

Firm Foundation, Empowering Vision

Annual Report 2019



About the Cover

Firm Foundation, Empowering Vision

The path towards sustainable success requires cultivating synergy. It involves bridging the finest of both past and present to thrive in the charge forward. In turn, this strengthens the foundation on which a new vision will transpire.

This adaptive mindset positions URC at the forefront of a new era. With the empowering vision to become a multinational corporation, the company draws strength from its origins and decades of industry experience, as symbolized by a young Mr. John on his bike during his early entrepreneurial days.

As URC employs innovative methods to fulfill its invigorated purpose, the company embarks on an upward trajectory of innovation, ensuring that its distinct identity will remain at the core of its operations. The company looks forward to a new era and the promises it brings.

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Dreamer, Doer, Game-Changer

**“Why buy and sell other
people’s products when
we can produce our own?”**

JOHN L. GOKONGWEI, JR. (1926 – 2019)

Dreamer, Doer, Game-Changer

This was the question that John L. Gokongwei, Jr. and his brother Henry asked themselves during the 1950s, when their trading business first began to flourish.

This light-bulb moment—just one example of Mr. John’s lifelong boldness to dream—started the story of JG Summit Holdings, one of the strongest conglomerates in the country, with diverse business interests in manufacturing, air freight and transportation, property development, banking, and petrochemicals.

A game-changer extraordinaire, Mr. John disrupted industries, challenged market leaders, and introduced several “firsts” in the Philippines—innovations that changed lifestyles, empowered consumers, and shifted the mindsets of countless Filipinos. But before the rise of Cebu Pacific, before the introduction of Sun Cellular’s 24/7, and before the opening of the country’s first naphtha cracker plant, there was Blend 45 and Chiz Curls.

Mr. John’s multibillion empire began with food. As his only sister Lily Ngo Chua once narrated, Mr. John’s business ideas were chiefly inspired by reflecting on what people needed most. Finding that food is one of these basic needs, he founded Consolidated Food Corporation, the original manufacturer of Blend 45 and Nips. A short time later, his

Universal Robina Corporation became a household name on the back of its now iconic Jack 'n Jill snacks: Potato Chips, Chippy, Cream-O, and Cloud 9.



Dreamer, Doer, Game-Changer

When Times Got Tough, He Got Tougher

“Tragedies and losses should not leave one scarred. Instead they should be seen as situations where one can discover the best in himself.”

– John L. Gokongwei, Jr.

Hard work, discipline, integrity, planning for the long term, building a business that will be around for many generations—these are values that Mr. John espoused and taught by example.

Although he was born to a wealthy family that owned a chain of movie theaters in Cebu, Mr. John’s life of privilege vanished in an instant when his 34-year-old father suddenly died of typhoid fever. John Jr. was only 13 years old at the time.

As World War II broke out, Mr. John’s first business venture at age 15 was to peddle wares via bicycle at Cebu’s Tabuan market. For 10 hours, starting at 4 in the

morning, he sold soap, thread, and candles on a small wooden table and made 20 to 40 pesos a day.

In 1943, at age 17, Mr. John began trading goods between Cebu and Manila via Lucena. Despite the grueling trip over water on a batel (small boat), then by land on a truck, he kept pushing on. Sensing another opportunity as World War II ended, Mr. John opened Amasia Trading, which imported onions, flour, used clothing, old newspapers, and

magazines from the United States. With his now legendary business acumen, Mr. John was soon able to expand to Manila and Davao—a remarkable feat considering he was still only 21. But while the trading business was good, he wasn’t one to rest on his laurels. Ever the entrepreneur, he was always on the lookout for the next big thing, a trait that he’d carry for the rest of his life.



Dreamer, Doer, Game-Changer

Fighting the Big Boys

“If I can compete with people so much older than me, if I can support my whole family at 15, I can do anything!”

– John L. Gokongwei, Jr.

At 31, he ventured into cornstarch manufacturing. To Mr. John, cornstarch was the ideal product for an emerging economy because of its many uses in manufacturing. With a 500,000-peso clean loan granted by Albino Sycip, then chairman and president of China Bank, Mr. John and his siblings put up Universal Corn Products (UCP). For its first important product, the company introduced Panda Corn Syrup in 1956, which was endorsed by culinary expert Nora Daza.

In doing this, Mr. John went against Ludo and Luym, then the biggest cornstarch manufacturer and richest group in Cebu. The launch of Panda led to a price war, with Ludo and Luym dropping their prices with the intent of putting Panda out of business. After the smoke cleared, UCP emerged stronger than ever.

In 1961, Mr. John saw another opportunity. He figured that while cornstarch was doing very well, it was still a

commodity which big companies could access elsewhere. To stay ahead of the game, he realized that he had to produce and market his own branded consumer products the way multinationals did. In fact, Mr. John wanted to be the first local multinational corporation. Thus with his brothers, Mr. John put up Consolidated Food Corporation (CFC), zeroing in on coffee as their first branded product.

Of course, not everything he touched turned to gold. From time to time, Mr. John endured the bitter taste of failure too. In the 1970s, his attempt to gain a board seat on another big conglomerate was controversially rejected. Among his companies, CFC's once-popular Presto Ice Cream eventually folded and so did the formerly booming Litton Mills textile business. Nevertheless, his boldness to dream was matched by his ability to rise up from failure. He always said, “To be successful, you have to be willing to try out many ideas. Some of them will succeed, some won’t. Do five or ten things and one of them will work.”



Dreamer, Doer, Game-Changer

Riskier Games

“In that decade, not many business opportunities were available due to the political and economic environment. Many Filipinos were already sending their money out of the country. As a Filipino I felt that our money must be invested here.”

– John L. Gokongwei, Jr.

As the 1960s rolled around, Mr. John felt it was time to take part in the riskier games of the multinational corporations. Mr. John hired a formidable team of locals and expatriates to help him and his siblings work towards their goal—to make CFC as good as any multinational company.

In 1963, he launched Blend 45, serving as its first brand manager. Marketed as the “poor man’s coffee,” Blend 45 became the largest-selling coffee brand in the market at the time, beating Nescafe and Café Puro. Susan Roces and Boots Anson-Roa, then among the most popular celebrities of the day, were the faces of the brand.

