on financial instruments and others	<b>458</b>	605
Unamortized past service cost	<b>139</b>	261
Excess of MCIT over RCIT	-	2,450
	<b>67,568</b>	60,506
Deferred tax liabilities:		
Operating lease receivables	<b>5,437</b>	4,496
Others	<b>551</b>	643
	<b>5,988</b>	5,139
Deferred tax assets - net	<b>₱61,580</b>	₱55,367

As at December 31, 2017, NOLCO and excess of MCIT over RCIT of the Philippine-based entities that can be claimed as deductions from taxable income and income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefit up to	NOLCO	Excess of MCIT over RCIT
2017	December 31, 2020	₱-	₱190,633
2016	December 31, 2019	1,033,062	179,224
2015	December 31, 2018	1,042,330	167,318
2014	December 31, 2017	1,269,524	138,388
		3,344,916	675,563
Utilized during the year		(1,370,518)	-
Write-offs and expirations		(40,630)	(144,132)
		<b>₱1,933,768</b>	<b>₱531,431</b>



The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at December 31, 2017, NOLCO of the PRC-based entities that can be claimed as deductions from taxable income are as follows:

Year Incurred	Carryforward Benefit Up to	Tax Losses	Deferred Tax at 25%
2017	December 31, 2022	₱502,496	₱125,624
2016	December 31, 2021	240,988	60,247
2015	December 31, 2020	234,393	58,598
2014	December 31, 2019	157,498	39,375
2013	December 31, 2018	145,789	36,447
2012	December 31, 2017	133,737	33,434
		1,414,901	353,725
Utilized during the year		(411,008)	(102,752)
		₱1,003,893	₱250,973

The following are the movements in deferred tax assets on NOLCO of the Jollibee Group:

	2017	2016	2015
Balance at beginning of year	₱1,083,447	₱782,610	₱544,953
Additions	172,041	355,025	365,753
Utilized during the year	(447,324)	(51,416)	(126,174)
Write-offs and expirations	(12,189)	–	(4,221)
Translation adjustments	15,251	(2,772)	2,299
	₱811,226	₱1,083,447	₱782,610

The following are the movements in deferred tax assets on Excess of MCIT over RCIT of the Jollibee Group:

	2017	2016	2015
Balance at beginning of year	₱484,930	₱318,340	₱160,358
Additions	190,633	179,224	167,318
Write-offs and expirations	(144,132)	(4,387)	(9,336)
Utilized during the year	–	(8,247)	–
	₱531,431	₱484,930	₱318,340

The net change in deferred tax liabilities recognized in equity amounted to (₱59.4 million), ₱29.6 million and ₱104.8 million in 2017, 2016 and 2015, respectively.

The reconciliation of provision for income tax computed at the statutory income tax rates to provision for income tax as shown in the consolidated statements of comprehensive income are as follows:

	2017	2016	2015
Provision for income tax at various statutory income tax rates	₱2,501,853	₱2,388,798	₱1,925,372
Income tax effects of:			
Effect of different tax rate for royalty and interest income	(638,351)	(567,363)	(485,655)
Nontaxable income	(313,827)	–	–

(Forward)



	2017	2016	2015
Income tax effects of:			
Intrinsic value of stock options exercised	(₱323,503)	(₱208,494)	(₱109,092)
Tax effect of MSOP and ELTIP	(175,401)	-	-
Expired/written off NOLCO and excess of MCIT over RCIT	156,321	4,387	13,557
Effect of different tax rates for capital gains tax	(47,382)	-	-
Nondeductible expenses	35,754	74,371	60,271
Difference between OSD and itemized deductions	12,621	(57,925)	(40,392)
Net movement in unrecognized DTA	(28,325)	34,549	6,882
Others	487,168	8,288	17,665
	<b>₱1,666,928</b>	<b>₱1,676,611</b>	<b>₱1,388,608</b>

Provision for current income tax of foreign entities operating in United States, PRC and Singapore amounted to ₱55.1 million, ₱119.3 million and ₱2.3 million, respectively, in 2017, ₱67.6 million, ₱99.7 million and ₱1.3 million, respectively, in 2016, and ₱36.1 million, ₱72.2 million and ₱2.4 million, respectively, in 2015.

For Philippine-based entities, Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.

For US-based entities, Tax Cuts and Jobs Act (the US Tax Reform) was signed into law on December 22, 2017, making the new law enacted by that date under Philippine Financial Reporting Standards (PFRSs) and therefore applicable as of the reporting date. The US Tax Reform resulted in the re-measurement of deferred tax assets and liabilities as of December 31, 2017 as a result of the change in the corporate income tax rate from 35% to 21%. The recognized net deferred tax assets of US-based entities amounted to ₱452.4 million.

## 25. Pension Liability

### Defined Benefit Plan

The Parent Company and certain Philippine-based subsidiaries have funded, independently-administered, non-contributory defined benefit pension plan covering all permanent employees. The benefits are based on the employees' projected salaries and number of years of service.

The funds are administered by trustee banks. Subject to the specific instructions provided in writing, the Parent Company and certain Philippine-based subsidiaries direct the trustee banks to hold, invest and reinvest the funds and keep the same invested, in its sole discretion, without distinction between principal and income in, but not limited to, certain cash and other short-term deposits, investments in government and corporate debt securities and quoted equity securities.



Under the existing regulatory framework, Republic Act No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of pension expense, included under "Cost of sales" and "General and administrative expenses" accounts in the consolidated statements of comprehensive income and pension liability in the consolidated statements of financial position, which are based on actuarial valuations.

Changes in pension liability of the Jollibee Group in 2017 are as follows:

	<b>Present Value of Defined Benefit Obligation</b>	<b>Fair Value of Plan Assets</b>	<b>Pension Liability</b>
At January 1, 2017	<b>₱3,378,892</b>	<b>₱1,720,714</b>	<b>₱1,658,178</b>
Pension expense (see Notes 21 and 22):			
Current service cost	279,419	-	279,419
Net interest	176,704	90,072	86,632
Past service cost	(3,211)	-	(3,211)
	<b>452,912</b>	<b>90,072</b>	<b>362,840</b>
Benefits paid	<b>(103,553)</b>	<b>(103,553)</b>	-
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	-	52,498	(52,498)
Actuarial changes arising from changes in financial assumptions	(235,902)	-	(235,902)
Actuarial changes due to experience adjustment	81,928	-	81,928
	<b>(153,974)</b>	<b>52,498</b>	<b>(206,472)</b>
Contributions	-	325,000	(325,000)
At December 31, 2017	<b>₱3,574,277</b>	<b>₱2,084,731</b>	<b>₱1,489,546</b>

Changes in pension liability of the Jollibee Group in 2016 are as follows:

	<b>Present Value of Defined Benefit Obligation</b>	<b>Fair Value of Plan Assets</b>	<b>Pension Liability</b>
At January 1, 2016	<b>₱2,999,152</b>	<b>₱1,532,622</b>	<b>₱1,466,530</b>
Pension expense (see Notes 21 and 22):			
Current service cost	252,342	-	252,342
Net interest	151,737	77,018	74,719
Past service cost	36,720	-	36,720
	<b>440,799</b>	<b>77,018</b>	<b>363,781</b>
Benefits paid	<b>(100,874)</b>	<b>(100,874)</b>	-

(Forward)



	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
Remeasurements in other comprehensive income:			
Return on plan assets (excluding amount included in net interest)	₱-	(₱62,052)	₱62,052
Actuarial changes arising from changes in financial assumptions	(73,382)	-	(73,382)
Actuarial changes due to experience adjustment	113,197	-	113,197
	39,815	(62,052)	101,867
Contributions	-	274,000	(274,000)
At December 31, 2016	₱3,378,892	₱1,720,714	₱1,658,178

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The following table presents the carrying amounts, which approximate the estimated fair values, of the assets of the plan:

	2017	2016
Cash and cash equivalents	₱487,772	₱369,024
Investments in government and corporate debt securities	1,123,443	1,075,581
Investments in quoted equity securities:		
Holding firms	203,216	142,308
Property	117,714	73,507
Banks	115,258	53,375
Food and beverage	55,978	55,749
Telecommunications	32,531	17,038
Electricity, energy, power and water	24,976	27,107
Others	42,119	12,359
Interest and dividends receivable	15,478	17,545
Fund liabilities (Note 27)	(133,754)	(122,879)
	₱2,084,731	₱1,720,714

The plan assets consist of the following:

- Investments in government securities which consist of retail treasury bonds that bear interest ranging from 3.24%-7.38% and have maturities from August 2020 to October 2037 and fixed-rate treasury notes that bear interest ranging from 2.13%-11.70% and have maturities from May 2018 to October 2037.
- Investments in debt securities consist of long-term corporate bonds in the property sector, which bear interest ranging from 5.17%-5.35% maturing from March to May 2024.
- Investments in equity securities consist of investments in listed equity securities, including equity securities of the Parent Company, for certain retirement plans of the Jollibee Group (see Note 27).





- Other financial assets held by the retirement plan are primarily accrued interest income on cash and cash equivalents, debt instruments and other securities.

Pension expense as well as the present value of the pension liability is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension expense and liability for the defined benefit plans are shown below:

	<b>December 31, 2017</b>	December 31, 2016	January 1, 2016
Discount rate	<b>5.90%–6.30%</b>	5.20%–5.70%	5.00%–5.10%
Salary increase rate	<b>6.00%</b>	6.00%	6.00%

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

	Increase (Decrease)	Philippine Plan		
		<b>2017</b>	2016	2015
Discount rates	+0.50%	<b>(₱142,506)</b>	(₱156,602)	(₱144,519)
	-0.50%	<b>195,703</b>	169,836	156,999
Future salary increases	+0.50%	<b>194,789</b>	167,757	154,738
	-0.50%	<b>(143,116)</b>	(156,240)	(143,898)

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31:

	<b>2017</b>	2016
Less than 1 year	<b>₱705,649</b>	₱492,013
More than 1 year to 5 years	<b>1,000,883</b>	1,036,202
More than 5 years to 10 years	<b>2,328,122</b>	1,996,378
More than 10 years to 15 years	<b>2,533,937</b>	2,301,591
More than 15 years to 20 years	<b>2,638,048</b>	2,451,602
More than 20 years	<b>8,531,203</b>	7,615,074

The Parent Company and certain Philippine-based subsidiaries do not have a formal asset-liability matching strategy. The overall investment policy and strategy of the retirement plans is based on the client suitability assessment, as provided by trustee banks, in compliance with the BSP requirements. Nevertheless, the Parent Company and certain Philippine-based subsidiaries ensure that there will be sufficient assets to pay the retirement benefits as they fall due while attempting to mitigate the various risks of the plans.

The plan assets are primarily exposed to financial risks such as liquidity risk and price risk. Liquidity risk pertains to the plans' ability to meet obligation to the employees upon retirement. To effectively manage liquidity risk, the trustee banks maintain assets in cash and short-term deposits. Price risk pertains mainly to fluctuation in market prices of the retirement funds' marketable securities. In order to effectively manage price risk, the trustee banks continuously assess these risks by closely monitoring the market value of the securities and implementing prudent investment strategies.

The Parent Company and certain Philippine-based subsidiaries expect to contribute ₱636.0 million to the defined benefit pension plans in 2018.

The average duration of the defined benefit obligation is 10 years as at December 31, 2017 and 2016.



Defined Contribution Plan

The employees of the PRC-domiciled and USA-based subsidiaries of the Jollibee Group are members of a state-managed pension benefit scheme operated by the national governments. These subsidiaries are required to contribute a specified percentage of their payroll costs to the pension benefit scheme to fund the benefits. The only obligation of these subsidiaries with respect to the pension benefit scheme is to make the specified contributions.

Pension expense under the defined contribution plan amounted to ₱569.8 million, ₱603.7 million and ₱637.2 million in 2017, 2016 and 2015, respectively.

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**26. Stock Options Plan**

Senior Management Stock Option and Incentive Plan

On January 10, 2017 and December 17, 2002, the SEC approved the exemption requested by the Jollibee Group on the registration requirements of 31,500,000 and 101,500,000 options, respectively, underlying the Parent Company's common shares to be issued pursuant to the Jollibee Group's Senior Management Stock Option and Incentive Plan (the Plan). The Plan covers selected key members of management of the Jollibee Group.

The Plan is divided into two programs, namely, the Management Stock Option Program (MSOP) and the Executive Long-term Incentive Program (ELTIP). The MSOP provides a yearly stock option grant program based on company and individual performance while the ELTIP provides stock ownership as an incentive to reinforce entrepreneurial and long-term ownership behavior of executive participants.

*MSOP.* The MSOP is a yearly stock option grant program open to members of the senior management committee of the Jollibee Group and members of the management committee, key talents and designated consultants of some of the business units.

Each MSOP cycle refers to the period commencing on the MSOP grant date and ending on the last day of the MSOP exercise period. Vesting is conditional on the employment of the employee-participants in the Jollibee Group within the vesting period. The options will vest at the rate of one-third of the total options granted on each anniversary of the MSOP grant date until the third anniversary.

The exercise price of the stock options is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of grant for the 1st up to the 7th MSOP cycle. Starting with the 8th MSOP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the market closing price at date of grant.

