

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

P	A	N	A	S	O	N	I	C	M	A	N	U	F	A	C	T	U	R	I	N	G	P	H	I	L	I	P
P	I	N	E	S	C	O	R	P	O	R	A	T	I	O	N	A	N	D	S	U	B	S	I	D	I	A	
R	Y																										

**PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province )**

O	r	t	i	g	a	s	A	v	e	n	u	e	E	x	t	e	n	s	i	o	n	,	B	a	r	r
i	o	M	a	p	a	n	d	a	n	,	B	a	r	a	n	g	a	y	S	a	n	I	s	i	d	
r	o	,	T	a	y	t	a	y	,	1	9	2	0	,	R	i	z	a	l							

Form Type

A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address

www.panasonic.com/ph
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Company's Telephone Number

635-2260 to 65
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Mobile Number

N/A
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No. of Stockholders

444
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Annual Meeting (Month / Day)

June 21
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Fiscal Year (Month / Day)

March 31
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**CONTACT PERSON INFORMATION**

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Ms. Julieta Beltran
---------------------

Email Address

julieta.beltran@ph.panasonic.com
----------------------------------

Telephone Number/s

635-2260 to 65
----------------

Mobile Number

(+63) 917 584 4500
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**CONTACT PERSON'S ADDRESS**

Ortigas Avenue Extension, Taytay, Rizal
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**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2 :** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



# Panasonic

Panasonic Manufacturing Philippines Corporation  
Ortigas Avenue Extension, Taytay, Rizal, 1920 Philippines

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Panasonic Manufacturing Philippines Corporation and its Subsidiary** (the "Group") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended March 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co, the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed under oath by the following:

  
**MASATOSHI SASAKI**  
Chairman & President

  
**YOSHIYUKI TAKAHASHI**  
Vice – Chairman & Executive Director

  
**MASARU TOYOTA**  
Executive Director & VP – Sales & Marketing


Signed on this 14<sup>th</sup> day of May, 2019

**MAY 23 2019**

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_  
affiants exhibiting to me their passport numbers as follows:

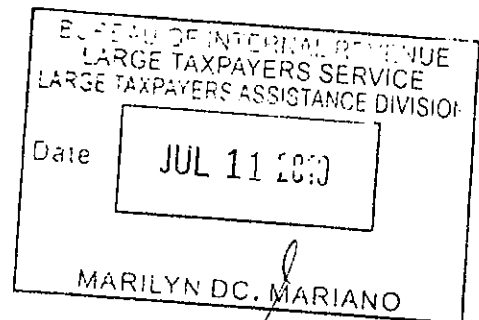
NAMES	PASSPORT NO.	DATE ISSUED	PLACE ISSUED
Masatoshi Sasaki	TS1137403	July 04, 2018	Japan
Yoshiyuki Takahashi	TZ1094063	December 15, 2015	Japan
Masaru Toyota	TZ1179940	January 19, 2017	Japan

Doc. No. 119  
Page No. 24  
Book No. XI  
Series of 2019

  
**ATTY. JOHN KENNETH T. MORENO**  
NOTARY PUBLIC  
Roll No. 35640  
Notary Public  
PTR No. 11243066 - 01-03-2019  
MCLE No. V-17886 - 03 March 2016  
Appt. No. 18-34-Jan. 2018  
Until Dec. 31, 2019  
For Antipolo City, Taytay, Cainta  
Province of Rizal

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Panasonic Manufacturing Philippines Corporation  
Ortigas Avenue Extension  
Taytay, Rizal



### Opinion

We have audited the consolidated financial statements of Panasonic Manufacturing Philippines Corporation and its Subsidiary (the Group), which comprise the consolidated statements of financial position as at March 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended March 31, 2019, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended March 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit





Building a better  
working world

- 2 -

procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### *Provision for estimated liabilities*

The Group, in the ordinary course of its business, recognizes provision for estimated liabilities related to expected warranty claims from products sold and other estimated liabilities. This matter is significant to our audit because the determination of whether the provision should be recognized and the estimation of the potential liability from these assessments requires significant estimate and judgment by management. The estimate of the provision for warranty claims requires an analysis of past experience on the level of repairs and returns. The estimate of provision for other estimated liabilities involves inherent uncertainty regarding the outcome of the claim arising from interpretations and applications of statutes applicable to the Group.

The relevant accounting policy and a discussion of significant judgments and estimates for provisions are included in Notes 2 and 3 to the consolidated financial statements. The amount of provisions recognized in the consolidated statement of financial position is disclosed in Note 11 to the consolidated financial statements.

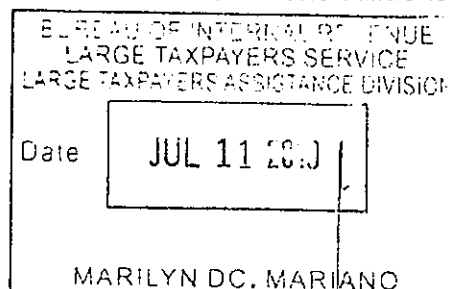
#### *Audit response*

We reviewed the underlying data used in the estimate for warranty claims by comparing the level of repairs and returns across various product lines applied in the calculation against documents supporting the actual claims such as completed service invoices and service reports from accredited service centers. We also tested the mathematical accuracy of management's calculation of warranty claims. We involved our internal specialist in the evaluation of management's assessment on whether any provision for contingencies should be recognized, and the estimation of such amount. We discussed the status of the claims with management and obtained correspondences of the Group with the regulatory bodies and opinions from the external legal counsel. We evaluated the position of the Group by considering the statutes applicable to the Group.

#### *Adoption of PFRS 15, Revenue from Contract with Customers*

The Group adopted the new revenue recognition standard, PFRS 15, *Revenue from Contracts with Customers*, under the modified retrospective approach as at April 1, 2018. The adoption of PFRS 15 resulted in significant changes in the Group's revenue recognition policies, process, and procedures. The adoption of PFRS 15 is significant to our audit because this involves application of significant management judgment and estimation in the: (1) identification of performance obligations; (2) accounting for consideration paid or payable to customer; (3) estimation of variable consideration and (4) determination when control is transferred.

The disclosures in relation to the adoption of PFRS 15 are included in Notes 2 and 3 to the consolidated financial statements.



*Audit response*

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

For significant revenue streams, we obtained sample contracts and reviewed whether the accounting policies appropriately considered the five-step model and cost requirements of PFRS 15.

In addition, we reviewed sample contracts and checked whether management has identified the performance obligations, estimated the various components of the transaction price (variable consideration and consideration paid or payable to a customer), applied the constraint on variable consideration and assessed the transfer of control over to the customer. We evaluated management's assumptions by comparing the historical experience of the Group with the assumptions used in its estimates as it relates to variable consideration.

We reviewed the nature of the considerations paid or payable to customer if it represents purchases by the Group of goods or services offered by the customer, or incentives given by the Group. We also reviewed the application of the accounting policy in relation to the adoption of the new standard and the disclosures related to the transition adjustments based on the requirements of PFRS 15.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended March 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended March 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

DATE  
Date JUL 11 2019  
Marilyn DC. MARIANO  
LARGE TAXPAYERS ASSISTANCE DIVISION



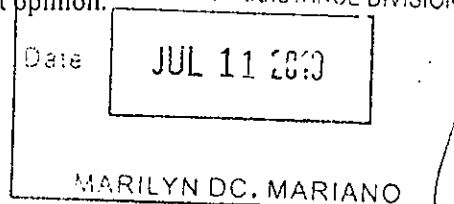
Those charged with governance are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

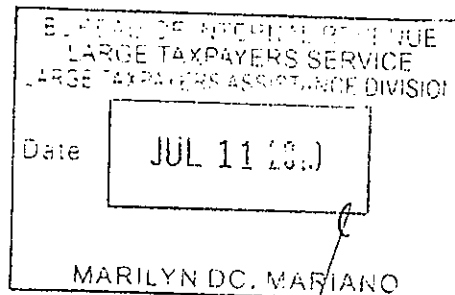
The engagement partner on the audit resulting in this independent auditor's report is Juan Carlo B Maminta.

SYCIP GORRES VELAYO & CO.

*Juan Carlo Maminta*

Juan Carlo B. Maminta  
Partner  
CPA Certificate No. 115260  
SEC Accreditation No. 1699-A (Group A),  
August 16, 2018, valid until August 15, 2021  
Tax Identification No. 210-320-399  
BIR Accreditation No. 08-001998-132-2018,  
February 9, 2018, valid until February 8, 2021  
PTR No. 7332575, January 3, 2019, Makati City

May 15, 2019



**PANASONIC MANUFACTURING PHILIPPINES  
CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	March 31	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	P2,831,509,371	P3,356,079,834
Receivables (Note 5)	1,667,305,169	1,190,056,962
Inventories (Note 6)	1,637,438,734	1,332,521,106
Other current assets (Note 9)	127,904,065	116,207,017
<b>Total Current Assets</b>	<b>6,264,157,339</b>	<b>5,994,864,919</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 7)	969,013,831	856,076,385
Investment properties (Note 8)	-	31,391,337
Deferred tax assets – net (Note 24)	112,090,482	124,634,260
Other noncurrent assets (Note 9)	31,324,445	52,045,599
<b>Total Noncurrent Assets</b>	<b>1,112,428,758</b>	<b>1,064,147,581</b>
	<b>P7,376,586,097</b>	<b>P7,059,012,500</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 10)	P2,354,706,029	P2,127,545,311
Income tax payable	2,714,547	9,963,335
Finance lease liability (Note 21)	-	450,502
Other current liabilities (Note 11)	86,064,919	65,920,724
<b>Total Current Liabilities</b>	<b>2,443,485,495</b>	<b>2,203,879,872</b>
<b>Noncurrent Liabilities</b>		
Retirement liability (Note 11)	101,637,974	-
Other noncurrent liabilities (Note 11)	318,620,433	264,032,822
<b>Total Noncurrent Liabilities</b>	<b>420,258,407</b>	<b>264,032,822</b>
	<b>2,863,743,902</b>	<b>2,467,912,694</b>
<b>Equity</b>		
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock (Note 12)	422,718,020	422,718,020
Additional paid-in capital (Note 12)	4,779,762	4,779,762
Other comprehensive income (Notes 9 and 12)	(80,929,594)	(14,626,021)
Retained earnings (Note 13)		
Appropriated	3,742,400,000	3,692,400,000
Unappropriated	351,505,101	413,835,735
	4,440,473,289	4,519,107,496
<b>Non-controlling Interest</b>	<b>72,368,906</b>	<b>71,992,310</b>
<b>Total Equity</b>	<b>4,512,842,195</b>	<b>4,591,099,806</b>
	<b>P7,376,586,097</b>	<b>P7,059,012,500</b>

See accompanying Notes to Consolidated Financial Statements.

MARILYN DC. MARIANO





**PANASONIC MANUFACTURING PHILIPPINES  
CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended March 31		
	2019	2018	2017
NET SALES (Note 27)	₱11,520,813,753	₱10,490,076,674	₱9,974,276,992
<b>COST OF GOODS SOLD</b> (Notes 14 and 27)	<b>(9,267,009,913)</b>	<b>(8,478,203,295)</b>	<b>(7,506,888,098)</b>
GROSS PROFIT	2,253,803,840	2,011,873,379	2,467,388,894
SELLING EXPENSES (Notes 15 and 27)	(983,828,140)	(897,540,823)	(1,046,995,337)
GENERAL AND ADMINISTRATIVE EXPENSES (Notes 16 and 27)	(1,096,513,366)	(949,815,534)	(888,569,687)
OTHER INCOME – net (Notes 20 and 27)	101,128,852	152,397,846	135,386,222
INCOME BEFORE INCOME TAX	274,591,186	316,914,868	667,210,092
PROVISION FOR INCOME TAX (Notes 23 and 24)	(126,070,051)	(52,882,506)	(131,375,549)
NET INCOME	148,521,135	264,032,362	535,834,543
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Items that may not be reclassified to profit or loss			
Remeasurement gain (loss) on the net defined benefit liability, net of tax (Note 11)	(68,747,698)	57,210,524	38,377,190
Unrealized gain on financial assets at fair value through other comprehensive income (Note 9)	2,444,125	–	–
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱82,217,562</b>	<b>₱321,242,886</b>	<b>₱574,211,733</b>
Net income attributable to:			
Equity holders of the Parent Company (Note 26)	₱148,144,539	₱262,726,845	₱534,334,251
Non-controlling interest	376,596	1,305,517	1,500,292
	<b>₱148,521,135</b>	<b>₱264,032,362</b>	<b>₱535,834,543</b>
Total comprehensive income attributable to:			
Equity holders of the Parent Company	₱81,840,966	₱319,937,369	₱572,711,441
Non-controlling interest	376,596	1,305,517	1,500,292
	<b>₱82,217,562</b>	<b>₱321,242,886</b>	<b>₱574,211,733</b>

Basic/diluted earnings per share (Note 26)

	₱0.35	₱0.62	₱1.26
	LARGE TAXPAYERS SERVICE		
	APPROVERS ASSISTANCE DIVISION		
Date	JUL 11 2019		
	MARILYN DC. MARIANO		

See accompanying Notes to Consolidated Financial Statements.



PANASONIC MANUFACTURING PHILIPPINES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 12)	Additional Paid-in Capital (Note 12)	Net Unrealized Gains on AFS Investments (Note 9)	Net Unrealized Gains on Financial Assets at FVOCI (Note 9)	Retirement Liability (Note 11)	Appropriated Retained Earnings (Note 13)	Unappropriated Retained Earnings (Note 13)	Total	Non-controlling Interest	Total
Balances at April 1, 2018, as previously reported	P422,718,020	P4,779,762	P1,380,968	P-	(P16,006,989)	P3,692,400,000	P413,835,735	P4,519,107,496	P71,992,310	P4,591,099,806
Effect of the adoption of PFRS 15 (Note 2)	-	-	-	-	-	-	(3,350,885)	(3,350,885)	-	(3,350,885)
Effect of adoption of PFRS 9	-	-	(1,380,968)	1,380,968	-	-	-	-	-	-
Balances at April 1, 2018, as restated	422,718,020	4,779,762	-	1,380,968	(16,006,989)	3,692,400,000	410,484,850	4,515,756,611	71,992,310	4,587,748,921
Total comprehensive income	-	-	-	2,444,125	(68,747,698)	-	148,144,539	81,840,966	376,596	82,217,562
Reversals of appropriation (Note 13)	-	-	-	-	-	(332,762,382)	332,762,382	-	-	-
Appropriations (Note 13)	-	-	-	-	-	382,762,382	(382,762,382)	-	-	-
Cash dividends (Note 13)	-	-	-	-	-	-	(157,124,288)	(157,124,288)	-	(157,124,288)
Balances at March 31, 2019	P422,718,020	P4,779,762	P-	P3,825,093	(P84,754,687)	P3,742,400,000	P351,505,101	P4,440,473,289	P72,368,906	P4,512,842,195
Balances at April 1, 2017	P422,718,020	P4,779,762	P1,380,968	P-	(P73,217,513)	P3,427,400,000	P416,108,890	P4,199,170,127	P70,686,793	P4,269,856,920
Total comprehensive income	-	-	-	-	57,210,524	-	262,726,845	319,937,369	1,305,517	321,242,886
Reversals of appropriation (Note 13)	-	-	-	-	-	(417,614,623)	417,614,623	-	-	-
Appropriations (Note 13)	-	-	-	-	-	682,614,623	(682,614,623)	-	-	-
Balances at March 31, 2018	P422,718,020	P4,779,762	P1,380,968	P-	(P16,006,989)	P3,692,400,000	P413,835,735	P4,519,107,496	P71,992,310	P4,591,099,806
Balances at April 1, 2016	P422,718,020	P4,779,762	P1,380,968	P-	(P111,594,703)	P3,192,400,000	P412,677,253	P3,922,361,300	P69,186,501	P3,991,547,801
Total comprehensive income	-	-	-	-	38,377,190	-	534,334,251	572,711,441	1,500,292	574,211,733
Reversals of appropriation (Note 13)	-	-	-	-	-	(196,381,804)	196,381,804	-	-	-
Appropriations (Note 13)	-	-	-	-	-	431,381,804	(431,381,804)	-	-	-
Cash dividends (Note 13)	-	-	-	-	-	-	(295,902,614)	(295,902,614)	-	(295,902,614)
Balances at March 31, 2017	P422,718,020	P4,779,762	P1,380,968	P-	(P73,217,513)	P3,427,400,000	P416,108,890	P4,199,170,127	P70,686,793	P4,269,856,920

See accompanying Notes to Consolidated Financial Statements.

