

COVER SHEET

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S.E.C. Registration Number

J O L L I B E E F O O D S C O R P O R A T I O N

(Company's Full Name)

10/F J O L L I B E E P L A Z A B U I L D I N G

10 F. O R T I G A S J R . A V E N U E

O R T I G A S C E N T E R , P A S I G C I T Y

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

Atty. Angeline L. Chong

Contact Person

(632) 634-1111 local 7817

Company Telephone Number

31-Dec

Month Day Year

Fiscal Year

Any Day in June

Month Day Year

Annual Meeting

2nd Quarter ended June 30, 2018

17Q - Quarterly Report

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total no. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = please use **black ink** for scanning purposes

COVER SHEET

JOLLIBEE FOODS CORPORATION

(Company's Full Name)

10/F Jollibee Plaza Building

10 F. Ortigas Jr. Avenue,

Ortigas Center, Pasig City

(Company's Address)

(632) 634-1111

Telephone Number

December 31

(Fiscal Year Ending)

Any day in the month of June

(Annual Meeting)

SEC Form 17-Q

Quarterly Report

2nd Quarter Ended June 30, 2018

(Form Type)

Amendment Designation (If applicable)

(Secondary License Type and File Number)

Cashier

LCU

DTU

77487

S.E.C REG. No.

Central Receiving Unit

File Number

Document I.D.

SECURITIES AND EXCHANGE COMMISSION SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATIONS CODE (SRC) AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended: **June 30, 2018**
2. Commission identification number: **77487**
3. BIR Tax Identification No.: **000-388-771**
4. **JOLLIBEE FOODS CORPORATION**
Exact name of registrant as specified in its charter
5. **PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. Industry classification code: (SEC Use Only)
7. **10/F JOLLIBEE PLAZA BUILDING, 10 F. ORTIGAS JR. AVENUE, ORTIGAS CENTER, PASIG CITY**
Address of registrant's principal office

1605
Postal Code
8. **(632) 634-1111**
Registrant's telephone number, including area code
9. **N/A**
Former name, former address and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class	Number of shares of Common stock outstanding
Common	<u>1,086,937,531</u>
Treasury Shares:	
Common	<u>16,447,340</u>

Note: Total common outstanding shares of 1,086,937,531 is inclusive of 1,728,293 shares entrusted with Deutsche Regis Partners, Inc. with the following details:

MSOP Shares:	
Beginning balance (per SEC Form 17-C dated August 9, 2018)	811,583
Shares applied for listing	-
Ending balance, as of August 13, 2018	<u>811,583</u>
ELTIP Shares:	
Beginning Balance (per SEC Form 17-C dated August 9, 2018)	916,710
Shares applied for listing	-
Ending balance, as of August 13, 2018	<u>916,710</u>
TOTAL	<u><u>1,728,293</u></u>

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes
[X]
No
[]

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report)

Yes [X] No []

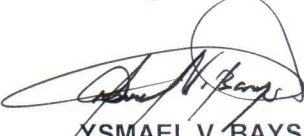
(b) has been subject to such filing requirements for the past 90 days

Yes [X] No []

No other material information.

SIGNATURE:

JOLLIBEE FOODS CORPORATION
Registrant


YSMAEL V. BAYSA
Chief Financial Officer &
Corporate Information Officer

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

a.	Consolidated Statements of Financial Position as at June 30, 2018 (Unaudited) and December 31, 2017 (Audited)
b.	Unaudited Consolidated Statements of Comprehensive Income for the Quarters Ended June 30, 2018 and 2017
c.	Unaudited Consolidated Statements of Comprehensive Income for the Six Months Ended June 30, 2018 and 2017
d.	Unaudited Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2018 and 2017
e.	Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017
f.	Store Network and System Wide Sales
g.	Notes to Unaudited Consolidated Financial Statements

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

	June 2018	December 2017	Change	
	(Unaudited)	(Audited)	Amount	Pct
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 6, 30 and 31)	20,969,429	21,107,474	(138,045)	(0.7)
Short-term investments (Notes 6, 30 and 31)	945,360	1,413,400	(468,040)	(33.1)
Receivables (Notes 7, 30 and 31)	3,163,648	3,941,073	(777,425)	(19.7)
Inventories (Note 8)	7,289,805	6,835,514	454,291	6.6
Other current assets (Note 9)	4,752,594	3,843,555	909,039	23.7
Total Current Assets	37,120,836	37,141,016	(20,180)	(0.1)
Noncurrent Assets				
Available-for-sale financial assets (Notes 10, 30 and 31)	29,862	29,862	-	-
Interests in and advances to joint ventures, co-venturers and associates (Note 11)	2,780,695	7,492,771	(4,712,076)	(62.9)
Property, plant and equipment (Note 12)	24,938,537	20,893,814	4,044,723	19.4
Investment properties (Note 13)	848,974	848,974	-	-
Goodwill and other intangible assets (Notes 14)	31,644,281	15,730,239	15,914,042	101.2
Operating lease receivables (Notes 29, 30 and 31)	29,841	28,035	1,806	6.4
Derivative asset (Note 18)	121,928	11,949	109,979	920.4
Deferred tax assets - net (Note 24)	4,270,059	3,908,813	361,246	9.2
Other noncurrent assets (Notes 15, 30 and 31)	3,992,149	3,698,422	293,727	7.9
Total Noncurrent Assets	68,656,326	52,642,879	16,013,447	30.4
	105,777,162	89,783,895	15,993,267	17.8
LIABILITIES AND EQUITY				
Current Liabilities				
Trade payables and other current liabilities (Notes 16, 30 and 31)	25,923,232	25,254,613	668,619	2.6
Income tax payable	252,584	223,773	28,811	12.9
Current portion of:				
Long-term debt (Notes 18, 30 and 31)	4,270,821	1,216,219	3,054,602	251.2
Liability for acquisition of businesses (Notes 11, 30 and 31)	62,210	-	62,210	100.0
Total Current Liabilities	30,508,847	26,694,605	3,814,242	14.3
Noncurrent Liabilities				
Noncurrent portion of:				
Long-term debt (Notes 18, 30 and 31)	18,800,296	14,901,052	3,899,244	26.2
Liability for acquisition of businesses (Notes 11, 30 and 31)	15,661	-	15,661	100.0
Pension liability (Note 25)	1,638,499	1,489,546	148,953	10.0
Operating lease payables (Note 29, 30 and 31)	2,762,604	2,051,567	711,037	34.7
Derivative liability (Notes 11, 30 and 31)	-	51,042	(51,042)	(100.0)
Provisions (Note 17)	1,325,109	825,109	500,000	60.6
Deferred tax liabilities - net (Note 24)	3,468,416	1,188,995	2,279,421	191.7
Total Noncurrent Liabilities	28,010,585	20,507,311	7,503,274	36.6
Total Liabilities	58,519,432	47,201,916	11,317,516	24.0
Equity Attributable to Equity Holders of the Parent Company (Note 30)				
Capital stock - net of subscriptions receivable (Note 19)	1,086,462	1,084,478	1,984	0.2
Additional paid-in capital (Note 19)	7,884,246	7,520,383	363,863	4.8
Cumulative translation adjustments of foreign subsidiaries and interests in joint ventures and an associate (Note 11)	881,002	340,368	540,634	158.8
Remeasurement loss on net defined benefit plan - net of tax (Note 25)	(461,769)	(461,769)	-	-
Unrealized gain on change in value of available-for-sale financial assets (Note 10)	6,758	6,758	-	-
Comprehensive income on derivative asset (Note 18)	121,928	11,949	109,979	920.4
Excess of cost over the carrying value of non-controlling interests acquired (Note 19)	(2,152,161)	(2,152,161)	-	-
Retained earnings (Notes 19 and 30):				
Appropriated for future expansion	18,200,000	18,200,000	-	-
Unappropriated	19,226,900	16,413,140	2,813,760	17.1
	44,793,366	40,963,146	3,830,220	9.4
Less cost of common stock held in treasury (Note 19)	180,511	180,511	-	-
	44,612,855	40,782,635	3,830,220	9.4
Non-controlling Interests (Note 11)	2,644,875	1,799,344	845,531	47.0
Total Equity	47,257,730	42,581,979	4,675,751	11.0
	105,777,162	89,783,895	15,993,267	17.8

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousand Pesos, Except Per Share Data)

	Quarters Ended June 30				Change	
	2018		2017		Amount	Pct
	Pesos	Pct	Pesos	Pct		
REVENUES						
Gross sales	38,922,868	96.6%	31,141,472	95.7%	7,781,396	25.0%
Sales discount	(728,662)	-1.8%	(345,407)	-1.1%	(383,255)	-111.0%
Net sales	38,194,206	94.8%	30,796,065	94.6%	7,398,141	24.0%
Royalty, set-up fees and others	2,101,830	5.2%	1,757,204	5.4%	344,626	19.6%
	40,296,036	100.0%	32,553,269	100.0%	7,742,767	23.8%
COST OF SALES						
Cost of inventories	18,866,251	46.8%	15,598,083	47.9%	3,268,168	21.0%
Store and manufacturing costs	14,113,776	35.0%	10,767,048	33.1%	3,346,728	31.1%
	32,980,027	81.8%	26,365,131	81.0%	6,614,896	25.1%
GROSS PROFIT	7,316,009	18.2%	6,188,138	19.0%	1,127,871	18.2%
EXPENSES						
General and administrative expenses	3,924,716	9.7%	3,468,915	10.7%	455,801	13.1%
Advertising and promotions	999,367	2.5%	721,562	2.2%	277,805	38.5%
	4,924,083	12.2%	4,190,477	12.9%	733,606	17.5%
OPERATING INCOME	2,391,926	5.9%	1,997,661	6.1%	394,265	19.7%
INTEREST INCOME (EXPENSE)						
Interest income	85,777	0.2%	41,800	0.1%	43,977	105.2%
Interest expense	(232,779)	-0.6%	(103,145)	-0.3%	(129,634)	-125.7%
	(147,002)	-0.4%	(61,345)	-0.2%	(85,657)	139.6%
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net	(104,268)	-0.3%	(96,267)	-0.3%	(8,001)	-8.3%
OTHER INCOME	585,386	1.5%	365,381	1.1%	220,005	60.2%
INCOME BEFORE INCOME TAX	2,726,042	6.8%	2,205,430	6.8%	520,612	23.6%
PROVISION FOR INCOME TAX						
Current	722,003	1.8%	598,292	1.8%	123,711	20.7%
Deferred	(97,362)	-0.2%	(293,689)	-0.9%	196,327	66.8%
	624,641	1.6%	304,603	0.9%	320,038	105.1%
NET INCOME	2,101,401	5.2%	1,900,827	5.8%	200,574	10.6%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>						
Translation adjustments of foreign subsidiaries	(104,551)	-0.3%	(44,964)	-0.1%	(59,587)	132.5%
Translation adjustments of foreign joint ventures and an associate	(37,765)	-0.1%	161,112	0.5%	(198,877)	-123.4%
Comprehensive income (loss) on derivative asset	33,611	0.1%	(31,830)	-0.1%	65,441	205.6%
	(108,705)	-0.3%	84,318	0.3%	(193,023)	-228.9%
TOTAL COMPREHENSIVE INCOME	1,992,696	4.9%	1,985,145	6.1%	7,551	0.4%
Net Income Attributable to:						
Equity holders of the Parent Company	2,251,098	5.6%	1,956,146	6.0%	294,952	15.1%
Non-controlling interests	(149,697)	-0.4%	(55,319)	-0.2%	(94,378)	-170.6%
	2,101,401	5.2%	1,900,827	5.8%	200,574	10.6%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	2,133,145	5.3%	2,036,690	6.3%	96,455	4.7%
Non-controlling interests	(140,449)	-0.3%	(51,545)	-0.2%	(88,904)	-172.5%
	1,992,696	4.9%	1,985,145	6.1%	7,551	0.4%
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company						
Basic	2.071		1.811		0.260	14.4%
Diluted	2.043		1.791		0.252	14.1%

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousand Pesos, Except Per Share Data)

	Six Months Ended June 30				Change	
	2018		2017		Amount	Pct
	Pesos	Pct	Pesos	Pct		
REVENUES						
Gross sales	72,422,410	96.4%	59,276,899	95.9%	13,145,511	22.2%
Sales discount	(1,213,148)	-1.6%	(692,038)	-1.1%	(521,110)	-75.3%
Net sales	71,209,262	94.8%	58,584,861	94.7%	12,624,401	21.5%
Royalty, set-up fees and others (Note 20)	3,886,735	5.2%	3,257,314	5.3%	629,421	19.3%
	75,095,997	100.0%	61,842,175	100.0%	13,253,822	21.4%
COST OF SALES (Note 21)						
Cost of inventories	35,378,647	47.1%	29,646,953	47.9%	5,731,694	19.3%
Store and manufacturing costs	26,254,371	35.0%	20,779,738	33.6%	5,474,633	26.3%
	61,633,018	82.1%	50,426,691	81.5%	11,206,327	22.2%
GROSS PROFIT	13,462,979	17.9%	11,415,484	18.5%	2,047,495	17.9%
EXPENSES						
General and administrative expenses (Note 22)	7,381,975	9.8%	6,255,052	10.1%	1,126,923	18.0%
Advertising and promotions	1,720,058	2.3%	1,334,122	2.2%	385,936	28.9%
	9,102,033	12.1%	7,589,174	12.3%	1,512,859	19.9%
OPERATING INCOME	4,360,946	5.8%	3,826,310	6.2%	534,636	14.0%
INTEREST INCOME (EXPENSE) (Note 23)						
Interest income	143,408	0.2%	105,366	0.2%	38,042	36.1%
Interest expense	(375,674)	-0.5%	(197,986)	-0.3%	(177,688)	-89.7%
	(232,266)	-0.3%	(92,620)	-0.1%	(139,646)	150.8%
EQUITY IN NET LOSSES OF JOINT VENTURES AND ASSOCIATES - Net (Note 11)	(101,338)	-0.1%	(205,890)	-0.3%	104,552	50.8%
OTHER INCOME (Note 23)	837,243	1.1%	540,315	0.9%	296,928	55.0%
INCOME BEFORE INCOME TAX	4,864,585	6.5%	4,068,115	6.6%	796,470	19.6%
PROVISION FOR INCOME TAX (Note 24)						
Current	1,312,619	1.7%	1,125,897	1.8%	186,722	16.6%
Deferred	(217,053)	-0.3%	(432,547)	-0.7%	215,494	49.8%
	1,095,566	1.5%	693,350	1.1%	402,216	58.0%
NET INCOME	3,769,019	5.0%	3,374,765	5.5%	394,254	11.7%
OTHER COMPREHENSIVE INCOME (LOSS)						
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>						
Translation adjustments of foreign subsidiaries	744,205	1.0%	103,276	0.2%	640,929	620.6%
Translation adjustments of foreign joint ventures and an associate (Note 11)	(170,746)	-0.2%	110,217	0.2%	(280,963)	-254.9%
Comprehensive income (loss) on derivative asset (Note 18)	109,979	0.1%	(17,178)	0.0%	127,157	740.2%
	683,438	0.9%	196,315	0.3%	487,123	248.1%
TOTAL COMPREHENSIVE INCOME	4,452,457	5.9%	3,571,080	5.8%	881,377	24.7%
Net Income Attributable to:						
Equity holders of the Parent Company (Note 28)	4,050,278	5.4%	3,489,391	5.6%	560,887	16.1%
Non-controlling interests	(281,259)	-0.4%	(114,626)	-0.2%	(166,633)	-145.4%
	3,769,019	5.0%	3,374,765	5.5%	394,254	11.7%
Total Comprehensive Income Attributable to:						
Equity holders of the Parent Company	4,700,891	6.3%	3,672,782	5.9%	1,028,109	28.0%
Non-controlling interests	(248,434)	-0.3%	(101,702)	-0.2%	(146,732)	-144.3%
	4,452,457	5.9%	3,571,080	5.8%	881,377	24.7%
Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 28)						
Basic	3.728		3.238		0.490	15.1%
Diluted	3.676		3.197		0.479	15.0%

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2018 and 2017

(Amounts in Thousand Pesos)

	Equity Attributable to Equity Holders of the Parent Company												
	Capital Stock - net of Subscriptions Receivable (Note 19)		Additional Paid-in Capital (Note 19)	Cumulative Translation Adjustments of Foreign 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)	
									Appropriated for Future Expansion	Unappropriated		Total	Total Equity
Balances at January 1, 2018	1,084,478	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
Net income (loss)	-	-	-	-	-	-	-	-	4,050,278	-	4,050,278	(281,259)	3,769,019
Other comprehensive income	-	-	540,634	-	-	109,979	-	-	-	-	650,613	32,825	683,438
Total comprehensive income	-	-	540,634	-	-	109,979	-	-	4,050,278	-	4,700,891	(248,434)	4,452,457
Movements in other equity accounts:													
Issuances of and subscriptions to capital stock (Note 19)	1,984	231,772	-	-	-	-	-	-	-	-	233,756	-	233,756
Cost of stock options granted (Note 26)	-	132,091	-	-	-	-	-	-	-	-	132,091	-	132,091
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	(1,236,518)	-	(1,236,518)	-	(1,236,518)
Acquisition of minority interest (Note 11)	-	-	-	-	-	-	-	-	-	-	-	1,082,548	1,082,548
Additional investments during the period (Note 11)	-	-	-	-	-	-	-	-	-	-	-	11,417	11,417
	1,984	363,863	-	-	-	-	-	-	(1,236,518)	-	(870,671)	1,093,965	223,294
Balances at June 30, 2018	1,086,462	7,884,246	881,002	(461,769)	6,758	121,928	(2,152,161)	18,200,000	19,226,900	(180,511)	44,612,855	2,644,875	47,257,730
Balances at January 1, 2017	1,074,123	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 (loss)	-	-	-	-	-	-	-	-	3,489,391	-	3,489,391	(114,626)	3,374,765
Other comprehensive income (loss)	-	-	200,568	-	-	(17,177)	-	-	-	-	183,391	12,924	196,315
Total comprehensive income (loss)	-	-	200,568	-	-	(17,177)	-	-	3,489,391	-	3,672,782	(101,702)	3,571,080
Movements in other equity accounts:													
Issuances of and subscriptions to capital stock (Note 19)	6,953	447,671	-	-	-	-	-	-	-	-	454,624	-	454,624
Cost of stock options granted (Note 26)	-	113,738	-	-	-	-	-	-	-	-	113,738	-	113,738
Cash dividends (Note 19)	-	-	-	-	-	-	-	-	(1,077,527)	-	(1,077,527)	-	(1,077,527)
Acquisition of minority interests (Note 11)	-	-	-	-	-	-	-	-	-	-	-	353,388	353,388
	6,953	561,409	-	-	-	-	-	-	(1,077,527)	-	(509,165)	353,388	(155,777)
Balances at June 30, 2017	1,081,076	6,221,494	179,757	(608,801)	4,291	(50,707)	(2,152,161)	18,200,000	14,071,395	(180,511)	36,765,833	930,874	37,696,707