The options will vest at the rate of one-third of the total options granted from the start of the grant date on each anniversary date which will start after a year from the grant date. For instance, under the 1st MSOP cycle, the Compensation Committee of the Jollibee Group granted 2,385,000 options to eligible participants on July 1, 2004. One-third of the options granted, or 795,000 options, vested and may be exercised starting July 1, 2005. The exercise period for the 1st MSOP cycle was until June 30, 2012. From July 1, 2005 to September 9, 2016, the Compensation Committee granted series of MSOP grants under the 2nd to 13th MSOP cycle to eligible participants. Under the most recent grant (July 3, 2017), the 14th MSOP cycle, the Compensation Committee granted 4,198,500 options. These options are similar to 1st MSOP cycle.

The options under MSOP expire eight years after grant date. The 1st, 2nd, 3rd 4th, 5th and 6th MSOP cycles expired on June 30, 2012, 2013, 2014, 2015, 2016 and 2017, respectively.



The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding under MSOP and related weighted average exercise prices (WAEP) are as follows:

	2017		2016		2015	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted at beginning of year	42,986,294	₱92.47	40,120,794	₱82.22	36,863,194	₱73.58
Options granted during the year	4,198,500	206.20	2,865,500	236.00	3,257,600	179.99
Total options granted at end of year	47,184,794	₱102.59	42,986,294	₱92.47	40,120,794	₱82.22
Outstanding at beginning of year	15,256,198	₱159.46	14,868,437	₱133.32	13,609,275	₱117.51
Options granted during the year	4,198,500	206.20	2,865,500	236.00	3,257,600	179.99
Options exercised during the year	(2,672,040)	110.35	(2,259,125)	87.40	(1,380,628)	100.42
Options forfeited during the year	(2,108)	213.28	(218,614)	129.31	(617,810)	104.73
Outstanding at end of year	16,780,550	₱176.63	15,256,198	₱159.46	14,868,437	₱133.32
Exercisable at end of year	9,688,683	₱151.94	9,141,965	₱128.20	8,262,670	₱100.95

The weighted average share price of the Parent Company common shares is ₱222.86, ₱227.53 and ₱206.05 in 2017, 2016 and 2015, respectively. The weighted average remaining contractual life for the stock options outstanding as at December 31, 2017, 2016 and 2015 is 5.21 years, 5.17 years and 5.19 years, respectively.

The weighted average fair value of stock options granted in 2017, 2016 and 2015 is ₱29.88, ₱31.16 and ₱26.13, respectively. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account, the terms and conditions upon which the options were granted. The option style used for this plan is the American style because the option plan allows exercise before the expiry date.

The inputs in the valuation of the options granted on the dates of grant for each MSOP cycle are shown below:

MSOP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1st	2004	1.72%	36.91%	6.20%	5-7 years	₱24.00	₱20.00
2nd	2005	1.72%	36.91%	6.20%	5-7 years	29.00	27.50
3rd	2006	1.72%	36.91%	6.20%	5-7 years	35.00	32.32
4th	2007	1.70%	28.06%	6.41%	3-4 years	52.50	50.77
5th	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
6th	2009	2.00%	30.37%	5.28%	3-4 years	48.00	45.45
7th	2010	2.00%	29.72%	5.25%	3-4 years	70.00	57.77
8th	2011	2.00%	34.53%	4.18%	3-4 years	89.90	89.90
9th	2012	2.00%	28.72%	3.50%	3-4 years	107.90	107.90
10th	2013	2.00%	29.38%	2.68%	3-4 years	145.00	145.00
11th	2014	2.00%	24.87%	2.64%	3-4 years	179.80	179.80
12th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00
13th	2016	2.00%	17.76%	2.63%	3-4 years	236.00	236.00
14th	2017	2.00%	16.70%	3.92%	3-4 years	206.20	206.20

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.



*ELTIP.* The ELTIP entitlement is given to members of the senior management committee and designated consultants of the Jollibee Group.

Each ELTIP cycle refers to the period commencing on the ELTIP entitlement date and ending on the last day of the ELTIP exercise period. Actual grant and vesting is conditional upon achievement of the Jollibee Group's medium to long-term goals and individual targets in a given period, and the employment of the employee-participants in the Jollibee Group within the vesting period. If the goals are achieved, the options will be granted. For the 3rd ELTIP cycle, a percentage of the options to be granted are based on the percentage of growth in annual earnings per share such that 100%, 50% or 25% of the options granted when percentage of growth in annual earnings per share are 12% and above, 10% to less than 12% or 8% to less than 10%, respectively. For the 4th ELTIP cycle, the percentage of the options to be granted and the targeted percentage of growth in annual earnings per share have been further revised such that 150%, 100% or 50% of the options granted when percentage of growth in annual earnings per share are 15% and above, 12% to less than 15% or 10% to less than 12%, respectively.

The exercise price of the stock options under ELTIP is determined by the Jollibee Group with reference to prevailing market prices over the three months immediately preceding the date of entitlement for the first and second ELTIP cycles. Starting with the 3rd ELTIP cycle, the exercise price of the option is determined by the Jollibee Group with reference to the closing market price as at the date of entitlement.

The options will vest at the rate of one-third of the total options granted on each anniversary date which will start after the goals are achieved. For instance, on July 1, 2004, the Compensation Committee gave an entitlement of 22,750,000 options under the 1st ELTIP cycle to eligible participants. One-third of the options granted, or 7,583,333 options, vested and exercised starting July 1, 2007 until June 30, 2012. On July 1, 2008, October 19, 2012 and August 25, 2015, entitlement to 20,399,999, 24,350,000 and 11,470,000 options were given to eligible participants under the 2nd, 3rd and 4th ELTIP cycles, respectively. The 1st and 2nd ELTIP cycles expired on June 30, 2012 and April 30, 2017, respectively. The stock options granted under the 3rd and 4th ELTIP cycles will expire in 2020 and 2023, respectively.

The Jollibee Group does not pay cash as a form of settlement.

The movements in the number of stock options outstanding for the 2nd to 4th ELTIP cycles and related WAEP for the years ended December 31, 2017, 2016 and 2015 follow:

	2017		2016		2015	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted at end of year	<b>78,969,999</b>	<b>₱74.58</b>	78,969,999	₱74.58	67,499,999	₱56.66
Options granted during the year	-	-	-	-	11,470,000	180.00
Total options granted at end of year	<b>78,969,999</b>	<b>₱74.58</b>	78,969,999	₱74.58	78,969,999	₱74.58
Outstanding at beginning of year	<b>35,118,896</b>	<b>₱122.65</b>	38,344,999	₱117.74	31,270,560	₱90.06
Options granted during the year	-	-	-	-	11,470,000	180.00
Options exercised during the year	<b>(7,682,230)</b>	<b>73.69</b>	(2,892,770)	59.59	(3,728,468)	79.46
Options forfeited during the year	-	-	(333,333)	105.00	(667,093)	105.00
Outstanding at end of year	<b>27,436,666</b>	<b>₱136.35</b>	35,118,896	₱122.65	38,344,999	₱117.74
Exercisable at end of year	<b>15,966,666</b>	<b>₱105.00</b>	15,615,420	₱89.60	10,808,048	₱70.59

The weighted average remaining contractual life for the stock options outstanding as of 2017, 2016 and 2015 is 3.59 years, 4.00 years and 4.85 years, respectively.