After the success of Blend 45, Mr. John and his siblings diversified into other food products including candy and wafers. CFC’s portfolio included brands that would eventually become household names, thanks to Mr. John’s vision and marketing savvy. In 1975, CFC co-founded the Philippine Basketball Association, Asia’s first play-for-pay league. Playing under brands like Presto, Great Taste and Tivoli, the CFC franchise won six championships in 17 years.

Mr. John’s other beloved food company, Universal Robina Corporation (URC) was officially born in 1966 and pioneered the snack-food industry with favorites that have stood the test of time. To this day, Chiz Curls, Nips, Nova, Jack ‘n Jill Pretzels, Presto and many more are staples in Pinoys’ hearts and households.

In the 1970s, URC expanded into the hogs business through Robina Farms. A decade later, in the 1980s, it forayed into sugar milling through URSUMCO and SONEDCO.

During this era, Mr. John also set up a small factory in Hong Kong to produce Jack ‘n Jill Potato Chips, one of the first steps towards his grand multinational dreams. Today URC is considered the first Philippine multinational with direct operations in 13 countries, while its products are exported to 50 countries around the globe. Its overseas business generates US \$814 Million in annual sales.



Dreamer, Doer, Game-Changer

Big John's Greatest Hits

"If we want to be philosophical, we can say that with a world-class brand, we create pride for our nation. If we want to be practical, we can say that with brands that succeed in the world, we create more jobs for more people, right here."

– John L. Gokongwei, Jr.

After greatly influencing the Pinoy's snacking habits, Mr. John continued to blaze the trail in the new millennium—this time, in the ready-to-drink (RTD) beverage segment.

Mr. John was traveling through Asia when he came upon a very interesting product in China: brewed tea, in ready-to-drink bottles. He visited supermarkets, convenience stores, and factories throughout the country and everywhere he went, he saw the ever-present tea. Though this was widely available throughout China and Japan, he had never seen this product in the Philippines. Intrigued, he gave the URC management team its marching orders in May of 2004—URC would get 2 PET

production lines to launch a green tea product within six months.

At that time, URC was already a leader in snack foods but its only background in beverage was instant coffee. Moreover, it would be entering the playground of the huge multinationals. Mr. John decided to play anyway.

Initially, the situation looked grim. But again, relying on the same business acumen and foresight he has always relied on, Mr. John sensed an opportunity. The winds were changing, and throughout his travels he noticed that wellness was becoming a worldwide trend. He believed that even in the Philippines, people would start focusing on improving their health. When C2 was launched in October 2004, URC sold 100,000 bottles in the first month. Three years later, consumers were buying 30 million bottles monthly. C2 became the runaway market leader, single-handedly driving the growth of the RTD Tea market.

Thanks to Mr. John's constant innovation, entrepreneurial zeal, and strong desire to please the customer, URC rose to become one of the largest branded consumer food and beverage companies in the Philippines, with a significant and growing presence in the ASEAN and Oceania markets. Now the cornerstone of the Gokongwei Group of Companies, URC now has a market capitalization of Php 319.6 billion or US \$6.3 billion and has built many strong brands over the years—Piattos, Great Taste, Magic Crackers—all of which are likewise gaining popularity in the ASEAN region.



Dreamer, Doer, Game-Changer

Dream Big

"After the war, in 1946 I saw the big companies like Ayala and San Miguel were already very, very big. I said, 'how do I reach that height?' So I tried. And then ... I think we've hit that height."

— John L. Gokongwei, Jr.

John L. Gokongwei, Jr. was a trailblazer who changed the rules of the game in most of the industries he entered. He was a visionary businessman who built a multi-billion, proudly Filipino conglomerate and gave jobs to almost 80,000 people. He was a risk-taker, always backed by the courage of his convictions and always doing what people said could not be done. He was a philanthropist who donated half his shares in JG Summit Holdings, Inc. to help educate tomorrow's leaders. Most of all, he was a dreamer, who was passionate about making life better for Filipinos.

Mr. John's extraordinary life's lessons, powerful legacy, and pioneering spirit will continue to resonate strongly in URC and guide it as it hurdles the challenges of the future and continues to soar beyond the great heights that its founder envisioned.

Throughout his life, Mr. John was driven by his desire to improve the lives of the Filipino people. Apart from his philanthropy, which began in earnest at the age of 31 when he donated to his alma mater, he achieved this by giving Filipino consumers alternatives to the status quo. He provided more choices, greater availability from north to south, and, more often than not, at competitive prices.

His boldness to dream and innovate will permeate every aspect of URC's business in the years ahead, as it seeks to fulfill the needs and wants of the modern-day consumer here and abroad. Through effective stewardship, the company will continue producing brands that millions of Filipinos have grown to love while creating exciting new ones. URC will create products of the highest quality that will set the trend, resonate with the public, and lead URC's further expansion into new territories.

As URC moves forward, Mr. John's integrity—his conviction to do the right thing, even when no one is looking—will be a shining beacon for every employee. In this age when sustainability and corporate social responsibility have become all-important buzzwords, when the embrace of a people and planet friendly culture are part and parcel of a company's measurable success, Mr. John's values, purpose, and long-term ambition will continue to light the way.

Thank you, Mr. John.



Chairman's Message



Chairman's Message



" I firmly believe that we have now set a strong base that will anchor a multi-year transformation, in line with our vision to make URC a leading food & beverage sustainable enterprise from the Philippines. "

2019 marked an important pivot year for URC, with a return to strong topline and profit growth after some years of difficult challenges. The step-back we did in 2018, with changes in URC's Leadership line-up and a strategy refresh, is starting to bear fruit. I firmly believe that we have now set a strong base that will anchor a multi-year transformation, in line with our vision to make URC a leading food & beverage sustainable enterprise from the Philippines.