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousand Pesos)

	Six Months Ended June 30		Change	
	2018	2017	Amount	Pct
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	4,864,585	4,068,115	796,470	19.6
Adjustments for:				
Depreciation and amortization (Notes 12, 14, 15, 21 and 22)	2,727,460	2,212,003	515,457	23.3
Gain from the re-measurement of previously held interest (Notes 11 and 23)	(745,982)	-	(745,982)	(100.0)
Deferred rent amortization - net (Note 29)	709,232	73,581	635,651	863.9
Provisions (Notes 17 and 23)	500,000	-	500,000	100.0
Interest expense (Note 23)	375,674	197,986	177,688	89.7
Movement in pension liability (Notes 21 and 22)	148,953	136,193	12,760	9.4
Interest income (Note 23)	(143,408)	(105,366)	38,042	36.1
Stock options expense (Notes 22 and 26)	132,091	113,738	18,353	16.1
Net unrealized foreign exchange loss (gain)	(109,796)	54,185	(163,981)	(302.6)
Equity in net losses of joint ventures and associates (Note 11)	101,338	205,890	(104,552)	(50.8)
Loss (gain) on retirements and disposals of property, plant and equipment (Notes 12 and 22)	(27,702)	48,750	(76,452)	(156.8)
Reversals of impairment losses on:				
Property, plant and equipment (Note 22)	(6,553)	(1,631)	(4,922)	(301.8)
Inventories (Notes 8 and 22)	(1,185)	(50,218)	(49,033)	(97.6)
Receivables (Notes 7 and 22)	(252)	(12,618)	(12,366)	(98.0)
Accretion of debt issue cost	5,580	818	4,762	582.2
Impairment losses on:				
Inventories (Notes 8 and 22)	4,499	20,347	(15,848)	(77.9)
Receivables (Notes 7 and 22)	813	8,000	(7,187)	(89.8)
Income before working capital changes	8,535,347	6,969,773	1,565,574	22.5
Decreases (increases) in:				
Receivables	943,438	795,912	147,526	18.5
Inventories	(398,220)	60,264	(458,484)	(760.8)
Other current assets	(587,766)	(282,647)	305,119	108.0
Decreases in trade payables and other current liabilities	(630,028)	(2,121,379)	(1,491,351)	(70.3)
Net cash generated from operations	7,862,771	5,421,923	2,440,848	45.0
Income taxes paid	(1,283,808)	(1,190,855)	92,953	7.8
Interest received	133,950	78,044	55,906	71.6
Net cash provided by operating activities	6,712,913	4,309,112	2,403,801	55.8
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Property, plant and equipment (Note 12)	(4,476,068)	(4,051,623)	424,445	10.5
Subsidiaries - net of cash acquired (Note 11)	(3,800,283)	142,158	(3,942,441)	(2,773.3)
Interest in joint ventures (Note 11)	(706,932)	(402,600)	304,332	75.6
Intangible assets (Note 14)	(5,432)	(62,901)	(57,469)	(91.4)
Decreases (increases) in:				
Short-term investments	468,040	(695,925)	1,163,965	167.3
Other noncurrent assets	279,179	348,377	(69,198)	(19.9)
Proceeds from disposals of property, plant and equipment	339,859	164,741	175,118	106.3
Dividends received from non-controlling interests (Note 11)	34,637	-	34,637	100.0
Advances to a joint venture (Note 11)	-	(1,059,786)	1,059,786	100.0
Net cash used in investing activities	(7,867,000)	(5,617,559)	2,249,441	40.0
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Long-term debt (Note 18)	7,285,901	-	7,285,901	100.0
Issuances of and subscriptions to capital stock (Note 19)	233,757	454,624	(220,867)	(48.6)
Payments of:				
Long-term debt (Note 18)	(4,979,716)	(725,212)	4,254,504	586.7
Cash dividends (Note 19)	(1,231,251)	(992,285)	238,966	24.1
Interest paid	(305,826)	(139,433)	166,393	119.3
Contributions from non-controlling interests (Note 11)	11,417	-	11,417	100.0
Net cash provided by (used in) financing activities	1,014,282	(1,402,306)	(2,416,588)	(172.3)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(139,805)	(2,710,753)	(2,570,948)	(94.8)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,760	(1,760)	3,520	200.0
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	21,107,474	16,733,346	4,374,128	26.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 6)	20,969,429	14,020,833	6,948,596	49.6

See accompanying Notes to Unaudited Consolidated Financial Statements.

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

	Dec-17 Stores	January - June 2018			Ownership Change	Jun-18 Stores
		Open	Close	Net		
Jollibee						
Co-owned	532	15	3	12	(9)	535
Franchised	530	22	2	20	9	559
Total	1,062	37	5	32	-	1,094
Chowking						
Co-owned	261	8	2	6	(5)	262
Franchised	265	12	2	10	5	280
Total	526	20	4	16	-	542
Greenwich						
Co-owned	170	4	3	1	(3)	168
Franchised	102	6	2	4	3	109
Total	272	10	5	5	-	277
Red Ribbon						
Co-owned	190	6	4	2	(3)	189
Franchised	237	11	6	5	3	245
Total	427	17	10	7	-	434
Mang Inasal						
Co-owned	43	5	-	5	(7)	41
Franchised	452	23	9	14	7	473
Total	495	28	9	19	-	514
Burger King	93	3	-	3	-	96
Total Philippines	2,875	115	33	82	-	2,957
Yonghe King						
Co-owned	253	13	10	3	-	256
Franchised	56	5	2	3	-	59
Total	309	18	12	6	-	315
Hongzhuangyuan						
Co-owned	42	1	2	(1)	-	41
Franchised	1	-	-	-	-	1
Total	43	1	2	(1)	-	42
Dunkin' Donuts	15	1	1	-	-	15
Total China	367	20	15	5	-	372
US						
Jollibee	37	-	-	-	-	37
Red Ribbon	31	1	-	1	-	32
Chowking	15	-	-	-	-	15
Smashburger	-	2	6	(4)	-	349
Canada						
Jollibee	2	1	-	1	-	3
Total North America	85	4	6	(2)	-	436
Jollibee:						
Vietnam	98	6	2	4	-	102
Brunei	15	1	-	1	-	16
Hongkong	8	-	-	-	-	8
Singapore	5	-	-	-	-	5
Macau	-	1	-	1	-	1
Total Other Asia	126	8	2	6	-	132
Jollibee						
Saudi Arabia	12	1	-	1	-	13
UAE	9	3	-	3	-	12
Qatar	6	1	-	1	-	7
Kuwait	4	2	-	2	-	6
Bahrain	1	-	-	-	-	1
Oman	1	-	-	-	-	1
Chowking:						
UAE	20	1	-	1	-	21
Qatar	3	1	-	1	-	4
Oman	3	-	1	(1)	-	2
Kuwait	3	-	-	-	-	3
Saudi Arabia	1	1	-	1	-	2
Total Middle East	63	10	1	9	-	72
Europe						
Italy (Milan)	-	1	-	1	-	1
Total - EMEAA	189	19	3	16	-	205
Highlands Coffee	244	29	4	25		269
Pho24	29	5	2	3		32
Hard Rock Café	8	-	-	-		8
Total SuperFoods	281	34	6	28	-	309
Total International Stores	922	77	30	47	-	1,322
Grand Total	3,797	192	63	129	-	4,279
System Wide Sales (Amounts in Thousand Pesos)				30-Jun-17	30-Jun-18	% Growth
Quarter 2				42,540	53,931	26.8%
Year to date				81,078	99,910	23.2%

JOLLIBEE FOODS CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2018 and December 31, 2017 and for the periods ended June 30, 2018 and 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 August 13, 2018.

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 period ended June 30, 2017.

- 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 June 30, 2018 and December 31, 2017 and for the periods ended June 30, 2018 and 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 HBFPL. 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 June 30, 2018 and December 31, 2017:

	Country of Incorporation	Principal Activities	June 2018 (Unaudited)		December 2017 (Audited)	
			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. (RRBH):	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)	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. ^(c)	Singapore	Holding company	—	75	—	75
• Cibo Felice S.R.L. ^(c)	Italy	Food service	—	100	—	100
Golden Cup Pte. Ltd.	Singapore	Holding company	—	60	—	60
- Beijing Golden Coffee Cup Food & Beverage Management Co., Ltd.	People's 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. (HBFPL)	Singapore	Holding company	—	100	—	100
- Happy Bee Foods Processing (Anhui) Co. Ltd.	PRC	Food service	—	100	—	100
JSF Investments Pte. Ltd. (JSF):	Singapore	Holding company	—	99	—	99
- SF Vung Tau Joint Stock Company ^(d)	Vietnam	Holding company	—	60	—	60
• Highland Coffee Service Joint-stock Company ^(d)	Vietnam	Food service	—	100	—	100
• Quantum Corporation ^(d)	Vietnam	Food service	—	100	—	100
• Pho Viet Joint Stock Company ^(d)	Vietnam	Food service	—	100	—	100
• Pho 24 Service Trade Manufacture Corporation ^(d)	Vietnam	Food service	—	100	—	100
- Blue Sky Holdings Limited ^(d)	Hong Kong	Holding company	—	60	—	60
• Sino Ocean Limited ^(d)	Hong Kong	Food service	—	100	—	100
• Blue Sky Holdings (Macau) Limited ^(d)	Macau	Food service	—	100	—	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)	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
- SJBF LLC (SJBF) ^(a)	USA	Food service	—	85	—	40
Bee World UK Limited (UK) ^(b)	UK	Holding company	—	100	—	—
Chanceux, Inc.	Philippines	Holding company	100	—	100	—
BKTitans Inc. (BKTitans)	Philippines	Holding company	—	54	—	54
- PFN Holdings Corporation	Philippines	Holding company	—	99	—	99
• PERF Restaurants, Inc. ^(f)	Philippines	Food service	—	100	—	100
Donut Magic Phils., Inc. (Donut Magic) ^(g)	Philippines	Dormant	100	—	100	—
Ice Cream Copenhagen Phils., Inc. (ICCP) ^(g)	Philippines	Dormant	100	—	100	—
Mary's Foods Corporation (Mary's) ^(g)	Philippines	Dormant	100	—	100	—
QSR Builders, Inc.	Philippines	Dormant	100	—	100	—
Jollibee USA	USA	Dormant	100	—	100	—

(a) On April 17, 2018, the Jollibee Group, through Bee Good! Inc. completed the acquisition of additional 45% share of SJBF LLC, increasing its ownership from 40% to 85%.

(b) On April 16, 2018, Bee World UK Limited (UK) was incorporated.

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

(d) 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%.

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

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

(g) 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 June 30, 2018.

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 March 31, 2018 and December 31, 2017.

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, Hong Kong dollar, Canadian dollar, Macau pataca and Euro. 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.

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 P5,926.7 million and P4,698.8 million for the periods ended June 30, 2018 and 2017, 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 P28.2 million and P24.5 million for the periods ended June 30, 2018 and 2017, 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 period.

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 period.

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 2018, the Jollibee Group, through BGI, increased its ownership interest in SJBF from 40% to 85% ownership interest for a total consideration of ₱11,325.2 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 Smashburger.

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 other intangibles 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 ₱31,644.3 million and ₱15,730.2 million as at June 30, 2018 and December 31, 2017, 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.

Reversal of impairment loss on interest in an associate recognized for the period ended June 30, 2018 and 2017 amounted to ₱16.7 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 ₱2,780.7 million and ₱7,492.8 million as at June 30, 2018 and December 31, 2017, 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 ₱4,658.1 million and ₱4,372.7 million as at June 30, 2018 and December 31, 2017, 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.

The Jollibee Group recognized provision amounting to ₱500.0 million and nil for the periods ended June 30, 2018 and 2017, respectively (see Note 23).

Total outstanding provisions amounted to ₱1,325.1 million and ₱825.1 million as at June 30, 2018 and December 31, 2017, 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 ₱6.6 million and ₱1.6 million for the periods ended June 30, 2018 and 2017, respectively (see Note 22).

The aggregate carrying values of property, plant and equipment and investment properties amounted to ₱25,787.5 million and ₱21,742.8 million as at June 30, 2018 and December 31, 2017, 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 for the periods ended June 30, 2018 and 2017 amounted to ₱0.8 million and ₱8.0 million, respectively, resulting from specific and collective assessments (see Note 22). In addition, reversal of previously recognized provisions amounting to ₱0.3 million and ₱12.6 million were recognized for the periods ended June 30, 2018 and 2017, respectively (see Note 22). The carrying amount of receivables amounted to ₱3,163.6 million and ₱3,941.1 million as at June 30, 2018 and December 31, 2017, 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 ₱4.5 million and ₱20.3 million for the periods ended June 30, 2018 and 2017, respectively (see Note 22).

In addition, reversal of previously recognized provisions amounting to ₱1.2 million and ₱50.2 million were recognized for the periods ended June 30, 2018 and 2017, respectively (see Note 22). The carrying amount of inventories amounted to ₱7,289.8 million and ₱6,835.5 million as at June 30, 2018 and December 31, 2017, 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 ₱1,638.5 million and ₱1,489.5 million as at June 30, 2018 and December 31, 2017, 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 ₱132.1 million and ₱113.7 million for the periods ended June 30, 2018 and 2017, 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 2018 and 2017.

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

The derivative from put / call rights derive value from the fair value of SJBF LLC'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 SJBF LLC's EBITDA near transaction date and exit multiples based on SJBF LLC'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 SJBF LLC'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 nil and ₱51.0 million as at June 30, 2018 and December 31, 2017 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 periods ended June 30, 2018 and 2017:

	June 2018 (Unaudited)				
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	P71,357,106	P3,517,221	P221,670	P-	P75,095,997
Inter-segment revenues	21,201,075	1,889,129	3,988,037	(27,078,241)	-
Segment revenues	92,558,181	5,406,350	4,209,707	(27,078,241)	75,095,997
Segment expenses	(91,866,742)	(1,889,129)	(4,060,099)	27,078,241	(70,737,729)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	2,678	-	-	-	2,678
Equity in net losses of joint ventures and associates - net	(101,338)	-	-	-	(101,338)
Other segment income	836,534	-	709	-	837,243
Segment result	P1,429,313	P3,517,221	P150,317	P-	5,096,851
Interest income					143,408
Interest expense					(375,674)
Income before income tax					4,864,585
Provision for income tax					(1,095,566)
Net income					P3,769,019
Assets and Liabilities					
Segment assets	P101,120,097	P-	P387,006	P-	P101,507,103
Deferred tax assets - net	4,269,656	-	403	-	4,270,059
Consolidated assets	P105,389,753	P-	P387,409	P-	P105,777,162
Segment liabilities	P31,641,491	P-	P85,824	P-	P31,727,315
Deferred tax liabilities - net	3,468,416	-	-	-	3,468,416
Long-term debt - including current portion	23,071,117	-	-	-	23,071,117
Income tax payable	250,906	-	1,678	-	252,584
Consolidated liabilities	P58,431,930	P-	P87,502	P-	P58,519,432

June 2018 (Unaudited)					
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Other Segment Information					
Capital expenditures	P4,481,500	P-	P-	P-	P4,481,500
Depreciation and amortization	2,725,140	-	2,320	-	2,727,460
June 2017 (Unaudited)					
	Food Service	Franchising	Leasing	Eliminations	Consolidated
Revenues from external customers	P58,734,179	P2,825,086	P282,910	P-	P61,842,175
Inter-segment revenues	17,903,325	965,233	3,028,452	(21,897,010)	-
Segment revenues	76,637,504	3,790,319	3,311,362	(21,897,010)	61,842,175
Segment expenses	(75,878,679)	(965,233)	(3,105,083)	21,897,010	(58,051,985)
Impairment losses on receivables, inventories and property, plant and equipment - net of reversals	36,120	-	-	-	36,120
Equity in net losses of joint ventures and associates - net	(205,890)	-	-	-	(205,890)
Other segment income	537,912	-	2,403	-	540,315
Segment result	P1,126,967	P2,825,086	P208,682	P-	4,160,735
Interest income					105,366
Interest expense					(197,986)
Income before income tax					4,068,115
Provision for income tax					(693,350)
Net income					P3,374,765
Assets and Liabilities					
Segment assets	P71,369,549	P-	P373,997	P-	P71,743,546
Deferred tax assets - net	2,989,427	-	2,250	-	P2,991,677
Consolidated assets	P74,358,976	P-	P376,247	P-	P74,735,223
Segment liabilities	P24,304,598	P-	P 84,894	P-	P24,389,492
Deferred tax liabilities - net	467,792	-	-	-	467,792
Long-term debt - including current portion	11,936,859	-	-	-	11,936,859
Income tax payable	242,218	-	2,155	-	244,373
Consolidated liabilities	P36,951,467	P-	P87,049	P-	P37,038,516
Other Segment Information					
Capital expenditures	P 4,114,524	P-	P-	P-	P4,114,524
Depreciation and amortization	2,209,634	-	2,369	-	2,212,003

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, Vietnam, UAE, Hongkong, Macau, Brunei, Saudi Arabia, Singapore, Kuwait, Qatar and Italy). 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:

June 2018 (Unaudited)				
	Philippines	International	Eliminations	Consolidated
Segment revenues	P56,715,780	P18,675,676	(P295,459)	P75,095,997
Segment assets	53,216,880	48,290,223	-	101,507,103
Capital expenditures	3,337,374	1,144,126	-	4,481,500

	June 2017 (Unaudited)			
	Philippines	International	Eliminations	Consolidated
Segment revenues	₱49,188,377	₱12,905,468	(₱251,670)	₱61,842,175
Segment assets	41,190,674	30,552,872	–	71,743,546
Capital expenditures	3,425,280	689,244	–	4,114,524

6. Cash and Cash Equivalents and Short-term Investments

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Cash on hand	₱362,771	₱344,976
Cash in banks	11,439,531	15,120,958
Short-term deposits	9,167,127	5,641,540
	₱20,969,429	₱21,107,474

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 ₱945.4 million and ₱1,413.4 million as at June 30, 2018 and December 31, 2017, 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 ₱107.4 million and ₱45.3 million for the periods ended June 30, 2018 and 2017, respectively (see Note 23).

