COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

0	0	0	0	0	0	1	2	9	9	8

COMPANY NAME

R	F	M		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I
E	S																												

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
1 7 - Q	S E C	N / A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
rfmmail@rfm.com.ph	(02) 8631-8101	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
3,136	7/12	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Enrique Oliver I. Rey-Matias	eoirey-matias@rfm.com.ph	(02) 8631-8101	N/A

CONTACT PERSON's ADDRESS

RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

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.*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE (SRC)
AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended **JUNE 30, 2020**

2. Commission Identification Number: **12998** 3. BIR Tax Identification Number: **000-064-134-000**

4. Exact name of Registrant as specified in its charter: **RFM CORPORATION**

5. **Philippines** 6. _____ (SEC Use Only)
Province, country or other jurisdiction of incorporation or organization — Industry Classification Code

7. **RFM Corporate Center, Pioneer corner and Sheridan Streets, Mandaluyong City** **1550**
Address of Registrant's principal office — Postal Code

8. **0632-8631-81-01**
Registrant's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Issued and Outstanding
Common Stock, ₱1.00 par value	**3,455,971,358**

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

Yes [✓] No [ ]

12. Indicate by check mark whether the Registrant:

a. has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines (CCP) during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports): [Note: Sec. 26 of the CCP deals with reporting of election of directors or officers to the SEC; Sec. 141 with the submission of financial statements to the SEC.]

Yes [✓] No [ ]

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

Yes [✓] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements are filed as part of this form 17-Q, pages 7 to 55 and are incorporated herein by reference to said quarterly report.

Item 2. Management's Discussion and Analyses of Results of Operations and Financial Condition

Analysis of Results of Operations

YTD June 2020 vs. YTD June 2019s

RFM Corporation reported ₱7.09 billion revenues for the first half of the year equivalent to a 2% growth over its revenues posted same period last year. The resulting group net income of ₱611 million showed 5% improvement compared with last year.

Consumer eating behavior during the lockdown has shifted food demand towards more nutritious food cooked at home. The Selecta Fortified Milk, Fiesta and Royal pasta & sauces have benefited from this change in behavior. The company also saw a surge in demand for hotcake and other mixes of the White King line. The challenge during the lockdown was how to keep the production lines running to meet demand. On the other hand, the slowdown in ice cream in the lockdown period, as well as bread sales to fast food and industrial clients, has been quickly recovering with the lifting of the ECQ. Taken alone, RFM's pasta, milk, sauce and White King sales for the first half of 2020 showed an 18% growth and with improving ice cream sales, RFM can expect total topline to post better growth in the coming months.

Second Quarter 2020 vs. Second Quarter 2019

Group revenue for the quarter reached ₱3.87 billion, up by 1% over the revenues posted last year with a net income of ₱399 million, higher by 11% versus last year. Income improvement was mainly driven by the sustained sales growth in milk, pasta and sauces.

The key financial performance indicators for the Company for the three-month period ended June 30, 2020 as compared to the same period in 2019, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**		**For the Six-Month Period Ended**	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Net Revenues	**₱3,873**	₱3,849	**₱7,094**	₱6,962
Net Operating Margin	**611**	567	**912**	868
Net Income (Loss)	**399**	359	**611**	580
EBITDA	**749**	680	**1,199**	1,088
Current Ratio	**1.59**	1.29	**1.59**	1.29

** Except current ratio*

1. **Net Revenues**
   This is the barometer of the general demand for the Company's products, reflecting their market acceptability vis-à-vis competition particularly in terms of quality, pricing, and image and perception, as well as availability of the products at the point of purchase market locations. This is of primary importance, and is regularly being monitored for appropriate action and/or improvement.

2. **Net Operating Margin**
   This shows the financial profitability of the primary products of the Company, after deducting the expenses related to their manufacture, distribution, and sale, as well as the general administrative costs in running the business.

   Net Income
   This shows the over-all financial profitability of the Company, including the sale of primary and non-primary products and all other assets, after deducting all costs and expenses, interest expenses on debts and interest income on investments, as well as equity in net earnings or losses of associates.

3. **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**
   This is a general yet reasonable representation of the cash generated by the Company from its current business operations that can then be made available for payment of loan interests, loan principal amortization, and taxes; and any further amount in excess becomes the Company's cash profit.

4. **Current Ratio**
   This determines the Company's ability to meet its currently maturing obligations using its current resources.

Analysis of Financial Condition and Balance Sheet Accounts

As of June 30, 2020, the Group's total assets decreased from last year's Php18.68 to Php18.55 billion primarily due to lower trade receivables. The total liabilities decreased from last year's Php6.57 billion to P6.21 billion due to repayments of bank loans.

The Group has a current ratio of 1.59 and 1.54 on June 30, 2020 and December 31, 2019, respectively.

Notes to Financial Statements

The Company's financial statements for the first calendar quarter have been prepared in accordance with Philippine Financial Reporting Standards. The same accounting policies and methods of computation used are consistent with the most recent audited financial statements.

The Company discloses the following:

(a) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;.

(b) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;

(c) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;

(d) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;

(e) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;

(f) There are no dividends paid separately for ordinary shares and other shares;

(g) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;

(h) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;

There is no change in contingent liabilities since the most recent audited financial statements;

(i) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of June 30, 2020;

(j) There were no material off-balance sheet transactions, arrangements, obligations, and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

PART II – OTHER INFORMATION

The Company has no other pertinent information to disclose in this quarterly report.

SIGNATURES

Pursuant to the requirements of Securities Regulation Code, the Registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

RFM CORPORATION
Registrant

ENRIQUE OLIVER I. REY MATIAS
Vice President – Chief Financial Officer

ATTY. MITCHIE VANESSA MAGOMNANG
Corporate Secretary and Head of Legal

Dated: **July 29, 2020**

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions)