A continued focus on executing the new set of sound strategies will be critical in what we expect to be an ever-increasing level of competitive intensity, now exacerbated by more uncertainty brought upon us by the latest pandemic crisis. This environment requires us to step up our customer-centricity and operational excellence. I am pleased to see very good progress across

URC in building a sharper focus on the consumer to underpin our innovation process, leading to more compelling brand initiatives. Alongside this increased consumer focus, we are also making major strides in transforming our product supply chain and becoming more preferred partners of choice amongst our customers and suppliers. The integrated delivery of all these strategic focus areas achieved double-digit growth in our two largest businesses in the Philippines – the successful restage of Great Taste Coffee, and the capacity expansion supporting market share gains in Jack n' Jill Snacks. In 2019, the resurgence of our Philippine Branded Consumer Foods business, the margin and profit improvements in International, and the continued strong growth of Agro-Industrial & Commodities, provide ample evidence of what sound strategies, executed with excellence, can deliver.

Chairman's Message

Last year also marked an important milestone in URC's sustainable enterprise journey to embed and integrate critical ESG (Environment, Social & Governance) initiatives into the business. Building a "People & Planet Friendly Culture" is our #1 How-to-Win strategy. After an intense period of baselining and enterprise-wide engagement in 2018/19, we formally communicated our 2030 targets in key materiality areas of Natural Resources, People and Product, aligned to the UN Sustainable Development Goals. We believe that this is the right direction to be one step ahead in managing risks across our value chain and stakeholders. One example is the progress made in Year 1 in water-use-ratio and energy-use-ratio. The initial reductions made in these areas have been very encouraging and contributed to the LEAN Manufacturing Excellence cost savings program.

" Looking ahead, I am excited to see URC's transformation plans bring more consumer-driven choices come to life; and deliver more shared success to all stakeholders. "

Looking ahead, I am excited to see URC's transformation plans bring more consumer-driven choices come to life; and deliver more shared success to all stakeholders. However, I recognize the unprecedented external threat that has emerged this year – COVID 19. I acknowledge that this crisis has the potential to affect the momentum of our long-term plans. In the immediate short term, we have implemented our business continuity plans anchored on three areas -- ensuring the health and safety of our employees, maximizing our operations & supply chain even under quarantine conditions, and helping the communities where we live and operate. The situation continues to evolve; and we are preparing for various crisis scenarios, including the recovery phase post-crisis. With URC's strong balance sheet and cash position, and the resiliency of the organization, we are confident to overcome the short term challenges. And in the long run, URC is well positioned to serve any shifts in consumer trends and continue to create value for shareholders.

My role as chairman is to provide the URC Leadership Team advice, guidance and full support to drive URC's strategic agenda in the company's transformation journey. I'm pleased with the management interaction cadence we have developed within URC. I have several opportunities to engage in key strategic reviews of the business and the organization. And yet, the URC Leadership Team have the degrees of freedom to make decisions and operate with speed and agility. We continue to be locally focused and relevant, but regionally aligned in our ways of working so we harness

the collective strength of our capabilities. The entire board is confident that we have a strong and capable leadership team in URC. We have a cohesive One URC leadership team aligned to making structural systemic improvements, while keeping the founders' mentality intact. This combination gives us the confidence to stay on track towards our long term objectives and goals... whatever challenges that lie ahead.

" My role as chairman is to provide the URC Leadership Team advice, guidance and full support to drive URC's strategic agenda in the company's transformation journey. I'm pleased with the management interaction cadence we have developed within URC. "

I want to express our deepest gratitude for your continued trust and support. Rest assured, as we work through this crisis and continue our transformation journey, we remain focused on serving our consumers and delivering long term value creation to you, our shareholders.

Maraming Salamat Po.

Lance Y. Gokongwei
CHAIRMAN

Message from the President and CEO



Message from the President and CEO | Introduction



To our valued Shareholders,

I write this year's URC annual report letter to you with bittersweet feelings. 2019 marked the end of an era, and at the same time the beginning of a pivotal transformation phase for the company. In November of last year, we sadly lost our beloved founder, Mr. John Gokongwei, Jr. and his wife Elizabeth. In their memory, this annual report will feature elements of how they inspired us and gave us the foundations upon which we continue to build our growth story. Last year, we also saw the beginnings of results delivered from a strategic reboot kicked off in 2018. I am pleased that, in 2019, we achieved strong year-on-year Sales growth of +5% and Operating Income growth of +12%, after three years of profit decline. Importantly, we laid the seeds for sustainable future growth, harvested the first fruits of our labor, and braced ourselves for the exciting journey still to come.

2019 was an important pivot year, and this set a solid base for our glide path back to sustainable growth and profitability. The strategic foundations we built in 2018 enabled URC to focus our execution in 2019. We identified three areas where immediate fixes were needed: (1) turning around the Philippine Coffee business, (2) improving our Sales & Distribution capabilities, and (3) addressing our Product Supply Chain responsiveness and reliability. The progress we made in these areas underpin the strong 2019 results; and are covered in the balance of this report.

These three immediate priorities became the cornerstones of our Where-To-Play and How-To-Win strategies, in our objective to transform URC into a leading sustainable enterprise. Beyond