The fair value of stock options granted is ₱26.13 in 2015. There were no additional stock option grants under ELTIP in 2017 and 2016. The fair value of share options as at the date of grant is estimated using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The option style used for this plan is the American style because this option plan allows exercise before the maturity date.

The inputs to the model used for the options granted on the dates of grant for each ELTIP cycle are shown below:

ELTIP Cycle	Year of Grant	Dividend Yield	Expected Volatility	Risk-free Interest Rate	Expected Life of the Option	Stock Price on Grant Date	Exercise Price
1st	2004	1.72%	36.91%	6.20%	5 years	₱24.00	₱20.00
2nd	2008	1.80%	26.79%	8.38%	3-4 years	34.00	39.85
3rd	2012	2.00%	28.74%	3.60%	3-4 years	105.00	105.00
4th	2015	2.00%	18.94%	2.98%	3-4 years	180.00	180.00

The expected life of the stock options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

The cost of the stock options expense charged to operations for both MSOP and ELTIP in the “General and administrative expenses” account amounted to ₱227.5 million, ₱241.3 million and ₱173.2 million in 2017, 2016 and 2015, respectively (see Note 22). Correspondingly, a credit was made to additional paid-in-capital (see Note 19).

## 27. Related Party Transactions

The Jollibee Group has transactions with related parties. Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Jollibee Group, including holding companies, subsidiaries and fellow subsidiaries are related entities of the Jollibee Group. Individuals owning, directly or indirectly, an interest in the voting power of the Jollibee Group that give them significant influence over the enterprise; key management personnel, including directors and officers of the Jollibee Group, and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

### Compensation of Key Management Personnel of the Jollibee Group

The aggregate compensation and benefits to key management personnel of the Jollibee Group in 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Salaries and short-term benefits	<b>₱1,107,515</b>	₱1,001,048	₱798,882
Stock options expense (see Notes 22 and 26)	<b>227,483</b>	241,324	173,212
Net pension expense	<b>65,075</b>	59,701	47,584
Employee car plan and other long-term benefits	<b>48,948</b>	47,673	42,803
	<b>₱1,449,021</b>	₱1,349,746	₱1,062,481



Transactions with the Retirement Plans

As at December 31, 2017 and 2016, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	2017	2016
Number of shares	<b>163,150</b>	192,860
Market value	<b>₱41,277</b>	₱37,415
Cost	<b>9,417</b>	9,187
Unrealized gain	<b>₱31,860</b>	₱28,228

The Jollibee Group's receivable from retirement fund amounted to ₱131.7 million and ₱122.9 million as at December 31, 2017 and 2016, respectively (see Note 25). The receivable arose from benefit payments made by the Jollibee Group for and in behalf of the retirement plans. The receivable is noninterest-bearing.

Transaction with a Joint Venture

As at December 31, 2016 the Jollibee Group has outstanding advances to SuperFoods Group. The terms of these advances are disclosed in Note 11.

Terms and Conditions of Transactions with other Related Parties

Transactions with related parties are made at market prices and are normally settled in cash. Other related party transactions between entities under the Jollibee Group are eliminated in the consolidation process.

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**28. Earnings Per Share**

Basic and diluted EPS are computed as follows:

	2017	2016	2015
	<i>(In Thousand pesos, except for EPS)</i>		
(a) Net income attributable to the equity holders of the Parent Company	<b>₱7,109,120</b>	₱6,164,735	₱4,928,236
(b) Weighted average number of shares - basic	<b>1,080,488,873</b>	1,072,616,009	1,067,293,108
Weighted average number of shares outstanding under the stock options plan	<b>32,366,508</b>	38,387,061	42,717,799
Weighted average number of shares that would have been purchased at fair market value	<b>(18,180,717)</b>	(18,545,923)	(21,689,263)
(c) Adjusted weighted average shares - diluted	<b>1,094,674,664</b>	1,092,457,147	1,088,321,644
EPS:			
Basic (a/b)	<b>₱6.580</b>	₱5.747	₱4.618
Diluted (a/c)	<b>6.494</b>	5.643	4.528

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2017 and 2016 because they are antidilutive. Contingently issuable shares for stock options under the 4th ELTIP cycle have not been included in the calculation of the diluted EPS in 2017 and 2016.



## 29. Commitments and Contingencies

### a. Operating lease commitments - Jollibee Group as lessee

The Jollibee Group has various operating lease commitments for quick service restaurant outlets and offices. The noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Some of the leases contain escalation clauses. The lease contracts on certain sales outlets provide for the payment of additional rentals based on certain percentages of sales of the outlets. Contingent rent expense amounted to ₱2,057.8 million, ₱1,703.3 million and ₱1,428.2 million in 2017, 2016 and 2015, respectively (see Notes 21 and 22).

The future minimum lease payments for the noncancellable periods of the operating leases follow:

	2017	2016	2015
Within one year	<b>₱2,229,282</b>	₱1,546,661	₱1,532,583
After one year but not more than five years	<b>8,405,865</b>	5,916,716	5,581,731
More than five years	<b>9,942,645</b>	8,093,585	6,443,631
	<b>₱20,577,792</b>	₱15,556,962	₱13,557,945

Rent expense recognized on a straight-line basis amounted to ₱10,236.6 million, ₱8,704.5 million and ₱7,841.9 million in 2017, 2016 and 2015, respectively (see Notes 21 and 22). The difference of rent expense recognized under the straight-line method and the rent amounts due in accordance with the terms of the lease agreements are charged to "Operating lease payables" account which amounted to ₱2,051.6 million and ₱1,792.9 million as at December 31, 2017 and 2016, respectively.

### b. Operating lease commitments - Jollibee Group as lessor

The Jollibee Group entered into commercial property leases for its investment property units and various sublease agreements. Noncancellable periods of the leases range from 3 to 20 years, mostly containing renewal options. Leases generally include a clause to enable upward revision of the rent charges on an annual basis based on prevailing market conditions.