	June 30, 2020 (Unaudited)	December 31, 2019 Audited
ASSETS		
Current Assets		
Cash and cash equivalents	**₱1,779**	₱3,625
Short-term cash investment	**647**	649
Current portion of Held-to-collect (HTC) investments	**1,575**	85
Accounts receivable (Note 5)	**1,615**	2,086
Inventories (Note 6)	**2,310**	1,485
Other current assets (Note 7)	**262**	240
Total Current Assets	**8,188**	8,170
Noncurrent Assets		
Investments in joint venture and associates (Note 9)	**162**	153
Property, plant and equipment (Note 8)	**7,684**	7,624
Intangible assets	**2,271**	2,271
Other noncurrent assets (Note 10)	**255**	470
Total Noncurrent Assets	**10,372**	10,518
TOTAL ASSETS	**₱18,560**	₱18,688
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**₱748**	₱979
Lease Liabilities	**101**	119
Accounts payable and other current liabilities (Note 11)	**4,301**	4,209
Total Current Liabilities	**5,150**	5,307
Noncurrent Liabilities		
Lease Liabilities –net of current portion	**721**	381
Other noncurrent liabilities (Note 12)	**342**	890
Total Noncurrent Liabilities	**1,063**	1,271
Total Liabilities	**6,213**	6,578
Equity attributable to equity holders of the Parent Company (Note 13)		
Capital stock (Note 13)	**₱3,651**	₱3,651
Additional paid-in capital (Note 13)	**2,060**	2,060
Treasury stock (Note 13)	**(379)**	(376)
Equity reserve	**(23)**	(23)
Revaluation increment on land - net of deferred income tax effect	**1,790**	1,790
Retained earnings	**5,266**	5,026
	12,365	12,128
Non-controlling interests	**(18)**	(18)
Total Equity	**12,347**	12,110
TOTAL LIABILITIES AND EQUITY	**₱18,560**	₱18,688

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Millions, Except for Earnings Per share Data)

	For the Quarter Ended June 30		For the Six-Month Period Ended June 30	
	2020	2019	**2020**	2019
NET REVENUES	**₱3,873**	₱3,849	**₱7,094**	₱6,962
DIRECT COSTS AND EXPENSES	**(2,392)**	(2,239)	**(4,460)**	(4,197)
GROSS PROFIT	**1,481**	1,610	**2,634**	2,765
SELLING AND MARKETING EXPENSES	**(645)**	(757)	**(1,328)**	(1,456)
GENERAL AND ADMINISTRATIVE EXPENSES	**(225)**	(286)	**(394)**	(441)
NET OPERATING INCOME	**611**	567	**912**	868
OTHER INCOME (CHARGES) – Net (Note 18)	**(19)**	13	**(15)**	27
INCOME BEFORE PROVISION FOR INCOME TAX	**592**	580	**897**	895
PROVISION FOR INCOME TAX	**(193)**	(221)	**(286)**	(315)
NET INCOME	**₱399**	₱359	**₱611**	₱580
Attributable to:				
Equity holders of the Parent Company	**₱399**	₱359	**₱611**	580
Minority interests (Note 2)	–	–	–	–
	₱399	₱359	**₱611**	₱580
Basic/Diluted Earnings Per Share (Note 19)	₱0.12	₱0.10	**₱0.18**	₱0.17

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

	For the Quarter Ended June 30		For the Six-Month Period Ended June 30	
	2020	2019	**2020**	2019
NET INCOME	**₱399**	₱359	**₱611**	₱580
OTHER COMPREHENSIVE INCOME	–	–	–	–
Total comprehensive income for the period	**₱399**	₱359	**₱611**	₱ 580
Attributable to:				
Equity holders of the Parent Company	**₱399**	₱359	**₱611**	₱580
Minority interests (Note 2)	–	–	–	–
	₱399	₱359	**₱611**	₱580

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Millions)

	Attributable to Equity Holders of the Parent									
	Capital Stock	Additional paid-in capital	Treasury Share	Equity Reserve	Reserves	Revaluation Increment	Retained Earnings	Total	Minority Interests	Total Equity
BALANCES AT JANUARY 1, 2020 (Audited)	**₱3,651**	**₱2,060**	**(₱376)**	**(₱23)**	–	**₱1,790**	**₱5,026**	**₱12,128**	**(₱18)**	**₱12,110**
Net income for the period	–	–	–	–	–	–	**611**	**611**	–	**611**
Cash dividends	–	–	–	–	–	–	**(371)**	**(371)**	–	**(371)**
Purchase of treasury stock	–	–	**(3)**	–	–	–	–	**(3)**	–	**(3)**
Sale of treasury stock	–	–	–	–	–	–	–	–	–	–
Merger	–	–	–	–	–	–	–	–	–	–
BALANCES AT JUNE 30, 2020 (Unaudited)	**₱3,651**	**₱2,060**	**(₱379)**	**(₱23)**	**₱–**	**₱1,790**	**₱5,266**	**₱12,365**	**(₱18)**	**₱12,347**
BALANCES AT JANUARY 1, 2019 (Audited)	₱3,500	₱2,059	(₱86)	(₱7)	–	₱1,790	₱4,451	₱11,707	(₱30)	₱11,677
Net income for the period	–	–	–	–	–	–	580	580	–	580
Cash dividends	–	–	–	–	–	–	(282)	(282)	–	(282)
Purchase of treasury stock	–	–	(136)	–	–	–	–	(136)	–	(136)
Sale of treasury stock	–	–	25	–	–	–	–	25	–	25
Issuance of shares	5	(1,198)	147	–	599	–	447	₱ 0	–	–
BALANCES AT JUNE 30, 2019 (Unaudited)	₱3,505	₱861	(₱50)	(₱7)	₱599	₱1,790	₱5,196	₱11,894	(₱30)	₱11,864

RFM CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	For the Period Ended June 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱897**	₱895
Adjustments for:		
Depreciation and amortization	**287**	220
Operating income before working capital changes	**1,184**	1,115
Decrease (increase) in:		
Accounts receivable	**471**	259
Inventories	**(825)**	(799)
Other current assets	**(22)**	163
Decrease in accounts payable and accrued liabilities	**(225)**	147
Net cash generated from operations	**583**	885
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, net	**(347)**	(239)
Decrease (increase) in:		
Other noncurrent assets	**19**	98
Short-term cash investments	**3**	17
Purchase of held-to-maturity investments	**(1,490)**	(812)
Net cash from (used in) investing activities	**(1,815)**	(936)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of bank loans	**(231)**	115
Dividends paid	**(360)**	(651)
Proceeds from sale of treasury stock		(343)
Purchase of treasury stock	**(3)**	37
Increase in minority interests and other noncurrent liabilities	**(20)**	657
Net cash used in financing activities	**(614)**	(185)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,846)**	(236)
CASH AND CASH EQUIVALENTS, JANUARY 1	**3,625**	2,357
CASH AND CASH EQUIVALENTS, JUNE 31	**₱1,779**	₱2,121

See accompanying Notes to Unaudited Consolidated Financial Statements.