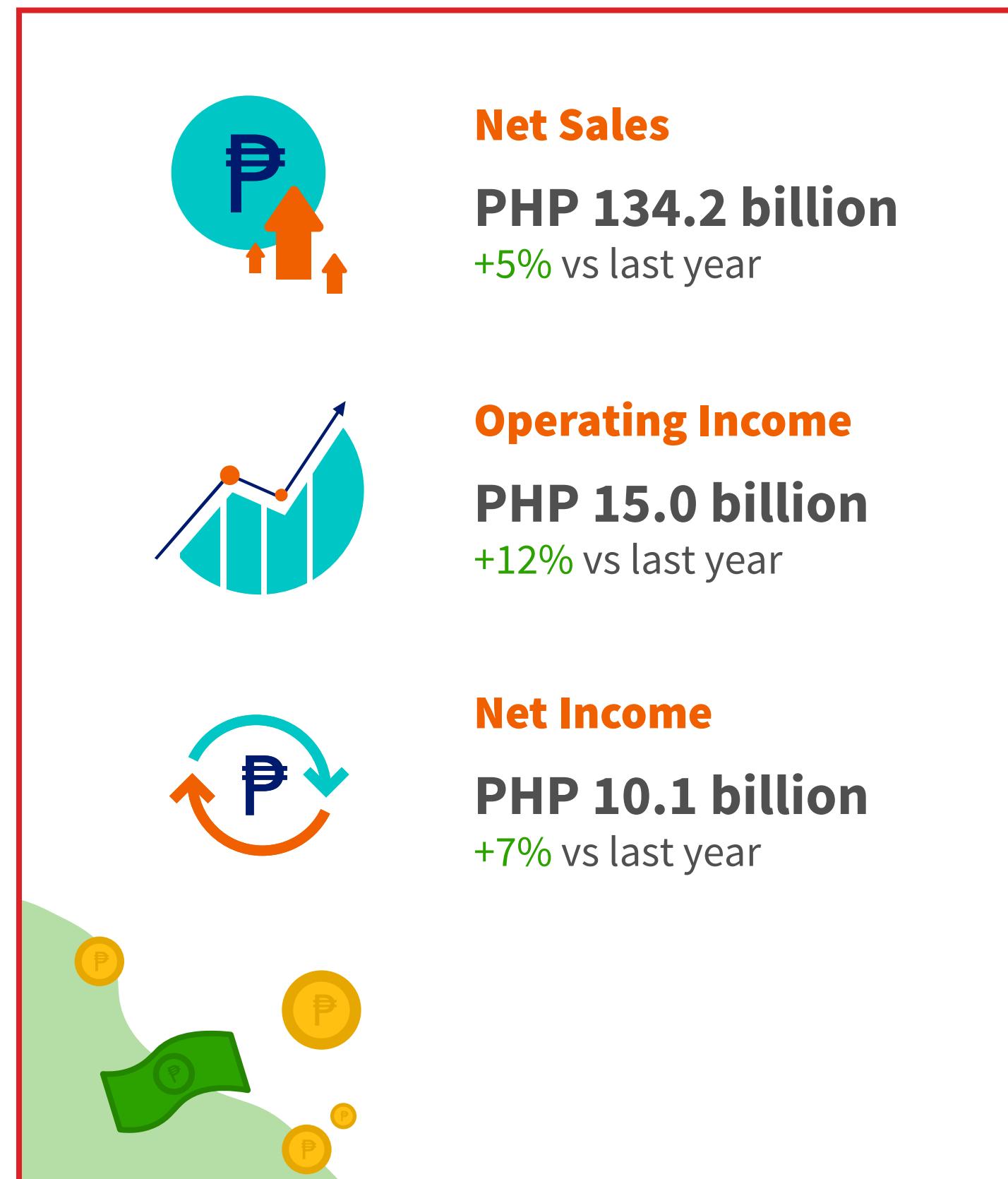
Coffee, we made choices on protecting and growing our core; finding more adjacencies to expand our portfolio; and strengthening our innovation process management across all categories. Beyond Sales & Distribution, we are transforming our customer and supplier relationships to make URC the preferred partner of choice in our industry. Beyond Supply Chain responsiveness, we are embarking on an ambitious multi-year transformation to capture lean efficiency savings and build a more resilient and cost-effective supply network. And holding all these together is an organizational strategy of building a People and Planet Friendly Culture that permeates our leadership development; positive people experiences; sustainability, quality and safety programs; productivity, simplification and digital acceleration. We have made fast considerable progress in all these strategic areas; and we share some examples of these in this annual report.

This strategic framework provides us a robust set of actions that delivered results last year; and is continuing to deliver results now. Through intensifying competitive challenges ... through this pandemic crisis ... through thick and thin, fire and brimstone ... this strategic framework provides us the guideposts in our quest to transform URC from a successful founder-led company to a leading sustainable enterprise in the Food & Beverage sector for generations to come.

“ 2019 was an important pivot year and this sets a solid base in our glide path back to sustainable growth and profitability. ”

Message from the President and CEO | 2019 Business Review

2019 BUSINESS REVIEW: URC OPERATING INCOME UP 12%



We are pleased to announce that we posted solid operating results improvement for the full year 2019. Net sales grew +5% to Php 134.2 billion. Our progress in the Philippines drove overall growth in sales as the benefits from our transformation programs started to manifest in our results.

Operating income had a strong recovery versus last year with double-digit growth of 12%, amounting to Php 15.0 billion, with margins improving by +72 basis points. Net Income amounted to Php 10.1 billion, an increase of 7% versus the same period last year, driven by the growth in operating income offset by finance cost, other expenses, and adverse foreign exchange impacts.



STRONG BALANCE SHEET

URC's financial position remains strong with ending cash balance of Php 20.5 billion and gearing ratio at a comfortable 0.45 level. Net debt of Php 22.0 billion is mainly attributable to the remaining debt associated with the Oceania acquisitions.



DIVISIONAL PERFORMANCE

Branded Consumer Foods (BCF) sales, which is composed of domestic and international branded consumer foods, excluding packaging division, grew by 4% versus last year, amounting to Php 104.6 billion.

BCF Philippines' top-line growth has recovered to a healthy 8% growth in 2019 from a flattish performance in the last two years, amounting to Php 62.4B. The good results were driven by the successful turn-around of Great Taste coffee, acceleration of Jack n' Jill snacks and Noodles, recovery of C2 ready-to-drink tea, and contributions from joint venture businesses with better execution of our crucial transformation programs in distribution and supply chain.

Message from the President and CEO | 2019 Business Review

With the steady growth in BCF PH, we have arrested the decline in operating income and slowly regained back our operating leverage. Operating income for BCF Philippines grew at a faster pace than sales, at 12% versus last year, amounting to P8.0B driven by higher sales volumes, better mix, and effective OPEX management.

“ We have arrested the decline in operating income and slowly regained back our operating leverage. ”

BCF International, sales increased by 2% on a constant currency basis, but declined by 2% in peso terms to Php 42.2 billion. Despite the decline in top line, operating income growth remains strong with an increase of 8% amounting to Php 4.0B with margins expanding to +89 basis points a 10% growth versus last year driven by better price cost mix from our key markets despite weaker currencies.