The future minimum lease payments for the noncancellable periods of the operating leases, wherein Jollibee Group is the lessor, follow:

	2017	2016	2015
Within one year	<b>₱174,333</b>	₱142,011	₱63,359
After one year but not more than five years	<b>500,520</b>	393,154	244,123
More than five years	<b>163,067</b>	184,930	598,950
	<b>₱837,920</b>	₱720,095	₱906,432

Rent income recognized on a straight-line basis amounted to ₱57.2 million, ₱91.4 million and ₱92.4 million in 2017, 2016 and 2015, respectively (see Note 20). The difference of rent income recognized under the straight-line method and the rent amounts in accordance with the terms of the lease are included under "Operating lease receivables" which amounted to ₱28.0 million and ₱26.0 million as at December 31, 2017 and 2016, respectively.



c. Contingencies

The Jollibee Group is involved in litigations, claims and disputes which are normal to its business. Management believes that the ultimate liability, if any, with respect to these litigations, claims and disputes will not materially affect the financial position and financial performance of the Jollibee Group. Thus, other than the provisions in Note 17, there were no other provisions made for contingencies.

The Jollibee Group does not provide further information on these provisions and contingencies in order not to impair the outcome of the litigations, claims and disputes.

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**30. Financial Risk Management Objectives and Policies**

The Jollibee Group is exposed to a variety of financial risks from its operating, investing and financing activities. The Jollibee Group's risk management policies focus on actively securing the Jollibee Group's short-term to medium-term cash flows by minimizing the exposure to financial markets.

The Jollibee Group's principal financial instruments comprise of cash and cash equivalents, short-term investments, receivables and long-term debts. The main purpose of these financial instruments is to obtain financing for the Jollibee Group's operations. The Jollibee Group has other financial assets and liabilities such as receivable from sale of business, security and other deposits, operating lease receivables and trade payables and other current liabilities (excluding accrual for local and other taxes, liabilities to government agencies and unearned revenue from gift certificates) which arise directly from its operations.

The main risks arising from these financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The risk management policies reviewed regularly by the Parent Company's BOD and management for managing each of these risks are summarized as follows:

Interest Rate Risk

Interest rate risk arises from the possibility that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Jollibee Group's exposure to interest rate risk relates primarily to long-term debts with floating interest rates. Floating rate financial instruments are subject to cash flow interest rate risk. The Jollibee Group's interest rate exposure management policy centers on reducing the Company's overall interest expense and exposure to changes in the interest rates.

To manage the interest rate risk related to the Jollibee Group's long-term debts, the Jollibee Group used a derivative instrument to fix the interest rate over the term of one of its long-term debts (see Note 18). With the Jollibee Group's Corporate Planning Team, it enters into loan contracts with variable interest rates and option to fix interest rates which can be availed to manage its loan risks.

There is minimal exposure on the other sources of the Jollibee Group's interest rate risk. These other sources are from the Jollibee Group's cash in banks, short-term deposits and short-term investments.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Jollibee Group's income before income tax as at December 31, 2017 and 2016. The impact on the Jollibee Group's income before income tax is due to changes in the fair value of floating interest rates.





Long-term Debt with Floating Interest Rates

	Increase/ Decrease in Basis Points	Effect in Profit or Loss Before Income Tax	
		2017	2016
USD	+100	<b>(80,599)</b>	(87,706)
	-100	<b>80,599</b>	87,706
PHP	+100	<b>(64,245)</b>	(33,848)
	-100	<b>64,245</b>	33,848
VND	+100	<b>(4,167)</b>	–
	-100	<b>4,167</b>	–

The assumed movement in basis point for interest rate sensitivity analysis is based on the currently observable market environment.

Foreign Currency Risk

The Jollibee Group’s exposure to foreign currency risk arises from the Parent Company’s investments outside the Philippines, which are mainly in PRC and USA. The net assets of foreign businesses account for only 2.55% and 5.74% of the consolidated net assets of the Jollibee Group as at December 31, 2017 and 2016, respectively, and the businesses have been rapidly growing.

The Jollibee Group also has transactional foreign currency exposures. Such exposure arises from the Jollibee Group’s Philippine operations’ cash and cash equivalents and receivables in foreign currencies.

The following table shows the Jollibee Group’s Philippine operations’ foreign currency-denominated monetary assets and their peso equivalents as at December 31, 2017 and 2016:

	2017			2016		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
<b>Assets</b>						
Cash and cash equivalents	<b>407</b>	<b>6</b>	<b>20,364</b>	687	8	34,185
Receivables	<b>32</b>	–	<b>1,598</b>	4,991	–	248,164
Foreign currency denominated assets	<b>439</b>	<b>6</b>	<b>21,962</b>	5,678	8	282,349
Accounts payable - trade	<b>(1,155)</b>	–	<b>(57,669)</b>	–	–	–
Foreign currency denominated assets - net	<b>(716)</b>	<b>6</b>	<b>(35,707)</b>	5,678	8	282,349

*Foreign Currency Risk Sensitivity Analysis*

The Jollibee Group has recognized in profit or loss, foreign currency exchange gain or loss, included under “Other income” account, which amounted to a net foreign exchange loss of ₱63.5 million in 2017 and net foreign exchange gain of ₱41.5 million and ₱36.8 million in 2016 and 2015, respectively (see Note 23). This resulted from the movements of the Philippine peso against the USD and RMB as shown in the following table:

	Peso to	
	USD	RMB
<b>December 31, 2017</b>	<b>49.93</b>	<b>7.64</b>
December 31, 2016	49.72	7.16



The following table demonstrates the sensitivity to a reasonably possible change in USD and RMB to Philippine peso exchange rate, with all other variables held constant, of the Jollibee Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as at December 31, 2017 and 2016:

	2017		2016	
	Effect on Income before Income Tax	Effect on Equity before Income Tax	Effect on Income before Income Tax	Effect on Equity before Income Tax
Appreciation (Depreciation) of ₱ against Foreign Currency				
USD	1.50	(₱1,074)	(₱8,517)	(₱8,517)
	(1.50)	1,074	8,517	8,517
	1.00	(716)	(5,678)	(5,678)
	(1.00)	716	5,678	5,678
RMB	0.95	(5.3)	(7.6)	(7.6)
	(0.95)	5.3	7.6	7.6
	0.63	(3.5)	(5.0)	(5.0)
	(0.63)	3.5	5.0	5.0

### Credit Risk

Credit risk is the risk that a customer or counterparty fails to fulfill its contractual obligations to the Jollibee Group. This includes risk of non-payment by borrowers, failed settlement of transactions and default on outstanding contracts.

The Jollibee Group has a strict credit policy. Its credit transactions are with franchisees and customers that have gone through rigorous screening before granting them the franchise. The credit terms are very short, while deposits and advance payments are also required before rendering the services or delivering the goods, thus, mitigating the possibility of non-collection. In cases of non-collection, defaults of the debtors are not tolerated; the exposure is contained the moment a default occurs and transactions that will further increase the exposure of the Jollibee Group are discontinued.