1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

RFM Corporation (the Parent Company) was incorporated on August 16, 1957 and registered with the Philippine Securities and Exchange Commission (SEC). On July 9, 2007, the SEC approved the extension of the Company's corporate life from August 22, 2007 to October 13, 2056. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange (PSE) since 1966. The Parent Company is mainly involved in the manufacturing, processing and selling of wheat, flour and flour products, pasta, milk, juices, margarine, and other food and beverage products. The Parent Company and its subsidiaries are collectively referred to herein as the Group. The principal office address of the Parent Company is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Legal Merger

On July 31, 2018, the Board of Directors (BOD) of the Parent Company approved the planned upstream merger among the Parent Company (the Surviving Corporation) and its subsidiaries – Cabuyao Logistics Industrial Center, Inc. (CLIC), Interbake Commissary Corporation (ICC) and Invest Asia Corporation (IAC) (collectively, the Absorbed Corporations) and is seen as desirable and advantageous to the parties and their respective shareholders for the following business reasons:

- The integration of the administrative facilities of the four (4) corporations will result in economies of scale and efficiency of operations;
- The consolidation of assets of the four (4) corporations will allow the procurement of financing and credit facilities under more favorable terms; and,
- The merger will make possible the more productive use of the properties of the constituent corporations.

On January 31, 2019, the Securities and Exchange Commission approved the merger and issued the Certificate of Filing of Articles and Plan of Merger of the Parent Company, CLIC, ICC and IAC (Plan of Merger).

Under the Plan of Merger, the Parent Company will issue 150,617,444 outstanding shares, with ₱1.00 par value to the Absorbed Corporations' shareholders, including the Parent Company, from its unissued shares with average swap ratio of 0.36.

The carrying amount of the identifiable assets and liabilities of the Absorbed Corporations follow:

	As of January 31, 2019
	(In Thousands)
ASSETS	
Current assets	
Cash on hand and in banks	₱29,822
Receivables	41,251
Inventories - at cost	1,939
Hold-to-collect investment	19,971
Other current assets	32,585
Total Current Assets	125,568
Noncurrent assets	
Property, plant and equipment	990,703
Deferred tax asset – net	1,676
Other noncurrent assets	1,963
Total Noncurrent Assets	994,342
	₱1,119,910
LIABILITIES AND EQUITY	
Current Liabilities	
Accounts payable and accrued liabilities	₱70,599
Advances from related parties	293,365
Total Current Liabilities	363,964
Noncurrent liabilities	
Retirement benefit liability	3,102
Security deposit	1,930
Deferred income tax liabilities – net	63,954
Total Noncurrent Liabilities	68,986
Total Liabilities	432,950
Total Identifiable Net Assets at Book Value	₱686,962

As a result of merger, the Parent Company acquired the net assets, including previous share of non-controlling interests, and possessed all the right, privileges and immunities of the Absorbed Corporations. All properties and receivables due to the Absorbed Corporations shall be taken and deemed to be transferred to and vested in the Parent Company without further act or deed.

The 146,496,952 number of shares issued by the Parent Company is currently classified as treasury shares. The remaining 4,120,492 shares was issued to the minority shareholders. The difference between the consideration paid by the Parent Company and the share of the non-controlling shareholders in the net assets of the Absorbed Corporations was accounted for as "Equity Reserve" in the consolidated statements of changes in equity for the year ended December 31, 2019. The Group's consolidated financial statements after the merger reflected the balances of the Absorbed Corporations' assets and liabilities at carrying amounts since the event is a common control transaction. The difference between the net assets and related investment in the Absorbed Corporations as of the date of the merger are accounted for as an equity transaction.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for the Group's land, which are stated at appraised values, and net retirement liability which is measured at present value of the defined benefit obligations less fair value of the plan assets. The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional currency. All values are rounded off to the nearest million pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the SEC which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements*, with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) (see Note 9).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of June 30, 2020 and December 31, 2019 and for the period ended June 30, 2020 and 2019.

The consolidated subsidiaries, which are all incorporated in the Philippines, and the effective percentages of ownership as of June 30, 2020 and December 31, 2019 are as follows:

		Percentage of Ownership	
Entity	**Nature of Business**	**June 30, 2020**	**December 31, 2019**
RFM Equities, Inc. (REI)	Holding	100.00	100.00
RFM Foods Philippines Corporation (RFM Foods)*	Food retailer	100.00	100.00
Southstar Bottled Water Company, Inc. (Southstar)*	Bottled water business	100.00	100.00
Swift Tuna Corporation (Swift Tuna)*	Manufacturing	100.00	100.00
Rizal Lighterage Corporation (RLC)	Barging services	93.51	93.51
FWBC Holdings, Inc.*	Holding company	83.38	83.38
Filipinas Water Bottling Company, Inc. (FWBC)*	Bottled water Manufacturing	44.88	44.88
RFM Canning and Marketing, Inc. (RFM Canning)*	Canning services	70.00	70.00
WS Holdings, Inc. (WHI)	Holding company	60.00	60.00

**Dormant*

Subsidiaries

Subsidiaries are entities controlled by the Parent Company. 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; and,
- 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; and
- 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

- Derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in consolidated statement of comprehensive income to consolidated statement of income or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling interests

Non-controlling interests represent the portion of equity in a subsidiary not attributable, directly of indirectly, to the Parent Company. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interest are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within the equity section of consolidated statement of financial position and consolidated statement of changes in equity, separately from the equity attributable to equity holders of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained, and any retained earnings or deficit in consolidated statement of income; and reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 16, *Leases*

PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives and Philippine Interpretation SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from its 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. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17.

The effect of adoption PFRS 16 as at January 1, 2019 follow:

	Increase/ (Decrease) *(in thousands)*
Consolidated statement of financial position	
Assets	
Right-of-use (ROU) assets (included under 'Property, plant and equipment')	₱441,171
Deferred tax asset	24,383
Liabilities	
Lease liabilities	522,449
Total adjustment on equity:	
Retained earnings	(56,894)

The Group and URICI have lease contracts for various items of warehouses, depots and fleet cars. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. For the accounting policy applied prior to January 1, 2019, refer to "Summary of significant accounting policies" section.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to "Summary of significant accounting policies" section or the accounting policy beginning January 1, 2019.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Property and equipment were recognized amounting to ₱441.17 million representing the amount of right-of-use assets set up on transition date.
- Additional lease liabilities of ₱522.45 million were recognized.
- Deferred tax asset increased by ₱24.38 million because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings amounting to ₱56.89 million.

- As at January 1, 2019, the weighted average incremental borrowing rate applied by the Group to the lease liabilities ranges from 7.35% to 7.44%. The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

	Increase/(Decrease) *(in thousand pesos)*
Operating lease commitments as at December 31, 2018	₱1,234,335
Commitments relating to:	
Leases of short-term and low-value assets	364,458
Renewal periods not included in operating lease commitments as at December 31, 2018	66,785
Total gross lease payments as of January 1, 2019	803,092
Weighted average incremental borrowing rate at January 1, 2019	7.35% to 7.44%
Lease liabilities recognized at January 1, 2019	₱522,449

Due to the adoption of PFRS 16, the Group's operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will have an impact on equity in 2019 amounting to ₱56.89 million, since the Group elected to measure the right-of-use assets at an amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application.