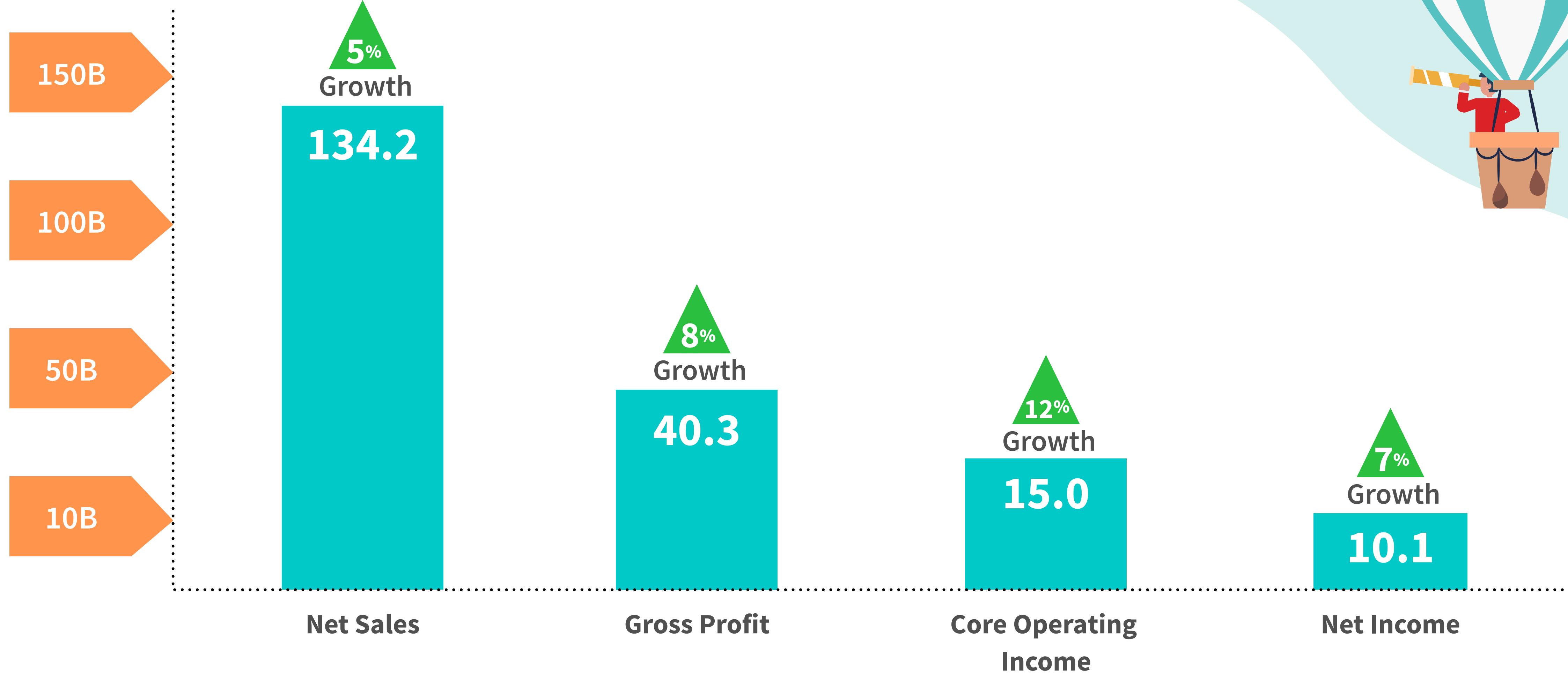
Lastly, our **Agro-Industrial & Commodities (AIC)** Sales amounted to Php 28.3 billion, a 12% increase versus last year while operating income grew by 12%. The Agro-Industrial Group increased sales by 12%, driven mainly by strong growth in Animal Nutrition and Health (animal feeds and pet food). The Commodities Foods Group revenue grew by 12% with Flour posting a healthy

26% sales growth while Sugar & Renewables (SURE) increased by 6% versus last year. Operating income grew by 12%, amounting to Php 4.9B driven by Flour and Animal Nutrition and Health (formerly called Feeds); however, this was offset by a significant decline in the hogs industry.



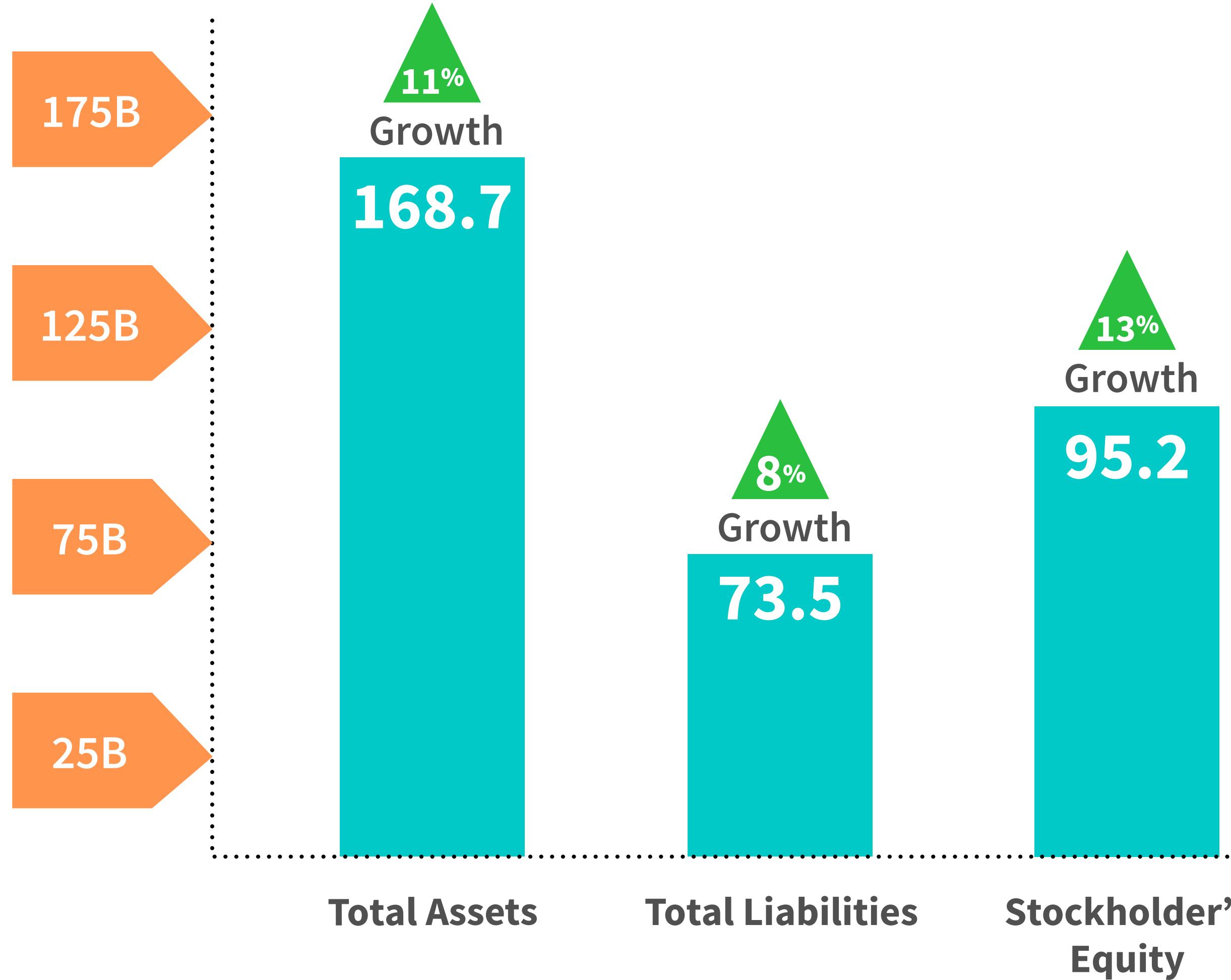
Message from the President and CEO | Financial Highlights