The Jollibee Group has no significant concentration of credit risk with counterparty. The Jollibee Group's franchisee profile is such that no single franchisee accounts for more than 5% of the total system wide sales of the Jollibee Group.

The aging analysis of loans and receivables as at December 31, 2017 and 2016 are as follows:

	2017						
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
	<i>(In Millions)</i>						
Cash and cash equivalents*	₱20,762.5	₱20,762.5	₱-	₱-	₱-	₱-	₱-
Short-term investments	1,413.4	1,413.4	-	-	-	-	-
Receivables:							
Trade	4,225.0	2,527.7	488.8	150.1	134.7	233.6	690.1
Employee car plan receivables**	275.0	275.0	-	-	-	-	-
Advances to employees	144.8	144.8	-	-	-	-	-
Other receivables***	145.2	89.2	0.7	1.6	2.0	51.7	-
Other noncurrent assets:							
Security and other deposits	2,465.0	2,465.0	-	-	-	-	-
Operating lease receivables	28.0	28.0	-	-	-	-	-
Receivable from sale of business (including current portion)	76.4	76.4	-	-	-	-	-
	29,535.3	27,782.0	489.5	151.7	136.7	285.3	690.1
AFS financial assets	29.9	29.9	-	-	-	-	-
	29,565.2	₱27,811.9	₱489.5	₱151.7	₱136.7	₱285.3	₱690.1

\*Excluding cash on hand amounting to ₱345.0 million in 2017.

\*\*Including noncurrent portion of employee car plan receivables.

\*\*\*Excluding receivables from government agencies amounting to ₱27.2 million in 2017.



2016							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired (Age in Days)				Impaired
			1-30	31-60	61-120	Over 120	
<i>(In Millions)</i>							
Cash and cash equivalents*	₱16,437.6	₱16,437.6	₱-	₱-	₱-	₱-	₱-
Short-term investments	726.0	726.0	-	-	-	-	-
Receivables:							
Trade	3,608.6	1,777.6	448.6	77.4	78.9	646.3	579.8
Employee car plan receivables**	214.0	205.2	1.3	0.7	0.9	5.9	-
Advances to employees	112.7	112.7	-	-	-	-	-
Other receivables***	132.8	125.2	1.5	0.7	-	5.4	-
Other noncurrent assets:							
Security and other deposits	2,103.7	2,103.7	-	-	-	-	-
Operating lease receivables	26.0	26.0	-	-	-	-	-
Receivable from sale of business (including current portion)	286.4	286.4	-	-	-	-	-
	23,647.8	21,800.4	451.4	78.8	79.8	657.6	579.8
AFS financial assets	26.2	26.2	-	-	-	-	-
	<b>₱23,674.0</b>	<b>₱21,826.6</b>	<b>₱451.4</b>	<b>₱78.8</b>	<b>₱79.8</b>	<b>₱657.6</b>	<b>₱579.8</b>

\*Excluding cash on hand amounting to ₱295.7 million in 2016.

\*\*Including noncurrent portion of employee car plan receivables.

\*\*\*Excluding receivables from government agencies amounting to ₱19.1 million in 2016.

**Credit Risk Exposure.** The tables below show the maximum exposure to credit risk of the Jollibee Group as at December 31, 2017 and 2016 without considering the effects of collaterals and other credit risk mitigation techniques:

2017			
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<b>Financial Assets</b>			
Cash and cash equivalents*	₱20,762.5	₱150.1	₱20,612.4**
Short-term investments	1,413.4	-	1,413.4
Receivables:			
Trade	3,534.9	42.1	3,492.8***
Employee car plan receivables	275.0	-	275.0
Advances to employees	144.8	-	144.8
Other receivables****	145.2	-	145.2
Other noncurrent assets:			
Security and other deposits	2,465.0	-	2,465.0
Operating lease receivables	28.0	-	28.0
Receivable from sale of business (including current portion)	76.4	-	76.4
AFS financial asset	29.9	-	29.9
	<b>₱28,875.1</b>	<b>₱192.2</b>	<b>₱28,682.9</b>

\* Excluding cash on hand amounting to ₱345.0 million in 2017.

\*\* Gross financial assets after taking into account insurance bank deposits for cash and cash equivalents.

\*\*\* Gross financial assets after taking into account payables to the same counterparty.

\*\*\*\* Excluding receivables from government agencies amounting to ₱27.2 million in 2017.



	2016		
	Gross Maximum Exposure (a)	Fair Value and Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
<b>Financial Assets</b>			
Cash and cash equivalents*	₱16,437.6	₱236.8	₱16,200.8**
Short-term investments	726.0	–	726.0
Receivables:			
Trade	3,028.8	81.7	2,947.1***
Employee car plan receivables	214.0	–	214.0
Advances to employees	112.7	–	112.7
Other receivables****	132.8	–	132.8
Other noncurrent assets:			
Security and other deposits	2,103.7	–	2,103.7
Operating lease receivables	26.0	–	26.0
AFS financial asset	26.2	–	26.2
Receivable from sale of business (including current portion)	286.4	–	286.4
	<b>₱23,094.2</b>	<b>₱318.5</b>	<b>₱22,775.7</b>

\* Excluding cash on hand amounting to ₱295.7 million in 2016.

\*\* Gross financial assets after taking into account insurance bank deposits for cash and cash equivalents.

\*\*\* Gross financial assets after taking into account payables to the same counterparty.

\*\*\*\* Excluding receivables from government agencies amounting to ₱19.1 million in 2016.

With respect to credit risk arising from financial assets of the Jollibee Group, the Jollibee Group's exposure to credit risk arises from default of the counterparty, with a gross maximum exposure equal to the carrying amount of these instruments.

*Credit Quality.* The tables below show the credit quality by class of financial assets that are neither past due nor impaired, based on the Jollibee Group's credit rating system as at December 31, 2017 and 2016.

	2017				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
	A	B	C		
<i>(In Millions)</i>					
<b>Receivables</b>					
Trade	₱4,225.0	₱1,110.2	₱1,298.9	₱118.6	₱1,697.3
Employee car plan receivables*	275.0	275.0	–	–	–
Advances to employees	144.8	144.8	–	–	–
Other receivables**	145.2	89.2	–	–	56.0
Receivable from sale of business	76.4	76.4	–	–	–
<b>AFS financial asset</b>	<b>29.9</b>	<b>29.9</b>	<b>–</b>	<b>–</b>	<b>–</b>
	<b>₱4,896.3</b>	<b>₱1,725.5</b>	<b>₱1,298.9</b>	<b>₱118.6</b>	<b>₱1,753.3</b>

\*Including noncurrent portion of employee car plan receivables.

\*\*Excluding receivables from government agencies amounting to ₱27.2 million in 2017.