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

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Based on its assessment, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

Accordingly, the Interpretation did not have significant impact on the consolidated financial statements of the Group.

· 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.

These amendments had no impact on the consolidated financial statements of the Group.

· 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 had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

· 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*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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 January 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 January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

- 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 January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of 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 January 1, 2019, with early application permitted.

  Since the Group has not made any borrowings to develop a qualifying asset, this amendments has no impact on the consolidated financial statements.

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 to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 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 January 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 January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 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, 2023, 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.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2019 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

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

An asset is current when it is:

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

The Group classifies all other assets, including deferred taxes, as noncurrent

A liability is current when:

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

The Group classifies all other liabilities, including deferred taxes, as noncurrent.

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to 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. 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 the lowest level input that is significant to the fair value measurement as a whole:

· Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
· Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
· Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers 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.

At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and which are subject to an insignificant risk of changes in value.

Short-term Cash Investments

Short-term cash investments are short term placements with maturities of three months but less than one year from date of acquisition. The Group earns interest at the respective short-term deposit rates.

Financial Instruments (before January 1, 2018)

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it 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 by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Group's financial assets are classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. The Group also classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market.

The Group determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as a liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

"Day 1" difference
Where the transaction price in a non-active market is different than the fair value from other observable current market transactions of 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 or liability. In cases where use is 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.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the EIR and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group's loans and receivables include cash and cash equivalents, short-term cash investments, trade receivables, nontrade receivables, advances to related parties and other receivables.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities and which investments the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs.

The Group's investment in bonds is classified under this category.

Embedded derivatives
Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. In measuring the embedded derivatives, the Group takes into account the probability that the conditions (e.g., event of default) triggering the exercise of the derivatives will happen in the future. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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

The Group's other financial liabilities include bank loans and accounts payable and other current liabilities (excluding payables to government agencies).

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Loans and receivables. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired loans and receivables carried at amortized cost are derecognized when they are assessed as uncollectible either as a direct reduction of the carrying amount or through use of an allowance account when impairment has been previously recognized in the said amount.

Financial Instruments (after January 1, 2018)

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

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. The Group's financial assets and financial liabilities consist of amortized cost and other financial liabilities.

Initial recognition and measurement of financial assets
The Group classifies financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, and fair value through profit or loss.

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 and other 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 fair value through profit or loss, transaction costs. Trade and other 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.

For a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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.

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

- Financial assets at amortized cost
- Financial assets at fair value through profit or loss (FVTPL)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

As of June 30, 2020, the Group's financial assets consist only of financial assets at amortized cost.

Financial assets at amortized cost
This category is the most relevant to the Group. 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 (EIR) method, less any impairment in value. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

As of June 30, 2020 and December 31, 2019, the Group's financial assets at amortized cost include cash and cash equivalents, short-term cash investments, trade receivables, nontrade receivables, advances to related parties, hold-to-collect investments and other receivables.

Initial recognition and measurement of financial liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. As of June 30, 2020 and December 31, 2019, the Group's financial liabilities include bank loans and accounts payable and other current liabilities (excluding payables to government agencies).

Subsequent measurement - 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. These financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction cost.

Reclassifications of Financial Instruments
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For cash and cash equivalents, short-term cash investments and HTC 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 since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's and Moody's to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. The Group considers a debt investment security to have a low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

For trade receivables, 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 its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 in default when contractual payments are already past due for a certain number of days, which depends on the normal customer arrangements and business terms and varies across relevant business segment/sub-segment of the Group, ranging from 90 days to 360 days, 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 trade receivables 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.

For nontrade and other receivables and advances to related parties, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk 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 a significant increase in credit risk 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).

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are also recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Determining the stage for impairment

At each reporting date, the Group assesses whether there has been a significant increase in credit risk 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.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination. 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 significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

This policy is applicable to Group's financial assets except for trade receivables, for which 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.

Write-off policy

The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets and Financial Liabilities (effective for all periods presented)

Financial asset

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

- the Group's right to receive cash flows from the asset has 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) has transferred substantially all the risks and rewards of the asset, or

(b) has neither transferred or 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, 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 the Group's 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.

Financial liabilities

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 the consolidated statement of income.

Offsetting Financial Instruments (effective for all periods presented)

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only 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.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the product to its present location and condition are accounted for as follows:

Finished goods	-determined using the moving average method; cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity.
Goods in process	-applicable allocation of fixed and variable overhead costs.
Raw materials, spare parts and supplies	- purchase cost using the moving average method.

NRV of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. For raw materials, NRV is the current replacement cost. In case of spare parts and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the reporting date. An allowance for inventory obsolescence is provided for slow-moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Other Current Assets

Other current assets include prepaid expenses, deposit on purchases of inventories, tax credits and input VAT.

Prepaid expenses . These are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other noncurrent assets.

Deposit on purchases of inventories. This account comprises of advance payments to suppliers for payments on goods to be purchased in connection with the Group's operations. These are reclassified as part of inventory upon delivery of the related asset.

Value-added Tax (VAT). Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Other Noncurrent Assets

Other noncurrent assets include security deposits and deposit on purchases of property, plant and equipment.

Deposit on purchases of property plant and equipment. This account comprises of advance payments to contractors for the construction and development of property, plant, and equipment. These are reclassified as part of property, plant and equipment upon the completion or delivery of the related asset.

Effective January 1, 2019

Property, Plant and Equipment

Effective January 1, 2019, it is the Group's policy to classify ROU assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated statement of financial position. The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of ROU assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term, as follows:

	Number of Years
ROU assets - Land and Warehouses	2 to 30
ROU assets - Plant and Equipment	1 to 5

ROU assets are subject to impairment.

Effective for all periods presented

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, and any impairment in value. The initial cost of items of property, plant and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period 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 the item of property, plant and equipment.

Land is stated at appraised value based on a valuation performed by an independent firm of appraisers. The increase in the valuation of land is credited to "Revaluation increment on land" account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made periodically such that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through the consolidated statement of income.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Land improvements	5 to 20
Silos, buildings and improvements	5 to 30
Machinery and equipment	5 to 25
Office furniture and fixtures	2 to 10
Transportation and delivery equipment	5

Leasehold improvements recognized under "Silos, buildings and improvements" are depreciated over the life of the assets or the lease term, whichever is shorter.