1  
 MARIANO  
 GENERAL INQUIRY  
 SERVICE  
 DIVISION



**PANASONIC MANUFACTURING PHILIPPINES  
CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended March 31		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱274,591,186	₱316,914,868	₱667,210,092
Adjustments for:			
Depreciation and amortization (Note 18)	203,400,308	175,870,412	158,481,381
Provision for warranty claims and estimated liabilities (Note 11)	176,048,662	51,895,109	126,130,974
Provision for inventory write-down (Note 14)	79,432,386	16,474,886	23,221,273
Interest income (Notes 4 and 20)	(68,853,694)	(55,385,281)	(55,478,130)
Retirement and other long-term employee benefits expense (Notes 11 and 17)	26,874,278	27,262,228	33,777,726
Unrealized foreign currency exchange (gain) loss (Notes 4, 5 and 10)	(11,837,158)	1,362,099	(827,877)
Provision for (net recovery from) credit and impairment (gain) losses (Notes 5, 16 and 20)	526,315	(23,034,700)	(1,793,902)
Gain on disposal/retirement of property, plant and equipment and software (Note 20)	(154,482)	-	789,590
Operating income before changes in working capital	680,027,801	511,359,621	951,511,127
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	(477,570,556)	(150,125,766)	(25,059,349)
Inventories	(384,350,014)	(338,032,398)	(342,091,061)
Other current assets	6,964,457	15,943,515	(45,761,480)
Increase (decrease) in:			
Accounts payable and accrued expenses	188,001,522	281,558,509	298,260,573
Other liabilities	-	(48,650,167)	(102,167,580)
Net cash generated from (used in) operations	13,073,210	272,053,314	734,692,230
Income taxes paid	(210,090,566)	(112,444,381)	(136,836,009)
Interest received from bank deposits (Notes 4 and 20)	70,426,202	60,525,281	53,948,930
Other retirement liability and long-term employee benefits paid (Note 11)	(11,057,192)	(2,362,171)	(2,548,227)
Contributions to the retirement fund (Note 11)	-	-	(100,000,000)
Net cash provided by (used in) operating activities	(137,648,346)	217,772,043	549,256,924
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of:			
Property, plant and equipment (Notes 7 and 29)	(253,149,528)	(142,897,625)	(171,955,223)
Software (Note 9)	-	(4,532,991)	(445,536)
Decrease (increase) in noncurrent other assets (Note 9)	4,713,210	(6,264,225)	1,332,082
Proceeds from disposal of property, plant and equipment (Note 7)	2,786,367	1,858,414	2,522,179
Net cash used in investing activities	(245,649,951)	(151,836,427)	(168,546,498)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid (Notes 13 and 20)	(157,155,460)	(295,888,744)	(84,543,604)
Finance lease liabilities paid (Note 21)	(450,502)	(2,305,344)	(2,320,606)
Cash used in financing activities	(157,605,962)	(298,194,088)	(86,864,210)

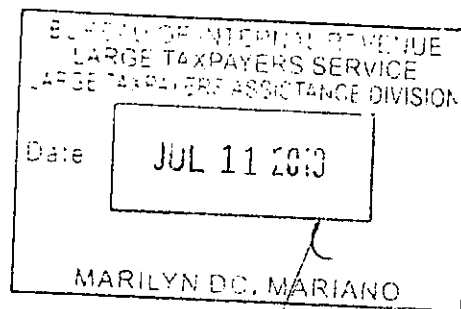
(Forward)

Date **JUL 11 2019**  
MARILYN DC. MARIANO



	Years Ended March 31		
	2019	2018	2017
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (Note 4)	₱16,333,796	₱1,688,352	₱380,527
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(524,570,463)	(230,570,120)	294,226,743
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,356,079,834	3,586,649,954	3,292,423,211
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱2,831,509,371	₱3,356,079,834	₱3,586,649,954

*See accompanying Notes to Consolidated Financial Statements.*



**PANASONIC MANUFACTURING PHILIPPINES  
CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

Panasonic Manufacturing Philippines Corporation (the Parent Company) was incorporated in the Philippines on May 14, 1963 and is a subsidiary of Panasonic Corporation (PC or the Ultimate Parent Company) which is incorporated in Japan on December 15, 1935. The Securities and Exchange Commission (SEC) approved on March 19, 2013 the extension of Parent Company's corporate life for another 50 years or until May 15, 2063. The Parent Company holds 40.0% interest in Precision Electronics Realty Corporation (PERC or the Subsidiary), over which the Parent Company has the control over the Subsidiary.

The Parent Company is a manufacturer, importer and distributor of electronic, electrical, mechanical, electro-mechanical appliances, other types of machinery, parts and components, battery and other related products bearing the "Panasonic" brand. The Subsidiary is in the business of realty brokerage and leases out the land to the Parent Company in which the latter's manufacturing facilities are located (see Note 7).

The Parent Company's registered address is Ortigas Avenue Extension, Barrio Mapandan, Barangay San Isidro, Taytay, 1920, Rizal.

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying consolidated financial statements of the Parent Company and the Subsidiary (collectively referred to as the "Group") have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI)/available-for-sale (AFS) financial assets that have been measured at fair value and inventories that have been measured at lower of cost or net realizable value (NRV). The accompanying consolidated financial statements are presented in Philippine peso (₱), which is also the Parent Company's functional currency. The functional currency of PERC is also the Philippine peso. All values were rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and PERC, a subsidiary which it controls (see Note 3).

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the Subsidiary and has the ability to affect those returns through its power over the Subsidiary.

The Parent Company controls an investee if, and only if the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)



- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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
- The Parent Company's voting rights and potential voting rights

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of its Subsidiary to bring the accounting policies used in line with those used of the Group.

All intragroup transactions, balances, income and expenses are eliminated in the consolidation.

Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from Parent Company shareholders' equity. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consists of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of acquisition.

Changes in the Parent Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Parent Company.

If the Parent Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss in the consolidated statement of comprehensive income.



### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial years, except that the Group has adopted the following PFRSs and Philippine Accounting Standards (PAS) and Philippine Interpretations beginning April 1, 2018. The adoption of the new and amended standards and interpretations did not have any impact on the consolidated financial statements of the Group unless otherwise indicated.

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

The standards adopted that are deemed to have significant impact on the financial statements or performance of the Company are described below:

- PFRS 9, *Financial Instruments*  
PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted PFRS 9 effective April 1, 2018 using modified retrospective approach. The Group has not restated the comparative information, which continues to be reported under PAS-39. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the April 1, 2018 opening balance of retained earnings.

The Group adopted the classification and measurement and impairment requirements of the standard as follows:

#### *Classification and measurement*

Under PFRS 9, debt financial assets are classified and measured at fair value through profit or loss (FVTPL), amortized cost (AC), or fair value through other comprehensive income (FVOCI). The classification is based on the Group's business model for managing the financial assets and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding.

The assessment of the Group's business model was made as at April 1, 2018. The assessment of whether the instruments' contractual cash flows are SPPI was made based on the facts and circumstances as at the initial recognition of the financial assets.

The classification and measurement requirements of PFRS 9 did not have significant impact on the consolidated financial statements. 'Cash and cash equivalents' and 'Receivables' as at March 31, 2018 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets are continued to be carried at amortized cost, and are classified as 'Financial assets at amortized costs' starting April 1, 2018. Available-for-sale investments as at March 31, 2018 recorded under 'Other noncurrent assets' pertains to equity shares that not held for trading. Accordingly, these financial assets are continued to be carried at fair value, and are classified as 'Financial assets at FVOCI' starting April 1, 2018.



The Group's financial liabilities which include accrued expenses and other liabilities (excluding statutory liabilities) remained to be classified at amortized costs upon transition.

#### *Impairment*

The adoption of PFRS 9 has fundamentally changed the Group's measurement of impairment losses for its financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Company is required to provide ECL for financial assets at AC and FVOCI. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk since origination or the financial assets are impaired where lifetime ECL is provided.

PFRS 9 also provides some operational simplifications for receivables, by introducing an alternative simplified approach. Under the simplified approach, there is no more requirement to determine at reporting date whether a credit exposure has significantly increased in credit risk or not. Credit exposures under the simplified approach will be subject only to lifetime ECL. In addition, PFRS 9 allows the use of a provision matrix approach or a loss rate approach as a practical expedient when measuring ECL for certain short-term financial assets, so long as these methodologies reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group applied PFRS 9 and changed its accounting for impairment losses for cash and cash equivalents and receivables to ECL approach. The adoption of PFRS 9 had no significant impact to the consolidated statements of financial position, consolidated statements of comprehensive income and consolidated statements of cash flows.

- PFRS 15, *Revenue from Contracts with Customers*  
PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a five-step model that will apply to revenue arising from contracts with customers. The five-step model is as follows:
  - Identify the contract(s) with a customer;
  - Identify the performance obligations in the contract;
  - Determine the transaction price;
  - Allocate the transaction price to the performance obligations in the contract; and
  - Recognize revenue when (or as) the entity satisfies a performance obligation.

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

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of April 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts that are not completed as at the date of initial application. Likewise, the comparative information was not restated and continues to be consistent with PAS 18.





Adjustments recognized to the opening balances of retained earnings upon the adoption of PFRS 15 as at April 1, 2018 amounted to ₱3.4 million. The adjustment pertains to the recognition of contract liability resulting from the allocation of transaction price to the extended warranty treated as a separate performance obligation.

The effect of adopting PFRS 15 at April 1, 2018 was as follows:

	As previously reported April 1, 2018	Adjustment	As restated April 1, 2018
<b>Consolidated statement of financial position</b>			
<i>Liabilities</i>			
Contract liability	P-	₱3,350,885	₱3,350,885
<i>Equity attributable to Parent Company</i>			
Retained earnings	4,106,235,735	(3,350,885)	4,102,884,850

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended March 31, 2019 as a result of adoption of PFRS 15.

	Amounts prepared under		Increase (decrease)
	PFRS 15	PAS 18	
<i>Liabilities</i>			
Contract liability (Note 10)	₱2,932,025	P-	₱2,932,025
<i>Income</i>			
Net income	148,144,539	147,725,679	418,860

#### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or a liability at initial measurement date or each reporting date. 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 to by the 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 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 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 Group determines whether transfer have occurred between levels in the hierarchy by re-assessing 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.

#### Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash in banks and time deposits with original maturities of three months or less and are subject to an insignificant risk of change in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and time deposits as defined above.

#### Financial Instruments (policy applicable beginning April 1, 2018)

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.

#### *Date of recognition*

The Group recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

#### *Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value of the consideration given. The initial measurement of financial instruments includes transaction costs, except for financial instruments at financial assets at FVTPL.

As of March 31, 2019, the Group only has financial assets and financial liabilities at amortized cost and financial assets at FVOCI.

#### *'Day 1' difference*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss in the statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the profit or loss in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.



In 2019 and 2018, there were no 'Day 1' differences recognized in the profit or loss in the consolidated statement of comprehensive income.

a) Financial assets

*Classification and measurement*

Financial assets are classified at fair value at initial recognition and subsequently measured at amortized cost, FVOCI, and FVTPL.

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

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers, if any, of the business are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.



#### *Subsequent measurement*

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

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

The financial assets of the Group as of March 31, 2019 consist of financial assets at amortized cost and financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

#### *Financial assets at amortized cost (debt instruments)*

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

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

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents and receivables.

#### *Financial assets designated at FVOCI (equity instruments)*

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

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

The Group elected to classify irrevocably its investments in unquoted equity instruments under this category.

#### *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 Group's consolidated statement of financial position) when:

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



When the 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 Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the 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 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 Group could be required to repay.

#### *Impairment of financial assets*

The Group recognizes an allowance for ECLs for all debt instruments not held at FVTPL. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime ECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

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

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

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from reputable credit rating agencies to determine whether the debt instrument has SICR and to estimate ECLs.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.



The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables and contract assets in default when contractual payment are 90 days past due, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

*Determining the stage for impairment*

At each reporting date, the Group assesses whether there has been a SICR for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed SICR since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

b) Financial liabilities

*Initial recognition and measurement*

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

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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.

*Subsequent measurement*

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

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the consolidated statements of income.

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied.

The Group does not have financial liabilities at FVTPL as of March 31, 2019.

*Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations and borrowings.



After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in profit or loss when other financial liabilities are derecognized, as well as through the EIR amortization process.

This category applies to the Group's accounts payable and accrued expenses (excluding statutory and taxes payables).

*Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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.

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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.

Financial Instruments (policy applicable prior to April 1, 2018)

*Date of recognition*

The Group recognizes a financial asset or financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, the date that an asset is delivered to or by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group.

*Initial recognition and classification of financial instruments*

All financial instruments are initially measured at fair value. Except for financial instruments carried at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets and liabilities at FVPL and HTM investments as of March 31, 2018 and 2017.



*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*AFS investments*

AFS investments are non-derivative financial assets that are designated as such or do not qualify to be classified or designated as FVPL, HTM or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

When an AFS investment is disposed of, the cumulative gain or loss previously recognized under other comprehensive income is recognized in current operations. The losses arising from impairment of such investments are recognized in profit or loss in the consolidated statement of comprehensive income.

AFS investments are classified as current assets when it is expected to be sold or realized within twelve months after the reporting date or within the normal operating cycle, whichever is longer.

The Group's AFS investments include investments in unquoted equity shares.

*Loans and receivables*

Loans and receivables include non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and for which the Group has no intention of trading. After initial recognition, loans and receivables are subsequently stated at their amortized cost, reduced by accumulated credit losses, if any.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies to the Group's cash and cash equivalents, receivables and other noncurrent assets.

*Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months from the reporting date or the Group does not have an unconditional right to defer settlement for at least twelve months from reporting date.

This accounting policy applies primarily to the Group's accounts payable and accrued expenses.

*'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.





### Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective criteria of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization.

### *Loans and receivables*

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, past due status and term.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the 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 for impairment losses account.

If a future write-off is later recovered, the recovery is recognized in profit or loss under 'Other income – net' account. Any subsequent reversal of an impairment loss is recognized in profit or loss as reversal of allowance for doubtful accounts, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.



#### *AFS investments*

In case of equity instruments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is significant and prolonged is subject to judgment. '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. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity securities. When there is evidence of impairment, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized under profit or loss, is transferred from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through current operations. Increases in fair value after impairment are recognized as other comprehensive income.

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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, or to realize the asset and settle the liability simultaneously. The 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 Group and all of the counterparties.

#### Derecognition of Financial Instruments

##### *Financial assets*

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

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

Where the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial liability*

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



Inventories

Inventories are valued at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. Cost is determined primarily using the first-in, first-out method, except for spare parts and supplies, which are determined on a weighted average method. For manufactured inventories, cost includes the applicable allocation of fixed and variable overhead costs.

Creditable Withholding Tax

This pertains to the tax withheld at source by the Group's customers and is creditable against the income tax liability of the Group.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value except land which is carried at cost less any impairment in value. The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Significant renewals and improvements are capitalized.

Expenditures incurred after the properties have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year 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 an additional cost of property, plant and equipment.

Depreciation and amortization is computed using the straight-line method on land improvements and buildings and improvements over their estimated useful lives and the declining balance method on other property, plant and equipment.