7. Receivables

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Trade	₱3,367,940	₱4,224,981
Less allowance for impairment loss	573,449	690,119
	2,794,491	3,534,862
Advances to employees	161,337	144,791
Current portion of employee car plan receivables	89,980	88,971
Interest receivable	12,516	11,911
Others	105,324	160,538
	₱3,163,648	₱3,941,073

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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱690,119	₱579,792
Write-offs	(123,780)	(12,797)
Acquisition of a subsidiary	5,693	–
Provisions (see Note 22)	813	143,772
Reversals (see Note 22)	(252)	(20,705)
Translation adjustments	856	57
Balance at end of period	₱573,449	₱690,119

The provisions in 2018 and 2017 resulted from specific and collective impairment assessments on trade receivables performed by the Jollibee Group.

8. Inventories

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
At cost:		
Food supplies and processed inventories	₱6,844,757	₱6,377,956
Packaging, store and other supplies	380,344	434,999
	7,225,101	6,812,955
At net realizable value -		
Novelty items	64,704	22,559
Total inventories at lower of cost and net realizable value	₱7,289,805	₱6,835,514

The cost of novelty items carried at net realizable value amounted to ₱100.8 million and ₱55.1 million as at June 30, 2018 and December 31, 2017, respectively.

The movements in the allowance for inventory obsolescence for novelty items as at June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱32,565	₱78,647
Provisions (see Note 22)	4,499	7,443
Reversals (see Note 22)	(1,185)	(53,819)
Translation adjustments	169	294
Balance at end of period	₱36,048	₱32,565

9. Other Current Assets

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Deposits to suppliers and other third parties	₱1,633,857	₱1,417,735
Prepaid expenses:		
Taxes	1,839,920	1,499,728
Rent	680,430	526,809
Insurance and others	388,219	211,505
Receivable from sale of business (see Note 11)	80,800	76,400
Supplies	129,368	111,378
	₱4,752,594	₱3,843,555

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 year.
- 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 in 2016 (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 amounting to ₱29.9 million as at June 30, 2018 and December 31, 2017.

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

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 of 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.

On April 17, 2018, closing conditions, including required government approvals, have been obtained as provided under the Purchase Agreement. The Jollibee Group, through BGI, paid Master in cash. With the completion of the acquisition, the Jollibee Group included Smashburger in its financial consolidation starting April 17, 2018.

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 nil and ₱51.0 million as at June 30, 2018 and December 31, 2017 to Put/Call Rights. The marked-to-market loss in 2017 amounted to ₱129.3 million.

The details of Jollibee Group's interest in SJBF as at June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Interest in a joint venture - cost:		
Balance at beginning of period	₱6,151,981	₱5,620,834
Additions during the period	–	531,147
Balance at transfer date/year	6,151,981	6,151,981
Cumulative equity in net losses:		
Balance at beginning of period	(691,926)	(361,911)
Equity in net loss during the period	(27,263)	(330,015)
Balance at transfer date/year	(719,189)	(691,926)
	5,432,792	5,460,055
Transferred to investment in a subsidiary in 2018	(5,432,792)	–
	₱–	₱5,460,055

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	₱1,406,717
Receivables	180,118
Inventories	59,387
Other current assets	321,273
Property, plant and equipment (see Note 12)	2,562,046
Trademarks and other intangibles (see Note 14)	10,765,852
Other noncurrent assets	68,096
Total identifiable assets acquired	15,363,489
Less:	
Trade payables and other current liabilities	1,164,501
Loans and other noncurrent liabilities	4,796,754
Deferred tax liability	2,185,248
Total identifiable liabilities assumed	8,146,503
Net identifiable assets acquired	₱7,216,986

The Jollibee Group's investment in SJBF was previously accounted for as investment in a joint venture. In accordance with PFRS 3, with the Jollibee Group's acquisition of control over SJBF in 2018, the fair value of the previously held interest amounted to ₱6,178.8 million and the resulting gain from the re-measurement of the 40% previously held interest amounted to ₱746.0 million.

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 ₱5,200.3 million determined as follows:

Fair value of consideration transferred:	
Fair value of previously held interest	₱6,178,774
Cash consideration	5,207,000
Derivative liability at acquisition date	(51,042)
	11,334,732
Non-controlling interest's share in the net assets acquired	1,082,548
Aggregate amount	12,417,280
Less acquisition date - fair value of net assets acquired	7,216,986
Goodwill (see Note 14)	₱5,200,294
The net cash outflow from the acquisition is as follows:	
Cash paid on acquisition	₱5,207,000
Less cash acquired from subsidiary	1,406,717
Net	₱3,800,283

The provisional goodwill of ₱5,200.3 million is attributable to synergies and other benefits from the acquisition of SJBF.

Summarized financial information of SJBF 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, 2017 are set out below:

	December 2017 (Audited)
Current assets	₱2,024,938
Noncurrent assets	4,792,879
Total assets	₱6,817,817
Current liabilities	₱5,164,688
Noncurrent liabilities	941,102
Total liabilities	₱6,105,790

The amounts of assets and liabilities above include the following:

	December 2017 (Audited)
Cash and cash equivalents	₱1,459,318
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	4,047,423
Noncurrent financial liabilities (excluding provisions)	20,613

The amounts of the income and expense accounts for the periods ended April 16, 2018 and June 30, 2017 include the following:

	April 2018 (Unaudited)	June 2017 (Unaudited)
Revenues	P2,875,260	P5,004,537
Depreciation and amortization	141,417	318,567
Interest expense	104,852	174,017
Net loss	(68,158)	(632,595)
Total comprehensive loss	(68,158)	(632,595)

	December 2017 (Audited)
Net assets	P712,027
Proportion of the Jollibee Group's ownership	40%
	284,811
Goodwill	4,837,671
Cumulative translation adjustments	337,573
	P5,460,055

SJBF has outstanding liabilities for the purchase of noncontrolling interest in a joint venture and acquisition of franchise markets amounting to USD1.5 million (P77.9 million) as at June 30, 2018. The last installment is expected to be settled in 2020.

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). No additional consideration was 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 (P41.2 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 (P0.1 million), USD0.06 million (P2.8 million) and USD0.05 million (P2.7 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 (P44.1 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 (P0.1 million), USD0.06 million (P2.8 million) and USD0.05 million (P2.7 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 (P216.0 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 (P0.7 million), USD0.3 million (P15.4 million) and USD0.3 million (P14.7 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 (P105.9 million) payable in May 2014. As at May 9, 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 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 (P0.3 million), USD0.1 million (P7.4 million) and USD0.1 million (P7.1 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 (P155.7 million). The carrying value of the remaining loan of Blue Sky to the Parent Company is eliminated in the consolidation process as at June 30, 2018 and 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 the 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 parts of Asia in this undertaking.

The details of the Jollibee Group's interests in the SuperFoods Group as at December 31, 2017 are as follows:

Interest in a joint venture – cost	P1,120,659
Cumulative equity in net losses:	
Balance at beginning of year	(367,155)
Equity in net earnings for the year	17,484
Balance at transfer date	(349,671)
Transferred to investment in a subsidiary	(770,988)
	–
Advances to SuperFoods Group:	
Balance at beginning of year	604,638
Converted to equity during the year	(458,871)
Transferred to advances to a subsidiary	(145,767)
Balance at end of year	–
	P–

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
Total identifiable assets acquired	5,643,276
Less:	
Trade payables and other current liabilities	₱488,645
Loans and other noncurrent liabilities (see Note 18)	569,523
Deferred tax liability	744,006
Total identifiable liabilities assumed	1,802,174
Net identifiable assets acquired	₱3,841,102

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

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 2017 would have been ₱3,715.0 million and ₱100.9 million, respectively.

The amounts of the income and expense accounts of SuperFoods Group for the period ended May 10, 2017 include the following:

Revenues	₱1,467,717
Depreciation and amortization	67,865
Interest income	1,456
Interest expense	24,284
Provision for income tax	27,406
Net income	34,968
Total comprehensive income	34,968

B. Incorporation of New Subsidiaries

Bee World UK Limited (Bee World). On April 17, 2018 the Jollibee Group, through its wholly owned subsidiary, JWPL, incorporated Bee World UK Limited in UK. As at June 30, 2018, no capital investment has been made other than the investment to incorporate.

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. The first store started its commercial operations on March 18, 2018.

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 EUR1million (₱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 June 30, 2018, capital contribution of GPPL to Golden Piatto amounted to USD1.5 million (₱77.0 million).

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	2018	2017
GCPL	Singapore	40%	40%
SuperFoods Group	Vietnam	40%	—

The summarized financial information in 2018 and 2017 are provided below. These information are based on amounts before intercompany elimination.

Summarized Unaudited Statements of Comprehensive Income for the period ended June 30, 2018

	GCPL	SuperFoods Group
Revenues	₱146,210	₱2,191,077
Net loss	(256,569)	(57,264)
Other comprehensive income	86,526	8,989
Total comprehensive loss	(170,042)	(48,275)
Total comprehensive loss attributable to non-controlling interests	(68,017)	(19,310)
Dividends paid to non-controlling interests	—	—

Summarized Unaudited Statements of Comprehensive Income for the period ended June 30, 2017

	GCPL	SuperFoods Group
Revenues	₱145,605	₱495,351
Net income (loss)	(269,372)	26,662
Other comprehensive income (loss)	25,669	(1,025)
Total comprehensive (loss)	(243,703)	25,637
Total comprehensive income (loss) attributable to non-controlling interests	(97,481)	10,255
Dividends paid to non-controlling interests	—	—

Summarized Unaudited Statements of Financial Position as at June 30, 2018

	GCPL	SuperFoods Group
Current assets	₱1,557,693	₱471,638
Noncurrent assets	352,972	1,814,861
Current liabilities	903,469	864,788
Noncurrent liabilities	-	524,581
Total equity	1,007,196	897,130
Equity attributable to non-controlling interests	402,878	358,852

Summarized Audited Statements of Financial Position as at December 31, 2017

	GCPL	SuperFoods Group
Current assets	₱1,513,179	₱601,786
Noncurrent assets	373,698	1,688,852
Current liabilities	709,617	781,993
Noncurrent liabilities	-	563,239
Total equity	1,177,260	945,406
Equity attributable to non-controlling interests	470,904	378,162

Summarized Unaudited Cash Flow Information for the period ended June 30, 2018

	GCPL	SuperFoods Group
Net cash provided by operating activities	₱21,115	₱175,582
Net cash provided by (used in) investing activities	26,730	(266,596)
Net cash used in financing activities	—	(30,160)
Net increase (decrease) in cash and cash equivalents	47,845	(121,174)

Summarized Unaudited Cash Flow Information for the period ended June 30, 2017

	GCPL	SuperFoods Group
Net cash used in operating activities	(P165,710)	(P930,435)
Net cash used in investing activities	(22,705)	(324,306)
Net cash provided by financing activities	–	1,571,419
Net increase (decrease) in cash and cash equivalents	(188,415)	316,678

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

	June 2018 (Unaudited)	December 2017 (Audited)
Interests in joint ventures:		
Titan Dining LP	P706,932	P–
Golden Bee Foods Restaurant LLC	197,458	198,767
Cargill Joy Poultry Meats Production, Inc.	29,567	151,458
SJBF LLC	–	5,460,055
	933,957	5,810,280
Interests in associates:		
Entrek (B) SDN BHD	168,770	137,237
Cargill Joy Poultry Realty, Inc.	9,279	9,664
	178,049	146,901
Advances to VTI Group	1,668,689	1,535,590
	P2,780,695	P7,492,771

Interests in Joint Ventures

Titan Dining LP (Titan). On May 23, 2018, the Jollibee Group, through JWPL, invested SGD18.0 million (P706.9 million) in Titan Dining LP., a private equity fund that has executed (through a wholly-owned subsidiary) a binding agreement for the acquisition of 100% of the Asia Pacific master franchise holder of the “Tim Ho Wan” brand, Tim Ho Wan Pte. Ltd. and its affiliate Dim Sum Pte. Ltd., which owns and operates Tim Ho Wan stores in Singapore. JWPL shall invest up to SGD45 million in Titan.

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 June 30, 2018, the Jollibee Group has invested USD0.8 million (P33.9 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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Interest in a joint venture - cost	P33,926	P33,926
Cumulative equity in net earnings:		
Balance at beginning of period	164,841	66,237
Equity in net earnings during the period	33,328	118,641
Dividends received during the period	(34,637)	(20,037)
Balance at end of period	163,532	164,841
	P197,458	P198,767

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Current assets	P463,517	P371,611
Noncurrent assets	292,494	258,303
Total assets	P756,011	P629,914
Current liabilities	P324,768	P224,935

The amounts of assets and liabilities above include the following:

	June 2018 (Unaudited)	December 2017 (Audited)
Cash and cash equivalents	P126,715	P142,980
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	—	—

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Revenues	P741,150	P632,281
Depreciation and amortization	35,610	22,843
Net income	68,017	138,371
Total comprehensive income	68,017	138,371
	June 2018 (Unaudited)	December 2017 (Audited)
Net assets	P431,243	P404,979
Proportion of the Jollibee Group's ownership	49%	49%
	211,309	198,440
Cumulative translation adjustments	(13,851)	327
	P197,458	P198,767

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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Interest in a joint venture – cost	P233,406	P233,406
Cumulative equity in net losses:		
Balance at beginning of period	(81,948)	(3,925)
Equity in net loss during the period	(121,891)	(78,023)
Balance at end of period	(203,839)	(81,948)
	P29,567	P151,458

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Current assets	P1,718,588	P992,531
Noncurrent assets	1,790,210	1,600,832
Total Assets	P3,508,798	P2,593,363
Current liabilities	P3,381,412	P2,060,619
Noncurrent liabilities	28,828	27,884
Total liabilities	P3,410,240	P2,088,503

The amounts of assets and liabilities above include the following:

	June 2018 (Unaudited)	December 2017 (Audited)
Cash and cash equivalents	P161,344	P83,406
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	523,389	375,116
Noncurrent financial liabilities (excluding provisions)	27,372	27,884

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Revenues	P1,721,419	P–
Depreciation and amortization	58,460	–
Taxes and licenses	18,745	761
Interest income	294	6,609
Interest expense	22,146	15
Net loss	(406,303)	(105,385)
Total comprehensive loss	(406,303)	(105,385)

	June 2018 (Unaudited)	December 2017 (Audited)
Net assets	P98,558	P504,860
Proportion of the Jollibee Group's ownership	30%	30%
	P29,567	P151,458

SJBF LLC (SJBF). See Part A of this note for the discussion on the Interest and Advances to SJBF.

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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Interest in an associate - cost	P16,660	P16,660
Cumulative equity in net earnings:		
Balance at beginning of period	120,577	95,567
Reversal of impairment loss (see Note 23)	16,660	–
Equity in net earnings during the period	14,873	25,010
Balance at end of period	152,110	120,577
	P168,770	P137,237

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Current assets	P647,463	P631,739
Noncurrent assets	256,106	199,488
Total assets	P903,569	P831,227
Current liabilities	P333,675	P330,429
Noncurrent liabilities	5,692	5,427
Total liabilities	P339,367	P335,856

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Revenues	₱419,666	₱338,107
Depreciation	24,329	17,217
Net income	44,620	15,082
Total comprehensive income	44,620	15,082

	June 2018 (Unaudited)	December 2017 (Audited)
Net assets	564,202	₱495,371
Proportion of the Jollibee Group's ownership	33.33%	33.33%
	188,067	165,124
Impairment loss recognized in 2011	—	(16,660)
Cumulative translation adjustments	(19,297)	(11,227)
	₱168,770	₱137,237

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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Interest in an associate – cost	₱10,586	₱10,586
Cumulative equity in net losses:		
Balance at beginning of period	(922)	(602)
Equity in net loss during the period	(385)	(320)
Balance at end of period	(1,307)	(922)
	₱9,279	₱9,664

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Current assets	₱5,102	₱6,035
Noncurrent assets	70,570	62,152
Total assets	₱75,672	₱68,187
Current liabilities	₱9,458	₱689
Noncurrent liabilities	35,285	35,285
Total liabilities	₱44,743	₱35,974

The amounts of assets and liabilities above include the following:

	June 2018 (Unaudited)	December 2017 (Audited)
Cash and cash equivalents	₱4,794	₱5,746
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	8,600	185
Noncurrent financial liabilities	35,285	35,285

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Revenues	₱1,200	₱-
Taxes and licenses	730	-
Interest expense	1,084	603
Net loss	(1,284)	(1,222)
Total comprehensive loss	(1,284)	(1,222)

	June 2018 (Unaudited)	December 2017 (Audited)
Net assets	₱30,929	₱32,213
Proportion of the Jollibee Group's ownership	30%	30%
	₱9,279	₱9,664

Advances to VTI Group. The details of the Jollibee Group's advances to VTI Group as at June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱1,535,590	₱2,652,748
Converted to equity during the period	-	(2,253,870)
Additions during the period	-	1,059,786
Accrual of interest	27,162	38,952
Translation adjustments and others	105,937	37,974
Balance at end of period	₱1,668,689	₱1,535,590

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 (P1,735.3 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 (P447.5 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 (P1,060.0 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 USD0.5 million (P27.9 million), USD0.8 million (P37.6 million) and USD0.1 million (P0.8 million) for the period ended June 30, 2018 and years ended December 31, 2017 and 2016.