Construction in progress are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. Construction in progress are reclassified into appropriate class of property, plant and equipment when the relevant assets are completed and available for use.

Depreciation and amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are derecognized when either these are disposed of or when these are permanently withdrawn from use and there are no more future economic benefits expected from its use or disposal.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives (e.g., computer software) are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives such as trademark and goodwill are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

As of June 30, 2020 and December 31, 2019, the Group's intangible assets consist of trademark with indefinite useful life and computer software that is amortized over three years using the straight-line method.

Business Combination and Goodwill

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 expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial 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.

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 and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value, at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 (or PAS 39 if prior to January 1, 2018) is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with PFRS 9 (or PAS 39 if prior to January 1, 2018). Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

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 the consolidated statement of income.

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), or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every reporting date.

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.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs:

(i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred;
(ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and
(iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Where funds are borrowed specifically to finance a project, the amount capitalized represents actual borrowing costs incurred less any investment income on the temporary investment of the borrowed funds. Where the funds used to finance a project form part of general borrowings, the amount capitalized is determined by applying the capitalization rate to the expenditures on the asset. The amount of capitalized borrowing cost, though, cannot exceed the actual borrowing cost incurred during the period.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Investments in Joint Ventures and Associate

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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries (e.g., contractual arrangements, voting rights and potential voting rights).

The Group's investments in joint venture and associate are accounted for using the equity method except for its investment in URICI, a joint venture, which is accounted for using the proportionate consolidation method as permitted by the SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the Group's consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income under "Other income (charges)" and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint venture are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Impairment of Noncurrent Nonfinancial Assets

The carrying values of property, plant and equipment, and intangible assets (except trademark) are reviewed for impairment when event or changes in circumstances indicate that the carrying values may not be recoverable.

Trademark and goodwill are tested for impairment at least annually or when there is an identified indicator of impairment.

If any such indication exists or where the carrying value exceeds the recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock

Capital stock is stated at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case shares are issued to extinguish or to settle the liability of the Group, the share shall be measured at either the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock

Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying value and the consideration, if reissued, is recognized in the "Additional paid-in capital" account. The cost of treasury stock sold or cancelled is determined on a first-in, first-out basis.

When the shares are retired, the capital stock account is reduced by its par value, and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" to the extent of the specific or average additional paid-in capital when the shares were issued and to the retained earnings for the remaining balance.

Equity Reserve

Equity reserve include effect of merger with subsidiaries with non-controlling interest and the Parent Company. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, effect of changes in accounting policy and other capital adjustments.

Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved and declared by the BOD of the Parent Company. Stock dividends are treated astransfers from retained earnings to paid-in capital stock when approved and declared by the BOD and the stockholders representing at least two-thirds of the outstanding capital stock.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS is calculated in the same manner, adjusted for the effects of any potential dilutive common shares. Where the effect of the potential dilutive common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.

The Group does not have potential dilutive common shares in 2020 and 2019.

Revenue not in scope under PFRS 15

Rent
Rent income is recognized on a straight-line basis over the terms of the lease.

Interest and financing income
Interest income is recognized as the interest accrues using the EIR method.

Dividend income
Dividend income on investments in shares of stock is recognized when the Group's right to receive the payment is established, which is the date when the dividend declaration is approved by the investee's BOD and/or the stockholders.

Cost of Goods Sold
Cost of goods sold is recognized when the related goods are sold.

Selling and Marketing and General and Administrative Expenses
Selling and marketing expenses are costs incurred to sell or distribute the goods. It includes export and documentation processing and delivery, among others. General and administrative expenses constitute costs of administering the business. These are expensed as incurred.

Short-term Employee Benefits
Short-term employee benefits include salaries and wages, vacation leave and sick leave benefits and other benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services. These are recognized in the consolidated statements of income in the appropriate expense categories.

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

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

Defined benefits costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in 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 the consolidated statement of income.

Re-measurements 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 in other comprehensive income and transferred to retained earnings in the period in which they arise. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. 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.

Leases

Policies applicable effective January 1, 2019

The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to its leases of other equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Applicable to all periods presented

The Group as lessor

Leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Effective prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only 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 the 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 reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment of scenarios (a), (c) or (d) and the date of renewal or extension period for scenario (b).

The Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating leases are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Income Taxes
Current income tax
Current income 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 tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT], and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

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

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

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

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

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

Foreign Currency-Denominated Transactions and Translations
Transactions denominated in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Provision and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The expense relating to any provision is presented in the parent company statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Events After the Reporting Date
Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to consolidated financial statement when material.

3. Management's Use of Significant Accounting Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the consolidated financial statements when they become reasonably determinable.

Judgment

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.

Determination of useful life of trademark

The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be appropriate. When there are events that indicate that the indefinite useful life assessment is no longer appropriate, the useful life assessment will be changed from indefinite to finite.

Based on analysis of relevant factors indicated below, management has assessed that there is no foreseeable limit to the period over which the trademark is expected to generate cash inflows for the Group:

- Management does not expect to encounter significant difficulties in renewing the registration of the trademark.
- Management has assessed that the cost of renewing the trademark as insignificant when compared with the economic benefits expected to flow to the Group from the continued use of the trademark.
- Management is committed to continue to invest for the long term to extend the period over which the trademark is expected to continue to provide economic benefits.

Consequently, management assessed that the trademark has an indefinite useful life as of June 30, 2020 and December 31, 2019.

Determination of lease term of contracts with renewal and termination options - Group as a lessee - PFRS 16 (applicable effective January 1, 2019)

The Group has lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements).

Refer to Note 29 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Distinction between Investment Properties and Owner-occupied Properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to 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 investment property. The Group considers each property separately in making its judgment.

Management assessed that the Group's properties are mostly owner-occupied properties and are therefore classified as part of property, plant and equipment as of June 30, 2020 and December 31, 2019.

Definition of Default and Credit-impaired Financial Assets (upon the adoption of PFRS 9)
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when contractual payments are already past due for a certain number of days, which depends on the normal customer arrangements and business terms and varies across relevant business segment/sub-segment of the Group, ranging from 90 days to 360 days. 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. The criteria above have been applied to all financial assets measured at amortized cost held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to calculate the Group's expected loss. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

Simplified approach for trade receivables (upon the adoption of PFRS 9)
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer accounts that have similar loss patterns (i.e., by segment and customer type). The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrices to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Use of Macro-economic Forecasts and Incorporation of Forward-looking Information. (upon the adoption of PFRS 9)
Macro-economic forecasts are determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group takes into consideration using different macro-economic variables to ensure linear relationship between internal rates and outside factors. Regression analysis was used to objectively determine which variables to use.