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

	<u>Years</u>
Land improvements	10
Factory machinery, equipment and tools	2-10
Buildings and improvements	5-25
Office furniture, fixtures and equipment	2-5
Transportation equipment	3-5

The useful life and depreciation and amortization methods are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any accumulated impairment losses are eliminated from the accounts and any gain or loss resulting from their disposal is included in profit or loss.

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those that are not occupied by entities in the Group.



Investment properties are measured initially at cost, including transaction costs. The carrying amount 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.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and any impairment in value. Expenditures incurred after the investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to operations in the period in which the costs are incurred.

Depreciation and amortization is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed:

	Years
Building	25
Building improvements	5-25

Investment properties are derecognized when either they have 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 are made to investment properties when, and only when, there is a change in use evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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

#### Software

Software acquired separately is measured on initial recognition at cost. Following initial recognition, software is carried at cost less any accumulated amortization and any accumulated impairment losses.

Amortization of software is computed using the declining balance method over its estimated useful life of 2 to 5 years. The estimated useful life and amortization method for software are reviewed at least at each financial year end to ensure that the period and method of amortization are consistent with the expected pattern of economic benefits from these assets.

The amortization expense on software is recognized in profit or loss under general and administrative expenses. Software is assessed for impairment whenever there is an indication that this asset may be impaired.

#### Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its property, plant and equipment, investment properties and software may be impaired.



Where there is an indication of impairment, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount, in which case, the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

#### Leases

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

A reassessment is made only after inception of the lease if one of the following applies:

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

#### *The Parent Company as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Finance leases, which transfer to the Parent Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss.

#### *The Parent Company as a lessor*

Leases where the Parent Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as income in profit or loss on a straight-line basis over the lease term.

#### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the



proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss.

When the 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 the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be 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, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest 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.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquired are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

#### Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If additional paid-in capital is not sufficient, the excess is charged against the retained earnings.

When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Group less any dividends declared.



Revenue Recognition (Upon adoption of PFRS 15 beginning April 1, 2018)

To account for the revenues arising from contracts with customers, the Group applies the following five step model:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligations in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

The following specific recognition criteria must also be met before revenue and other income are recognized:

*Sale of goods and services*

Revenue from sale of goods is recognized at a point in time upon transfer of control to the buyer, usually upon delivery of goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods and services, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer, if any.

*Sale of scrap*

Revenue from sale of scrap is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue Recognition (Prior to adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at the fair value of the consideration received net of discounts, sales taxes and duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue and other income are recognized:

*Sale of goods*

Revenue from sale of goods is recognized when significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of goods. Revenue from sale of goods is measured at the fair value of the considerations received or receivable, net of returns and allowances, trade discounts and volume rebates which include estimated discounts.

*Service income*

Service income is recognized when the related qualifying services have been rendered by the Parent Company.



*Sale of scrap*

Income from sale of scrap is recognized when the significant risk and rewards of ownership of the scrap have passed to the buyer and the amount of revenue can be measured reliably.

Revenue outside the scope of PFRS 15:

*Interest income*

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

*Dividend income*

Dividend income is recognized when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

Costs and Expenses

Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Cost and expenses are recognized as incurred. The following specific recognition criteria must be met before costs and expenses are recognized:

*Cost of goods sold*

Cost of goods sold includes all expenses associated with the specific sale of goods. Cost of goods sold include all materials and supplies used, direct labor, occupancy cost, depreciation of production equipment and other expenses related to production. Such costs are recognized when the related sales have been recognized.

*Selling expenses*

Selling expenses constitute costs which are directly related to selling, advertising and delivery of goods to customers. These include sales commissions and marketing expenses. Selling expenses are recognized when incurred.

*General and administrative expenses*

General and administrative expenses constitute costs of administering the business and are recognized when incurred.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the Board of Directors (BOD) of the Parent Company. Dividends for the year that are declared and approved after the consolidated statement of financial position date, if any, are dealt with as an event after the financial reporting date and disclosed accordingly.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to ordinary equity holders of the parent by the weighted average number of common shares issued and outstanding during the year, after giving retroactive adjustment to any stock dividend declared or stock split made during the year.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive convertible common shares.





The Group has no dilutive convertible common shares. Thus, basic and diluted EPS are the same.

Borrowing Costs

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 are capitalized. All other borrowing costs are recognized as expense in the year which they are incurred.

Retirement Costs

The Parent Company operates a funded noncontributory defined benefit retirement plan, which requires contributions to be made to a separate administered fund.

The cost of providing benefits under the defined benefit pension plan is determined by an independent actuary using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Retirement expenses comprise the following:

- Current service cost
- Net interest on the net defined benefit liability or asset
- Remeasurement of retirement liability

Current service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is 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 Parent Company, nor can they be paid directly to the Parent Company. 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 Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### *Termination benefit*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

#### *Employee leave entitlement*

Employee entitlements to annual leave are recognized as a liability and expense when they are accrued to the employees. The cost of employee entitlements to annual leave is actuarially computed using the projected unit credit method.

### Income Taxes

#### *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as of the reporting date.

#### *Deferred tax*

Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or 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 or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when 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 are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating losses carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from excess credits and unexpired NOLCO can be utilized, except:

- when 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 or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, 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 income will allow the deferred tax assets to be recognized.

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

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

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 a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### Foreign Currency-denominated Transactions and Translation

Foreign currency-denominated transactions are recorded using the exchange rate at the date of transaction. Foreign currency-denominated monetary assets and liabilities are translated using the prevailing closing exchange rate at reporting date. Exchange gains or losses from foreign currency-denominated transactions and translation are credited or charged to profit or loss.

#### Operating Segment

Operating segments for management reporting purposes are organized into three major segments according to the nature and user of the products. Common income and expenses are allocated among business segments based on sales or other appropriate bases. Segment assets include operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances, provisions and depreciation and amortization. Segment



liabilities include all operating liabilities and consist principally of accounts payable and accrued liabilities. Information on business segments is presented in Note 27.

#### Provisions

Provisions are recognized when the following conditions are present: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. 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 assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in profit or loss in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

#### *Provision for estimated liabilities*

Provision for estimated liabilities consists of provision for warranty claims and other liabilities. Provision for warranty claims is recognized for expected warranty claims on products sold, based on past experience in the level of repairs and returns. Provision for other liabilities is recognized when all of the conditions mentioned above are present.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed 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.

#### Events after the Reporting Period

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

#### Standards Issued but not yet Effective

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

#### Effective in fiscal year 2019

- *Amendments to PFRS 9, Prepayment Features with Negative Compensation*  
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from April 1, 2019, with earlier application permitted.



- 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. 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.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after April 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.



- **Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures***  
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from April 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact 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, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

- **Annual Improvements to PFRSs 2015-2017 Cycle**
  - **Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation***  
The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.



An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after April 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after April 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*  
The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after April 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*  
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after April 1, 2019, with early application permitted.

#### Effective in fiscal year 2020

- Amendments to PFRS 3, *Definition of a Business*  
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after April 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*  
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.



An entity applies those amendments prospectively for annual reporting periods beginning on or after April 1, 2020, with earlier application permitted.

Effective in fiscal year 2021

• PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

• Amendments to PFRS 10, *Consolidated Financial Statements*, 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 deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

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

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable.





Judgments, assumptions and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

In the process of applying the 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:

a. Revenue recognition on sale of goods and services

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (i) identification of the performance obligations; (ii) accounting for consideration paid or payable to customer; and (iii) determination when control is transferred.

(i) *Identification of performance obligations*

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

Based on management assessment, business-to-consumer (B2C) sales have only one performance obligation, while business-to-business (B2B) sales may include one or more performance obligations depending on the satisfaction of the criteria mentioned above.

(ii) *Accounting for consideration paid or payable to customer*

The Group determines the nature of its consideration paid or payable to customer if it represents purchases by the Group of goods or services offered by the customer, or incentives given by the Group to the customer. Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer. The consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity

(iii) *Determination when control is transferred*

The Group recognizes its revenue for B2B sales at a point in time, when the goods are sold and delivered and when services are already rendered. The Group may recognize revenue for B2C sales over time if the buyer simultaneously receives and consumes the benefits as the Group performs its obligation, the buyer controls the goods and services as it is created or enhanced, or if the goods and services has no alternative use to the Group and the Group has enforceable right to payment for performance completed to date.

b. *Control over PERC*

The Group considers that it controls PERC even though it owns less than majority equity interest in PERC. The Parent Company holds a 40.0% equity interest in PERC. The remaining 60.0% of the equity shares in PERC are held by the retirement fund of the Parent Company. The Parent Company determined that it has control over PERC since it has the practical ability to direct the relevant activity of PERC and is exposed to variable returns from PERC. The sole purpose of PERC's establishment and continuing existence is to hold several parcels of land as location for the Parent Company's manufacturing facilities. Thus, the relevant activity of PERC includes the acquisition of parcels of land through funding from the Parent Company and the subsequent lease



thereto. The decision to set up the structure of PERC through lease and loan agreements is devised by the Parent Company for it to have location for its facilities since it could not hold more than 40.0% ownership in private lands in the Philippines. The BOD and officers of the Parent Company are also the BOD and officers of PERC.

c. *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as an investment property, only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

Estimates

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

a. *Provisions for estimated liabilities*

Provision for estimated liabilities pertain to provision for warranty claims from products sold and other estimated liabilities. The determination of whether the provision should be recognized and the estimation of the potential liability from these assessments requires significant estimate and judgment by management.

The estimate of the provision for warranty claims requires an analysis of past experience on the level of repairs and returns. Other provisions for estimated liabilities include provisions for legal cases and other claims. The Group makes provisions on the basis of management's and its legal counsel's opinion and assessment of the outcome of the claims arising from interpretations and applications of statutes applicable to the Group.

Provisions for estimated liabilities amounted to ₱385.2 million and ₱305.9 million as of March 31, 2019 and 2018, respectively (see Note 11).

b. *NRV of inventory*

Inventories are carried at lower of cost or NRV. NRV of inventories are assessed regularly based on the prevailing selling prices of inventories less the estimated costs necessary to sell and to complete. Any increase in NRV will increase the carrying amount of inventories but only to the extent of their original acquisition costs. The carrying value of inventories as of March 31, 2019 and 2018 amounted to ₱1.6 billion and ₱1.3 billion, respectively (see Note 6). The amount of provision for inventory write-down included under cost of goods sold amounted to ₱79.4 million, ₱16.4 million and ₱23.2 million in 2019, 2018 and 2017, respectively (see Notes 6 and 14).



c. *Assessment for ECL on trade receivables (Applicable beginning April 1, 2018)*

The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables. The provision matrix specifies provision rates depending on the number of days that a trade receivable is past due. The Group also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions.

The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment. The Group regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience.

The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate. Accordingly, the provision for ECL on trade receivables is sensitive to changes in assumptions about forecasted economic conditions. The Group has assessed that the ECL on trade receivables is not material because substantial amount of receivables are normally collected within one year.

The carrying amount of trade receivables is ₱1.6 billion at December 31, 2019 (see Note 5).

There were no recovery from credit losses on receivables (see Note 20) in 2019. Provision for credit losses on receivables amounted to ₱0.5 million in 2019 (see Note 16).

~~d. *Allowance for credit losses on receivables (effective prior to adoption of PFRS 9)*~~

The Group reviews its receivable portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the customer's payment behavior and known market factors.

Recovery from credit losses on receivables amounted to ₱23.0 million and ₱1.8 million in 2018 and 2017, respectively (see Note 20).

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties (e.g., debt restructuring and declaration of bankruptcy). The Group assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department and nonmoving accounts receivable.



For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience, credit insurance and other factors that may affect collectability.

The carrying value of receivables amounted to ₱1.2 billion as of March 31, 2018 (see Note 5).

*e. Determining method to estimate variable consideration and assessing the constraint*

The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as i) highly susceptibility to factors outside the Group's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.

Some contracts with customers provide prompt payment, volume discount and special discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the large number of customer contracts that have similar characteristics and the range of possible outcomes.

*f. Present value of benefit obligation*

The determination of the obligation and cost of retirement and other employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

The Group's defined benefit plan resulted to a retirement liability amounting to ₱101.6 million and retirement asset amounting to ₱16.9 million as of March 31, 2019 and 2018, respectively (see Note 11).

*g. Deferred tax assets*

The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and the level of future taxable profits together with future tax planning strategies considering expected future market or economic conditions and the expected performance of the Group. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized



to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Recognized deferred tax assets amounted to ₱112.1 million and ₱124.6 million as of March 31, 2019 and 2018, respectively. The Parent Company did not recognize deferred tax asset on other temporary differences as of March 31, 2019 and 2018 since management believes that the benefit from such asset will not be realized in the future (see Note 24).

#### 4. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash in banks	₱615,908,344	₱680,987,834
Cash equivalents	2,215,601,027	2,675,092,000
	<b>₱2,831,509,371</b>	<b>₱3,356,079,834</b>

Cash in banks earned annual interest ranging from 0.5% to 2.0% in 2019 and 2018.

Cash equivalents pertain to time deposits made for varying periods with maturity of up to three months depending on the immediate cash requirements of the Group. Interest on cash equivalents ranged from 0.5% to 2.0% in 2019, from 0.5% to 2.6% in 2018, and from 0.5% to 2.0% in 2017.

Interest income from cash in banks and cash equivalents amounted to ₱68.9 million, ₱55.4 million and ₱55.5 million in 2019, 2018 and 2017, respectively (see Note 20). Unrealized foreign exchange gain resulting from translation of foreign currency-denominated cash in banks into Philippine peso amounted to ₱16.3 million and ₱1.7 million in 2019 and 2018, respectively, and unrealized foreign exchange loss resulting from translation of foreign currency-denominated cash in banks into Philippine peso amounted to ₱0.4 million in 2017 (see Note 20).

#### 5. Receivables

This account consists of:

	2019	2018
Trade		
Domestic	₱1,326,253,654	₱904,504,148
Export (Note 22)	266,709,978	192,923,529
Non-trade		
Related parties (Note 22)	24,708,764	56,704,284
Third parties	47,880,453	36,144,799
Employees	3,130,455	2,537,945
Others	3,547,865	1,981,257
	1,672,231,169	1,194,795,962
Less allowance for credit losses	4,926,000	4,739,000
	<b>₱1,667,305,169</b>	<b>₱1,190,056,962</b>



Trade receivables are non-interest bearing and are generally on 30 to 60-day terms. Trade receivables classified as “domestic” are those claims against local customers. Trade receivables classified as “export” are those claims arising from export sales of air conditioner units to related parties.

The changes in the allowance for expected credit losses on trade receivables in 2019 and 2018 follow:

	2019	2018
Balances at beginning of year	₱4,739,000	₱27,773,700
Provision for (recovery from) credit losses (Notes 16 and 20)	526,315	(23,034,700)
Write-off	(339,315)	-
<b>Balances at end of year</b>	<b>₱4,926,000</b>	<b>₱4,739,000</b>

Foreign exchange gain on translation of receivables amounted to ₱1.8 million and ₱0.3 million in 2019 and 2018, respectively, and unrealized foreign exchange loss on translation of receivables amounted to ₱0.1 million in 2017 (see Note 20).

## 6. Inventories

This account consists of:

	2019	2018
At NRV:		
Finished goods and merchandise	₱17,294,276	₱4,796,511
At cost:		
<del>Finished goods and merchandise</del>	<del>1,084,067,095</del>	<del>958,790,634</del>
Raw materials	500,142,019	344,880,610
Supplies	25,370,596	4,266,826
Goods in process	10,564,748	19,786,525
	<b>1,620,144,458</b>	<b>1,327,724,595</b>
	<b>₱1,637,438,734</b>	<b>₱1,332,521,106</b>

The related cost of inventories recorded at NRV amounted to ₱38.4 million and ₱17.8 million as of March 31, 2019 and 2018, respectively. The amount of write-down of inventories included under cost of goods sold amounted to ₱79.4 million, ₱16.4 million and ₱23.2 million in 2019, 2018 and 2017, respectively (see Note 14). The amount of inventories recognized in cost of goods sold during the year amounted to ₱9.3 billion, ₱8.5 billion and ₱7.5 billion in 2019, 2018 and 2017, respectively (see Note 14).