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.

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 P158.9 million which is recognized in the statements of comprehensive income in 2016. 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 (P644.5 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 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 June 30, 2018 and December 31, 2017 (see Note 9).

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.

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

Interest in a joint venture – cost	₱414,872
Cumulative equity in net losses:	
Balance at beginning of year	(263,243)
Equity in net loss during the year	(35,422)
Balance at end of year	(298,665)
Loss on cessation of operations	(116,207)
	<u>₱–</u>

Summarized financial information of WJ based on its financial statements and reconciliation with the carrying amount of the investment in the consolidated financial statements as at December 31, 2017 are set out below:

Current assets	₱245,850
Noncurrent assets	77,700
Total assets	<u>₱323,550</u>
Current liabilities	₱43,060
Noncurrent liabilities	548
	<u>₱43,608</u>

The amounts of assets and liabilities above include the following:

Cash and cash equivalents	₱235,008
Current financial liabilities (excluding trade payables and other current liabilities and provisions)	–

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

	June 2017 (Unaudited)
Revenues	P191,034
Depreciation and amortization	17,563
Interest income - net	250
Net loss	(25,945)
Total comprehensive loss	(25,945)
	December 2017 (Audited)
Net assets	P279,942
Proportion of the Jollibee Group's ownership	48%
	134,372
Cumulative translation adjustments	(18,165)
	116,207
Loss on cessation of operations	(116,207)
	P-

12. Property, Plant and Equipment

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

	June 2018 (Unaudited)							
	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
Cost								
Balance at beginning of period	P673,514	P3,345,527	P20,461,846	P18,177,531	P1,441,786	P672,266	P2,370,853	P47,143,323
Additions	-	95,108	609,817	656,187	62,141	27,474	3,025,341	4,476,068
Acquisition of a subsidiary (Note 11)	-	-	1,633,252	2,151,982	984,935	1,064	11,858	4,783,091
Retirements and disposals	-	(7,308)	(516,006)	(381,905)	(25,462)	(8,868)	(99,196)	(1,038,745)
Reclassifications	-	198,912	1,023,255	937,416	64,423	2,179	(1,705,752)	520,433
Translation adjustments	4,520	51,866	211,173	194,866	28,887	3,936	14,933	510,181
Balance at end of period	678,034	3,684,105	23,423,337	21,736,077	2,556,710	698,051	3,618,037	56,394,351
Accumulated Depreciation and Amortization								
Balance at beginning of period	7,564	1,409,213	11,246,146	11,699,317	978,883	465,693	-	25,806,816
Depreciation and amortization (see Notes 21 and 22)	-	96,213	1,098,716	1,296,208	135,977	40,083	-	2,667,197
Acquisition of a subsidiary (Note 11)	-	-	1,009,008	903,404	308,244	389	-	2,221,045
Retirements and disposals	-	(6,359)	(377,408)	(314,022)	(20,971)	(7,828)	-	(726,588)
Reclassifications	-	191,619	154,263	172,561	(24)	2,014	-	520,433
Translation adjustments	-	9,054	313,848	164,652	40,297	2,301	-	530,152
Balance at end of period	7,564	1,699,740	13,444,573	13,922,120	1,442,406	502,652	-	31,019,055
Accumulated Impairment Losses								
Balance at beginning of period	-	-	-	442,693	-	-	-	442,693
Reversals (Note 22)	-	-	-	(6,553)	-	-	-	(6,553)
Translation adjustments	-	-	-	619	-	-	-	619
Balance at end of period	-	-	-	436,759	-	-	-	436,759
Net Book Value	P670,470	P1,984,365	P9,978,764	P7,377,198	P1,114,304	P195,399	P3,618,037	P24,938,537

December 2017 (Audited)								
	Land and 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
Cost								
Balance at beginning of year	P673,250	P2,743,294	P17,177,082	P15,529,426	P1,230,895	P611,648	P902,457	P38,868,052
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
Accumulated Depreciation and Amortization								
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	—	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
Accumulated Impairment Losses								
Balance at beginning of year	—	—	—	42,731	—	—	—	42,731
Additions	—	—	—	431,939	—	—	—	431,939
Write-offs	—	—	—	(30,605)	—	—	—	(30,605)
Reversals	—	—	—	(2,111)	—	—	—	(2,111)
Translation adjustments	—	—	—	739	—	—	—	739
Balance at end of year	—	—	—	442,693	—	—	—	442,693
Net Book Value	P665,950	P1,936,314	P9,215,700	P6,035,521	P462,903	P206,573	P2,370,853	P20,893,814

Construction in progress account mainly pertains to costs incurred for ongoing construction of properties, including soon-to-open stores and commissaries. As at June 30, 2018 and December 31, 2017, no borrowing cost has been capitalized.

Gain on retirement and disposals of property, plant and equipment amounted to ₱27.7 million and loss amounted to ₱48.7 million for the periods ended June 30, 2018 and 2017, respectively (see Note 22).

The cost of fully depreciated property, plant and equipment still in use amounted to ₱14,083.7 million and ₱12,935.4 million as at June 30, 2018 and December 31, 2017, 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 ₱436.8 million and ₱442.7 million as at June 30, 2018 and December 31, 2017, respectively.

No property, plant and equipment as at June 30, 2018 and December 31, 2017 have been pledged as security or collateral.

13. Investment Properties

The rollforward analysis of this account follows:

June 2018 (Unaudited)			
	Buildings and Building Improvements		Total
Cost			
Balance at beginning and end of period	₱848,974	₱179,377	₱1,028,351
Accumulated Depreciation and Amortization			
Balance at beginning and end of period	—	179,377	179,377
Net Book Value	₱848,974	₱—	₱848,974

	June 2018 (Unaudited)		
	Buildings and Building		
	Land	Improvements	Total
	December 2017 (Audited)		
	Buildings and Building		
	Land	Improvements	Total
Cost			
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
Accumulated Depreciation and Amortization			
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
Net Book Value	₱848,974	₱—	₱848,974

The cost of fully depreciated buildings and building improvements still being leased out by the Jollibee Group amounted to ₱179.4 million and ₱178.1 million as at June 30, 2018 and December 31, 2017, 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. Management does not expect a significant change in the aggregate fair value of the Jollibee Group's investment properties in 2018. 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 ₱12.8 million and ₱12.1 million for the periods ended June 30, 2018 and 2017, respectively (see Notes 20 and 29).

Direct operating costs relating to the investment properties which include depreciation and maintenance expenses totaled to ₱5.8 million and ₱4.5 million for the periods ended June 30, 2018 and 2017, 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.

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 June 30, 2018 and December 31, 2017 have been pledged as security or collateral for the Jollibee Group’s debts.

14. Goodwill and Other Intangible Assets

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Trademarks (Note 11)	₱16,547,269	₱6,149,269
Goodwill (Note 11)	14,250,517	9,050,223
Computer software, net of accumulated amortization	479,711	512,589
Other intangible assets, net of accumulated amortization	366,784	18,158
	₱31,644,281	₱15,730,239

Goodwill and Trademarks

Goodwill and trademarks acquired through business combinations are attributable to the following group of CGUs as at June 30, 2018 and December 31, 2017:

	June 2018 (Unaudited)	December 2017 (Audited)
Goodwill:		
Smashburger (see Note 11)	₱5,200,294	₱–
SuperFoods Group (see Note 11)	2,507,801	2,507,801
Hong Zhuang Yuan	2,497,253	2,497,253
Mang Inasal	1,781,267	1,781,267
Red Ribbon Bakeshop:		
Philippine operations	737,939	737,939
US operations	434,651	434,651
Yong He King	535,281	535,281
Chowking US operations	383,855	383,855
GSC	166,931	166,931
Burger King	5,245	5,245
	14,250,517	9,050,223
Trademarks:		
Smashburger (see Note 11)	10,398,000	–
SuperFoods Group (see Note 11)		
Highlands Coffee	3,681,912	3,681,912
Pho 24	463,101	463,101
Mang Inasal	2,004,256	2,004,256
	16,547,269	6,149,269
Goodwill and trademarks	₱30,797,786	₱15,199,492

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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Cost		
Balance at beginning of period	₱740,260	₱670,762
Additions	5,400	69,498
Balance at end of period	745,660	740,260
Accumulated Amortization		
Balance at beginning of period	227,671	157,425
Amortizations (see Note 22)	38,278	70,246
Balance at end of period	265,949	227,671
Net Book Value	₱479,711	₱512,589

Other Intangible Assets

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

The roll forward analysis of other intangible assets as at June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Cost		
Balance at beginning of period	₱57,119	₱56,983
Additions	32	136
Acquisition of a subsidiary (see Note 11)	367,852	—
Balance at end of period	425,003	57,119
Accumulated Amortization		
Balance at beginning of period	38,961	30,256
Amortizations (see Note 22)	19,258	8,705
Balance at end of period	58,219	38,961
Net Book Value	₱366,784	₱18,158

Impairment Testing of Goodwill and Trademarks

Goodwill acquired through business combinations have been allocated to ten (10) 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 trademarks of Smashburger, SuperFoods Group and Mang Inasal are allocated to the CGU of Smashburger, SuperFoods Group and Mang Inasal, 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 used by management in its cash flow projections to undertake impairment testing of goodwill are as follows:

- 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.
- 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.
- 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.

15. Other Noncurrent Assets

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Security and other deposits (see Notes 30 and 31)	₱2,713,762	₱2,464,995
Noncurrent portion of:		
Rent and other long-term prepayments	536,475	494,363
Employee car plan receivables (see Notes 30 and 31)	184,584	186,000
Prepaid market entry fee - net of accumulated amortization of ₱12.6 million and ₱9.9 million in 2018 and 2017, respectively	98,479	94,786
Deferred rent expense	73,671	72,338
Deferred compensation	26,319	26,319
Returnable containers and others	8,019	71,910
Other assets	350,840	287,711
	₱3,992,149	₱3,698,422

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 ₱8.9 million and ₱8.0 million for the periods ended June 30, 2018 and 2017, 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. 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 June 30, 2018 and December 31, 2017 are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Market Entry Fee		
Balance at beginning and end of period	₱93,870	₱93,870
Accumulated Amortization		
Balance at beginning of period	9,863	4,571
Amortizations (see Note 22)	2,727	5,292
Balance at end of period	12,590	9,863
Translation adjustment	17,199	10,779
	₱98,479	₱94,786

- Other assets represent tools for repairs and maintenance of office and store equipment which were still unused as at June 30, 2018 and December 31, 2017.

16. Trade Payables and Other Current Liabilities

This account consists of:

	June 2018 (Unaudited)	December 2017 (Audited)
Trade	₱11,443,124	₱10,877,674
Accruals for:		
Salaries, wages and employee benefits	2,210,754	1,864,278
Store operations	1,893,141	1,887,316
Advertising and promotions	1,653,896	1,571,660
Rent	994,831	1,053,952
Repairs and maintenance	571,432	482,739
Utilities	495,587	423,596
Freight	345,753	388,992
Operating supplies	307,932	280,753
Security	189,091	161,304
Professional fees	167,638	212,739
Interest (Note 18)	152,656	83,117
Corporate events	106,699	274,086
Trainings and seminars	100,617	95,045
Communication	95,837	78,095
Transportation and travel	65,007	49,247
Insurance	24,689	21,833
Service fees and others	1,532,731	1,348,608
Local and other taxes payable	1,041,429	1,939,187
Customers' deposits	788,229	798,352
Unearned revenue from gift certificates	423,217	171,891
Dividends payable	61,368	56,053
Other current liabilities	1,257,574	1,134,096
	₱25,923,232	₱25,254,613

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 ₱0.3 million and ₱4.9 million for the periods ended June 30, 2018 and 2017, 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 2018, Jollibee Group recognized provision amounting to ₱500.0 million (see Note 23). Consequently, the Jollibee Group has outstanding provisions amounting to ₱1,325.1 million and ₱825.1 million as at June 30, 2018 and December 31, 2017, 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. Long-term Debts

The long-term debt consists of the following:

	June 2018 (Unaudited)	December 2017 (Audited)
Principal	₱23,152,007	₱16,149,740
Unamortized debt issue cost	(80,890)	(32,469)
	₱23,071,117	₱16,117,271

The details of long-term debt follow:

	June 2018 (Unaudited)	December 2017 (Audited)
USD-denominated:		
Loan 1	₱4,889,500	₱4,881,067
Loan 2	–	124,800
Loan 3	1,584,198	1,482,624
Loan 4	422,453	395,367
Loan 5	–	199,680
Loan 6	314,706	294,528
VND-denominated (see Note 11):		
Loan 7	115,788	142,293
Loan 8	110,096	122,998
Loan 9	160,140	151,383
Loan 10	140,127	–
PHP-denominated:		
Loan 11	1,453,636	1,467,955
Loan 12	799,333	798,933
Loan 13	747,083	871,583
Loan 14	1,592,800	1,592,000
Loan 15	2,090,550	2,089,500
Loan 16	796,400	796,000
Loan 17	597,300	597,000
Loan 18	4,169,625	–
Loan 19	2,977,767	–
Loan 20	109,615	109,560
	23,071,117	16,117,271
Less current portion - net of debt issue costs of ₱8.1 million and ₱2.4 million in 2018 and 2017, respectively	4,270,821	1,216,219
	₱18,800,296	₱14,901,052

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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to ₱4,889.5 million and ₱4,881.1million, 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. The loan was paid in full on February 26, 2018, the maturity date. As at June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to nil and ₱124.8 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 June 30, 2018 and December 31, 2017, the Parent Company is in compliance with the terms of the loan covenants.

Loan 3 consists of an 8-year unsecured loan acquired on November 29, 2016 amounting to USD30.0 million (P1,491.9 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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P1,584.2 million and P1,482.6 million, respectively.

The loan agreement, 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 June 30, 2018 and December 31, 2017, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

Loan 4 consists of a 6-year unsecured loan acquired on November 29, 2016 amounting to USD8.0 million (P397.8 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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P422.5 million and P395.4 million, respectively.

USD-denominated loans of HBFPPPL. Loan 5 consists of a 5-year unsecured loan acquired on May 8, 2013 amounting to USD4.0 million (P163.3 million) with an interest rate based on three-month USD LIBOR plus spread of 1.0% subject to repricing every quarter. The loan was paid in full on May 8, 2018, the maturity date. As at June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to nil and P199.7 million, respectively.

Loan 6 consists of a 5-year unsecured loan acquired on April 25, 2014 amounting to USD5.9 million (P257.5 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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P314.7 million and P294.5 million, respectively.

Under the loan agreements above (Loans 4 to 6), 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 June 30, 2018 and December 31, 2017, the Parent Company as the guarantor is in compliance with the terms of its loan covenants.

VND-denominated loans of SuperFoods Group. Loan 7 consists of a 5-year loan acquired from a local bank in Vietnam on February 19, 2014 amounting to VND118.0 billion (P250.2 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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P115.8 million and P142.3 million, respectively.

Loan 8 consists of a 5-year loan acquired on December 30, 2015 from a local bank in Vietnam amounting to VND68.0 billion (P146.7 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 June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P110.1 million and P123.0 million, respectively.

Loan 9 consists of a 5-year loan acquired on April 3, 2017 from a local bank in Vietnam amounting to VND68.0 billion (P151.2 million) with 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 from the first drawdown date. As at June 30, 2018 and December 31, 2017, the carrying value of the loan amounted to P160.1 million and P151.4 million, respectively.

Loan 10 consists of a 5-year loan acquired from a local bank in Vietnam amounting to VND113.0 billion (P262.7 million) available in tranches within eighteen (18) months from February 13, 2018, the date of loan agreement. The loan is subject to a variable interest rate based on three-month VND COF plus spread of 1.3%. The principal is payable in fourteen (14) quarterly installments commencing on the 21st month from the initial drawdown date on March 20, 2018 amounting to VND7.5 billion (P17.4 million). As at June 30, 2018, the carrying value of the loan amounted to P140.1 million.

PHP-denominated loans of the Parent Company. On December 9, 2013, the Parent Company refinanced its P1,500.0 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 P15.0 million starting on the 30th month from the date of drawdown and P1,455.0 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 P7.5 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 P10.0 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 June 30, 2018 and December 31, 2017.

Loan 12 consists of a 5-year unsecured loan acquired from a local bank on April 21, 2014 amounting to P800.0 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 P4.0 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 June 30, 2018 and December 31, 2017.

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 June 30, 2018 and December 31, 2017.

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 June 30, 2018 and 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 June 30, 2018 and 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 June 30, 2018 and 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 June 30, 2018 and December 31, 2017.

Loan 18 consists of 7-year unsecured loan acquired from a local bank on March 27, 2018 amounting to ₱4,200.0 million. The loan is subject to a variable interest equal to the simple average of the preceding five (5) days of the three-month PDST-R2 rate plus spread of 0.40% and to an interest rate floor of 3.0%. The principal is payable in equal quarterly installments commencing on the 27th month from drawdown date amounting to ₱210.0 million. The Parent Company incurred debt issue cost of ₱31.5 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 but in no case later than 365 days from the drawdown date. The conversion to fixed interest rate is based on simple average of the applicable/interpolated “Done” PDST-R2 rates within the preceding five (5) consecutive business days plus spread of 0.60%. In the event, that there is no “Done” PDST-R2 rates, it shall be determined by interpolating the “Done” PDST-R2 of other tenors or mutually agreed computation based on the available bids/interpolation. 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 June 30, 2018.