	2016				
	Total	Neither Past Due nor Impaired			Past Due or Impaired
	A	B	C		
<i>(In Millions)</i>					
<b>Receivables</b>					
Trade	₱3,608.6	₱744.5	₱946.7	₱86.4	₱1,831.0
Employee car plan receivables*	214.0	205.2	–	–	8.8
Advances to employees	112.7	112.7	–	–	–
Other receivables**	132.8	125.2	–	–	7.6
Receivable from sale of business	286.4	286.4	–	–	–
<b>AFS financial asset</b>	<b>26.2</b>	<b>26.2</b>	<b>–</b>	<b>–</b>	<b>–</b>
	<b>₱4,380.7</b>	<b>₱1,500.2</b>	<b>₱946.7</b>	<b>₱86.4</b>	<b>₱1,847.4</b>

\*Including noncurrent portion of employee car plan receivables.

\*\*Excluding receivables from government agencies amounting to ₱19.1 million in 2016.



The credit quality of financial assets is managed by the Jollibee Group using internal credit ratings, as shown below:

- A - For counterparty that is not expected by the Jollibee Group to default in settling its obligations, thus, credit risk exposure is minimal. This counterparty normally includes financial institutions, certain related parties and customers who pay on or before due date.
- B - For counterparty with tolerable delays (normally from 1 to 30 days) in settling its obligations to the Jollibee Group. The delays may be due to cut-off differences and/or clarifications on contracts/billings.
- C - For counterparty who consistently defaults in settling its obligations, but with continuing business transactions with the Jollibee Group, and may be or actually referred to legal and/or subjected to cash before delivery (CBD) scheme. Under this scheme, the customer's credit line is suspended and all subsequent orders are paid in cash before delivery. The CBD status will only be lifted upon full settlement of the receivables and approval by management. Thereafter, the regular credit term and normal billing and collection processes will resume.

#### Liquidity Risk

The Jollibee Group's exposure to liquidity risk refers to the risk that its financial liabilities are not serviced in a timely manner and that its working capital requirements and planned capital expenditures are not met. To manage this exposure and to ensure sufficient liquidity levels, the Jollibee Group closely monitors its cash flows to be able to finance its capital expenditures and to pay its obligations as and when they fall due.

On a weekly basis, the Jollibee Group's Cash and Banking Team monitors its collections, expenditures and any excess/deficiency in the working capital requirements, by preparing cash position reports that present actual and projected cash flows for the subsequent week. Cash outflows resulting from major expenditures are planned so that money market placements are available in time with the planned major expenditure. In addition, the Jollibee Group has short-term cash deposits and has available credit lines with accredited banking institutions, in case there is a sudden deficiency. The Jollibee Group maintains a level of cash and cash equivalents deemed sufficient to finance the operations. No changes were made in the objectives, policies or processes of the Jollibee Group during the years ended December 31, 2017 and 2016.

The Jollibee Group's financial assets, which have maturity of less than 12 months and are used to meet its short-term liquidity needs, are cash and cash equivalents, short-term investments and trade receivables amounting to ₱21,107.5 million, ₱1,413.4 million and ₱3,534.9 million, respectively, as at December 31, 2017 and ₱16,733.3 million, ₱726.0 million and ₱3,028.8 million, respectively, as at December 31, 2016.

The tables below summarize the maturity profile of the Jollibee Group's other financial liabilities based on the contractual undiscounted cash flows as at December 31, 2017 and 2016:

	2017				Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	
<i>(In Millions)</i>					
<b>Financial Liabilities</b>					
Trade payables and other current liabilities*	₱6,372.5	₱16,698.8	₱-	₱-	₱23,071.3
Long-term debt (including current portion)	73.9	1,801.6	12,897.7	1,344.1	16,117.3
Operating lease payables	-	277.7	1,313.0	460.9	2,051.6
<b>Total Financial Liabilities</b>	<b>₱6,446.4</b>	<b>₱18,778.1</b>	<b>₱14,210.7</b>	<b>₱1,805.0</b>	<b>₱41,240.2</b>

\*Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱2,183.3 million as at December 31, 2017.



	2016				Total
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	
<i>(In Millions)</i>					
<b>Financial Liabilities</b>					
Trade payables and other current liabilities*	₱-	₱20,099.0	₱-	₱-	₱20,099.0
Long-term debt (including current portion)	-	1,562.1	4,639.7	5,953.6	12,155.4
Operating lease payables	-	602.9	523.9	666.0	1,792.8
<b>Total Financial Liabilities</b>	<b>₱-</b>	<b>₱22,264.0</b>	<b>₱5,163.6</b>	<b>₱6,619.6</b>	<b>34,047.2</b>

\*Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to ₱1,861.6 million as at December 31, 2016.

### Equity Price Risk

The Jollibee Group is not exposed to significant equity price risk on its investment in quoted equity securities consisting of investment in club shares.

### Capital Management Policy

Capital includes equity attributable to equity holders of the Parent Company.

The primary objective of the Jollibee Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Jollibee Group has sufficient capitalization.

The Jollibee Group generates cash flows from operations sufficient to finance its organic growth. It declares cash dividends representing at least one-third of its consolidated net income, a ratio that would still leave some additional cash for future expansion. If needed, the Jollibee Group would borrow money for acquisitions of new businesses.

As at December 31, 2017 and 2016, the Jollibee Group's debt ratio and net debt ratio are as follows:

#### *Debt Ratio*

	2017	2016
Total debt (a)	<b>₱47,201,916</b>	₱38,446,948
Total equity attributable to equity holders of the Parent Company	<b>40,782,635</b>	33,602,216
Total debt and equity attributable to equity holders of the Parent Company (b)	<b>₱87,984,551</b>	₱72,049,164
Debt ratio (a/b)	<b>54%</b>	53%

#### *Net Debt Ratio*

	2017	2016
Total debt	<b>₱47,201,916</b>	₱38,446,948
Less cash and cash equivalents and short-term investments	<b>22,520,874</b>	17,459,348
Net debt (a)	<b>24,681,042</b>	20,987,600
Total equity attributable to equity holders of the Parent Company	<b>40,782,635</b>	33,602,216
Net debt and equity attributable to equity holders of the Parent Company (b)	<b>₱65,463,677</b>	₱54,589,816
Net debt ratio (a/b)	<b>38%</b>	38%



### 31. Fair Value of Financial Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

*Financial Instruments Whose Carrying Amounts Approximate Fair Value.* Management has determined that the carrying amounts of cash and cash equivalents, short-term investments, receivables, operating lease receivables, trade payables and other current liabilities and operating lease payables, based on their notional amounts, reasonably approximate their fair values because of their short-term nature or due to the immaterial effect of discounting when the present value of future cash flows from these instruments are calculated.

*AFS Financial Assets.* The fair value of investments in quoted shares of stock is based on quoted prices. The Jollibee Group does not have the intention to dispose these financial assets in the near term.