## 7. Property, Plant and Equipment

The rollforward of this account follows:

	2019						Total
	Land and Land Improvements	Factory Machinery, Equipment and Tools	Buildings and Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	
<b>Cost</b>							
Balances at beginning of year	P236,029,162	P1,556,367,620	P869,189,302	P165,701,292	P133,881,290	P80,898,084	P3,042,066,750
Acquisitions (Note 29)	-	27,035,356	6,411,250	11,467,165	5,976,743	235,176,270	286,066,784
Retirements/disposals	-	(21,236,209)	(5,519,305)	(7,074,393)	(2,376,424)	-	(36,206,331)
Reclassifications from investment properties (Note 8)	-	-	192,509,045	-	-	-	192,509,045
Reclassifications from CIP	-	192,070,675	33,868,384	33,179	-	(225,972,238)	-
<b>Balances at end of year</b>	<b>236,029,162</b>	<b>1,754,237,442</b>	<b>1,096,458,676</b>	<b>170,127,243</b>	<b>137,481,609</b>	<b>90,102,116</b>	<b>3,484,436,248</b>
<b>Accumulated depreciation</b>							
Balances at beginning of year	2,851,295	1,348,519,112	581,857,875	153,526,140	99,235,943	-	2,185,990,365
Depreciation (Note 18)	-	127,564,196	47,767,687	11,223,297	15,333,610	-	201,888,790
Retirements/disposals	-	(19,070,298)	(5,519,305)	(7,020,732)	(1,964,111)	-	(33,574,446)
Reclassifications from investment properties (Note 8)	-	-	161,117,708	-	-	-	161,117,708
<b>Balances at end of year</b>	<b>2,851,295</b>	<b>1,457,013,010</b>	<b>785,223,965</b>	<b>157,728,705</b>	<b>112,605,442</b>	<b>-</b>	<b>2,515,422,417</b>
<b>Net book value</b>	<b>P233,177,867</b>	<b>P297,224,432</b>	<b>P311,234,711</b>	<b>P12,398,538</b>	<b>P24,876,167</b>	<b>P90,102,116</b>	<b>P969,013,831</b>

	2018						Total
	Land and Land Improvements	Factory Machinery, Equipment and Tools	Buildings and Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	
<b>Cost</b>							
Balances at beginning of year	P236,029,162	P1,456,629,030	P779,485,981	P161,452,453	P122,948,514	P31,667,109	P2,788,212,249
Acquisitions (Note 29)	-	61,239,435	28,947,712	12,168,856	19,851,178	122,941,913	245,149,094
Retirements/disposals	-	(17,500,119)	(558,750)	(8,247,794)	(8,918,402)	-	(35,225,065)
Reclassifications	-	55,999,274	61,314,359	327,777	-	(73,710,938)	43,930,472
<b>Balances at end of year</b>	<b>236,029,162</b>	<b>1,556,367,620</b>	<b>869,189,302</b>	<b>165,701,292</b>	<b>133,881,290</b>	<b>80,898,084</b>	<b>3,042,066,750</b>
<b>Accumulated depreciation</b>							
Balances at beginning of year	2,851,295	1,260,849,880	514,470,249	150,381,392	89,077,976	-	2,017,630,792
Depreciation (Note 18)	-	105,132,440	37,085,898	11,392,542	17,254,865	-	170,865,746
Retirements/disposals	-	(17,463,208)	(558,750)	(8,247,794)	(7,096,899)	-	(33,366,651)
Reclassifications	-	-	30,860,478	-	-	-	30,860,478
<b>Balances at end of year</b>	<b>2,851,295</b>	<b>1,348,519,112</b>	<b>581,857,875</b>	<b>153,526,140</b>	<b>99,235,943</b>	<b>-</b>	<b>2,185,990,365</b>
<b>Net book value</b>	<b>P233,177,867</b>	<b>P207,848,508</b>	<b>P287,331,427</b>	<b>P12,175,152</b>	<b>P34,645,347</b>	<b>P80,898,084</b>	<b>P856,076,385</b>

The land owned by PERC on which the manufacturing facilities are located is leased by the Parent Company under a twenty-five year lease agreement. Upon expiration of the lease, title to the land will not be transferred to the Parent Company.

As of March 31, 2019, the Group's construction in progress mainly pertains to the improvements of factory machinery and equipment due to the increase of production volume capacity in its Washing Machine Division, as well as in its General Engineering Division due to building renovation of Washing Machine and Efan Production. As of March 31, 2018, the Group's construction in progress pertains to the improvements of factory machinery and equipment in Refrigerator Division and Aircon Division.

The Parent Company entered into a finance lease agreement for the vehicles of its executives. The carrying value of those leased vehicles, included under transportation equipment, amounted to nil and ₱0.5 million as of March 31, 2019 and 2018, respectively (see Note 21).

Additions in property, plant and equipment acquired on account amounted to ₱32.9 million and ₱102.3 million in 2019 and 2018, respectively (see Note 29).

Gain on disposal and retirement of property, plant and equipment amounted to ₱0.2 million, nil and ₱0.8 million in 2019, 2018 and 2017, respectively (see Note 20). Considerations received from the disposal and retirement of property, plant and equipment amounted to ₱2.8 million, ₱1.9 million and ₱2.5 million in 2019, 2018 and 2017, respectively.



## 8. Investment Properties

The Group's investment properties pertain to the Parent Company's building and building improvements under lease agreement with Panasonic Industrial Devices Philippines Corporation (PIDPH, formerly Panasonic Precision Devices Philippines Corporation) (see Note 21).

The rollforward of this account follows:

	2019		
	Building	Building Improvements	Total
<b>Cost</b>			
Balances at beginning of year	₱81,742,151	₱110,766,894	₱192,509,045
Reclassification (Note 7)	(81,742,151)	(110,766,894)	(192,509,045)
Balances at end of year	-	-	-
<b>Accumulated depreciation</b>			
Balances at beginning of year	54,140,148	106,977,560	161,117,708
Reclassification (Note 7)	(54,140,148)	(106,977,560)	(161,117,708)
Balances at end of year	-	-	-
<b>Net book value</b>	<b>₱--</b>	<b>₱--</b>	<b>₱--</b>

	2018		
	Building	Building Improvements	Total
<b>Cost</b>			
Balances at beginning and end of year	₱81,742,151	₱110,766,894	₱192,509,045
<b>Accumulated depreciation</b>			
Balances at beginning of year	71,341,160	116,748,340	188,089,500
Depreciation (Note 18)	3,269,686	619,000	3,888,686
Reclassification (Note 7)	(20,470,698)	(10,389,780)	(30,860,478)
Balances at end of year	54,140,148	106,977,560	161,117,708
<b>Net book value</b>	<b>₱27,602,003</b>	<b>₱3,789,334</b>	<b>₱31,391,337</b>

The Parent Company transferred investment properties to property, plant and equipment for its use in its operations with cost and related accumulated depreciation amounting to ₱192.5 million and ₱161.1 million, respectively, in 2019 and ₱43.9 million and ₱30.9 million, respectively, in 2018 (see Note 7).

In 2018, the fair value of investment properties is determined using the Sales Comparison Approach. Under the Sales Comparison Approach, a property's fair value is estimated by considering the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. The property being valued is compared with sales of similar properties that have been transacted in the open market. Listings and offerings may also be considered (see Note 28).

Rent income recognized under 'Other income - net' amounted to nil, ₱25.2 million and ₱25.0 million in 2019, 2018 and 2017, respectively (see Notes 20 and 22).

Direct operating expenses recognized under 'General and administrative' expenses arising from investment properties that generated rental income amounted to nil, ₱6.0 million and ₱8.0 million in 2019, 2018 and 2017, respectively.





9. Other Current Assets and Other Noncurrent Assets

Other current assets consist of the following:

	2019	2018
Creditable withholding taxes (CWTs)	₱83,793,413	₱65,131,908
Prepaid expenses	42,655,909	36,602,941
Advances to suppliers and employees	1,494,834	14,512,259
Tax credit certificates (TCCs)	3,459,909	3,459,909
	131,404,065	119,707,017
Less allowance for impairment losses	3,500,000	3,500,000
	<b>₱127,904,065</b>	<b>₱116,207,017</b>

Other noncurrent assets consist of the following:

	2019	2018
Deposits	₱18,331,355	₱22,029,193
Deferred input VAT	5,735,165	6,750,537
Software	2,472,342	3,983,860
Financial assets at FVOCI	4,785,583	-
AFS investments	-	2,341,458
Retirement asset (Note 11)	-	16,940,551
	<b>₱31,324,445</b>	<b>₱52,045,599</b>

Financial assets at FVOCI pertain to the Parent Company's investments in mandatory equity shares in utility companies. The Parent Company does not intend to dispose these assets as it will continue to avail of the services of the said utility companies. The changes in fair value recognized in other comprehensive income amounted to ₱2.4 million and nil in 2019 and 2018. Fair value changes in financial assets at FVOCI are presented as components of 'Other comprehensive income' in Equity.

Dividend income earned from financial assets at FVOCI and AFS investments amounted to nil in 2019, 2018 and 2017.

The allowance for impairment losses primarily relates to TCCs that management assessed will not be fully utilized based on its estimate of future taxable income.

The composition and movements of software follow:

	2019	2018
<b>Cost</b>		
Balances at beginning of year	₱115,010,349	₱110,477,358
Additions	-	4,532,991
Balances at end of year	115,010,349	115,010,349
<b>Accumulated amortization</b>		
Balances at beginning of year	111,026,489	109,910,509
Amortization (Note 18)	1,511,518	1,115,980
Balances at end of year	112,538,007	111,026,489
<b>Net book value</b>	<b>₱2,472,342</b>	<b>₱3,983,860</b>



## 10. Accounts Payable and Accrued Expenses

Accounts payable consist of:

	2019	2018
<b>Trade payable:</b>		
Related parties (Note 22)	₱446,690,574	₱534,749,410
Third parties	457,389,494	410,930,522
<b>Non-trade payable:</b>		
Related parties (Note 22)	111,533,777	119,211,643
Third parties	32,917,256	102,251,469
<b>Accrued expenses:</b>		
Third parties	1,220,131,539	827,184,551
Related parties (Note 22)	25,962,559	31,463,357
<b>Others:</b>		
Advances from customers	39,666,314	78,116,315
Output VAT – net	20,414,516	23,606,872
Dividends payable (Notes 13 and 22)	–	31,172
	<b>₱2,354,706,029</b>	<b>₱2,127,545,311</b>

Trade accounts payable are non-interest bearing and are generally on 30 to 60-day terms. Advances from customers include contract liabilities amounting to ₱2.9 million as at March 31, 2019.

Accrued expenses to third parties consist of:

	2019	2018
Advertising expenses and sales promotions	₱671,453,860	₱453,954,000
Suppliers	512,198,778	335,836,121
Salaries and other employee benefits	28,412,300	21,632,194
Freight expenses and releasing charges	8,066,601	15,734,474
Others	–	27,762
	<b>₱1,220,131,539</b>	<b>₱827,184,551</b>

Unrealized foreign exchange loss on translation of payables amounted to ₱6.3 million and ₱3.8 million in 2019 and 2018, respectively, and unrealized foreign exchange gain on translation of payables amounted to ₱0.6 million in 2017 (see Note 20).

## 11. Retirement and Other Liabilities

This account consists of:

	2019	2018
<b>Current</b>		
Other liabilities		
Provisions for estimated liabilities	₱86,064,919	₱65,920,724
<b>Noncurrent</b>		
Retirement liability	101,637,974	–
(Forward)		



	2019	2018
Other liabilities		
Provisions for estimated liabilities	P299,156,941	P240,018,888
Other long-term employee benefits	19,463,492	24,013,934
	420,258,407	264,032,822
	P506,323,326	P329,953,546

Provisions for estimated liabilities

Current and noncurrent portion of this account follows:

	2019	2018
<b>Current</b>		
Warranty claims	P86,064,919	P65,920,724
<b>Noncurrent</b>		
Warranty claims	14,925,081	28,603,276
Others	284,231,860	211,415,612
	299,156,941	240,018,888
	P385,221,860	P305,939,612

The rollforward of this account follows:

	2019		
	Warranty Claims	Others	Total
Balances at beginning of year	P94,524,000	P211,415,612	P305,939,612
Provisions (Notes 15 and 16)	65,552,662	110,496,000	176,048,662
Claims/usage/reclassifications	(59,086,662)	(37,679,752)	(96,766,414)
Balances at end of year	P100,990,000	P284,231,860	P385,221,860

	2018		
	Warranty Claims	Others	Total
Balances at beginning of year	P104,852,300	P197,842,370	P302,694,670
Provisions (Notes 15 and 16)	51,895,109	-	51,895,109
Claims/usage/reclassifications	(62,223,409)	13,573,242	(48,650,167)
Balances at end of year	P94,524,000	P211,415,612	P305,939,612

Provision for warranty claims are recognized for expected warranty claims on products sold, based on past experience in the level of repairs and returns.

Others primarily consist of provisions for legal cases and other liabilities.

The other information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it may negatively affect the operations of the Group and prejudice the outcome of the litigations and assessments.



Retirement Liability (Retirement Asset) (Note 9)

The Group's retirement liability consists of:

	2019	2018
Retirement liability (retirement asset) under defined benefit plan	P92,406,056	(P26,377,606)
Others	9,231,918	9,437,055
	<u>P101,637,974</u>	<u>(P16,940,551)</u>

The Parent Company has a funded, noncontributory defined benefit retirement plan covering all of its regular employees. The benefits are based on the years of service and percentage of latest monthly salaries.

Other retirement liability pertains to the Parent Company's employee benefits outside its defined benefit plan that it expects to pay to its employees upon retirement.

The principal actuarial assumptions used in determining retirement benefits for the Parent Company's retirement plan are as follows:

	2019	2018
Discount rate		
Beginning	6.5%	5.1%
Ending	5.8%	6.5%
Salary increase rate		
Beginning	5.0%	5.0%
Ending	5.0%	5.0%
Average expected future service years	7.8	7.9

Changes in retirement liability under defined plan in 2019 and 2018 are as follows:

	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
Balances at beginning of year	P450,923,312	(P477,300,918)	(P26,377,606)
Net benefit cost in the consolidated statement of comprehensive income (Note 17)			
Current service cost	22,323,213	-	22,323,213
Net interest cost	29,310,015	(31,024,560)	(1,714,545)
	<u>51,633,228</u>	<u>(31,024,560)</u>	<u>20,608,668</u>
Benefits paid	(31,279,701)	31,279,701	-
Remeasurements in other comprehensive income			
Actuarial changes arising from changes in financial assumptions	23,150,727	-	23,150,727
Experience adjustments	(3,622,950)	-	(3,622,950)
Actuarial changes arising from changes in demographic assumptions	(407,738)	-	(407,738)
Return on plan assets	-	79,054,955	79,054,955
	<u>19,120,039</u>	<u>79,054,955</u>	<u>98,174,994</u>
Balances at end of year	<u>P490,396,878</u>	<u>(P397,990,822)</u>	<u>P92,406,056</u>



	2018		
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability (asset)
Balances at beginning of year	₱472,984,327	(₱444,576,048)	₱28,408,279
Net benefit cost in the consolidated statement of comprehensive income (Note 17)			
Current service cost	23,390,650	-	23,390,650
Net interest cost	24,122,201	(22,673,378)	1,448,823
	47,512,851	(22,673,378)	24,839,473
Benefits paid	(23,211,294)	23,211,294	-
Remeasurements in other comprehensive income			
Actuarial changes arising from changes in financial assumptions	(49,111,518)	-	(49,111,518)
Experience adjustments	2,748,946	-	2,748,946
Actuarial changes arising from changes in demographic assumptions	-	-	-
Return on plan assets	-	(33,262,786)	(33,262,786)
	(46,362,572)	(33,262,786)	(79,625,358)
Balances at end of year	₱450,923,312	(₱477,300,918)	(₱26,377,606)

Changes in other retirement liability in 2019 and 2018 are as follows:

	Present value of defined benefit obligation	
	2019	2018
Balances at beginning of year	₱9,437,055	₱10,870,335
Net benefit cost in the consolidated statement of comprehensive income (Note 17)		
Current service cost	725,004	790,070
Net interest cost	613,409	554,387
	1,338,413	1,344,457
Benefits paid	(1,579,553)	(673,775)
Remeasurements in other comprehensive income		
Actuarial changes arising from changes in financial assumptions	277,842	(566,750)
Experience adjustments	(368,180)	(1,537,212)
Actuarial changes arising from changes in demographic assumptions	126,341	-
	36,003	(2,103,962)
Balances at end of year	₱9,231,918	₱9,437,055

#### Other long-term employee benefits

Other long-term employee benefits pertain to accumulated sick leaves and vacation leaves. Based on the Company's policy, employees are entitled to accumulate 10 days of vacation leave and 45 days of sick leave credits which are convertible to cash upon retirement or resignation.