Loan 19 consists of 7-year unsecured loan acquired from a local bank on May 11, 2018 amounting to ₱3,000.0 million. The loan is subject to a variable interest rate equal to 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 Parent Company has a one-time option to convert the variable interest rate into a fixed interest rate until the 4th interest rate setting date subject to certain conditions. The conversion to fixed interest rate is equal to the interpolated Treasury Securities Benchmark Yield based on the remaining tenor of the Loan, as published in the PDST-R2 on the interest setting date plus spread of 0.50%. The principal is payable in twenty (20) quarterly installments commencing on the end of the 8th quarter from the drawdown date. The Parent Company incurred debt issue cost of ₱22.5 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 June 30, 2018.

The Parent Company's PHP denominated long-term debt (Loans 11 to 19) amounts to ₱15,224.5 million and ₱8,213.0 million, net of unamortized debt issue cost of ₱80.5 million and ₱32.0 million as at June 30, 2018 and December 31, 2017, respectively. The current portion amounted to ₱2,335.0 million and ₱261.8 million, net of debt issue costs of ₱7.5 million and ₱2.4 million as at June 30, 2018 and December 31, 2017, respectively.

PHP-denominated loan of PERF Restaurants, Inc. (PERF). Loan 20 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 at BSP Overnight Deposit Facility Rate plus spread of 0.5%. PERF incurred debt issue cost 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, net of unamortized debt issue cost of ₱0.4 million as at June 30, 2018 and December 31, 2017.

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 June 30, 2018 and December 31, 2017, respectively.

Interest expense recognized on long-term debt including amortization of debt issue cost, amounted to ₱375.4 million and ₱193.0 million for the periods ended June 30, 2018 and 2017, respectively (see Note 23).

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

	June 2018 (Unaudited)	December 2017 (Audited)
2018	₱525,990	₱1,218,583
2019	4,421,029	4,320,923
2020	2,814,409	1,752,102
2021	3,137,237	1,612,649
2022 to 2025	12,253,342	7,245,483
	23,152,007	16,149,740
Less debt issue costs	(80,890)	(32,469)
	₱23,071,117	₱16,117,271

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 June 30, 2018 and December 31, 2017.

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 ₱121.9 million and ₱11.9 million as at June 30, 2018 and December 31, 2017, respectively, which were presented as a derivative asset 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 of ₱110.0 million and ₱45.5 million were recognized in other comprehensive income for the period ended June 30, 2018 and year ended December 31, 2017, respectively.

19. Equity

a. Capital Stock

The movements in the account are as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Authorized - ₱1 par value	₱1,450,000	₱1,450,000
Issued and subscribed:		
Balance at beginning of period	₱1,101,656	₱1,091,301
Issuances during the period	1,984	10,355
Balance at end of period	1,103,640	1,101,656
Subscriptions receivable	(17,178)	(17,178)
	₱1,086,462	₱1,084,478

The total number of shareholders of the Parent Company is 3,029 and 3,042 as at June 30, 2018 and December 31, 2017, 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. For the periods ended June 30, 2018 and December 31, 2017, stock options totaling 1,984,199 shares and 10,354,270 shares, respectively, were exercised (see Note 26). These resulted to an additional paid-in capital amounting to ₱231.8 million and ₱850.8 million for the periods ended June 30, 2018 and December 31, 2017, respectively.

Stock options expense, amounting to ₱132.1 million and ₱113.7 million for the periods ended June 30, 2018 and 2017, 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 June 30, 2018 and December 31, 2017, total additional paid-in capital amounted to ₱7,884.2 million and ₱7,520.4 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 June 30, 2018 and December 31, 2017.

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 June 30, 2018 and December 31, 2017, 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	1,217,615
30% of HBFPPPL in 2016	391,782
	<u>₱2,152,161</u>

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 30.6%, 33.1% and 32.4% in 2018, 2017 and 2016, 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 ₱11,763.3 million and ₱10,876.0 million as at June 30, 2018 and December 31, 2017, respectively.

The Parent Company's cash dividend declarations for 2018, 2017 and 2016 follow:

Declaration Date	Record Date	Payment Date	Cash Dividend per Share	Total Cash Dividends Declared
<i>(In Thousands, except dividend per share)</i>				
2018				
April 6	April 24	May 9	₱1.14	₱1,236,518
2017				
April 5	April 21	May 5	₱1.00	₱1,077,527
November 10	November 27	December 11	1.18	1,277,984
			₱2.18	₱2,355,511
2016				
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

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 2006 (₱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 SJBF 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 HBFPL (₱514.9 million), acquisition of GSC (₱8.6 million) in 2016, the acquisition of additional 10% share in SuperFoods Group (₱2,712.7 million) in 2017 and acquisition of additional 45% share in SJBF LLC (₱5,207.0 million) in 2018.

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 appropriations for future acquisitions and capital expenditures with the following details as at June 30, 2018 and December 31, 2017:

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

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 ₱4,796.1 million and ₱3,525.2 million as at June 30, 2018 and December 31, 2017, 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	
				June 2018 (Unaudited)	December 2017 (Audited)
Common shares	75,000,000	₱9	July 14, 1993	3,029	3,042

20. Royalty, Set-up Fees and Others

This account consists of:

	June 2018 (Unaudited)	June 2017 (Unaudited)
Royalty fees	₱3,270,801	₱2,642,649
Service fees	160,614	182,437
Set-up fees	246,420	172,974
Scrap sales	62,188	122,180
Rent income (see Notes 13 and 29)	28,176	24,508
Other revenues	118,536	112,566
	₱3,886,735	₱3,257,314

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”, “Pho 24” and “Smashburger” 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:

	June 2018 (Unaudited)	June 2017 (Unaudited)
Cost of inventories	₱35,378,647	₱29,646,953
Personnel costs:		
Salaries, wages and other employee benefits	6,869,686	5,214,505
Pension expense	73,348	67,074
Rent (see Note 29)	5,639,514	4,456,245
Contracted services	4,110,985	3,377,836
Electricity and other utilities	2,511,526	2,182,617
Depreciation and amortization (see Note 12)	2,477,874	2,003,736
Supplies	1,475,972	1,219,502
Repairs and maintenance	795,066	444,172
Security and janitorial	469,239	369,175
Communication	134,072	107,783
Professional fees	35,308	20,066
Representation and entertainment	23,370	22,150
Others	1,638,411	1,294,877
	₱61,633,018	₱50,426,691

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

22. General and Administrative Expenses

This account consists of:

	June 2018 (Unaudited)	June 2017 (Unaudited)
Personnel costs:		
Salaries, wages and other employee benefits	₱3,783,027	₱3,333,077
Stock options expense (see Notes 19 and 26)	132,091	113,738
Pension expense	75,605	69,119
Taxes and licenses	758,366	691,597
Professional fees	360,059	324,050
Transportation and travel	331,646	270,451
Rent (see Note 29)	287,204	242,559
Contracted services	273,384	217,489
Depreciation and amortization (see Notes 12, 14 and 15)	249,586	208,267
Repairs and maintenance	129,792	65,454
Corporate events	114,066	96,292
Donations	100,359	93,041
Representation and entertainment	83,179	28,737
Training	75,200	81,340
Membership and subscriptions	70,414	68,395
Communication	66,079	55,125

(Forward)

	June 2018 (Unaudited)	June 2017 (Unaudited)
Supplies	45,109	41,839
Association dues	34,901	26,175
Electricity and other utilities	33,242	26,383
Loss (gain) on retirement and disposals of property, plant and equipment (see Note 12)	(27,702)	48,750
Insurance	21,478	12,565
Security and janitorial	11,047	12,109
Reversals of provision for impairment on:		
Property, plant and equipment (see Note 12)	(6,553)	(1,631)
Inventories (see Note 8)	(1,185)	(50,218)
Receivables (see Note 7)	(252)	(12,618)
Impairment in value of:		
Inventories (see Note 8)	4,499	20,347
Receivables (see Note 7)	813	8,000
Others	376,521	164,620
	P7,381,975	P6,255,052

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Interest income:		
Cash and cash equivalents and short-term investments (see Note 6)	P107,392	P45,319
Loans and advances* (see Note 11)	27,162	52,037
Accretion of interest on security and other deposits and employee car plan receivables (see Note 15)	8,854	8,010
	P143,408	P105,366
Interest expense:		
Long-term debt (see Note 18)	(P375,364)	(P193,048)
Accretion of customers' deposits (see Note 16)	(310)	(4,938)
	(P375,674)	(P197,986)

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

	June 2018 (Unaudited)	June 2017 (Unaudited)
Other income (expense):		
Gain from the re-measurement of previously held interest (see Note 11)	₱745,982	₱–
Provisions (see Note 17)	(500,000)	–
Write-off of liabilities	404,670	462,271
Bank charges	(127,373)	(74,719)
Rebates and suppliers' incentives	85,089	98,694
Foreign exchange gain (loss) - net	69,145	(61,541)
Penalties and charges	40,451	33,319
Pre-termination of operating leases	22,001	15
Reversal of impairment loss on interest in an associate (see Note 11)	16,660	–
Charges to franchisees	10,898	9,323
Other rentals	4,324	12,084
Insurance claims and others	65,396	60,869
	₱837,243	₱540,315

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:

	June 2018 (Unaudited)	June 2017 (Unaudited)
Final tax withheld on:		
Royalty income	₱717,602	₱597,949
Interest income	13,674	7,689
RCIT:		
With itemized deduction	382,029	242,012
With Optional Standard Deduction (OSD)	6,200	143,185
MCIT	193,114	135,062
	₱1,312,619	₱1,125,897

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

For the periods ended June 30, 2018 and December 31, 2017, Grandworth and RRBH wholly-owned subsidiaries, elected to use OSD in computing for their taxable income. In 2018 and 2017, Zenith elected to use itemized deduction and OSD, respectively, in computing its taxable income. The net tax benefit from the availment of OSD amounted to ₱2.0 million and ₱4.1 million for the periods ended June 30, 2018 and 2017, respectively.

The components of the Jollibee Group's recognized net deferred tax assets as at June 30, 2018 and December 31, 2017 follow:

	June 2018 (Unaudited)	December 2017 (Audited)
Deferred tax assets:		
MSOP and ELTIP	₱1,005,545	₱1,033,184
Accrued expenses of USA-based entities	755,565	497,590
NOLCO:		
Philippine-based entities	454,182	553,035
PRC-based entities	265,808	250,973
USA-based entities	7,712	7,218
Excess of MCIT over RCIT	628,277	513,072
Operating lease payables	593,570	566,066
Pension liability and other benefits	586,802	551,921
Accumulated impairment loss in value of receivables, inventories, property, plant and equipment and other nonfinancial assets	114,305	105,190
Unrealized foreign exchange loss	41,305	62,395
Unaccreted discount on security deposits and employee car plan receivables	30,399	53,992
Unamortized past service costs	3,588	9,689
Others	9,637	15,136
	4,496,695	4,219,461
Deferred tax liabilities:		
Unrealized foreign exchange gain	67,284	57,342
State income taxes	53,323	82,382
Prepaid rent	51,173	46,768
Unaccreted discount on employee car plan receivables and security deposits	24,074	23,172
Operating lease receivables	16,760	17,049
Deferred rent expense	12,829	13,461
Unrealized gain on change in fair value of AFS financial assets	1,193	1,193
Excess of fair value over book value of identifiable assets of acquired businesses	–	69,281
	226,636	310,648
Deferred tax assets - net	₱4,270,059	₱3,908,813

The components of the Jollibee Group's recognized net deferred tax liabilities as at June 30, 2018 and December 31, 2017 follow:

	June 2018 (Unaudited)	December 2017 (Audited)
Deferred tax assets:		
Pension liability and other benefits	₱60,492	₱40,905
Allowance for impairment loss on receivables and inventories	52,125	85,041
MSOP and ELTIP	27,639	—
Operating lease payables	15,995	7,142
Unamortized past service costs	2,639	—
Unaccreted discount on security deposits and employee car plan receivables	1,676	1,790
Unrealized foreign exchange loss	825	14
Excess of MCIT over RCIT	—	18,359
	161,391	153,251
Deferred tax liabilities:		
Excess of fair value over book value of identifiable assets of acquired businesses	3,625,595	1,340,894
Unrealized foreign exchange gain	2,245	14
Unaccreted discount on employee car plan receivables, security and product security deposits	1,967	1,338
	3,629,807	1,342,246
Deferred tax liabilities – net	₱3,468,416	₱1,188,995

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

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱2,719,818	₱2,078,918
Additions – net assets (liabilities)	(1,974,962)	685,089
Income tax effect of other remeasurements of net defined benefit plan	—	(59,440)
Translation adjustments	56,787	15,251
	₱801,643	₱2,719,818

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Deferred tax assets:		
Allowance for impairment losses on receivables and nonfinancial assets	₱6,429	₱30,421
Operating lease payables	3,444	13,429
Unaccredited discount on financial instruments and others	419	458
Pension liability and other benefits	–	23,121
Unamortized past service cost	–	139
	10,292	67,568
Deferred tax liabilities:		
Operating lease receivables	4,801	5,437
Others	436	551
	5,237	5,988
Deferred tax assets - net	₱5,055	₱61,580

As at June 30, 2018, 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
2018	December 31, 2021	₱59,107	₱115,205
2017	December 31, 2020	–	190,633
2016	December 31, 2019	1,033,062	179,224
2015	December 31, 2018	900,706	161,574
		1,992,875	646,636
Utilized during the period		(478,932)	–
Write-off during the period		–	(18,359)
		₱1,513,943	₱628,277

The PRC enterprise income tax law provides that income tax rates are unified at 25%. As at June 30, 2018, 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%
2018	December 31, 2023	₱22,544	₱5,636
2017	December 31, 2022	39,200	9,800
2016	December 31, 2021	216,036	54,009
2015	December 31, 2020	235,992	58,998
2014	December 31, 2019	223,724	55,931
2013	December 31, 2018	288,944	72,236
		1,026,440	256,610
Utilized during the period		(21,024)	(5,256)
Translation adjustments		57,816	14,454
		₱1,063,232	₱265,808

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

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱811,226	₱1,083,447
Additions	23,862	172,041
Utilized during the period	(121,840)	(447,324)
Write-offs and expirations	–	(12,189)
Translation adjustments	14,454	15,251
	₱727,702	₱811,226

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

	June 2018 (Unaudited)	December 2017 (Audited)
Balance at beginning of period	₱531,431	₱484,930
Additions	115,205	190,633
Write-offs and expirations	(18,359)	(144,132)
	₱628,277	₱531,431

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.

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 on January 1, 2018. 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 a result of the change in the corporate income tax rate from 35% to 21%. The US-based entities recognized net deferred tax liabilities amounting to ₱1,664.2 million and net deferred tax assets amounting to ₱452.4 million as at June 30, 2018 and December 31, 2017, respectively.

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:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Pension Liability
At January 1, 2017	₱3,378,892	₱1,720,714	₱1,658,178
Pension expense:			
Current service cost	279,419	—	279,419
Net interest	176,704	90,072	86,632
Past service cost	(3,211)	—	(3,211)
	452,912	90,072	362,840
Benefits paid	(103,553)	(103,553)	—
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
	(153,974)	52,498	(206,472)
Contributions	—	325,000	(325,000)
At December 31, 2017	₱3,574,277	₱2,084,731	₱1,489,546

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

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

(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)	P–	(P62,052)	P62,052
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	P3,378,892	P1,720,714	P1,658,178

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:

	June 2018 (Unaudited)	December 2017 (Audited)
Cash and cash equivalents	P298,218	P487,772
Investments in government and corporate debt securities	1,104,056	1,123,443
Investments in quoted equity securities:		
Holding firms	178,085	203,216
Property	111,537	117,714
Banks	103,970	115,258
Food and beverage	50,900	55,978
Telecommunications	26,251	32,531
Electricity, energy, power and water	25,311	24,976
Others	30,573	42,119
Interest and dividends receivable	18,621	15,478
Fund liabilities (Note 27)	(72,879)	(133,754)
	P1,874,643	P2,084,731

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 June 2019 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:

	December 31, 2017	December 31, 2016	January 1, 2016
Discount rate	5.90%–6.30%	5.20%–5.70%	5.00%–5.10%
Salary increase rate	6.00%	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		
		2017	2016	2015
Discount rates	+0.50%	(P142,506)	(P156,602)	(P144,519)
	-0.50%	195,703	169,836	156,999
Future salary increases	+0.50%	194,789	167,757	154,738
	-0.50%	(143,116)	(156,240)	(143,898)

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

	2017	2016
Less than 1 year	P705,649	P492,013
More than 1 year to 5 years	1,000,883	1,036,202
More than 5 years to 10 years	2,328,122	1,996,378
More than 10 years to 15 years	2,533,937	2,301,591
More than 15 years to 20 years	2,638,048	2,451,602
More than 20 years	8,531,203	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 P636.0 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 ₱306.30 million and ₱286.8 million for the periods ended June 30, 2018 and 2017, respectively.

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 vest similar to the 1st MSOP cycle.