Income Statement 2019

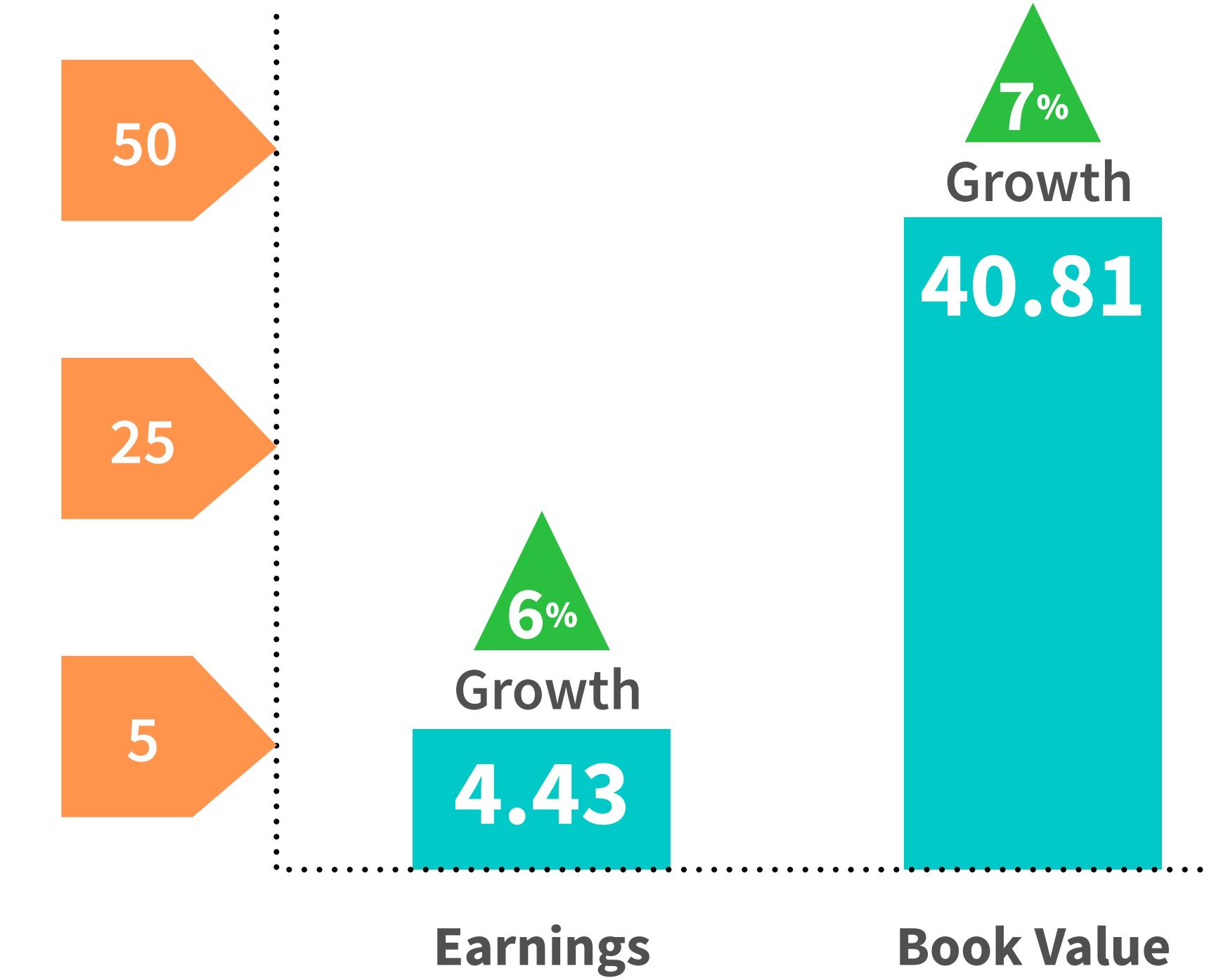


Message from the President and CEO | Financial Highlights

Balance Sheet 2019



Per Share 2019



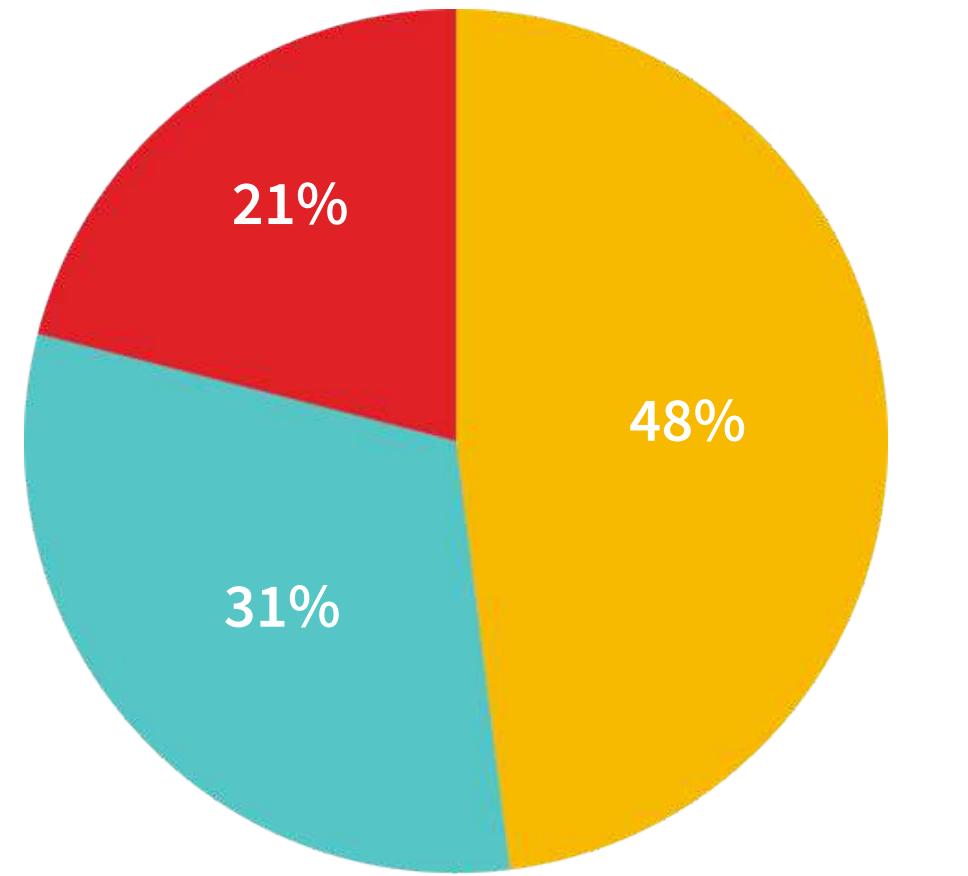