The principal actuarial assumptions used in determining other long-term employee benefits for the Parent Company are as follows:

	2019	2018
Discount rate		
Beginning	6.4%	5.0%
Ending	5.8%	6.4%
Salary increase rate		
Beginning	5.0%	5.0%
Ending	5.0%	5.0%
Average expected future service years	7.9	7.9
Average accumulated sick leaves	33.1	36.5
Average accumulated vacation leaves	8.9	11.2

Other long-term employee benefits incurred in 2019, 2018 and 2017 amounted to ₱4.9 million, ₱1.1 million and ₱2.6 million presented under 'Salaries, wages and employee benefits' in the consolidated statement of comprehensive income (see Note 17).

The latest actuarial valuation reports of the Parent Company are prepared by an independent actuary as of March 31, 2019.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of March 31, 2019 and 2018, assuming all other assumptions were held constant:

	Increase/ (decrease)	2019	2018
Discount rates	(+1.0%)	₱465,829,562	₱429,160,147
	(-1.0%)	537,264,572	495,063,044
Future salary increases	(+1.0%)	537,189,593	495,235,826
	(-1.0%)	465,275,285	428,449,439

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

	2019	2018
Less than 1 year	₱28,507,379	₱39,066,507
More than 1 years to 5 years	226,311,509	186,315,441
More than 5 years to 10 years	414,986,175	449,245,809
More than 10 years to 15 years	295,830,028	299,387,988
More than 15 years to 20 years	111,039,000	126,623,028

The average duration of the defined benefit obligation at the end of the reporting period is 8.9 years. The Parent Company expects to contribute ₱22.3 million to the defined benefit plan in 2020.

The fair value of plan assets by each class as at the end of the reporting period of the Group are as follow (see Note 22):

	2019	2018
Cash and cash equivalents	₱82,126,449	₱106,759,253
Loans and receivables	56,203,400	51,803,810
Investments	259,660,973	318,737,855
Fair value of plan assets	₱397,990,822	₱477,300,918



## 12. Capital Stock

Details of capital stock as of March 31, 2019 and 2018 follow:

	Par Value	Shares Authorized	Amount	Shares Issued and Outstanding	Amount
Class A	₱1	169,400,000	₱169,400,000	84,723,432	₱84,723,432
Class B	1	677,600,000	677,600,000	337,994,588	337,994,588
		847,000,000	₱847,000,000	422,718,020	₱422,718,020

- a. The Class A shares of stock can be issued to Philippine nationals only, while the Class B shares of stock can be issued to either Philippine or foreign nationals. As of March 31, 2019 and 2018, all Class B shares are issued to foreign nationals only. The Group's Class A shares of stock are listed in the Philippine Stock Exchange.
- b. Below is the summary of the Parent Company's track record of registration of securities under the Securities Regulation Code (SRC):

Date	Number of Shares	Issue Price
January 21, 1983	44,100,000	₱1
July 14, 1986	74,042,783	1
January 16, 1992	104,988,723	1

The total number of shares registered under the SRC is 84,723,432 shares being held by 444 and 441 stockholders as of March 31, 2019 and 2018, respectively.

### *Capital management*

The primary objective of the 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 Group considers the following as its capital as of March 31, 2019 and 2018:

	2019	2018
Capital stock	₱422,718,020	₱422,718,020
Additional paid-in capital	4,779,762	4,779,762
Other comprehensive income	(80,929,594)	(14,626,021)
Retained earnings (Note 13)		
Appropriated	3,742,400,000	3,692,400,000
Unappropriated	351,505,101	413,835,735
	<b>₱4,440,473,289</b>	<b>₱4,519,107,496</b>

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

The Parent Company declared cash dividends amounting to ₱157.1 million, nil and ₱295.9 million in 2019, 2018 and 2017, respectively (see Note 13).

The Group and the Parent Company have no externally imposed capital requirements. There were no changes made in the objectives, policies or processes for the years ended March 31, 2019, 2018 and 2017, respectively.



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### 13. Retained Earnings

- a. On September 18, 1990, the Parent Company entered into a Merger Agreement with National Panasonic (Phils.) Inc. (NPPI), a related party and the exclusive distributor of the "National" brand of electronic products. The terms and conditions of the merger, as set forth in the Articles of Merger which was approved by the SEC on October 29, 1990, include, among others, the transfer by NPPI to the Parent Company, being the surviving corporation, of all its assets, liabilities and business on the same date. The transaction was accounted for using the pooling of interests method.

The retained earnings inherited from NPPI before the effectivity of the merger amounting to ₱64.7 million are included in the consolidated statement of financial position under "unappropriated retained earnings". Such is not available for distribution to stockholders in the form of cash or property dividends. Based on the SEC guidelines and after considering this adjustment, the retained earnings available for dividend declaration as of March 31, 2019 and 2018 amounted to ₱56.9 million and ₱199.1 million, respectively.

In 2019 and 2018, the consolidated retained earnings include the retained earnings of PERC amounting to ₱42.4 million, respectively which are not available for dividend declaration.

- b. On March 29, 2019, the Parent Company's BOD authorized and directed the reversal of the appropriated retained earnings amounting to ₱332.8 million. On the same date, the BOD authorized the appropriation of retained earnings amounting to ₱3.7 billion, ₱3.3 billion of which represents the reinstatement of the previous appropriations for in-plant production of plastic and metal parts, the Group's change of IT System and other future projects of the Parent Company, while the additional ₱382.8 million appropriations represents appropriations for expansion of warehouses to cope with business growth and the replacement and upgrading of old machines, molds and dies and other expected undertakings to expand production including target increase in B2B sales volume. These projects are expected to be completed by 2024.
- c. On March 31, 2018, the Parent Company's BOD authorized and directed the reversal of the appropriated retained earnings amounting to ₱417.6 million. From the total appropriations of ₱3.7 billion as of March 31, 2018, ₱3.0 billion represents the reinstatement of the previous appropriations for in-plant production of plastic and metal parts, Group's change of IT System and other future projects of the Parent Company. The remaining ₱682.6 million additional appropriations represents appropriations for replacement and upgrading of old machines, molds and dies and other future projects and activities intended to boost B2B sales as growth engine. These projects are expected to be completed by 2024.
- d. On March 31, 2017, the Parent Company's BOD authorized and directed the reversal of the appropriated retained earnings amounting ₱196.4 million. From the total appropriations of ₱3.4 billion as of March 31, 2017, ₱3.0 billion represents the reinstatement of the previous appropriations for in-plant production of plastic and metal parts, Group's change of IT System and other future projects of the Parent Company. The remaining ₱431.4 million additional appropriations represents appropriations for replacement and upgrading of old machines, molds and dies and other future projects and activities intended to boost B2B sales as growth engine. These projects are expected to be completed by 2024.





e. The Parent Company's BOD declared cash dividends as follows:

	2019	2018	2017
March 31, 2019, 37.1% cash dividends to stockholders of record as of April 25, 2018 payable on May 11, 2018 (₱0.37 per share)	₱157,124,288	₱-	₱-
March 31, 2017, 70.0% cash dividends to stockholders of record as of April 18, 2017 payable on May 10, 2017 (₱0.70 per share)	-	-	295,902,614
	₱157,124,288	₱-	₱295,902,614

#### 14. Cost of Goods Sold

This account consists of:

	2019	2018	2017
Direct materials	₱4,357,168,075	₱4,335,635,483	₱4,000,938,145
Direct labor (Note 17)	165,882,757	161,155,988	158,298,436
Manufacturing overhead:			
Indirect labor (Note 17)	183,671,391	177,863,434	173,742,023
Depreciation and amortization (Note 18)	174,875,484	142,087,832	124,331,449
Electricity, gas and water	52,366,191	47,392,696	41,606,217
Repairs and maintenance	27,555,130	27,635,370	30,467,946
Research and development	27,085,844	36,772,785	23,147,498
Indirect materials	22,726,917	19,483,561	22,228,502
Supplies	15,804,579	16,872,629	15,628,382
Travel	10,517,307	12,572,106	13,643,115
Provision for inventory write-down (Note 6)	9,331,037	12,425,612	2,272,167
Insurance	8,873,335	9,244,807	8,640,286
Taxes and dues	4,590,472	3,811,046	3,687,502
Others	24,738,651	19,159,616	22,948,933
Total manufacturing overhead	562,136,338	525,321,494	482,344,020
Total manufacturing costs	5,085,187,170	5,022,112,965	4,641,580,601
Goods in process (Note 6):			
Beginning of year	19,786,525	12,284,449	18,688,984
End of year	(10,564,748)	(19,786,525)	(12,284,449)
Cost of goods manufactured	5,094,408,947	5,014,610,889	4,647,985,136
Finished goods and merchandise (Note 6):			
Beginning of year	963,587,145	695,662,958	438,618,194
Purchases	4,240,273,843	3,727,504,319	3,095,003,026
Provision for inventory write-down	70,101,349	4,012,274	20,944,700
End of year	(1,101,361,371)	(963,587,145)	(695,662,958)
	₱9,267,009,913	₱8,478,203,295	₱7,506,888,098



### 15. Selling Expenses

This account consists of:

	2019	2018	2017
Freight and storage	₱528,209,608	₱465,853,964	₱428,910,498
Sales promotions	280,431,982	250,565,303	395,657,236
Advertising and commissions (Note 22)	109,633,888	129,226,447	151,008,009
Provision for warranty claims (Note 11)	65,552,662	51,895,109	71,419,594
	<u>₱983,828,140</u>	<u>₱897,540,823</u>	<u>₱1,046,995,337</u>

### 16. General and Administrative Expenses

This account consists of:

	2019	2018	2017
Salaries, wages, and employee benefits (Note 17)	₱328,354,472	₱315,741,388	₱293,874,887
Technical assistance fees (Note 22)	174,043,531	172,718,271	171,371,146
Provision for other estimated liabilities (Note 11)	110,496,000	-	54,711,380
Repairs and maintenance	86,413,251	64,032,861	42,153,841
Brand license fees (Note 22)	83,374,564	76,431,870	66,162,508
Outsourcing	59,103,176	46,480,522	29,398,293
Taxes and dues	47,753,087	35,602,555	33,894,449
Travel	36,897,385	38,149,388	30,942,233
Rent	35,229,134	31,174,016	23,031,643
Depreciation and amortization (Note 18)	28,524,824	33,782,580	34,149,932
Insurance	17,886,118	18,997,253	13,757,171
Allocated costs	15,578,410	13,979,523	12,269,915
Supplies	8,508,143	8,557,816	9,259,797
Electricity, gas and water	6,374,085	6,498,540	7,118,685
Communications	5,745,282	16,712,442	18,739,760
Freight and Storage	2,939,070	3,213,839	5,311,646
Provision for credit and impairment losses (Note 5)	526,315	-	-
Others (Note 20)	48,766,519	67,742,670	42,422,401
	<u>₱1,096,513,366</u>	<u>₱949,815,534</u>	<u>₱888,569,687</u>

Others include entertainment, amusement and recreation, research and development, product testing, credit investigation costs and others.



### 17. Salaries, Wages and Employee Benefits

This account consists of:

	2019	2018	2017
Compensation	₱556,709,452	₱535,992,585	₱500,263,756
Net retirement benefit expense (Note 11)	21,947,081	26,183,930	31,145,119
Other employee benefits	99,252,087	92,584,295	94,506,471
	<u>₱677,908,620</u>	<u>₱654,760,810</u>	<u>₱625,915,346</u>

Personnel expenses are shown in the consolidated statements of comprehensive income as follows:

	2019	2018	2017
Cost of goods sold (Note 14)	₱349,554,148	₱339,019,422	₱332,040,459
General and administrative expenses (Note 16)	328,354,472	315,741,388	293,874,887
	<u>₱677,908,620</u>	<u>₱654,760,810</u>	<u>₱625,915,346</u>

### 18. Depreciation and Amortization

Details of depreciation and amortization follow:

	2019	2018	2017
Property, plant and equipment (Note 7)	₱201,888,790	₱170,865,746	₱150,861,840
Investment properties (Note 8)	—	3,888,686	5,229,064
Software (Note 9)	1,511,518	1,115,980	2,390,477
	<u>₱203,400,308</u>	<u>₱175,870,412</u>	<u>₱158,481,381</u>
Cost of goods sold (Note 14)	₱174,875,484	₱142,087,832	₱124,331,449
General and administrative expenses (Note 16)	28,524,824	33,782,580	34,149,932
	<u>₱203,400,308</u>	<u>₱175,870,412</u>	<u>₱158,481,381</u>

### 19. Entertainment, Amusement and Recreation (EAR) Expenses

Details of EAR expenses required to be disclosed under Revenue Regulations No. 10-2002 of the Bureau of Internal Revenue, which authorizes the imposition of a ceiling on EAR expenses, follow:

	2019	2018	2017
General and administrative expenses (Note 16)	₱—	₱7,625	₱61,808
Cost of goods sold (Note 14)	32,822	—	—
	<u>₱32,822</u>	<u>₱7,625</u>	<u>₱61,808</u>



## 20. Other Income - net

This account consists of:

	2019	2018	2017
Interest income (Note 4)	₱68,853,694	₱55,385,281	₱55,478,130
Service income (Note 22)	46,930,202	52,186,830	43,382,598
Foreign currency exchange loss - net (Notes 4, 5 and 10)	(19,548,146)	(18,674,012)	(15,141,954)
Income from scrap sales	11,482,503	12,242,921	10,771,195
Gain (loss) on disposal/ retirement of property, plant and equipment and software (Note 7)	154,482	-	(789,590)
Rent income (Notes 8 and 22)	-	25,220,973	24,961,148
Recovery of allowance for credit and impairment losses (Notes 5 and 9)	-	23,034,700	1,793,902
Miscellaneous	(6,743,883)	3,001,153	14,930,793
	<b>₱101,128,852</b>	<b>₱152,397,846</b>	<b>₱135,386,222</b>

## 21. Lease Agreements

### *Finance lease - as lessee*

The Parent Company leases certain motor vehicles with terms of three years. At the end of the lease term, the title to the property passes to the Parent Company. The Parent Company is required to pay the monthly principal and interest amounts specified in the lease agreements.

Total principal and interest payments amounted to nil, ₱0.3 million and ₱2.3 million in 2019, 2018 and 2017, respectively.

The future minimum lease payable under these lease agreements amounted to nil and ₱0.5 million as of March 31, 2019 and 2018, respectively.

### *Operating lease - as lessor*

The Parent Company has an operating lease agreement for certain buildings and building improvements with PIDPH. The existing contract is effective from March 1, 2016 to February 28, 2018. On March 1, 2018, the lease agreement for specific building and building improvements was extended for one month until March 31, 2018.