The options under MSOP expire eight years after grant date. The 1st, 2nd, 3rd 4th, 5th, 6th and 7th MSOP cycles expired on June 30, 2012, 2013, 2014, 2015, 2016, 2017 and 2018, 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:

	June 2018 (Unaudited)		December 2017 (Audited)		December 2016 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted at beginning of period	47,184,794	P102.59	42,986,294	P92.47	40,120,794	P82.22
Options granted during the period	—	—	4,198,500	206.20	2,865,500	236.00
Total options granted at end of period	47,184,794	P102.59	47,184,794	P102.59	42,986,294	P92.47
Outstanding at beginning of period	16,780,550	P176.63	15,256,198	P159.46	14,868,437	P133.32
Options granted during the period	—	—	4,198,500	206.20	2,865,500	236.00
Options exercised during the period	(1,357,533)	121.95	(2,672,040)	110.35	(2,259,125)	87.40
Options forfeited during the period	—	—	(2,108)	213.28	(218,614)	129.31
Outstanding at end of period	15,423,017	P181.44	16,780,550	P176.63	15,256,198	P159.46
Exercisable at end of period	8,331,150	P156.83	9,688,683	P151.94	9,141,965	P128.20

The weighted average share price of the Parent Company common shares is P281.69, P222.86 and P227.53 in 2018, 2017 and 2016, 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 P29.88, P31.16 and P26.13, 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	P24.00	P20.00
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 periods ended June 30, 2018 and years ended December 31, 2017 and 2016 follow:

	June 2018 (Unaudited)		December 2017 (Audited)		December 2016 (Audited)	
	Number of Options	WAEP	Number of Options	WAEP	Number of Options	WAEP
Total options granted at end of period	78,969,999	P74.58	78,969,999	P74.58	78,969,999	P74.58
Options granted during the period	—	—	—	—	—	—
Total options granted at end of period	78,969,999	P74.58	78,969,999	P74.58	78,969,999	P74.58
Outstanding at beginning of period	27,436,666	P136.35	35,118,896	P122.65	38,344,999	P117.74
Options granted during the period	—	—	—	—	—	—
Options exercised during the period	(626,666)	105.00	(7,682,230)	73.69	(2,892,770)	59.59
Options forfeited during the period	—	—	—	—	(333,333)	105.00
Outstanding at end of period	26,810,000	P137.09	27,436,666	P136.35	35,118,896	P122.65
Exercisable at end of period	15,340,000	P105.00	15,966,666	P105.00	15,615,420	P89.60

The weighted average remaining contractual life for the stock options outstanding as at 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 ₱132.1 million and ₱113.7 million for the periods ended June 30, 2018 and 2017, 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	₱1,107,515	₱1,001,048	₱798,882
Stock options expense	227,483	241,324	173,212
Net pension expense	65,075	59,701	47,584
Employee car plan and other long-term benefits	48,948	47,673	42,803
	<u>₱1,449,021</u>	<u>₱1,349,746</u>	<u>₱1,062,481</u>

Transactions with the Retirement Plans

As at June 30, 2018 and December 31, 2017, certain retirement funds of the Jollibee Group include investment in equity securities of the Parent Company with details as follows:

	June 2018 (Unaudited)	December 2017 (Audited)
Number of shares	149,540	163,150
Market value	P39,198	P41,277
Cost	9,631	9,417
Unrealized gain	P29,567	P31,860

The Jollibee Group's receivable from the retirement fund amounted to P68.6 million and P131.7 million as at June 30, 2018 and December 31, 2017, 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 June 30, 2018, 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.

28. Earnings Per Share

Basic and diluted EPS are computed as follows:

	June 2018 (Unaudited)	June 2017 (Unaudited)
<i>(In Thousand pesos, except for shares data and EPS)</i>		
(a) Net income attributable to the equity holders of the Parent Company	P4,050,278	P3,489,391
(b) Weighted average number of shares - basic	1,086,455,011	1,077,741,069
Weighted average number of shares outstanding under the stock options plan	31,526,960	36,017,990
Weighted average number of shares that would have been purchased at fair market value	(16,214,595)	(22,208,209)
(c) Adjusted weighted average shares - diluted	1,101,767,376	1,091,550,850
EPS:		
Basic (a/b)	P3.728	P3.238
Diluted (a/c)	3.676	3.197

Potential common shares for stock options under the 13th MSOP cycle were not included in the calculation of the diluted EPS in 2017 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 for the periods ended June 30, 2018 and 2017.

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 ₱1,147.2 million and ₱972.1 million for the periods ended June 30, 2018 and 2017, 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	₱2,229,282	₱1,546,661	₱1,532,583
After one year but not more than five years	8,405,865	5,916,716	5,581,731
More than five years	9,942,645	8,093,585	6,443,631
	<u>₱20,577,792</u>	<u>₱15,556,962</u>	<u>₱13,557,945</u>

Rent expense recognized on a straight-line basis amounted to ₱5,926.7 million and ₱4,698.8 million for the periods ended June 30, 2018 and 2017, 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 ₱2,762.6 million and ₱2,051.6 million as at June 30, 2018 and December 31, 2017, 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	₱174,333	₱142,011	₱63,359
After one year but not more than five years	500,520	393,154	244,123
More than five years	163,067	184,930	598,950
	<u>₱837,920</u>	<u>₱720,095</u>	<u>₱906,432</u>

Rent income recognized on a straight-line basis amounted to ₱28.2 million and ₱24.5 million for the periods ended June 30, 2018 and in 2017, 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 ₱29.8 million and ₱28.0 million as at June 30, 2018 and December 31, 2017, 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.

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	(80,599)	(87,706)
	-100	80,599	87,706
PHP	+100	(64,245)	(33,848)
	-100	64,245	33,848
VND	+100	(4,167)	—
	-100	4,167	—

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 7.37% and 2.55% of the consolidated net assets of the Jollibee Group as at June 30, 2018 and December 31, 2017, 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 liabilities and their peso equivalents as at June 30, 2018 and December 31, 2017:

	June 2018 (Unaudited)			December 2017 (Audited)		
	USD	RMB	PHP Equivalent	USD	RMB	PHP Equivalent
Assets						
Cash and cash equivalents	1,124	6	60,024	407	6	20,364
Receivables	8,054	—	429,583	6,841	—	341,590
Foreign currency denominated assets	9,178	6	489,607	7,248	6	361,954
Accounts payable - trade	—	—	—	(1,155)	—	(57,669)
Foreign currency denominated assets - net	9,178	6	489,607	6,093	6	304,285

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 gain of ₱69.1 million and net foreign exchange loss of ₱61.5 million for the periods ended June 30, 2018 and 2017, 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
June 30, 2018	53.34	8.08
June 30, 2017	50.47	7.44

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 June 30, 2018 and December 31, 2017:

		June 2018 (Unaudited)		December 2017 (Audited)	
		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	(₱13,767)	(₱13,767)	(₱9,140)	(₱9,140)
	(1.50)	13,767	13,767	9,140	9,140
	1.00	(9,178)	(9,178)	(6,093)	(6,093)
	(1.00)	9,178	9,178	6,093	6,093
RMB	0.95	(5.3)	(5.3)	(5.3)	(5.3)
	(0.95)	5.3	5.3	5.3	5.3
	0.63	(3.5)	(3.5)	(3.5)	(3.5)
	(0.63)	3.5	3.5	3.5	3.5

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 June 30, 2018 and December 31, 2017 are as follows:

June 2018 (Unaudited)							
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
(In Millions)							
Cash and cash equivalents*	P20,606.7	P 20,606.7	P–	P–	P–	P–	P–
Short-term investments	945.4	945.4	–	–	–	–	–
Receivables:							
Trade	3,367.9	1,966.1	202.1	73.3	118.3	434.7	573.4
Employee car plan receivables**	274.6	274.6	–	–	–	–	–
Advances to employees	161.3	161.3	–	–	–	–	–
Other receivables***	82.5	50.8	0.4	0.9	1.1	29.3	–
Other noncurrent assets:							
Security and other deposits	2,713.8	2,713.8	–	–	–	–	–
Operating lease receivables	29.8	29.8	–	–	–	–	–
Receivable from sale of business	80.8	80.8	–	–	–	–	–
	28,262.8	26,829.3	202.5	74.2	119.4	464.0	573.4
AFS financial assets	29.9	29.9	–	–	–	–	–
	P28,292.7	P26,859.2	P202.5	P74.2	P119.4	P464.0	P573.4

December 2017 (Audited)							
		Neither Past Due nor	Past Due but not Impaired (Age in Days)				
	Total	Impaired	1-30	31-60	61-120	Over 120	Impaired
(In Millions)							
Cash and cash equivalents*	P20,762.5	P20,762.5	P–	P–	P–	P–	P–
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	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	P27,811.9	P489.5	P151.7	P136.7	P285.3	P690.1

*Excluding cash on hand amounting to P362.8 million and P345.0 million in 2018 and 2017, respectively.

**Including noncurrent portion of employee car plan receivables.

***Including interest receivable and excluding receivables from government agencies amounting to P35.3 million and P27.2 million in 2018 and 2017, respectively.

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)
<i>(In Millions)</i>			
Financial Assets			
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
	₱28,875.1	₱192.2	₱28,682.9
			
	2016		
	Gross Maximum Exposure (a)	Fair Value and Financial Effect of Collateral or Credit Enhancement (b)	Net Exposure (c) = (a) - (b)
<i>(In Millions)</i>			
Financial Assets			
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
	₱23,094.2	₱318.5	₱22,775.7

* Excluding cash on hand amounting to ₱345.0 million and ₱295.7 million in 2017 and 2016, respectively.

** 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 and ₱19.1 million in 2017 and 2016, respectively.

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 June 30, 2018 and December 31, 2017.

	June 2018 (Unaudited)				
		Neither Past Due nor Impaired			Past Due or Impaired
	Total	A	B	C	
	(In Millions)				
Receivables					
Trade	P3,367.9	P863.6	P1,010.3	P92.2	P1,401.8
Employee car plan receivables*	274.6	274.6	—	—	—
Advances to employees	161.3	161.3	—	—	—
Other receivables**	82.5	50.8	—	—	31.7
Receivable from sale of business	80.8	80.8	—	—	—
AFS financial asset	29.9	29.9	—	—	—
	P3,997.0	P1,461.0	P1,010.3	P92.2	P1,433.5

	December 2017 (Audited)				
		Neither Past Due nor Impaired			Past Due or Impaired
	Total	A	B	C	
	(In Millions)				
Receivables					
Trade	P4,225.0	P1,110.2	P1,298.9	P118.6	P1,697.3
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	—	—	—
AFS financial asset	29.9	29.9	—	—	—
	P4,896.3	P1,725.5	P1,298.9	P118.6	P1,753.3

*Including noncurrent portion of employee car plan receivables.

**Including interest receivable and excluding receivables from government agencies amounting to P35.3 million and P27.2 million in 2018 and 2017, respectively.

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 period ended June 30, 2018 and year ended December 31, 2017.

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 P20,969.4 million, P945.4 million and P2,794.5 million, respectively, as at June 30, 2018 and P21,107.5 million, P1,413.4 million and P3,534.9 million, respectively, as at December 31, 2017.

The tables below summarize the maturity profile of the Jollibee Group's other financial liabilities based on the contractual undiscounted cash flows as at June 30, 2018 and December 31, 2017:

	June 2018 (Unaudited)				
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
	(In Millions)				
Financial Liabilities					
Trade payables and other current liabilities*	P6,733.9	P17,645.8	P–	P–	P24,379.7
Long-term debt (including current portion)	522.2	2,204.7	13,517.0	6,827.2	23,071.1
Operating lease payables	–	373.9	1,768.0	620.7	2,762.6
Liability for acquisition of a business (including current portion)	–	62.2	15.7	–	77.9
Total Financial Liabilities	P7,256.1	P20,286.6	P15,300.7	P7,447.9	P50,291.3

	December 2017 (Audited)				
	Due and Demandable	Less than 1 Year	1 to 5 Years	Over 5 Years	Total
	(In Millions)				
Financial Liabilities					
Trade payables and other current liabilities*	P6,372.5	P16,698.8	P–	P–	P23,071.3
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
Total Financial Liabilities	P6,446.4	P18,778.1	P14,210.7	P1,805.0	P41,240.2

*Excluding statutory obligations such as local and other taxes payable, PHIC, SSS, HDMF and NHMFC payables and unearned revenue from gift certificates amounting to P1,543.5 million and P2,183.3 million as at June 30, 2018 and December 31, 2017, respectively.

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 June 30, 2018 and December 31, 2017, the Jollibee Group's debt ratio and net debt ratio are as follows:

Debt Ratio

	June 2018 (Unaudited)	December 2017 (Audited)
Total debt (a)	₱58,519,432	₱47,201,916
Total equity attributable to equity holders of the Parent Company	44,612,855	40,782,635
Total debt and equity attributable to equity holders of the Parent Company (b)	₱103,132,287	₱87,984,551
Debt ratio (a/b)	57%	54%

Net Debt Ratio

	June 2018 (Unaudited)	December 2017 (Audited)
Total debt	₱58,519,432	₱47,201,916
Less cash and cash equivalents and short-term investments	21,914,789	22,520,874
Net debt (a)	36,604,643	24,681,042
Total equity attributable to equity holders of the Parent Company	44,612,855	40,782,635
Net debt and equity attributable to equity holders of the Parent Company (b)	₱81,217,498	₱65,463,677
Net debt ratio (a/b)	45%	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	P29,862	P29,862	P-	P29,862	P-
Derivative asset - interest rate swap	11,948	11,948	-	11,948	-
Assets for which fair values are disclosed:					
Investment properties:	848,974	3,038,347	-	3,038,347	-
Land	848,974	2,083,920	-	2,083,920	-
Buildings	-	954,427	-	954,427	-
Other noncurrent assets:					
Security and other deposits	2,464,995	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	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	P26,212	P26,212	P-	P26,212	P-
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	Total	Fair Value Measurement Using		
			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	Total	Fair Value Measurement Using		
			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.

32. Notes to the Statement of Cash Flows

Changes in liabilities and equity arising from financing activities are as follows:

	January 1, 2018	Cash flows	Acquisition of a subsidiary (Note 11)	Dividends declared (Note 19)	Granted stock options to employees and subsidiaries	Interest expense (Note 24)	Amortization of debt issue cost (Note 18)	Foreign exchange loss	Share in net losses of Non- controlling interest (Note 11)	Share in cumulative translation adjustments of Non- controlling interest (Note 11)	June 30, 2018
Dividends payable (Note 16)	P56.0	(P1,231.3)	P-	P1,236.5	P-	P-	P-	P-	P-	P-	P61.2
Long-term debt (Note 18)	16,117.3	2,306.2	4,119.3	-	-	-	5.6	522.7	-	-	23,071.1
Interest payable (Note 16)	83.1	(305.8)	-	-	-	375.7	-	-	-	-	153.0
Capital stock (Note 19)	1,101.7	2.0	-	-	-	-	-	-	-	-	1,103.7
Additional paid-in capital (Note 19)	7,520.4	231.8	-	-	132.0	-	-	-	-	-	7,884.2
Non-controlling interest (Note 11)	1,799.3	11.4	1,082.6	-	-	-	-	-	(281.3)	32.9	2,644.9
Total liabilities and equity on financing activities	P26,677.8	P1,014.3	P5,201.9	P1,236.5	P132.0	P375.7	P5.6	P522.7	(P281.3)	P32.9	P34,918.2

JOLLIBEE FOODS CORPORATION (JFC) AND SUBSIDIARIES

Management Discussion and Analysis of Results of Operations and Financial Condition

The following Management Discussion and Analysis should be read in conjunction with the submitted Unaudited Consolidated Financial Statements as at June 30, 2018 and 2017 and for the quarters ended June 30, 2018 and 2017.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new PFRS and amendments to existing PFRS which became effective on January 1, 2018.

Please refer to Note 2 of the attached Unaudited Consolidated Financial Statements for the Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Basis of Consolidation.

Causes for Any Material Changes (Increase or decrease of 5% or more in the financial statements)

Results of Operations

For the Quarter Ended June 30, 2018 vs. June 30, 2017

(All Amounts are in Million Pesos)

Revenues and System Wide Sales

	Quarters Ended June 30		Change			Six Months Ended June 30		Change	
	2018	2017	Amount	Pct		2018	2017	Amount	Pct
System Wide Sales	53,930.8	42,540.2	11,390.6	26.8%		99,909.9	81,077.6	18,832.33	23.2%
Revenues	40,296.0	32,553.3	7,742.8	23.8%		75,096.0	61,842.2	13,253.8	21.4%

System wide sales (SWS), a measure of all sales to consumers, both from company-owned and franchised stores grew by 26.8% to ₱53,930.8 million in the second quarter of 2018 versus the same period last year. Excluding the impact of the consolidation of Smashburger effective April 17, 2018, system wide sales grew by 18.1% for the second quarter of 2018 driven by 7.2% same store sales growth, 8.9% growth in store network and 2.0% impact of foreign exchange rates. System wide sales grew by 18.7% for the first half of 2018 without Smashburger.

Philippine brands reported a 15.8% growth in system wide sales compared to the second quarter of 2017 from new stores which added 7.8% and continued strong same store sales, which grew by 8% driven by price adjustments implemented in July 2017 up to June 2018 and more products purchased by customers. JFC also attributes the strong same store sales growth to it continuous product improvement, new product introductions, marketing campaigns and restaurant renovations.

The foreign business ex-Smashburger reported a 27.4% growth (+71.0%, with Smashburger which started to be included in JFC's consolidation on April 17, 2018) in system wide sales, with China growing by 17.4%, EMEAA (Europe, Middle East and Asia with SuperFoods) by 46.1% and North America by 23.6% (+195.6% with Smashburger). JFC opened its very first Jollibee store in Macau on June 27, 2018. JFC's foreign business now accounts for 26.8% of its global system wide sales with the addition of Smashburger's system wide sales starting April 17, 2018.

For the first six months, system wide sales grew by 23.2% to ₱99,909.9 million driven by store network growth, continued strong same store sales growth, the consolidation of Smashburger and impact of currency exchange rate changes.

Consolidated revenues, which consist of sales by company-owned stores, fees from stores operated by franchisees and commissary sales to stores operated by franchisees grew by 23.8% in the second quarter of 2018 compared with the same period in 2017. Sales discounts increased by 111.0%, and from 1.1% of revenues in the second quarter of 2017 to 1.8% in the second quarter of 2018, driven mostly by

promotional discounts of Smashburger. Without Smashburger, sales discounts increased only by 0.2% points of revenues from 1.1% to 1.3%. For the first six months of 2018, consolidated revenues increased by 21.4% to ₱75,096.0 million.