Predictive relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Macro-economic indicators that are considered relevant to the Group include, but not limited to, changes in inflation, consumer price index, gross domestic product and commodity prices.

Grouping of instruments for losses measured on collective basis.
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

The Group considers in its collective assessment based on its business segments and type of customers. The appropriateness of groupings is monitored and reviewed on a periodic basis by Group. As of June 30, 2020 and December 31, 2019, the total gross carrying amount of trade receivables for which lifetime ECLs have been measured on a collective basis amounted to ₱1,661 million and ₱2,033 million, respectively.

Revenue recognition on sale of goods

The Group's main revenue source is its sale of goods. Revenue recognition under PFRS 15 involves the Group's application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the customer; (c) determining method to estimate variable consideration and assessing the constraint; and (c) recognition of revenue as the Group satisfies the performance obligation.

a) Existence of a contract

The Group's primary document for a contract with a customer is an approved purchased order with terms clearly identified including the product specification and payment terms and, for some customer groups, with a signed marketing and distributorship agreement. Each party's rights regarding the goods to be transferred is clearly identified including the product specification, quantity and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b) Identifying performance obligation

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. The Group undertakes to sell the products specified including its quantity indicated in an approved purchased order. This is considered as one performance obligation.

c) Recognition of revenue as the Group satisfies the performance obligation.

The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered, except for flour sales which are recognized at the time the goods are dispatched from the warehouse.

Operating lease commitments - the Group as lessee – effective prior to January 1, 2019

The Group has various lease agreements comprising land, warehouse/buildings, and equipment. Based on an evaluation of the terms and conditions of the arrangements, management has assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group accounted for the lease agreements as operating leases.

Estimates and Assumptions

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 described below.

Impairment of trademark, goodwill and property, plant and equipment

The Group reviews for impairment the carrying value of trademark, goodwill and property, plant and equipment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of trademark, goodwill and property, plant and equipment annually every reporting period.

For purposes of impairment testing of trademark and property, plant and equipment, the most appropriate valuation approach used is based on the circumstances relevant to the Group and based on the extent of available information. The Group determined that the recoverable amount of the trademark with infinite useful life is fair value less cost of disposal. The fair value of the trademark was calculated using relief from royalty method that considers revenue growth rates, budgeted brand support and royalty savings arising from the ownership of the trademark. Management assessed that the costs of disposal, which mainly pertain to the cost of transferring the certificate of registration with the Intellectual Property Office and documentary stamp tax, to be insignificant.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. The Group determined that the recoverable amount of the goodwill is value-in-use. Value-in-use calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used and the expected future cash in-flows and the growth rates. Assessments require the use of estimates and assumptions such as discount rates and operating expense. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized.No impairment losses were recognized for trademark and goodwill in 2020, 2019 and 2018.

For property, plant and equipment, the Group assesses impairment on the assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the net fair value less costs to sell.

No impairment losses were recognized in 2020 and 2019 In 2018, impairment loss in its property, plant and equipment amounting to ₱0.43 million.

Leases - Estimating the Incremental Borrowing Rate – effective January 1, 2019

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as risk-free interest rates) when available and is required to make certain entity-specific estimates (such as the Group's stand-alone credit risk rating).

The Group's lease liabilities amounted to ₱443 million as of June 30, 2020.

Estimation of allowance for doubtful accounts (prior to adoption of PFRS 9)
The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessments. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. If no future cash flows is expected, impairment loss is equal to the carrying balance of the receivables. Factors considered in individual assessment would require the Group to classify its receivables based on the credit characteristics (customer type, payment history, past due status and term) of the customers. Impairment loss is then determined based on the historical loss experience of the receivables grouped per credit risk profile.

Estimation of expected credit losses.
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or an approximation thereof. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Estimation of variable consideration and assessing the constraint
The Group offers sales incentives through various programs to customers. Such sales incentives include customer rebates, price reductions, performance incentives, among others. The extent and mode of such arrangements vary across different segments of the Group. Such incentives 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 Group determined that the most likely amount method is the appropriate method to use in estimation since the Group's contracts only include a single volume threshold (i.e., has only two possible outcomes, either the entity achieves a performance target or does not).

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Determination of NRV of inventories
The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying values of the Group's inventories amounted to ₱2,310.04 million and ₱1,485.15 million as of June 30, 2020 and December 21, 2019, respectively.

Estimation of useful lives of property, plant and equipment (excluding ROU assets)
The Group estimates the useful lives of depreciable property, plant and equipment based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for

use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa.

There had been no changes in the estimated useful lives of property, plant and equipment in 2020 and 2019.

Valuation of land under revaluation basis
The Group's parcels of land are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The revaluation is performed by professionally qualified appraisers and uses the Sales Comparison Approach. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the reporting date.

Management believes that there is no significant change in the fair value of the parcels of land as of June 30, 2020 because there were no significant improvements made to such parcels of land from the last valuation date and no impairment indicators existed as of June 30, 2020.

As of June 30, 2020 and December 31, 2019, the carrying values of parcels of land carried at revalued amounts amounted to ₱3,117.63 million (see Note 8).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is probable that the Group will be able to utilize the tax benefits arising from these deferred income tax assets and that sufficient future taxable profits are available for the utilization of the deferred income tax assets recognized.

4. Segment Information and Revenue from Contracts with Customers

The Group's management reports its operating business segments into the following: (a) consumer business, (b) institutional business, and (c) other operations. The consumer business segment manufactures ice cream products, milk and juices, and sells the latter together with pasta and rice-based mixes. The institutional business segment primarily manufactures flour and bread products, pasta and rice-based mixes but only sells flour and bread products. Other segments consist of lighterage, office space leasing and other services shown in aggregate as "Other operations". These are the operating segments reported to the chief operating decision maker.

The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All operating business segments used by the Group meet the definition of reportable segment under PFRS 8, *Segment Reporting*.

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.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment

liabilities include all operating liabilities and consist principally of trade, wages and taxes currently payable and accrued liabilities.

Intersegment transactions, i.e., segment revenues and segment expenses, include transfers between business segments. Those transfers are eliminated in consolidation and reflected in the "eliminations" column.

The Group does not have a single external customer from which revenue generated amounted to 10% or more of the total revenue of the Group.