Amounts in billion Peso except per share data

Core Operating Income includes revaluation of biological assets



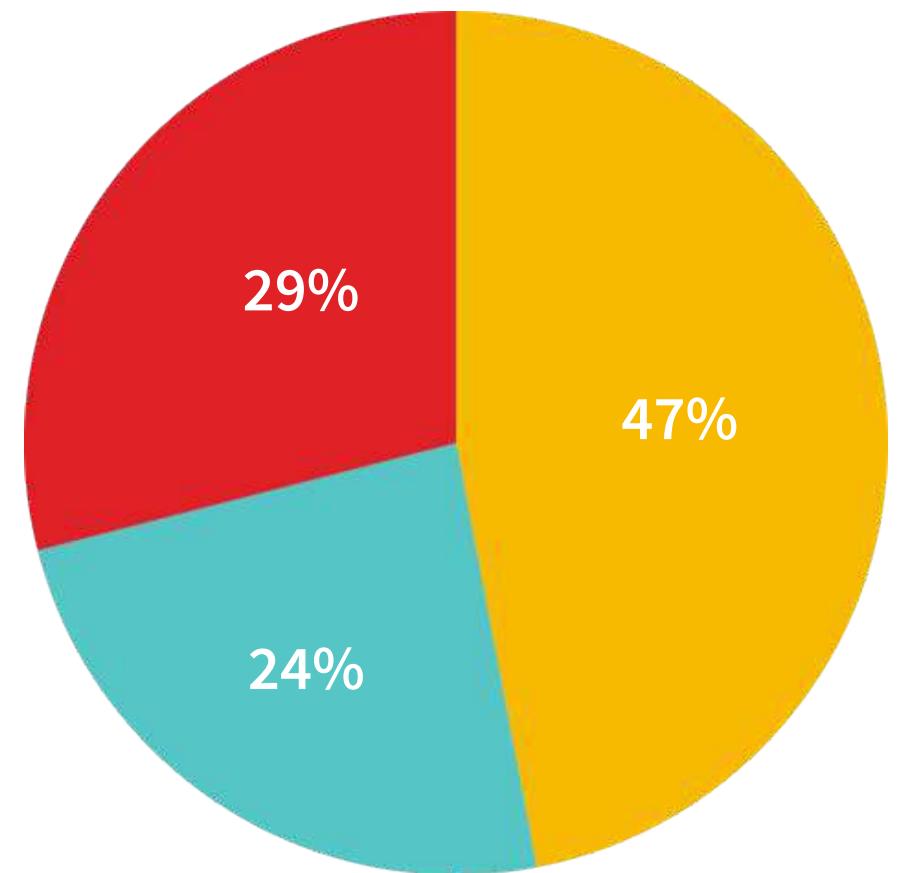
Message from the President and CEO | Financial Highlights