The JFC Group opened 192 stores (Philippines 115; Foreign 77) and closed 63 stores (Philippines 33; Foreign business 30) during the quarter. Smashburger increased JFC's store network by 349 stores or 9.8%. JFC ended June 2018 with 4,279 stores, 19.9% higher compared to the number of stores at the end of June 2017.

Cost of Sales

Consolidated cost of sales for the second quarter of 2018 increased to ₱32,980.0 million, which is ₱6,614.9 million or 25.1% higher than the consolidated cost of sales for second quarter of 2017. For the first six months of 2018, consolidated cost of sales increased by 22.2% to ₱61,633.0 million.

The following table summarizes the breakdown of the Jollibee Group's cost of sales for the quarters and six months ended June 30, 2018 and 2017 and the percentage of each component and the consolidated cost of sales to consolidated revenues:

	Quarters Ended June 30				Change		Pct to Rev		Six Months Ended June 30				Change		Pct to Rev	
	2018	2017	Amount	Pct	2018	2017	2018	2017	2018	2017	Amount	Pct	2018	2017	2018	2017
Cost of inventories	18,866.3	15,598.1	3,268.2	21.0%	46.8%	47.9%			35,378.6	29,647.0	5,731.7	19.3%	47.1%	47.9%		
Personnel costs:																
Salaries, wages and other employee benefits	3,901.8	2,712.2	1,189.6	43.9%	9.7%	8.3%			6,869.7	5,214.5	1,655.2	31.7%	9.1%	8.4%		
Pension expense	37.9	35.0	2.9	8.2%	0.1%	0.1%			73.3	67.1	6.3	9.4%	0.1%	0.1%		
Rent	2,979.4	2,305.0	674.4	29.3%	7.4%	7.1%			5,639.5	4,456.2	1,183.3	26.6%	7.5%	7.2%		
Contracted services	2,136.3	1,756.9	379.4	21.6%	5.3%	5.4%			4,111.0	3,377.8	733.1	21.7%	5.5%	5.5%		
Electricity and other utilities	1,327.2	1,145.1	182.1	15.9%	3.3%	3.5%			2,511.5	2,182.6	328.9	15.1%	3.3%	3.5%		
Depreciation and amortization	1,286.0	1,032.1	253.9	24.6%	3.2%	3.2%			2,477.9	2,003.7	474.1	23.7%	3.3%	3.2%		
Supplies	789.3	636.9	152.4	23.9%	2.0%	2.0%			1,476.0	1,219.5	256.5	21.0%	2.0%	2.0%		
Repairs and maintenance	449.4	214.7	234.7	109.3%	1.1%	0.7%			795.1	444.2	350.9	79.0%	1.1%	0.7%		
Security and janitorial	249.2	193.8	55.4	28.6%	0.6%	0.6%			469.2	369.2	100.1	27.1%	0.6%	0.6%		
Communication	72.7	55.2	17.5	31.7%	0.2%	0.2%			134.1	107.8	26.3	24.4%	0.2%	0.2%		
Professional fees	23.2	11.0	12.2	110.6%	0.1%	0.0%			35.3	20.1	15.2	76.0%	0.0%	0.0%		
Representation and entertainment	14.2	14.8	(0.6)	-3.8%	0.0%	0.0%			23.4	22.1	1.2	5.5%	0.0%	0.0%		
Others	847.1	654.4	192.8	29.5%	2.1%	2.0%			1,638.4	1,294.9	343.5	26.5%	2.2%	2.1%		
	32,980.0	26,365.1	6,614.9	25.1%	81.8%	81.0%			61,633.0	50,426.7	11,206.3	22.2%	82.1%	81.5%		

See Note 21 to the accompanying Unaudited Consolidated Financial Statements for details.

Consolidated cost of inventories increased at a slower rate compared to revenues for the second quarter and six months ended June 30, 2018. As a percentage of revenues, cost of inventories improved by 1.1% points year-on-year (YoY) for the second quarter and by 0.8% points YoY for the first six months. The improvement was due to the consolidation of Smashburger, which has a relatively higher product gross profit margin. In addition, the upward price adjustments implemented by the domestic brands in July 2017 to June 2018 helped mitigate the impact of high raw material prices caused by increase in commodity prices and depreciation of the Philippine peso. As a result, product gross profit margin of the Philippine business decreased only slightly in the second quarter and was flat in the first six months of 2018 compared to the same periods of 2017.

The improvement in consolidated cost of inventories was however offset by higher consolidated store and manufacturing costs, both for the quarter and first six months, which increased even faster than revenues. All cost items increased driven by the foreign business due to the consolidation of Smashburger starting April 17, 2018 and SuperFoods Group starting May 2017. The Philippine business store and manufacturing costs as a percentage of revenues for the second quarter of 2018 was maintained at the same level as the second quarter of 2017. For the first six months, it increased only by 0.2% of revenues. The additional company-owned stores opened during the period also contributed to the increase in consolidated store and manufacturing costs.

As a percentage of consolidated revenues, consolidated store and manufacturing costs increased by 1.9% points for the second quarter and by 1.4% points for the first six months, also driven by the consolidation of Smashburger and SuperFoods. Other factors that drove the higher and lower store and manufacturing costs as a percentage of revenues follow:

- Consolidated personnel costs increased due to increase in store and commissary headcount, performance-related increases in basic pay, employee promotions, and upgrades in employee benefits.
- Increase in consolidated rent expenses due to annual rent escalation, consolidation of the SuperFoods' Group and Smashburger's rent expenses and the impact of PFRS-related adjustments on operating leases (i.e., recognition of rent expenses under the straight-line method).
- Increase in consolidated contracted services due to increase in headcount and rate per hour. The increase was partly offset by decrease in expenses related to Project SEEDS*. Following are the details:

	Quarters Ended June 30		Change		Pct to Rev			Six Months Ended June 30		Change		Pct to Rev	
	2018	2017	Amount	Pct	2018	2017		2018	2017	Amount	Pct	2018	2017
Personnel costs	3,939.7	2,747.2	1,192.5	43.4%	9.8%	8.4%		6,943.0	5,281.6	1,661.4	31.5%	9.2%	8.5%
Contracted services	2,136.3	1,756.9	379.4	21.6%	5.3%	5.4%		4,111.0	3,377.8	733.1	21.7%	5.5%	5.5%
Project SEEDS*	23.2	59.0	(35.7)	-60.7%	0.1%	0.2%		53.9	120.7	(66.9)	-55.4%	0.1%	0.2%
	6,099.2	4,563.1	1,536.2	33.7%	15.1%	14.0%		11,107.9	8,780.1	2,327.6	26.5%	14.8%	14.2%

*SEEDS stands for Skills Enhancement and Educational Development for Students, a joint project of JFC and the Department of Labor and Employment. The program aims to help qualified students pursue post-secondary education through the provision of financial assistance to enable students to acquire job competencies -- skills, attitudes and work values through in-store training, thus enhancing employability upon completion of post-secondary education. Expenses related to the Project SEEDS are booked under the account Cost of sales - Others.

- Increase in consolidated depreciation expense for the first six months due to higher investment in new stores and increased fixed assets resulting from the consolidation of SuperFoods and Smashburger.
- Consolidated electricity and utilities decreased due to operational cost savings in utilities management through proper rationalization of contracts and energy conservation activities, particularly in JFC's manufacturing plants.
- Consolidated repairs and maintenance increased as expenses pertaining to the second half of 2017 were billed only in the first half of 2018.
- Increase in consolidated professional fees due to higher headhunter fees for recruiting services arising from store network.
- Increase in other expenses mainly due to higher disallowed input VAT for senior citizens.

As a percentage of consolidated revenues, consolidated cost of sales was higher by 0.8% YoY for the second quarter and by 0.6% points YoY for the first six months compared to same periods last year due to higher store and manufacturing costs, as discussed above.

Gross Profit

	Quarters Ended June 30		Change			Six Months Ended June 30		Change			Pct to Rev	
	2018	2017	Amount	Pct		2018	2017	Amount	Pct		2018	2017
GROSS PROFIT	7,316.0	6,188.1	1,127.9	18.2%		13,463.0	11,415.5	2,047.5	17.9%		17.9%	18.5%

Due to the factors discussed above, gross profit for the second quarter and six months ended June 30, 2018 increased at a slower rate than revenues for the same periods. Gross profit margin for the same periods also contracted YoY resulting from higher store operating expenses (% of revenues) of the newly-consolidated Smashburger due to lower same store sales. The impact of rising inflation rate and cost increases brought by the peso depreciation also negatively affected JFC's gross profit margins for the second quarter and first six months of 2018.

General and Administrative Expenses

Consolidated expenses for the second quarter and first six months of 2018 increased at a slower rate than revenues despite the consolidation of Smashburger and SuperFoods. This was due to the lower increase in the Philippine business' consolidated expenses. The following table summarizes the breakdown of the Jollibee Group's consolidated expenses for the quarters and six months ended June 30, 2018 and 2017, and the percentage of each expense item to the consolidated revenues:

	Quarters Ended June 30		Change		Pct to Rev		Six Months Ended June 30		Change		Pct to Rev	
	2018	2017	Amount	Pct	2018	2017	2018	2017	Amount	Pct	2018	2017
Personnel costs:												
Salaries, wages and other employee benefits	1,991.8	1,868.0	123.9	6.6%	4.9%	5.7%	3,783.0	3,333.1	449.9	13.5%	5.0%	5.4%
Stock options expense	66.0	56.9	9.2	16.1%	0.2%	0.2%	132.1	113.7	18.4	16.1%	0.2%	0.2%
Pension expense	38.9	35.8	3.1	8.7%	0.1%	0.1%	75.6	69.1	6.5	9.4%	0.1%	0.1%
Taxes and licenses	402.0	353.2	48.8	13.8%	1.0%	1.1%	758.4	691.6	66.8	9.7%	1.0%	1.1%
Transportation and travel	188.2	151.1	37.1	24.6%	0.5%	0.5%	331.6	270.5	61.2	22.6%	0.4%	0.4%
Professional fees	157.6	187.5	(29.9)	-16.0%	0.4%	0.6%	360.1	324.0	36.0	11.1%	0.5%	0.5%
Contracted services	146.1	126.6	19.6	15.5%	0.4%	0.4%	273.4	217.5	55.9	25.7%	0.4%	0.4%
Rent	143.8	123.5	20.3	16.5%	0.4%	0.4%	287.2	242.6	44.6	18.4%	0.4%	0.4%
Depreciation and amortization	135.5	105.1	30.4	28.9%	0.3%	0.3%	249.6	208.3	41.3	19.8%	0.3%	0.3%
Donations	100.1	92.7	7.4	7.9%	0.2%	0.3%	100.4	93.0	7.3	7.9%	0.1%	0.2%
Repairs and maintenance	65.6	(4.9)	70.5	-1429.7%	0.2%	0.0%	129.8	65.5	64.3	98.3%	0.2%	0.1%
Corporate events	59.0	51.0	8.0	15.8%	0.1%	0.2%	114.1	96.3	17.8	18.5%	0.2%	0.2%
Representation and entertainment	54.3	10.8	43.5	403.3%	0.1%	0.0%	83.2	28.7	54.4	189.4%	0.1%	0.0%
Training	46.7	46.1	0.6	1.2%	0.1%	0.1%	75.2	81.3	(6.1)	-7.5%	0.1%	0.1%
Membership and subscriptions	33.9	36.3	(2.4)	-6.6%	0.1%	0.1%	70.4	68.4	2.0	3.0%	0.1%	0.1%
Communication	29.6	29.5	0.0	0.1%	0.1%	0.1%	66.1	55.1	11.0	19.9%	0.1%	0.1%
Supplies	25.5	20.8	4.6	22.1%	0.1%	0.1%	45.1	41.8	3.3	7.8%	0.1%	0.1%
Electricity and other utilities	18.9	14.0	4.9	34.9%	0.0%	0.0%	33.2	26.4	6.9	26.0%	0.0%	0.0%
Association dues	18.8	13.2	5.6	42.2%	0.0%	0.0%	34.9	26.2	8.7	33.3%	0.0%	0.0%
Insurance	15.3	8.6	6.7	78.8%	0.0%	0.0%	21.5	12.6	8.9	70.9%	0.0%	0.0%
Security and janitorial	5.3	6.1	(0.9)	-14.3%	0.0%	0.0%	11.0	12.1	(1.1)	-8.8%	0.0%	0.0%
Loss (gain) on retirement and disposals of property, plant and equipment	(46.6)	(31.9)	(14.6)	45.8%	-0.1%	-0.1%	(27.7)	48.8	(76.5)	-156.8%	0.0%	0.1%
Reversals of provision for impairment on:												
Property, plant & equipment	(6.6)	(0.2)	6.3	-3081.1%	0.0%	0.0%	(6.6)	(1.6)	4.9	-301.8%	0.0%	0.0%
Inventories	(0.1)	(1.7)	(1.6)	-94.2%	0.0%	0.0%	(1.2)	(50.2)	(49.0)	97.6%	0.0%	-0.1%
Receivables	-	-	0.0	0.0%	0.0%	0.0%	(0.3)	(12.6)	(12.4)	98.0%	0.0%	0.0%
Impairment in value of:												
Inventories	2.1	1.4	0.7	53.8%	0.0%	0.0%	4.5	20.3	(15.8)	-77.9%	0.0%	0.0%
Receivables	-	8.0	(8.0)	-100.0%	0.0%	0.0%	0.8	8.0	(7.2)	-89.8%	0.0%	0.0%
Others	232.8	161.5	71.3	44.2%	0.6%	0.5%	376.5	164.6	211.9	128.7%	0.5%	0.3%
Total General and Administrative Expenses	3,924.7	3,468.9	455.8	13.1%	9.7%	10.7%	7,382.0	6,255.1	1,126.9	18.0%	9.8%	10.1%
Advertising and promotions	999.4	721.6	277.8	38.5%	2.5%	2.2%	1,720.1	1,334.1	385.9	28.9%	2.3%	2.2%
	4,924.1	4,190.5	733.6	17.5%	12.2%	12.9%	9,102.0	7,589.2	1,512.9	19.9%	12.1%	12.3%

See Note 22 to the accompanying Unaudited Consolidated Financial Statements for details.

- Consolidated personnel costs increased due to increase in the Corporate Office's headcount, performance-related increases in basic pay, employee promotions, upgrades in employee benefits and fringe benefit tax on stock options exercised. The consolidation of the Smashburger's personnel costs also contributed to the increase in operating expenses.
- Consolidated taxes and licenses expense increased due to higher business-related taxes and license fees resulting from higher revenues.
- Consolidated transportation and travel expenses increased due to higher lodging, mileage and per diem expenses for activities related to store expansion (e.g. site visits for store construction and renovation, site evaluation and sourcing, etc.) and various projects in the Philippines and foreign markets.
- Consolidated professional fees decreased due to charging of expenses related to store plans amounting to ₱47.5 million to cost of services to match revenues recognized starting 2018.
- Consolidated contracted services increased due to increase in outsourced services for Jollibee Group's information management and network development.
- Consolidated rent expense increased due to annual rent escalation and additional office spaces for the Corporate Offices in the Philippines, China and the United States due to the Jollibee Group's growing organization and the inclusion of the SuperFoods Group's and Smashburger's rent expenses.

- Consolidated depreciation and amortization increased due to the growing fixed asset base of the Jollibee Group including the newly-consolidated subsidiaries.
- Consolidated donations increased due to donations made to the Jollibee Group Foundation in May 2018, based on 2017 consolidated net income.
- Consolidated repairs and maintenance expense increased due to lower base as last year's repairs and maintenance expenses included major SAP upgrade expenses that were capitalized in the second quarter of 2017.
- Consolidated corporate events increased driven by higher expenses incurred for conventions, corporate awards and corporate program launches due to higher number of participants arising from increase in headcount.
- Consolidated representation and entertainment expenses increased due to the consolidation of the SuperFoods Group's and Smashburger's expenses.
- Consolidated training expenses decreased in the first six months of 2018 as some trainings scheduled during the period have been moved to the second half of 2018.
- Consolidated communication expenses increased due to higher telephone and internet charges, Office 365 implementation particularly for the Philippine business and the consolidation of the SuperFood Group's and Smashburger's expenses.
- Consolidated supplies expenses increased during the second quarter of 2018 due to higher office and janitorial supplies expenses, due to timing of recognition as consolidated supplies expenses for the first quarter declined YoY.
- Consolidated electricity and other utilities expenses increased due to increase in usage and power rates.
- Consolidated association dues increased relative to increase in number of office units of JFC and increase in rate per square meter for building units.
- Consolidated insurance expense increased due to increase in value of properties as a result of asset appraisal.
- Security and janitorial expenses decreased on account of higher base as Mang Inasal's security and janitorial expenses for the first half of 2017 was unusually higher due to settlement of back charges.
- Loss (gain) on retirement and disposals of property, plant and equipment pertains to loss incurred (gain generated) from change in store ownership, store closures and fixed asset disposals. The gain from disposal of property, plant and equipment was due to the conversion of company-owned stores to franchised stores.
- Provision for impairment loss on receivables was recognized as a result of specific and collective impairment assessments performed by the Jollibee Group.
- Provision for inventory obsolescence was recognized after the Jollibee Group's assessment that the net realizable value for some inventories is lower than cost.
- The Jollibee Group also recognized reversal of previously recognized provisions for impairment loss on receivables and inventories and property, plant and equipment.

- Consolidated other expenses increased due to higher expenses related to market research and increase in disallowed input VAT for exempt sales transactions.
- The increase in consolidated advertising and promotions expense was driven by marketing campaigns for new products and flagship products, both for the Philippine business and the foreign business and the consolidation of Smashburger and SuperFoods.