The Company has no future minimum lease receivables under this non-cancellable operating lease in 2019 and 2018.

### *Operating lease - as lessee*

The Parent Company entered into cancellable operating leases of condominium units for its officers ranging from 1 year to 5 years renewable under certain terms and conditions. In 2019, 2018 and 2017, total rental expense from the lease of condominium units amounted to ₱28.5 million, ₱31.2 million and ₱23.0 million, respectively (see Note 16).



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## 22. Related Party Transactions

The Parent Company has entered into various transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, such as affiliates. Related parties may be individuals or corporate entities. Transactions with related parties are made substantially on the same terms as with other individuals and businesses and are generally settled in cash.

The companies under common control of the Ultimate Parent Company (referred to as affiliates) that the Parent Company has transactions are as follows:

- Panasonic Appliances
- Panasonic Appliances Cold Chain (Thailand) Co., Ltd.
- Panasonic Asia Pacific Pte. Ltd.
- Panasonic Australia Pty, Ltd.
- Panasonic AVC Networks Kuala Lumpur Malaysia Sdn. Bhd.
- Panasonic Commercial Equipment Systems Co., Ltd.
- Panasonic Consumer Marketing Asia Pacific
- Panasonic Corporation
- Panasonic Eco Solutions Asia Pacific
- Panasonic Ecology Systems
- Panasonic Ecology Systems (Hong Kong)
- Panasonic Ecology Systems (Thailand)
- Panasonic Factory Solutions Asia Pacific
- Panasonic Hong Kong Co. Ltd.
- Panasonic Industrial Devices Automation Control Sales Asia Pacific
- Panasonic Industrial Devices Materials Singapore Pte. Ltd.
- Panasonic Industrial Devices Sales (M) Sdn. Bhd.
- Panasonic Logistics Asia Pacific
- Panasonic Malaysia Sdn. Bhd.
- Panasonic Management Malaysia Sdn. Bhd.
- Panasonic Manufacturing Ayuthaya Co., Ltd.
- Panasonic Manufacturing Indonesia Eco System Division
- Panasonic Manufacturing U.K. Ltd.
- Panasonic New Zealand Ltd.
- Panasonic Precision Devices Philippines Corporation
- Panasonic Procurement (China) Co., Ltd.
- Panasonic Procurement Asia Pacific
- Panasonic Procurement Malaysia Sdn. Bhd.
- Panasonic Singapore
- Panasonic System Networks Co., Ltd.
- Panasonic System Solutions Asia Pacific
- Panasonic Systems Asia Pacific
- Panasonic Systems Communications Company of Asia Pacific
- Panasonic Taiwan Co., Ltd.
- PT. Panasonic Gobel Energy Indonesia
- PT. Panasonic Manufacturing Indonesia



As a result of the related party transactions, the Parent Company has outstanding balances with related parties as follows. Amounts due from and due to related parties are non-interest bearing and are normally settled within one year.

		2019	
Nature, terms and conditions		Amount/ Volume	Outstanding Balance
<i>Ultimate Parent Company</i>			
Non-trade receivables (Note 5)	Related to compensation and welfare expenses of certain employee, 30-days term, non-interest bearing, unsecured	P3,049,535	P6,629,927
	Related to promo support, 30-day term, non-interest bearing, unsecured	(2,642,485)	1,380,418
Trade payable (Note 10)	Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	(119,477)	408,116
Non-trade payables (Note 10)	Related to brand license fees payable equivalent to 0.7% of the sales price of the products bearing the brand "KDK" and "Panasonic", non-interest bearing, payable semi-annually, unsecured	1,322,557	37,613,910
	Related to technical assistance fees payable equivalent to 3.0% of selected products, non-interest bearing, payable semi-annually, unsecured	(9,000,423)	73,919,867
Dividends payable (Note 10)	Dividends declared by the Parent Company	125,632,588	-
Accrued expenses (Note 10)	Related to compensation and welfare expenses of certain employees, payable quarterly, non-interest bearing, unsecured	824,186	8,550,061
	Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	(27,955)	1,232,286
	Accrued expenses related to export sales of the ACD (e.g. warranty expenses)	807,143	3,357,520
	Related to training fees incurred, non-interest bearing, unsecured	(631,781)	70,626
Technical assistance fee (Note 16)	Related to technical assistance fees payable equivalent to 3.0% of selected products	174,043,531	-
Brand license fee (Note 16)	Related to brand license fees payable equivalent to 1.0% of the sales price of the products bearing the brand "KDK" and "Panasonic"	83,374,564	-
<i>Affiliates</i>			
Trade receivables (Note 5)	Sale of airconditioner units products, 30-day term, non-interest bearing, unsecured, no impairment	73,786,449	266,709,978
Non-trade receivables (Note 5)	Related to service income from rendering services in the form of general advice and assistance fees, 30-day term, non-interest bearing, unsecured, no impairment	991,882	5,411,215



2019			
	Nature, terms and conditions	Amount/ Volume	Outstanding Balance
	Related to promo support, 30-day term, non-interest bearing, unsecured, no impairment	(P35,114,814)	P8,321,564
	Related to certain expenses paid in behalf of affiliates, 30-day term, non-interest bearing, unsecured, no impairment	1,720,362	2,965,640
Trade payable (Note 10)	Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	92,688,273	446,282,458
Accrued expenses (Note 10)	Related to expenses payable for management fee, 30-day term, non-interest bearing, unsecured	17,510	2,703,750
	Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	6,121,223	9,907,893
	Accrued expenses related to product development cost of Aircon	(12,611,124)	140,423
Service income (Note 20)	Related to service income earned from rendering services in the form of general advice and assistance fees	46,930,202	-
2018			
	Nature, terms and conditions	Amount/ Volume	Outstanding Balance
<i>Ultimate Parent Company</i>			
Non-trade receivables (Note 5)	Related to compensation and welfare expenses of certain employee, 30-days term, non-interest bearing, unsecured	P3,580,392	P3,580,392
	Related to promo support, 30-day term, non-interest bearing, unsecured	3,414,193	4,022,903
	Related to expenses incurred in Corporate Social Responsibility activities, 30-day term, non-interest bearing, unsecured	(729,109)	-
Trade payable (Note 10)	Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	36,895	527,593
Non-trade payables (Note 10)	Related to brand license fees payable equivalent to 0.7% of the sales price of the products bearing the brand "KDK" and "Panasonic", non-interest bearing, payable semi-annually, unsecured	3,734,418	36,291,353
	Related to technical assistance fees payable equivalent to 3.0% of selected products, non-interest bearing, payable semi-annually, unsecured	14,138,558	82,920,290
Dividends payable (Note 10)	Dividends declared by the Parent Company	(295,888,744)	31,172
Accrued expenses (Note 10)	Related to compensation and welfare expenses of certain employees, payable quarterly, non-interest bearing, unsecured	395,352	7,725,875
	Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	(213,866)	1,260,241



2018		
Nature, terms and conditions	Amount/ Volume	Outstanding Balance
Accrued expenses related to export sales of the ACD (e.g. warranty expenses)	P1,258,178	P2,550,377
Related to certain expenses paid in behalf of the Company, 30-day term, non-interest bearing, unsecured, no impairment	(1,551,316)	-
Related to training fees incurred, non-interest bearing, unsecured	702,407	702,407
Technical assistance fee (Note 16) Related to technical assistance fees payable equivalent to 3.0% of selected products	172,718,271	-
Brand license fee (Note 16) Related to brand license fees payable equivalent to 1.0% of the sales price of the products bearing the brand "KDK" and "Panasonic"	76,431,870	-
<i>Affiliates</i>		
Trade receivables (Note 5) Sale of airconditioner units products, 30-day term, non-interest bearing, unsecured, no impairment	75,780,477	192,923,529
Non-trade receivables (Note 5) Related to service income from rendering services in the form of general advice and assistance fees, 30-day term, non-interest bearing, unsecured, no impairment	(3,737,252)	4,419,333
Related to promo support, 30-day term, non-interest bearing, unsecured, no impairment	(5,199,031)	43,436,378
Related to certain expenses paid in behalf of affiliates, 30-day term, non-interest bearing, unsecured, no impairment	(2,231,938)	1,245,278
Trade payable (Note 10) Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	134,153,513	534,221,817
Accrued expenses (Note 10) Related to expenses payable for management fee, 30-day term, non-interest bearing, unsecured	2,686,240	2,686,240
Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	3,494,109	3,786,670
Accrued expenses related to product development cost of Aircon	8,261,488	12,751,547
Rent income (Note 20) Related to rental income on investment properties, 30-day term, non-interest bearing, unsecured, no impairment	25,220,973	-
Service income (Note 20) Related to service income earned from rendering services in the form of general advice and assistance fees	52,186,830	-
Advertising and commissions Related to service commissions incurred for referral of project sales	31,584,441	-





		2017	
		Amount/ Volume	Outstanding Balance
<i>Ultimate Parent Company</i>			
Non-trade receivables	Related to promo support, 30-day term, non-interest bearing, unsecured	(¥1,027,098)	P608,710
	Related to expenses incurred in Corporate Social Responsibility activities, 30-day term, non-interest bearing, unsecured	(920,942)	729,109
Trade payable	Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	(1,934,625)	490,698
Non-trade payables	Related to brand license fees payable equivalent to 1.0% of the sales price of the products bearing the brand "KDK" and "Panasonic", non-interest bearing, payable semi-annually, unsecured	12,872,179	32,556,935
	Related to technical assistance fees payable equivalent to 3.0% of selected products, non-interest bearing, payable semi-annually, unsecured	7,690,220	68,781,732
Dividends payable	Dividends declared by the Parent Company	168,997,294	236,596,212
Accrued expenses	Related to compensation and welfare expenses of certain employees, payable quarterly, non-interest bearing, unsecured	539,108	7,330,523
	Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	615,778	1,474,107
	Accrued expenses related to export sales of the ACD (e.g. sales promo, after sales service)	(603,255)	1,292,199
	Related to certain expenses paid in behalf of the Company, 30-day term, non-interest bearing, unsecured	1,551,316	1,551,316
	Related to training fees incurred, non-interest bearing, unsecured	(586,420)	-
Technical assistance fees	Related to technical assistance fees incurred equivalent to 3.0% of selected products	171,371,146	-
Brand license fees	Related to brand license fees incurred equivalent to 1.0% of the sales price of the products bearing the brand "KDK" and "Panasonic"	66,162,508	-
<i>Affiliates</i>			
Trade receivables	Sale of airconditioner units products, 30-day term, non-interest bearing, unsecured, no impairment	(63,158,439)	117,143,052
Non-trade receivables	Related to service income from rendering services in the form of general advice and assistance fees, 30-day term, non-interest bearing, unsecured, no impairment	8,156,585	8,156,585
	Related to electricity consumption charged by the Parent Company to a lessee-affiliate, 30-day term, non-interest bearing, unsecured, no impairment	(3,671,627)	-



		2017	
	Nature, terms and conditions	Amount/ Volume	Outstanding Balance
	Related to promo support, 30-day term, non-interest bearing, unsecured, no impairment	P10,742,536	P48,635,409
	Related to commission income, 30-day term, non-interest bearing, unsecured	(7,619,083)	-
	Related to certain expenses paid in behalf of affiliates, 30-day term, non-interest bearing, unsecured, no impairment	(2,996,942)	3,477,216
Trade payable	Purchase of raw materials, merchandise and other spare parts, 30-day term, non-interest bearing, unsecured	76,625,293	400,068,304
Accrued expenses	Related to expenses payable for management fee, 30-day term, non-interest bearing, unsecured	(2,375,212)	-
	Related to communication expenses incurred, 30-day term, non-interest bearing, unsecured	292,561	292,561
	Accrued expenses related to product development cost of Aircon	4,490,059	4,490,059
Rent income	Related to rental income on investment properties, 30-day term, non-interest bearing, unsecured, no impairment	24,961,148	-
Service income	Related to service income earned from rendering services in the form of general advice and assistance fees	43,382,598	-

Receivable from and payable to related parties are presented under 'Receivables' and 'Accounts payable and accrued expenses', respectively.

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as at March 31, 2019 and 2018 are unsecured and interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. In 2019, 2018 and 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Parent Company has interest-bearing loans receivable from its Subsidiary amounting to P154.0 million as of March 31, 2019 and 2018. The 12.0% nominal annual interest is to be paid on a monthly basis while the principal is payable on its maturity date, March 31, 2026.

The carrying amount of the receivable in the Parent Company's books and payable in the Subsidiary's books amounted to P154.0 million as of March 31, 2019 and 2018, respectively, which were eliminated in the consolidation. The net expenses in the Parent Company's books and net revenue in the Subsidiary's books amounted to P28.9 million and P19.1 million in 2019, 2018 and 2017. These balances and transactions were eliminated in the consolidation.



Key Management Personnel

The Group's key management personnel include the president and directors. The compensation of key management personnel consists of:

	2019	2018	2017
Short-term employee benefits	₱64,978,844	₱80,424,774	₱59,193,958
Post-employment benefits	4,865,047	6,451,950	4,635,894
	<u>₱69,843,891</u>	<u>₱86,876,724</u>	<u>₱63,829,852</u>

There are no agreements between the Group and any of its key management personnel providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Parent Company's retirement plan.

Transactions with the Retirement Fund

Under PFRS, certain post-employment benefit plans are considered as related parties.

The Parent Company's retirement plan is in the form of different investments being managed by the Parent Company. The Board of Trustees (BOT) of the retirement plan is mandated to approve the plan, trust agreement, investment plan including any amendments or modifications thereto, and any other activities of the plan. Certain members of the BOD of the Parent Company are represented in the BOT. The BOT manages the plan based on the mandate as defined in the trust agreement. The retirement fund has 60.0% interest in the subsidiary of the Parent Company amounting to ₱59.7 million and 5.1% interest in the Parent Company amounting to ₱133.6 million and as of March 31, 2019 carried at fair value. The Retirement Fund recognized a remeasurement loss in 2019 amounting to ₱79.1 million.

The fair value of the net plan assets of the fund by each classes as at the end of the reporting period are presented in Note 11.

As of March 31, 2019 and 2018, certain loans and receivables amounting to ₱56.2 million and ₱51.8 million, respectively, are receivables of the retirement fund from certain employees of the Parent Company. These are being deducted from the monthly salary of the employees and are payable within 12 months. Investments include equity instruments which have quoted market prices except for the investment in PERC amounting to ₱59.7 million and ₱58.3 million as of March 31, 2019 and 2018, respectively. The fair value of investment in quoted equity instruments as of March 31, 2019 and 2018 amounted to ₱133.6 million and ₱251.4 million, respectively. Investments also include investment properties pertaining to a parcel of land held for capital appreciation amounting to ₱9.0 million as of March 31, 2019 and 2018.

There are no other transactions or outstanding balances by the Parent Company, or its related parties, with the retirement plan of the employees of the Parent Company as of March 31, 2019 and 2018.

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**23. Registration with the PEZA**

The Parent Company is registered with the Philippine Economic Zone Authority (PEZA) pursuant to the provision of Republic Act (RA) No. 7916 (otherwise known as the "Special Economic Development Zone Act of 1995"), for Ecozone Export Enterprise for the manufacture of air conditioners and related service parts. Under the terms and conditions of its registration, the Parent Company is subject to certain requirements primarily related to the monitoring of its registered activities.



As a PEZA registered nonpioneer enterprise, the Parent Company's existing Board of Investments (BOI) operations, which were transferred to PEZA, are entitled to certain tax benefits and nontax incentives provided for the original project by the aforementioned law, which includes, among others, income tax holiday (ITH) for three years for incremental sales of air-conditioners starting April 1, 2003, 5.0% gross income taxation for air conditioners in lieu of national and local taxes, tax and duty-free importation of capital equipment and raw materials, exemption from realty taxes on machinery for four years from the date of acquisition, employment of foreign nationals and others. Any local sale of its registered products shall be subject to a separate application and prior PEZA approval.