Information with regard to the Group's significant business segments follows:

	For the Quarter Ended June 30, 2020				
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱940	₱2,926	₱7	₱–	**₱3,873**
Intersegment sales	–	–	7	(7)	**–**
	₱940	₱2,926	₱14	(₱7)	**₱3,8723**
Results					
Income from operations	₱69	₱585	(₱43)	₱–	**₱611**
Other income (charges) - net					**(19)**
Provision for income tax					**(193)**
Net income					**399**
Other information					
Segment assets	₱ 19,212	₱ 34,958	₱ 11,660	(₱49,008)	**₱ 16,822**
Investments	–	–	2,080	(343)	**1,737**
Consolidated Total Assets	₱ 19,212	₱ 34,958	₱13,740	(₱49,351)	**₱18,559**
Consolidated Total Liabilities					**₱6,213**
Depreciation and amortization					**₱138**

	For the Quarter Ended June 30, 2019				
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱942	₱2,891	₱16	₱–	**₱3,849**
Intersegment sales	–	–	16	(16)	**–**
	₱942	₱2,891	₱32	₱(16)	**₱3,849**
Results					
Income (loss) from operations	₱116	₱553	(₱102)	(₱3)	**₱564**
Other income (charges) - net					**13**
Provision for income tax					**(221)**
Net income					**359**
Other information					
Segment assets	₱15,094	₱25,698	₱6,410	(₱31,168)	**₱16,034**
Investments	–	315	2,596	(1,238)	**1,673**
Consolidated Total Assets	₱15,094	₱26,013	₱9,006	(₱32,406)	**₱17,707**
Consolidated Total Liabilities					**₱5,844**
Depreciation and amortization					**₱113**

For the Six-Month Period Ended June 30, 2020					
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱1,939	₱5,139	₱16	₱–	**₱7,094**
Intersegment sales	–	–	21	(21)	**–**
	₱1,939	₱5,139	₱37	(₱21)	**₱7,094**
Results					
Income (loss) from operations	₱190	₱783	(₱61)	₱–	**₱912**
Other income (charges) - net					**(15)**
Provision for income tax					**(286)**
Net income					**611**
Other information					
Segment assets	₱ 19,212	₱ 34,958	₱ 11,660	(₱49,008)	**₱ 16,822**
Investments	–	–	2,080	(343)	**1,737**
Consolidated Total Assets	₱ 19,212	₱ 34,958	₱13,740	(₱49,351)	**₱18,559**
Consolidated Total Liabilities					**₱6,213**
Depreciation and amortization					**₱287**

For the Six-Month Period Ended June 30, 2019					
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱1,939	₱5,001	₱22	₱–	**₱6,962**
Intersegment sales	–	–	24	(24)	**–**
	₱1,939	₱5,001	₱46	(₱24)	**₱6,962**
Results					
Income (loss) from operations	₱222	₱742	(₱99)	₱–	**₱865**
Other income (charges) - net					**27**
Provision for income tax					**(315)**
Net income					**580**
Other information					
Segment assets	₱15,094	₱25,698	₱6,410	(₱31,168)	**₱16,034**
Investments	–	315	2,596	(1,238)	**1,673**
Consolidated Total Assets	₱15,094	₱26,013	₱9,006	(₱32,406)	**₱17,707**
Consolidated Total Liabilities					**₱5,844**
Depreciation and amortization					**₱220**

5. Accounts Receivables

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Trade receivables	**₱ 1,684**	₱ 2,057
Advances to related parties	**161**	165
Other receivables	**52**	114
	1,898	2,336
Less: Allowance for doubtful accounts	**282**	250
	₱ 1,615	₱ 2,086

6. Inventories

This account includes finished goods and goods in process, raw materials, and spare parts and supplies.

7. Other Current Assets

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Prepaid expenses	**₱24**	₱71
Deposits on purchases	**61**	35
Creditable withholding taxes	**2**	51
Input VAT	**26**	2
Others	**149**	81
	₱262	₱240

8. Property, Plant and Equipment

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Property, plant and equipment		
At cost	**₱4,566**	**₱**4,506
At appraised value	**3,118**	3,118
	₱7,684	₱7,624

9. Interest in Joint Venture Proportionately Consolidated

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (UPI), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and Unilever Philippines, Inc., the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱7,759.89 million and ₱7,030.11 million as of December 31, 2019 and 2018, respectively.

On October 1, 2012, the Parent Company requested from the SEC for an exemptive relief from the adoption of PFRS 11 on its investment in URICI. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 on its investment in URICI on the following grounds:

- Material impact

The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement

    a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

       The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by the Parent Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company. Thus, the Parent Company indirectly controls SWLC, the owner of the real property being leased and used by URICI in its business.

10. Other Noncurrent Assets

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Deferred income tax assets - net	**₱175**	₱392
Other noncurrent assets	**80**	78
	₱255	₱470

11. Accounts Payable and Other Current Liabilities

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Accounts payable and accrued liabilities	**₱4,042**	₱4,003
Income tax payable	**188**	55
Advances to related parties	**57**	116
Others	**14**	35
	₱4,301	₱4,209

12. Other Noncurrent Liabilities

	June 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Deferred income tax liabilities	**₱556**	₱744
Net pension obligation	**165**	146
	₱721	₱890

13. Equity

Capital stock

On October 14, 2013, the SEC approved the amendment of the Parent Company's articles of incorporation to remove the pre-emptive rights of the stockholders to all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the BOD.

As of June 30, 2020 and December 31, 2019, the Parent Company has 3,978,265,025 authorized common shares with ₱1 par value per share. Issued and outstanding common shares of 3,455,971,358 and 3,456,682,858 are held by 3,136 and 3,141 shareholders as of June 30, 2020 and December 31, 2019, respectively.

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Transaction	Common Stock Transactions	
1993		185,800,356	
1994	August 3, 1994	93,304,663	(a)
1995	April 7, 1995	1,116,420,076	(b)
1997	February 25, 1997	5,950,650	(c)
1998		20,042,392	(c)
1999		1,804,979	(c)
2000	July 21, 2000	229,582,173	(d)
2000	December 14, 2000	45,252,983	(d)
2001		21,950,505	(c)
2002		195,891,163	(c)
2006	March 17, 2006	47,857,244	(d)
2008	January 9, 2008	1,963,857,184	(e)
2008	July 29, 2008	(767,310,502)	(f)
2014	March 24, 2014	340,000,000	(g)
2016	Various	(74,973,600)	(h)
2016	Various	70,810,600	(h)
2017	Various	(26,592,400)	(i)
2017	Various	27,864,600	(i)
2018	Various	(19,655,200)	(j)
2018	Various	4,200,000	(j)
2019	Various	(34,676,500)	(k)
2019	Various	5,181,000	(k)
2019	Various	4,120,492	(l)
2020	Various	(711,500)	(m)
		3,455,971,358	

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.

(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.

(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.

(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.

(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.

(f) Cost of retired shares amounted to ₱991.76 million.