Operating Income

	Quarters Ended June 30		Change			Six Months Ended June 30		Change	
	2018	2017	Amount	Pct		2018	2017	Amount	Pct
Operating Income	2,391.9	1,997.7	394.3	19.7%		4,360.9	3,826.3	534.6	14.0%
Operating Income Margin	5.9%	6.1%				5.8%	6.2%		

Consolidated operating income for the second quarter and first six months of 2018 increased over last year driven by strong revenue growth. As a percentage of revenues, operating income for both periods declined due to lower gross profit margin and higher advertising and promotions as a percentage of revenues.

Interest Income (Expense)

	Quarters Ended June 30		Change		Pct to Rev			Six Months Ended June 30		Change		Pct to Rev	
	2018	2017	Amount	Pct	2018	2017		2018	2017	Amount	Pct	2018	2017
Interest income	85.8	41.8	44.0	105.3%	0.2%	0.1%		143.4	105.4	38.0	36.1%	0.2%	0.2%
Interest expense	(232.8)	(103.1)	(129.7)	-125.8%	-0.6%	-0.3%		(375.7)	(198.0)	(177.7)	-89.7%	-0.5%	-0.3%
	(147.0)	(61.3)	(85.7)	139.8%	-0.4%	-0.2%		(232.3)	(92.6)	(139.7)	150.8%	-0.3%	-0.1%

See Note 23 to the accompanying Unaudited Consolidated Financial Statements for details.

Consolidated interest income increased primarily due to higher interest rates from short-term deposits and short-term investments. See Note 23 to the accompanying Unaudited Consolidated Financial Statements for more information.

Consolidated interest expense for the second quarter and first six months of 2018 increased compared to the same periods last year due to higher bank loans. See Notes 18 and 23 to the accompanying Unaudited Consolidated Financial Statements for more information.

Equity in Net Earnings (Losses) of Joint Ventures and Associates

	Quarters Ended June 30		Change		Pct to Rev			Six Months Ended June 30		Change		Pct to Rev	
	2018	2017	Amount	Pct	2018	2017		2018	2017	Amount	Pct	2018	2017
Equity in net losses of joint ventures and associates - net	(104.3)	(96.3)	(8.0)	-8.3%	-0.3%	-0.3%		(101.3)	(205.9)	104.6	50.8%	-0.1%	-0.3%

See Note 11 to the accompanying Unaudited Consolidated Financial Statements for details.

Consolidated equity in net losses of joint ventures and associates pertains to Jollibee Group's share in the net losses of Smashburger (January – June 2017; January – April 16, 2018) and Cargill Joy offset by the net earnings of Entrek - the Company that operates Jollibee stores in Brunei and Golden Crown - the Company that operates Jollibee stores in the UAE. The equity in net losses for the second quarter of 2018 pertains mostly to Cargill Joy.

Other Income

	Quarters Ended June 30				Pct to Rev		Six Months Ended June 30				Pct to Rev	
	2018	2017	Amount	Pct	2018	2017	2018	2017	Amount	Pct	2018	2017
Gain from re-measurement of previously held interest	746.0	-	746.0	100.0%	1.9%	0.0%	746.0	-	746.0	100.0%	1.0%	0.0%
Provisions	(500.0)	-	(500.0)	100.0%	-1.2%	0.0%	(500.0)	-	(500.0)	100.0%	-0.7%	0.0%
Write-off of liabilities	310.4	339.9	(29.5)	-8.7%	0.8%	1.0%	404.7	462.3	(57.6)	-12.5%	0.5%	0.7%
Bank charges	(83.7)	(39.7)	(44.0)	110.8%	-0.2%	-0.1%	(127.4)	(74.7)	(52.7)	70.5%	-0.2%	-0.1%
Rebates and suppliers' incentives	73.5	40.1	33.4	83.2%	0.2%	0.1%	85.1	98.7	(13.6)	-14.0%	0.1%	0.2%
Foreign exchange gain (loss) - net	(11.9)	(37.4)	25.5	-68.2%	0.0%	-0.1%	69.1	(61.5)	130.6	-212.4%	0.1%	-0.1%
Penalties and charges	13.8	16.5	(2.7)	-16.4%	0.0%	0.1%	40.5	33.3	7.2	21.6%	0.1%	0.1%
Pre-termination of operating leases	11.1	0.0	11.1	34484.6%	0.0%	0.0%	22.0	0.0	22.0	147369.8%	0.0%	0.0%
Charges to franchisees	6.4	4.9	1.5	30.6%	0.0%	0.0%	10.9	9.3	1.6	17.2%	0.0%	0.0%
Other rentals	2.5	8.6	(6.1)	-70.9%	0.0%	0.0%	4.3	12.1	(7.8)	-64.5%	0.0%	0.0%
Reversal of impairment loss on interest in an associate	-	-	-	0.0%	0.0%	0.0%	16.7	-	16.7	100.0%	0.0%	0.0%
Insurance claims and others	17.4	32.5	(15.1)	-46.5%	0.0%	0.1%	65.4	60.9	4.5	7.4%	0.1%	0.1%
	585.5	365.4	220.1	60.2%	1.5%	1.1%	837.2	540.3	296.9	54.9%	1.1%	0.9%

Consolidated other income increased year-on-year, mainly due to the gain from re-measurement of previously held investment in Smashburger partly offset by the provisions of ₱500.0 million recognized by the Jollibee Group.

Income Taxes

	Quarters Ended June 30				Pct to Rev		Six Months Ended June 30				Pct to Rev	
	2018	2017	Amount	Pct	2018	2017	2018	2017	Amount	Pct	2018	2017
Current	722.0	598.3	123.7	20.7%	1.8%	1.8%	1,312.6	1,125.9	186.7	16.6%	1.7%	1.8%
Deferred	(97.4)	(293.7)	196.3	-66.8%	-0.2%	-0.9%	(217.1)	(432.5)	215.5	49.8%	-0.3%	-0.7%
	624.6	304.6	320.0	105.1%	1.6%	0.9%	1,095.6	693.4	402.2	58.0%	1.5%	1.1%

The increase in provision for income tax was due to the utilization of deferred tax assets and higher taxable income. See Note 24 to the accompanying Unaudited Consolidated Financial Statements for details.

Net Income

	Quarters Ended June 30				Six Months Ended June 30			
	2018	2017	Amount	Pct	2018	2017	Amount	Pct
Net Income	2,101.4	1,900.8	200.6	10.6%	3,769.0	3,374.8	394.2	11.7%
Net Income Margin	5.2%	5.8%			5.0%	5.5%		

Consolidated net income for the second quarter and first six months of 2018 increased compared to same period last year. The increase was however, lower compared to the growth in operating income for both periods due to the significant increase in provision for income tax.

Net Income Attributable to Equity Holders of the Parent Company

	Quarters Ended June 30				Six Months Ended June 30			
	2018	2017	Amount	Pct	2018	2017	Amount	Pct
Net Income Attributable to Equity Holders of the Parent Company	2,251.1	1,956.1	295.0	15.1%	4,050.3	3,489.4	560.9	16.1%

Consolidated net income attributable to equity holders of the Parent Company increased by 15.1% YoY for the second quarter and by 16.1% YoY for the first six months. Basic earnings per share for the second quarter grew by 14.4% to ₱2.071 and by 15.1% to ₱3.728 for the first six months.

Financial Condition

As at June 30, 2018 Versus December 31, 2017

The Jollibee Group ended the first six months of 2018 with consolidated total assets of ₱105,777.2 million, 17.8% higher than the ₱89,783.9 million as at the end of 2017. The following explain the significant movements in the asset accounts:

- The Jollibee Group's consolidated cash and cash equivalents decreased to ₱20,969.4 million, ₱138.0 million or 0.7% lower than the balance at year-end 2017, mainly due to increased spending for capital expenditures and acquisition of the additional 45% stake in Smashburger. The movements in the Jollibee Group's cash will be explained further in the cash flow discussion.
- Short-term investments decreased by ₱468.0 million or 33.1% due to reclassification to cash and cash equivalents of deposits that have matured.
- Consolidated receivables decreased by ₱777.4 million or 19.7% to ₱3,163.6 million primarily due to a more efficient collection of receivables from franchisees for their commissary purchases and royalty fees. Average collection period improved, from 10 days as at December 2017 to 8 days as at June 30, 2018.
- Consolidated inventories increased by ₱454.3 million or 6.6% due to commodity price increases as well as the impact of the depreciation of the Philippine Peso and increase in average diesel price.
- Consolidated other current assets increased mainly due to increase in prepaid taxes, prepaid rent and deposits to suppliers and other third parties.

The Company has a current ratio of 1.22:1.00 as at June 30, 2018, lower than the current ratio of 1.39:1.00 as at December 31, 2017.

- The increase in goodwill and other intangible assets pertains to the goodwill of ₱5,200.3 million and trademarks of ₱10,398.0 million arising from the acquisition of the Smashburger. The acquisition was completed on April 16, 2018. Other intangibles likewise increased by ₱348.6 million arising from the acquisition of Smashburger, net of amortizations for the period and partly offset by decrease in computer software by ₱32.9 million.
- Operating lease receivables increased by ₱1.8 million or 6.4% to ₱29.8 million, which is the cumulative difference of rent income recognized under the straight-line method and the rent amounts in accordance with the terms of the lease agreements.
- The consolidated derivative asset pertains to the unrealized gain position on the interest rate swap that amounted to ₱121.9 million. This is due to the lower fixed rate compared to the current floating rate, which is based on the 3 months USD LIBOR. See Note 18 to the accompanying Unaudited Consolidated Financial Statements for details.
- Deferred tax assets increased by ₱361.2 million or 9.2% to ₱4,270.1 million, due to the recognition of deferred tax assets on accrued expenses of US-based entities and increase in excess of Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT). See Note 24 to the accompanying Unaudited Consolidated Financial Statements for details.

Consolidated current liabilities amounted to ₱30,508.8 million, ₱3,814.2 million or 14.3% higher than the 2017 year-end balance of ₱26,694.6 million. The following explain the significant movements in current liabilities:

- Consolidated income tax payable increased by ₱28.8 million or 12.9% to ₱252.6 million due to the income tax payable for the first half of 2018.
- Current portion of long-term debt increased, from ₱1,216.2 million to ₱4,270.8 million due to reclassification of loans maturing within one year from reporting date from non-current portion to current portion of long-term debt, partly offset by payments made during the quarter.

Consolidated noncurrent liabilities amounted to ₱28,010.6 million, 36.6% or ₱7,503.3 million higher than the December 31, 2017 audited balance of ₱20,507.3 million. The following explain the significant movements in noncurrent liabilities:

- Consolidated noncurrent portion of long-term debt increased by ₱3,899.2 million to ₱18,800.3 million due to bank loans with a total amount of ₱7,200.00 million, availed from local banks in March and May 2018. See Notes 18, 30 and 31 to the accompanying Unaudited Consolidated Financial Statements for details.
- The deferred tax liabilities as of June 2018 increased by ₱2,279.4 million or 191.7% to ₱3,468.4 million compared to the 2017 year-end audited balance of ₱1,189.0 million. The increase was due to taxable temporary differences pertaining substantially to excess of fair value over book value of property, plant and equipment and other intangibles of acquired businesses. See Note 24 of the accompanying Unaudited Consolidated Financial Statements for details.

Consolidated total equity increased by ₱4,675.8 million or 11.0% to ₱47,257.7 million primarily due to increase in retained earnings by ₱2,813.8 million, increase in cumulative translation adjustments by ₱540.6 million and increase in additional paid-in capital by ₱363.9 million. The following explain the significant movements in Equity:

- The change of ₱540.6 million (income) in cumulative translation adjustment was due to the depreciation of the Philippine Peso versus the RMB for the first half of 2018 (Peso to RMB: 8.08) compared to December 31, 2017 (Peso to RMB: 7.64) and the depreciation of the Philippine Peso versus the USD for the first half of 2018 (Peso to USD: 53.34) compared to December 31, 2017 (Peso to USD: 49.93) which resulted in the increase in value of the Jollibee Group's net assets.
- The improvement in consolidated other comprehensive income on derivative liability by ₱110.0 million was due to the recognition of derivative asset for the interest rate swap compared to a derivative liability last year.
- The increase in consolidated retained earnings of ₱2,813.8 million pertains to the consolidated net income (attributable to equity holders of the Parent Company) for the first half of 2018 amounting to ₱4,050.3 million, partly offset by cash dividends paid in the first half of 2018 amounting to ₱1,236.5 million.

Liquidity and Capital Resources

Consolidated net cash provided by operating activities amounted to ₱6,712.9 million at end of June 2018, ₱2,403.8 million or 55.8% higher compared to the consolidated net cash provided by operating activities of ₱4,309.1 million in the first half of 2017 due to higher income and the timing of payments for trade payables. Payments of trade payables made in the first half of 2017 were significantly higher compared with the payments made for the first half of 2018.

Consolidated net cash used in investing activities amounted to ₱7,867.0 million at end of June 2018, ₱2,249.4 million or 40% higher compared with the net cash used in investing activities at the end of June 2017. The increase was primarily due to the acquisition of additional 45% stake in Smashburger and higher capital expenditures for the first half of 2018 compared to the same period last year.

Consolidated net cash provided by financing activities amounted to ₱1,014.3 million at the end of June 2018, mainly from proceeds from bank loans amounting to ₱4.2 million availed in March 2018, and ₱3.0 million in May 2018, partly offset by payments of bank loans, interest on bank loans and cash dividends.

Cash and cash equivalents at the end of June 2018 stood at ₱20,969.4 million, ₱6,948.6 million or 49.6% higher than the June 30, 2017 balance of ₱14,020.8 million, but slightly lower than the December 31, 2017 audited balance of ₱21,107.5 million.

Discussion and Analysis of Material Events and Uncertainties

1. There were no events during the period that will trigger direct or contingent financial obligation that is material to the Jollibee Group.
2. There were no material off-balance sheet transactions, arrangements, obligations created during the reporting period.
3. Consolidated capital expenditures budget for 2018 amounted to ₱12,000.00 million, of which ₱6,500.0 million will be used for new stores and renovations and the rest will mostly be for commissary expansion.
4. Food service operations have both peak and lean seasons. Historically, sales in the second and fourth quarters are strong due to the summer and the Christmas seasons, respectively. Demand during the first and third quarters usually slackens. The material financial impact of this seasonality has been considered in the Jollibee Group's consolidated financial forecast.
5. All of the Jollibee Group's income arose from its continuing operations.
6. There are no events after the reporting period.

Discussion of the Jollibee Group's Top Five (5) Key Performance Indicators

System Wide Sales

System Wide Sales is a measure of all sales to consumers both from company-owned and franchised stores.

	Period Ended June 30, 2018	Period Ended June 30, 2017
System Wide Sales	₱99,909.9 million	P81,077.6 million
% Growth vs LY	23.2%	13.5%

Revenues

Revenues is a measure of (1) all sales made by the Jollibee Group's company-owned stores (both food and novelty sales); (2) Commissary sales to franchised stores; (3) fees from stores operated by franchisees; (4) rental revenues of the Jollibee Group's investment properties; and (5) revenues from services rendered by the in-house Construction.

	Period Ended June 30, 2018	Period Ended June 30, 2017
Revenues	₱75,096.0 million	P61,842.2 million
% Growth vs LY	21.4%	13.6%

Net Income Margin

Net Income Margin is the ratio of the Jollibee Group's earnings after interest and tax. This is computed by dividing consolidated net income by consolidated revenues. The quotient is expressed in percentage. This measures the Jollibee Group's return for every peso of revenue earned, after deducting cost of sales, operating expenses, interests and taxes.

	Period Ended June 30, 2018	Period Ended June 30, 2017
Net Income	₱3,769.0 million	P3,374.8 million
% to Revenues	5.0%	5.5%

Basic Earnings Per Share (EPS)

EPS is the portion of the Jollibee Group's profit allocated to each outstanding share of common stock. This is computed by dividing the net income for the period attributable to the equity holders of the Parent Company by the weighted average outstanding shares during the same period. This serves as an indicator of the Jollibee Group's profitability.

	Period Ended June 30, 2018	Period Ended June 30, 2017
EPS (Basic)	₱3.728	₱3.238
% Growth vs LY	15.1%	13.5%

Return on Equity (ROE)

ROE is the ratio of the JFC Group's net income attributable to equity holders of the Parent Company to equity. It is computed by dividing annualized net income attributable to equity holders of the Parent Company by average equity attributable to equity holders of the Parent Company. ROE is a measure of return for every peso of invested equity. The JFC Group also uses ROE for comparing its profitability with other firms in the same industry.

	As at June 30, 2018	As at June 30, 2017
Return on Equity	18.8%	19.8%

Financial Ratios

Jollibee Foods Corporation and Subsidiaries

	Formula	Jun-18 Unaudited	Jun-17 Unaudited
Liquidity Ratios			
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.22	1.25
Financial Leverage Ratios			
Asset to Equity Ratio	$\frac{\text{Total Assets}}{\text{Total Equity Attributable to Equity Holders of the Parent Company}}$	2.37	2.03
Debt Ratio	$\frac{\text{Total Debt*}}{\text{Total Debt + Equity Attributable to Equity Holders of the Parent Company}}$	56.7%	50.2%
Net Debt Ratio	$\frac{\text{Total Debt* - Cash and Cash Equivalents - Short-term Investments}}{(\text{Total Debt* - Cash and Cash Equivalents - Short-term Investments}) + \text{Equity Attributable to Equity Holders of the Parent Company}}$	45.1%	37.0%
Interest Coverage Ratio	$\frac{\text{Earnings before Interest and Taxes**}}{\text{Interest Expense**}}$	13.9	21.5
Solvency Ratio	$\frac{\text{Net Income** + Depreciation and Amortization**}}{\text{Total Liabilities}}$	0.22	0.30
Debt Service Coverage Ratio	$\frac{\text{Net Income**}}{\text{Total Liabilities}}$	0.13	0.18

* Including both total current and total noncurrent liabilities

** Annualized