The Parent Company's BOI registration is deemed cancelled upon approval of its PEZA registration.

The Parent Company also agrees that a first lien shall automatically be constituted upon any of its real or personal property found, existing and/or located in its registered operations to answer for any and all outstanding obligations or accounts owing, due and/or payable by the Parent Company to PEZA in the future, if any.

#### 24. Income Taxes

The provision for income tax consists of:

	2019	2018	2017
Current			
RCIT	P147,418,812	P-	P111,283,852
Gross income tax (GIT)	20,658,316	17,468,279	20,091,697
MCIT		43,592,895	
Deferred	(42,007,077)	(8,178,668)	-
	<u>P126,070,051</u>	<u>P52,882,506</u>	<u>P131,375,549</u>

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

	2019	2018	2017
Income tax at statutory income tax rate	P82,377,356	P95,074,460	P200,163,028
Additions to (reductions in) income taxes resulting from:			
Movement in unrecognized deferred tax assets	93,849,785	23,919,974	(1,450,161)
Income from PEZA registered activities	(34,686,453)	(26,282,825)	(43,066,554)
Income subjected to final tax	(15,118,297)	(11,260,243)	(11,258,169)
Non-deductible expenses (non-taxable income)	(352,340)	(28,568,860)	(13,012,595)
	<u>P126,070,051</u>	<u>P52,882,506</u>	<u>P131,375,549</u>



The components of the Group's net deferred tax assets follow:

	2019	2018
<b>Deferred tax assets:</b>		
Retirement liability	₱41,412,605	₱-
Provisions for estimated liabilities and other accruals	34,514,493	58,479,884
Unamortized past service cost	30,645,274	37,275,979
Allowance for inventory losses	13,766,900	9,214,650
Allowance for credit and probable losses	1,477,800	2,471,700
Excess MCIT over RCIT	-	26,432,717
Unrealized foreign currency exchange loss - net	-	1,425,645
	<b>121,817,072</b>	<b>135,300,575</b>
<b>Deferred tax liabilities:</b>		
Net book value of replacement and burned property, plant and equipment	8,535,823	8,544,300
Unrealized foreign currency exchange gain - net	1,190,767	-
Retirement assets	-	2,122,015
	<b>9,726,590</b>	<b>10,666,315</b>
	<b>₱112,090,482</b>	<b>₱124,634,260</b>

As of March 31, 2019 and 2018, the Group did not recognize deferred tax assets amounting to ₱117.8 million and ₱23.9 million, respectively, on temporary differences related to provisions for estimated liabilities and other accruals. The Group assessed that it may not be probable that sufficient taxable income will be available in the foreseeable future against which these tax benefits can be realized.

In addition, the Group has certain activities entitled to tax benefits and nontax incentives granted by PEZA. As such, no deferred tax assets were set up on certain gross deductible temporary differences amounting to ₱1.3 million and ₱1.6 million in 2019 and 2018, respectively.

In 2019, the group credited its entire excess MCIT over RCIT amounting to ₱26.4 million against its regular corporate income tax.

## 25. Contingencies

The Group is contingently liable for lawsuits and tax assessments arising from the ordinary course of business. In the opinion of management and its legal counsels, the ultimate liability for the said lawsuits and tax assessments, if any, would not be material in relation to the Group's financial position and operating results.

## 26. Basic/Diluted Earnings Per Share

Basic earnings per share is calculated by dividing the net income attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is the same as the basic earnings per share as there are no potential dilutive shares outstanding.



The following are the income and share data used in the basic/diluted earnings per share computation:

	2019	2018	2017
Net income attributable to the equity holders of the Parent Company (a)	₱148,144,539	₱262,726,845	₱534,334,251
Weighted average number of common shares (b) (Note 12)	422,718,020	422,718,020	422,718,020
Basic/diluted earnings per share (a/b)	₱0.35	₱0.62	₱1.26

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of the completion of the consolidated financial statements.

## 27. Reporting Segments

For management purposes, the Group's business segments are grouped in accordance with that of Parent Company's (PC) lines of business, which are grouped on product basis follow: GCMS (Global Consumer Marketing Sector), SNC (System Network and Communication) and others. Under this structure, each business domain will integrate its research and development, manufacturing and sales, thereby establishing an autonomous structure that expedites business operations to accelerate growth.

Products under each business segment are as follows:

Consumer - This segment includes audio, video primarily related to selling products for media and entertainment industry. This also includes home appliance and household equipment primarily related to selling for household consumers.

System Solutions Group (SSG) - This segment includes office automation equipment such as telecommunication products, security system and projectors primarily related to selling for business consumers.

Others - This segment includes supermarket refrigeration such as cold room, showcases and bottle coolers primarily related to selling to supermarkets and groceries. This also includes solar panel which is primarily a project-based selling.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, current and deferred taxes are managed on a group basis and are not allocated to operating segments.



The Group's segment information for the fiscal years ended March 31 is as follows (in thousands):

	2019				Total
	Consumer	SSG	Others	Adjustments/ Eliminations	
<b>Consolidated Statement of Comprehensive Income</b>					
Net sales	P11,021,262	P338,466	P161,086	P-	P11,520,814
Cost of goods sold (Note 14)	(8,800,913)	(299,221)	(166,876)	-	(9,267,010)
Selling expenses (Note 15)	(993,438)	(1,892)	11,502	-	(983,828)
General and administrative expenses (Note 16)	(999,631)	(30,543)	(66,340)	-	(1,096,514)
Other income - net (Note 20)	26,829	730	73,570	-	101,129
Income before income tax	<u>P254,109</u>	<u>P7,540</u>	<u>P12,942</u>	<u>P-</u>	<u>274,591</u>
Provision for income tax (Note 24)					126,070
Net income					<u>P148,521</u>
<b>Consolidated Statement of Financial Position</b>					
Segment assets	P4,520,268	P379,112	P2,365,116	P112,090 <sup>1</sup>	P7,376,586
Segment liabilities	2,392,228	136,947	331,854	2,715 <sup>2</sup>	2,863,744
<b>Other Segment Information</b>					
Capital expenditures <sup>3</sup> (Notes 7, 8 and 9)	P198,879	P3,231	P85,758	P-	P287,868
Depreciation and amortization <sup>4</sup> (Note 18)	141,412	790	61,198	-	203,400
Interest income <sup>5</sup> (Note 20)	68,854	-	-	-	68,854

1. Segment assets do not include deferred tax assets amounting to P112.1 million.
2. Segment liabilities do not include income tax payable amounting to P2.7 million.
3. Capital expenditures include acquisition of property, plant and equipment and software costs.
4. Depreciation and amortization is divided between cost of goods sold and general and administrative expenses.
5. Interest income is included in other income.

	2018				Total
	Consumer	SSG	Others	Adjustments/ Eliminations	
<b>Consolidated Statement of Comprehensive Income</b>					
Net sales	P9,890,400	P476,116	P123,561	P-	P10,490,077
Cost of goods sold (Note 14)	(7,982,220)	(396,997)	(98,986)	-	(8,478,203)
Selling expenses (Note 15)	(905,259)	(64)	7,782	-	(897,541)
General and administrative expenses (Note 16)	(846,532)	(71,574)	(31,710)	-	(949,816)
Other income - net (Note 20)	151,117	1,249	32	-	152,398
Income before income tax	<u>P307,506</u>	<u>P8,730</u>	<u>P679</u>	<u>P-</u>	<u>316,915</u>
Provision for income tax (Note 24)					52,883
Net income					<u>P264,032</u>
<b>Consolidated Statement of Financial Position</b>					
Segment assets	P6,579,596	P331,049	P23,734	P124,634 <sup>1</sup>	P7,059,013
Segment liabilities	2,322,253	73,668	62,029	9,963 <sup>2</sup>	2,467,913
<b>Other Segment Information</b>					
Capital expenditures <sup>3</sup> (Notes 7, 8 and 9)	P246,178	P2,005	P1,499	P-	P249,682
Depreciation and amortization <sup>4</sup> (Note 18)	174,931	826	113	-	175,870
Interest income <sup>5</sup> (Note 20)	55,385	-	-	-	55,385

1. Segment assets do not include deferred tax assets amounting to P124.6 million.
2. Segment liabilities do not include income tax payable amounting to P10.0 million.
3. Capital expenditures include acquisition of property, plant and equipment and software costs.
4. Depreciation and amortization is divided between cost of goods sold and general and administrative expenses.
5. Interest income is included in other income.



	2017				Total
	Consumer	SSG	Others	Adjustments/ Eliminations	
<b>Consolidated Statement of Comprehensive Income</b>					
Net sales	P9,313,903	P512,848	P147,526	P-	P9,974,277
Cost of goods sold (Note 14)	(6,921,889)	(414,769)	(170,230)	-	(7,506,888)
Selling expenses (Note 15)	(1,105,504)	(54,112)	112,621	-	(1,046,995)
General and administrative expenses (Note 16)	(756,381)	(43,646)	(88,543)	-	(888,570)
Other income - net (Note 20)	122,383	5,464	7,539	-	135,386
Income before income tax	<u>P652,512</u>	<u>P5,785</u>	<u>P8,913</u>	<u>P-</u>	<u>667,210</u>
Provision for income tax (Note 24)					131,376
Net income					<u>P535,834</u>
<b>Consolidated Statement of Financial Position</b>					
Segment assets	P3,826,684	P277,305	P2,432,663	P140,974 <sup>1</sup>	P6,677,626
Segment liabilities	2,007,333	86,193	312,090	2,153 <sup>2</sup>	2,407,769
Other Segment Information					
Capital expenditures <sup>3</sup>	P126,254	P712	P45,435	P-	P172,401
Depreciation and amortization <sup>4</sup> (Note 18)	109,070	2,798	46,613	-	158,481
Interest income <sup>5</sup> (Note 20)	55,478	-	-	-	55,478

1. Segment assets do not include deferred tax assets amounting to P141.0 million.
2. Segment liabilities do not include income tax payable amounting to P2.2 million.
3. Capital expenditures include acquisition of property, plant and equipment, investment properties and software costs.
4. Depreciation and amortization is divided between cost of goods sold and general and administrative expenses.
5. Interest income is included in other income.

#### Geographic Information

The table below shows the net sales information of the Parent Company based on the location of the customer (in thousands):

	2019	2018	2017
Philippines	P10,392,122	P9,553,070	P9,099,559
Hongkong	1,105,739	930,088	841,527
Nigeria	22,953	-	-
Africa	-	6,919	33,191
	<u>P11,520,814</u>	<u>P10,490,077</u>	<u>P9,974,277</u>

The Parent Company has two customers each representing 10.0% or more of the Parent Company's total revenue amounting to P3.7 billion in 2019 and P3.0 billion in 2018.

#### PFRS 15 adoption

The table below shows the net sales information of the Parent Company based on the revenue streams identified (in thousands):

	Consumer	SSG	Others	Total
B2B sales	P10,643,675	P338,466	P69,181	P11,051,322
B2C sales	377,587	-	91,905	469,492
	<u>P11,021,262</u>	<u>P338,466</u>	<u>P161,086</u>	<u>P11,520,814</u>

## 28. Financial Risk Management Objectives and Policies

### *Risk management structure*

All policy directions, business strategies and management initiatives emanate from the BOD which strives to provide the most effective leadership for the Group. The BOD endeavors to remain steadfast in its commitment to provide leadership, direction and strategy by regularly reviewing the Group's performance. For this purpose, the BOD convenes at least once a month.





The Group has adopted internal guidelines setting forth matters that require BOD approval. Under the guidelines, all new investments, any increase in investment in businesses and any divestments require BOD approval.

The Group's principal financial instruments consist of cash and cash equivalents, receivables and AFS investments. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as, accounts payable and accrued expenses, dividends payable and technical assistance fees payable which arise from normal operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The Group also monitors the market price risk arising from all financial instruments.

#### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. With respect to credit risk arising from financial assets of the Group, which comprise of cash and cash equivalents, receivables, financial assets at FVOCI and other assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the instrument.

The Group manages credit risk by assessing the creditworthiness of its counterparties. The Group trades only with recognized, creditworthy third parties. It is the Group's practice that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

As of March 31, 2019, the Group does not hold collateral or other credit enhancement for cash and cash equivalents, AFS investments, receivables and refundable Meralco deposits (included in other assets). Thus, carrying values represent maximum exposure to credit risk. The Group acquired credit insurance for its domestic trade receivables, which covers both fully secured and partially secured receivables. Other than for domestic trade receivables, the Group's maximum exposure to credit risk is equivalent to the carrying value of the Group's financial assets as of March 31, 2019 and 2018.

#### *Risk concentrations of the maximum exposure to credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence.

As of March 31, 2019, the Group had two customers that owed it more than ₱220.0 million each that each accounts for more than 16% of the total trade receivables outstanding. As of March 31, 2018, the Group had two customers that owed it more than ₱140.0 million each that each accounts for more than 15% of the total trade receivables outstanding.

As of March 31, 2019 and 2018, the Group's maximum exposure to credit risk pertaining to domestic trade receivables follows:

	Carrying Value	Fair Value of Credit Enhancement	Maximum Exposure to Credit Risk	Financial Effect of Credit Enhancement
2019	₱1,326,253,654	₱1,301,513,717	₱24,739,937	₱1,301,513,717
2018	899,765,148	819,108,389	80,656,759	819,108,389



*Applicable after April 1, 2018*

Credit risks from cash in banks and financial assets at FVOCI are minimal since these are placed and recoverable from banks and credit corporations issuing securities with high external credit ratings. Accordingly, these financial assets are considered to be low credit risk investments. The ECL allowance of these financial assets are measured using 12-month ECL (Stage 1) which is considered insignificant as at April 1, 2018 and March 31, 2019.

For receivables, an impairment analysis is performed at each reporting date using a provision matrix to measure ECL.

The table below shows the information about the Company's credit risk exposures on trade receivables using a provision matrix:

	2019				Total
	Current	More than 30 days	More than 60 days	More than 90 days	
Trade receivables					
Expected credit loss rate	0.27%	20.60%	35.42%	44.06%	
Total gross carrying amount	₱1,590,274,057	₱1,887,036	₱428,102	₱374,437	₱1,592,963,632
Expected credit losses	4,220,660	388,729	151,634	164,977	4,926,000

*Prior to PFRS 9 adoption*

The tables below summarize the credit quality of the Group's financial assets (gross of allowance for credit and impairment losses) as at March 31, 2018:

	2018			Total
	Neither Past Due nor Individually Impaired		Past Due or Individually Impaired	
	High Grade	Standard Grade	Impaired	
Cash and cash equivalents	₱3,356,079,834	₱-	₱-	₱3,356,079,834
Receivables:				
Trade:				
Domestic	-	890,220,775	14,283,373	904,504,148
Export	192,923,529	-	-	192,923,529
Non-trade	59,242,229	38,126,056	-	97,368,285
	252,165,758	928,346,831	14,283,373	1,194,795,962
AFS investments	-	2,341,458	-	2,341,458
Other assets	21,670,696	-	-	21,670,696
Total	₱3,629,916,288	₱930,688,289	₱14,283,373	₱4,574,887,950

The credit quality of financial assets was determined as follows:

Cash and cash equivalents - are composed of bank deposits and money market placements made with reputable financial institutions and hence, graded as "high grade".

Receivables - high grade receivables are receivables from related parties and employees while standard grade receivables are receivables from dealers who pay within the Group's normal credit terms.

Financial assets at FVOCI/AFS investments - the unquoted investments are graded as "standard grade" since these are investments in known companies but have recorded impairment in previous years.

Other assets - pertains to deposits in refundable Meralco deposits and advances to employees which are considered as "high grade" since collectability of the refund is reasonably assured.



Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through collection of receivables and cash management. Liquidity planning is being performed by the Group to ensure availability of funds needed to meet working capital requirements.

Overall, the Group's funding arrangements are designed to keep an appropriate balance between equity and debt to give financing flexibility while continuously enhancing the Group's business.