*Investment Properties.* The fair value of the investment properties are determined by independent appraisers using the market data and cost approach, which considers the local market conditions, the extent, character and utility of the property, sales and holding prices of similar parcels of land and the highest and best use of the investment properties.

*Security and Other Deposits, Employee Car Plan Receivables, Long-term Debt and Derivative Asset or Liability.* Management has determined that the estimated fair value of security and other deposits, noncurrent portion of employee car plan receivables, long-term debt and derivative assets or liability are based on the discounted value of future cash flows using applicable rates as follows:

	2017	2016
Security and other deposits	2.44%-5.71%	2.45%-5.38%
Employee car plan receivables	2.50%-4.92%	1.89%-4.74%
Derivative assets	2.08%-4.09%	2.08%-4.09%
Long-term debt	2.56%-4.92%	2.45%-4.74%
Derivative liability	0.95%-1.05%	0.95%-1.05%

The following tables provide the fair value measurement hierarchy of the Jollibee Group's recurring financial assets and liabilities.

Quantitative disclosure fair value measurement hierarchy for assets as at December 31, 2017:

	Carrying Value	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	₱29,862	₱29,862	₱-	₱29,862	₱-
Derivative asset - interest rate swap	11,948	11,948	-	11,948	-
Assets for which fair values are disclosed:					
Investment properties:					
Land	848,974	3,038,347	-	3,038,347	-
Buildings	-	2,083,920	-	2,083,920	-
Buildings	-	954,427	-	954,427	-
Other noncurrent assets:					
Security and other deposits	848,974	2,506,400	-	2,506,400	-
Employee car plan receivables	186,000	251,492	-	251,492	-



Quantitative fair value measurement hierarchy for assets as at December 31, 2016:

	Carrying Value	Fair Value Measurement Using			
		Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value:					
Available-for-sale financial assets					
Quoted equity shares - club shares	₱26,212	₱26,212	₱-	₱26,212	₱-
Derivative asset - put/call rights	78,329	78,329	-	-	78,329
Assets for which fair values are disclosed:					
Investment properties:	983,428	2,088,764	-	2,088,764	-
Land	983,428	1,876,625	-	1,876,625	-
Buildings	-	212,139	-	212,139	-
Other noncurrent assets:					
Security and other deposits	2,103,707	1,877,227	-	1,877,227	-
Employee car plan receivables	130,584	196,224	-	196,224	-
Receivables from sale of business	286,448	286,448	-	286,448	-

Quantitative fair value measurement hierarchy for liabilities as at December 31, 2017:

	Date of Valuation	Fair Value Measurement Using			
		Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability - put/call rights	December 31, 2017	₱51,042	₱-	₱51,042	₱-
Liabilities disclosed at fair value:					
Product Security Deposit	December 31, 2017	221,973	-	221,973	-
Tenants' Deposit	December 31, 2017	8,339	-	8,339	-
Long-term debt	December 31, 2017	15,749,921	-	15,749,921	-

Quantitative disclosure fair value measurement hierarchy for liabilities as at December 31, 2016:

	Date of Valuation	Fair Value Measurement Using			
		Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities measured at fair value:					
Derivative liability - interest rate swap	December 31, 2016	₱33,531	₱-	₱33,531	₱-
Liabilities disclosed at fair value:					
Product Security Deposit	December 31, 2016	171,782	-	171,782	-
Tenants' Deposit	December 31, 2016	12,781	-	12,781	-
Long-term debt	December 31, 2016	12,750,225	-	12,750,225	-

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements during the year.

Description of significant unobservable input to the measurement of the derivative asset – put/call rights as at December 31, 2017 and 2016 is as follows:

	Valuation Technique	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value
Derivative asset – put/call rights	Discounted cash flow method	Long-term growth rate used to calculate equity value	6.0% to 7.0%	Increase (decrease) in the long-term rate would increase (decrease) the fair value.





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### 32. Reclassification

The sales discounts of PRC-based subsidiaries taken up as advertising and promotions in the 2016 statement of comprehensive income and supporting note disclosures have been reclassified to conform with the presentation used in the statement of comprehensive income in 2017.

The reclassification did not affect the total assets, total liabilities and total equity in the statement of financial position as at December 31, 2016 and the net income and total comprehensive income in the statement of comprehensive income in 2016.

The effects of the reclassification in the 2016 statement of comprehensive income are as follows:

<u>Account</u>	<u>As previously reported</u>	<u>Reclassification</u>	<u>As reclassified</u>
Sales discounts	₱971,595	₱96,292	₱1,067,887
Advertising and promotions	2,765,787	(96,292)	2,669,495

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### 33. Event after the Reporting Period

#### Dividend Declaration

On April 6, 2018, the BOD of the Parent Company approved a regular cash dividend of ₱1.14 per share of common stock to all stockholders of record as of April 24, 2018. Consequently, the cash is expected to be paid out by May 9, 2018. The cash dividend is 14% higher than the ₱1.00 regular dividend declared on April 5, 2017.



### 34. Notes to the Statement of Cash Flows

Changes in liabilities and equity arising from financing activities are as follows:

	January 1, 2017	Cash flows	Dividends declared (Note 19)	Granted stock options to employees and subsidiaries	Deferred tax assets (Note 24)	Interest expense (Note 24)	Amortization of debt issue cost (Note 17)	Foreign exchange loss	Acquisition of a subsidiary (Note 11)	Share in net losses of Non- controlling interest (Note 11)	Share in cumulative translation adjustments of Non- controlling interest (Note 11)	December 31, 2017
	<i>(In Millions)</i>											
Dividends payable (Note 16)	₱47.7	(₱2,347.2)	₱2,355.5	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱56.0
Long-term debt (Note 18)	12,155.4	3,909.7	-	-	-	-	3.2	49.0	-	-	-	16,117.3
Interest payable (Note 16)	51.4	(360.9)	-	-	-	392.6	-	-	-	-	-	83.1
Capital stock (Note 19)	1,091.3	10.4	-	-	-	-	-	-	-	-	-	1,101.7
Additional paid-in capital (Note 19)	5,660.1	850.8	-	227.5	782.0	-	-	-	-	-	-	7,520.4
Non-controlling interest (Note 11)	679.2	14.5	-	-	-	-	-	-	1,536.4	(436.5)	5.7	1,799.3
<b>Total liabilities and equity on financing activities</b>	<b>₱19,685.1</b>	<b>₱2,077.3</b>	<b>₱2,355.5</b>	<b>₱227.5</b>	<b>₱782.0</b>	<b>₱392.6</b>	<b>₱3.2</b>	<b>₱49.0</b>	<b>₱1,536.4</b>	<b>(₱436.5)</b>	<b>₱5.7</b>	<b>₱26,677.8</b>