(g) On March 24, 2014, the Parent Company issued additional 340.00 million shares.

(h) Purchased 74.97 million treasury stock amounting to ₱313.68 million on various dates in 2016. Re-issued 70.81 million treasury stock amounting to ₱302.23 million on various dates in 2016 resulting in excess of issue price over the cost of treasury stock amounting to ₱8.71 million which is presented under "Additional paid-in capital" account in equity.

(i) Purchased 26.59 million treasury stock amounting to ₱121.80 million on various dates in 2017. Re-issued 27.86 million treasury stock amounting to ₱129.80 million on various dates in 2017 resulting in excess of issue price over the cost of treasury stock amounting to ₱2.14 million which is presented under "Additional paid-in capital" account in equity.

(j) Purchased 19.66 million treasury stock amounting to ₱92.76 million on various dates in 2018. Re-issued 4.20 million treasury stock amounting to ₱20.68 million on various dates in 2018 resulting in excess of cost of treasury stock over the issue price amounting to ₱0.22 million which is presented under "Additional paid-in capital" account in equity.

(k) Purchased 34.68 million treasury stock amounting to ₱167.24 million on various dates in 2019. Re-issued 5.18 million treasury shares amounting to P=24.23 million on various dates in 2019 resulting in excess of cost of treasury shares over the issue price amounting to P=1.16 million which is presented under "Additional paid-in capital" account in equity.

(l) This is the result of issuance of shares of the Parent Company, as a consideration for the merger 4,120,492 shares were issued to the minority shareholders and 146,496,952 shares were considered as treasury shares (Note 1).

(m) Purchased 0.71 million treasury stock amounting to ₱3.49 million on various dates in 2020.

Retained earnings

The details of the Parent Company's declaration of cash dividends follow:

Date of BOD Approval	Amount (in millions)	Type	Amount per share	Record date	Payment Date
February 5, 2020	₱371.48	Cash	₱0.106000	February 19,2020	March 17,2020
July 24, 2019	271.25	Cash	0.077400	August 7, 2019	September 4,2019
'January 30, 2019	282.11	Cash	0.080500	February 14, 2019	March 13, 2019
September 7, 2018	222.97	Cash	0.063700	September 21, 2018	October 17, 2018
January 31, 2018	300.02	Cash	0.085710	February 15, 2018	March 14, 2018
September 27, 2017	200.19	Cash	0.057500	October 11, 2017	November 8, 2017
January 31, 2017	300.00	Cash	0.085760	February 14, 2017	March 10, 2017

The Group's retained earnings as of December 31, 2019 is restricted for the payment of dividends to the extent of the cost of treasury stock, deferred income tax assets, accumulated equity in undistributed net earnings of an associate and consolidated subsidiaries amounting to ₱647.42 million. In accordance with SRC Rule 63, as amended (2011), Annex 68C, the Parent Company's retained earnings available for dividend declaration as of December 31, 2019 amounted to ₱4.38 billion.

14. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Terms and Conditions of Transactions with Related Parties

There have been no guarantees provided or received for any related party receivables or payables. These accounts are non-interest bearing, generally unsecured and will be settled in cash. 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.

Significant transactions with subsidiaries and joint venture which have been eliminated in the consolidation:

a. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine whereby URICI pays service fees equivalent to 7% of the total net sales value of goods distributed. Service fees amounted to 4.5 million and 10.3 million in 2020 and 2019, respectively.

b. The Parent Company engages RLC for its lighterage requirements. Service fees to RLC amounted to ₱16.20 million and ₱18.61 million in 2020 and 2019, respectively.

15. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, short-term cash investments, HTC investments, accounts receivable, bank loans, accounts payable and accrued liabilities, and advances to and from related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk
Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with longterm loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The Group's gross maximum exposure to credit risk is equal to the carrying amount of its financial assets, before taking into account any collateral and other credit enhancements.

Credit quality of cash in banks, cash equivalents and short-term cash investments are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

Liquidity risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequatel addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

Interest rate risk
The Group's exposure to changes in interest rates relates primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk by having a mix of variable and fixed interest rates on its loans. As of December 31, 2018 and 2017, the Group's share in URICI's outstanding bank loans include only short-term loans from local banks and lending investors. URICI is not expecting significant exposures to interest rate risk considering the short term maturities of its bank loans.

There is no other impact on the Group's equity other than those affecting the statement of income.
Foreign exchange risk
The Group's exposure to foreign exchange risk results from the Parent Company's and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2018 and 2017.

There is no other impact on the Group's equity other than those affecting the statement of income.

16. Fair Value Management

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2019:

	Date of Valuation	Total	Fair Value Measurement Using		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Property, plant and equipment at appraised value	December 31, 2019	**₱3,117,628**	**₱–**	**₱–**	**₱3,117,628**
Asset for which fair value is disclosed					
Property, plant and equipment at appraised value	December 31, 2018	**₱3,117,628**	**₱–**	**₱–**	**₱3,117,628**

The Group's parcels of land were stated at their revalued amounts based on an appraisal made by an SEC-accredited independent appraisers dated December 31, 2017. The parcels of land, located in Mandaluyong City and Pasig City, have aggregate fair values of ₱3,117.63 million as of December 31, 2019 and 2018.

Property, plant and equipment at appraised value
The fair value has been categorized as Level 3 fair value measurement based on the inputs to valuation technique used. The significant unobservable valuation input used is priced per square meter ranging from ₱54,400 to ₱75,700. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis. Management believes there is no significant change in fair value of the parcels of land as of December 31, 2018 and 2017.

17. Other Income (Charges)

	For the period ended June 30	
	2020 (Unaudited)	2019 (Unaudited)
Interest expense	**(₱2)**	**(₱12)**
Interest income	**18**	**19**
Other income – net	**(31)**	**20**
	(₱15)	**₱27**

18. Earnings per Share (EPS)

		For the Period Ended June 30	
		2020 (Unaudited)	2019 (Unaudited)
a.	Net income attributable to equity holders of the Parent Company (Amounts in Millions)	**₱611**	**₱580**
b.	Common shares outstanding	**3,455,971,358**	**3,463,055,958**
c.	Weighted average common shares outstanding	**3,456,157,914**	**3,473,335,858**
d.	Basic earnings per share (a/c)	**₱0.18**	**₱0.17**
e.	Diluted earnings per share (a/c)	**₱0.18**	₱0.17

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of June 30, 2020
(Amounts in Millions)

	Amount	**%**
Under Three (3) Months	₱1,567	97%
Three (3) Months to One (1) Year	32	2%
Over One (1) Year	16	1%
	₱1,615	**100%**