The tables below summarize the maturity profile of the financial assets and liabilities, based on the contractual undiscounted payments as of March 31:

	2019				
	Less than 30 days	1 to 3 months	3 to 12 months	1 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	₱2,125,911,047	₱709,200,800	₱--	₱--	₱2,835,111,847
Receivables					
Trade					
Domestic	1,326,253,654	--	--	--	1,326,253,654
Export	266,709,978	--	--	--	266,709,978
Non-trade	79,267,537	--	--	--	79,267,537
	3,798,142,216	709,200,800	--	--	4,507,343,016
Financial assets at FVOCI	--	--	--	4,785,583	4,785,583
Other assets	--	--	--	18,331,355	18,331,355
	3,798,142,216	709,200,800	--	23,116,938	4,530,459,954
<b>Financial Liabilities</b>					
Accounts payable and accrued expenses*	1,575,140,301	25,842,309	689,516,362	41,972,576	2,332,471,548
	1,575,140,301	25,842,309	689,516,362	41,972,576	2,332,471,548
	₱2,223,001,915	₱683,358,491	(₱689,516,362)	(₱18,855,638)	₱2,197,988,406

\*Excludes statutory liabilities amounting to ₱22.2 million

	2018				
	Less than 30 days	1 to 3 months	3 to 12 months	1 to 5 years	Total
<b>Financial Assets</b>					
Cash and cash equivalents	₱1,356,409,522	₱2,003,700,444	₱--	₱--	₱3,360,109,966
Receivables					
Trade					
Domestic	904,504,148	--	--	--	904,504,148
Export	192,923,529	--	--	--	192,923,529
Non-trade	95,090,598	2,277,687	--	--	97,368,285
	2,548,927,797	2,005,978,131	--	--	4,554,905,928
AFS investments	--	--	--	2,341,458	2,341,458
Other assets	--	--	--	21,670,696	21,670,696
	2,548,927,797	2,005,978,131	--	24,012,154	4,578,918,082
<b>Financial Liabilities</b>					
Accounts payable and accrued expenses*	1,483,741,732	49,481,243	486,587,284	--	2,019,810,259
Finance lease liability	28,372	56,745	384,645	--	469,762
	1,483,770,104	49,537,988	486,971,929	--	2,020,280,021
	₱1,065,157,693	₱1,956,440,143	(₱486,971,929)	₱24,012,154	₱2,558,638,061

\*Excludes statutory liabilities amounting to ₱34.8 million



*Market Risk*

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Group manages market risks by focusing on two market risk areas such as foreign currency risk and equity price risk.

*Foreign currency risk*

Exposure to currency risk arises from sales and purchases in currencies other than the Parent Company's functional currency. Foreign currency risk is monitored and analyzed systematically and is managed by the Group. The Group ensures that the financial assets denominated in foreign currencies are sufficient to cover the financial liabilities denominated in foreign currencies.

As of March 31, 2019 and 2018, the foreign currency-denominated financial assets and financial liabilities in original currencies and their Philippine Peso (PHP) equivalents are as follows:

	2019		
	USD	JPY	Equivalents in PHP
<b>Financial assets</b>			
Cash and cash equivalents	20,403,274	1,268,694	1,071,777,332
Receivables	6,544,491	50,133,369	367,509,441
	<u>26,947,765</u>	<u>51,402,063</u>	<u>1,439,286,773</u>
<b>Financial liabilities</b>			
Accounts payable and accrued expenses	14,863,588	8,608,446	784,446,323
	<u>14,863,588</u>	<u>8,608,446</u>	<u>784,446,323</u>
	2018		
	USD	JPY	Equivalents in PHP
<b>Financial assets</b>			
Cash and cash equivalents	1,450,887	145,572,548	147,838,597
Receivables	4,208,208	58,520,795	248,508,872
	<u>5,659,095</u>	<u>204,093,343</u>	<u>396,347,469</u>
<b>Financial liabilities</b>			
Accounts payable and accrued expenses	14,882,423	132,273,347	841,785,839
	<u>14,882,423</u>	<u>132,273,347</u>	<u>841,785,839</u>

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar (USD) and Japanese yen (JPY) currency rates, with all variables held constant, of the Group's income before tax from continuing operations (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in USD rate	Effect on income before tax
2019	+8%	(P46,994,025)
	-8%	55,166,899
2018	+8%	P35,644,429
	-8%	(41,843,460)



	Increase/ decrease in JPY rate	Effect on income before tax
2019	+7%	(¥1,335,961)
	-7%	1,537,073
2018	+7%	(¥2,329,049)
	-7%	2,679,658

The sensitivity analysis has been determined assuming the change in foreign currency exchange rates has occurred at the reporting date and has been applied to the Group's exposure to currency risk for financial instruments in existence at that date, and all other variables, interest rates in particular, remain constant.

The stated changes represent management assessment of reasonable possible changes in foreign exchange rates over the period until the next annual report date.

There is no impact on the Group's equity other than those already affecting profit or loss.

#### Equity Price Risk

The Group's exposure to equity price pertains to its investments in quoted shares of the Parent Company which are classified as AFS investments in the consolidated statements of financial position. Equity price risk arises from the changes in the level of equity indices and the value of individual stocks traded in the stock exchange.

The effect on equity (as a result of a change in fair value of equity instruments held as financial assets at FVOCI and available-for-sale at March 31, 2019 and 2018, respectively) due to a reasonably possible change in equity indices is not material to the consolidated financial position of the Group.

#### Fair Value Measurement

The methods used by the Group in estimating the fair value of its assets and liabilities follow:

##### *Cash and cash equivalents, receivables and other assets*

Carrying amounts of cash in banks, cash equivalents and receivables maturing within twelve (12) months are assumed to approximate their fair values. This assumption is applied to liquid assets and the short-term elements of all other financial assets.

##### *Financial assets at FVOCI*

Fair values are based on quoted prices published in the markets. For investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

##### *Investment properties*

The fair value of the investment properties has been determined by an independent appraiser using market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or with close proximity to the subject property.

The Group has determined that the highest and best use for the investment properties is its current use.



*Accounts payable and accrued expenses*

Carrying amounts of accounts payable and accrued expenses approximate their fair values due to the short-term nature of the transactions.

*Finance lease liability*

Fair value was estimated using the discounted future cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The following tables summarize the carrying amount and fair values of the assets and liabilities, with carrying values not equal to fair value or whose fair values are required to be disclosed:

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
2018					
Fair Value is Required to be Disclosed					
Investment properties	P31,391,337	P-	P-	P59,748,000	P59,748,000
Finance lease liability	P450,502	P-	P-	P469,762	P469,762

The Group has no investment properties and finance lease liability as at March 31, 2019.

Description of significant unobservable inputs to valuation:

Account	Valuation Technique	Significant Unobservable Inputs
Investment properties	Sales Comparison Approach	Price per square meter, size, shape, location, time element and discount
Finance lease liability	Discounted cash flow method	7.4% - 7.8% risk premium rate

The significant unobservable inputs to valuation of investment properties pertain to:

Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.



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**29. Notes to Statements of Cash Flows**

Cash flows from investing activities include acquisitions of property, plant and equipment on account amounting to ₱32.9 million and ₱102.3 million in 2019 and 2018, respectively (see Notes 7 and 21).

The table below provides for the changes in liabilities from financing activities:

	April 1, 2018	Cash flows	Non-cash changes	March 31, 2019
Finance lease liability (Note 21)	₱450,502	(₱450,502)	₱-	₱-
Dividends payable (Note 10)	31,172	(31,172)	-	-
<b>Total liabilities from financing activities</b>	<b>₱481,674</b>	<b>(₱481,674)</b>	<b>₱-</b>	<b>₱-</b>

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**30. Approval of the Release of Consolidated Financial Statements**

The accompanying consolidated financial statements were approved and authorized for issue by the Parent Company's BOD on May 15, 2019.



**INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Panasonic Manufacturing Philippines Corporation  
Ortigas Avenue Extension  
Taytay, Rizal

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Panasonic Manufacturing Philippines Corporation and its Subsidiary (the Group) as at March 31, 2019 and 2018 and for each of the three years in the period ended March 31, 2019 and have issued our report thereon dated May 15, 2019. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Juan Carlo Maminta*

Juan Carlo B. Maminta  
Partner  
CPA Certificate No. 115260  
SEC Accreditation No. 1699-A (Group A),  
August 16, 2018, valid until August 15, 2021  
Tax Identification No. 210-320-399  
BIR Accreditation No. 08-001998-132-2018,  
February 9, 2018, valid until February 8, 2021  
PTR No. 7332575, January 3, 2019, Makati City

May 15, 2019





**PANASONIC MANUFACTURING PHILIPPINES CORPORATION**  
**INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

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- Annex I: Schedule of retained earnings available for dividend declaration
- Annex II: Schedule of all Philippine Financial Reporting Standards (PFRS) [which consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations] effective as at March 31, 2019
- Annex III: The map showing the relationships between and among the Company and its Ultimate Parent Company and Subsidiary
- Annex IV: The Supplementary Schedules to Financial Statements

**PANASONIC MANUFACTURING PHILIPPINES  
CORPORATION (PARENT COMPANY)**

**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
MARCH 31, 2019**

Unappropriated retained earnings available for dividend declaration, beginning	₱350,781,429
Adjustments on beginning balance:	
Deferred tax asset charged to income	(124,634,260)
Effect of pooling of interest with NPPI	(64,690,082)
Impact of PFRS 15 adoption	(3,350,885)
Unappropriated retained earnings available for dividend declaration, beginning, as adjusted	158,106,202
Add: Net income actually earned/realized during the year:	
Net income during the period closed to retained earnings	147,893,474
Movement in deferred tax asset	(42,007,077)
Net income actually earned/realized during the period	105,886,397
Add: Reversal of appropriation	332,762,382
Less: Appropriations	(382,762,382)
Dividends declarations during the period	(157,124,288)
Unappropriated retained earnings available for dividend declaration, end	₱56,868,311

## Annex II

## PANASONIC MANUFACTURING PHILIPPINES CORPORATION

**SUPPLEMENTARY SCHEDULE OF ALL PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations] effective as at March 31, 2019**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019		Adopted	Not Adopted	Not Applicable
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019		Adopted	Not Adopted	Not Applicable
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs			✓
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements			✓
PAS 28	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		

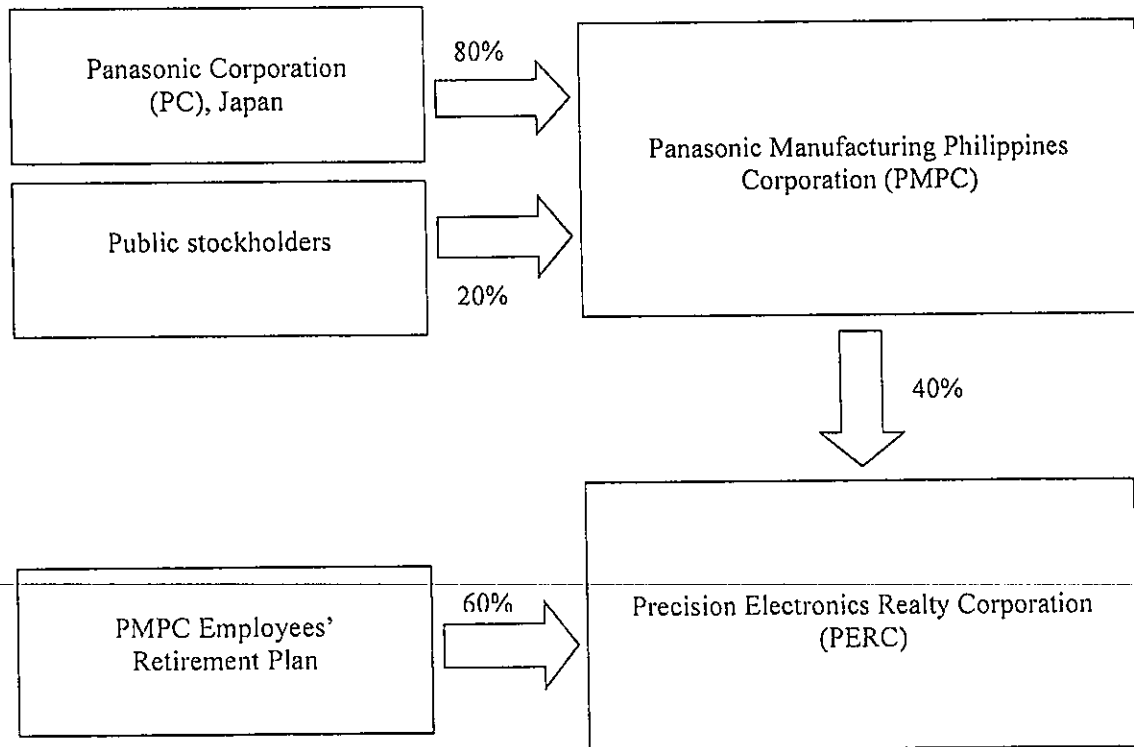
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019		Adopted	Not Adopted	Not Applicable
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment			✓
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of March 31, 2019		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✓
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

*Standards and Interpretations applicable to annual periods beginning on or after April 1, 2019 (where early application is allowed) will be adopted by the Group as they become effective.*

**PANASONIC MANUFACTURING PHILIPPINES CORPORATION**

**MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANY AND ITS ULTIMATE PARENT COMPANY AND SUBSIDIARY  
MARCH 31, 2019**



Panasonic Manufacturing Philippines Corporation  
*Schedule A – Financial Assets*  
 March 31, 2019

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the statement of financial position	Valued based on market quotation at end of reporting period	Income received and accrued
<i>Financial assets at FVOCI</i>				
Manila Electric Company	25,164	P858,973	P858,973	P-
Philippine Long Distance Telephone Company	14,925	3,926,610	3,926,610	-
	40,089	P4,785,583	P4,785,583	P-



**Panasonic Manufacturing Philippines Corporation**  
**Schedule B – Amounts Receivable from Directors, Officers, Employees and Principal Stockholders (Other than Related Parties)**  
**March 31, 2019**

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	

*Nothing to report*

**Panasonic Manufacturing Philippines Corporation**  
*Schedule C – Amounts Receivable from Related Parties which are eliminated during the Consolidation of financial statements*  
 March 31, 2019

Name and Designation of debtor	Balance at beginning of period	*Addition	Deductions		Current	Not current	Balance at the end of the period
			Amounts collected	Amounts written off			
Precision Electronics Realty Corporation	P 153,990,175	P-	P-	P-		P 153,990,175	P 153,990,175

\*Represents accretion of day 1 difference



Panasonic Manufacturing Philippines Corporation  
*Schedule D – Intangible Assets – Other Assets*  
 March 31, 2019

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions(deductions)	Ending balance
Software	P= 3,983,860	P=	P= 1,511,518	P=	P=	P= 2,472,342

Panasonic Manufacturing Philippines Corporation  
*Schedule E – Long Term Debt*  
 March 31, 2019

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption “Current portion of Long-term debt” in related statement of financial position	Amount shown under caption “Long-term Debt” in related statement of financial position
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*Nothing to report*

**Panasonic Manufacturing Philippines Corporation**  
**Schedule F – Indebtedness to Related Parties (Long-Term Loans from Related Companies)**  
**March 31, 2019**

Name of related party	Balance at beginning of period	Balance at end of period
<i>Nothing to report</i>		

Panasonic Manufacturing Philippines Corporation  
*Schedule G – Guarantees of Securities of Other Issuers*  
 March 31, 2019

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by persons for which statement is filed	Nature of guarantee
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*Nothing to report*

Panasonic Manufacturing Philippines Corporation  
*Schedule H – Capital Stock*  
 March 31, 2019

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under the related statement of financial position caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by		
				Related parties	Directors, officers and employees	Others
Panasonic Manufacturing Philippines Corporation- Common	847,000,000	422,718,020	-	337,994,581	21,682,606	63,040,833