Sales



- Philippines
- International
- Agro-industrial and commodities

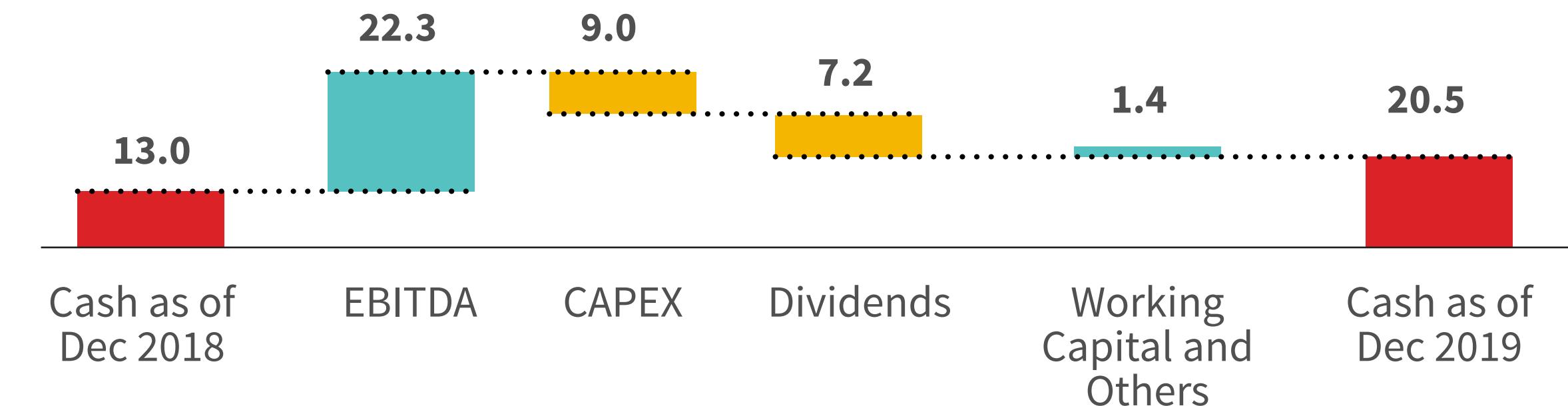
EBIT*



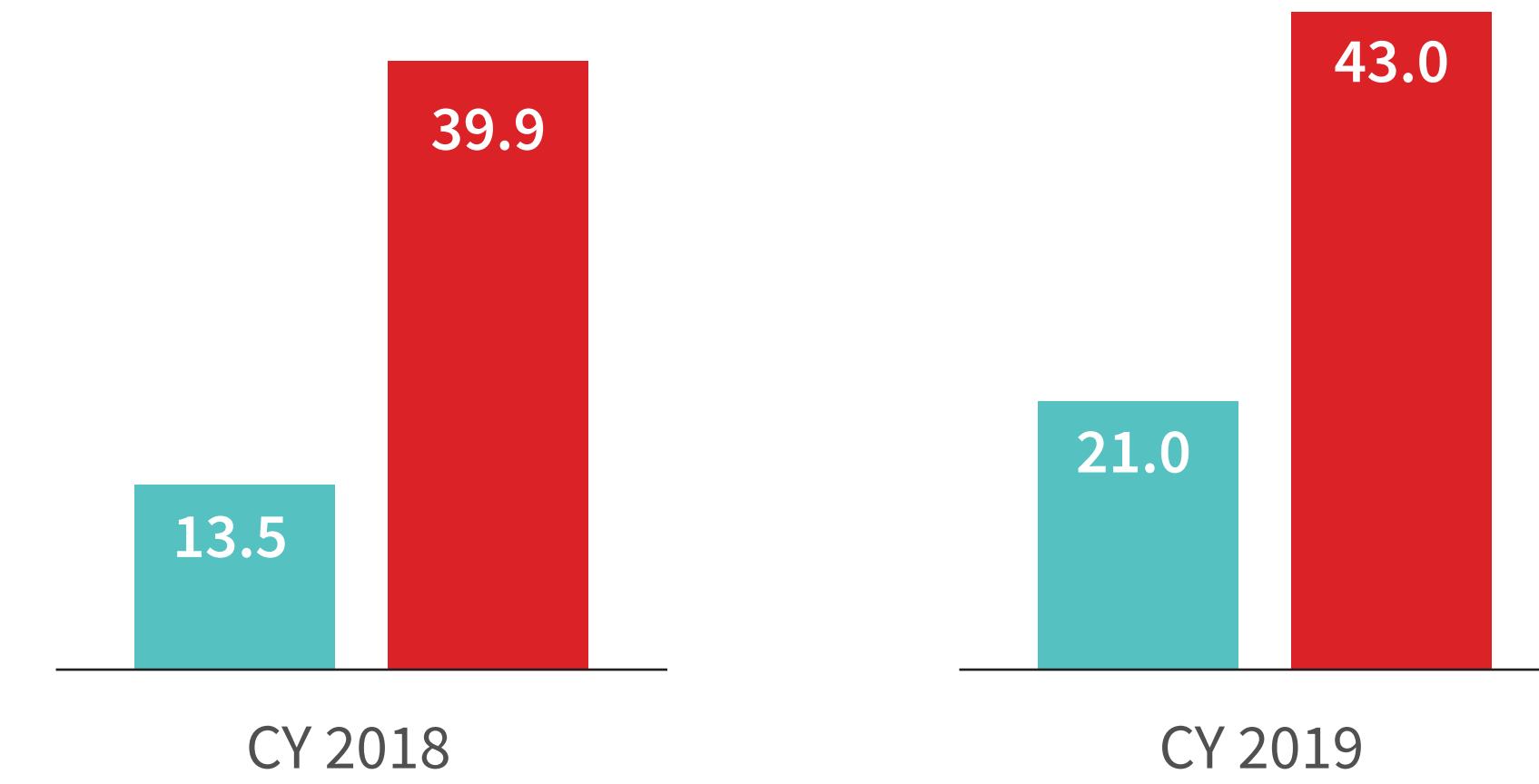
- Philippines
- International
- Agro-industrial and commodities

*EBIT includes revaluation of biological assets
but excludes corporate expenses

Cash Position



Cash and Financial Debt



● Cash + Financial Assets at FVPL + AFS

● Financial Debt

Message from the President and CEO | Other Updates

Other Updates

Intersnack Transaction

At the end of 2019, we completed the transaction of taking Intersnack Group GmbH as a 40% minority partner in our Australia/New Zealand business. URC retains management control and 60% majority shareholding. We received USD142 Million in cash, plus the contribution of Intersnack's Yarra Valley business in Oceania. There is a "gain on sale" of this minority position which is reflected as a balance sheet equity increase. Going forward, this business unit will be named Unisnack Oceania. We look forward to working with Intersnack and leverage their considerable expertise in sourcing, supply chain operations and commercial management.



Restructuring Reserves

We have included in our 2019 financials, non-cash restructuring reserve charges of Php 830 Million before tax and Php 581 Million after tax. The nature of these Restructuring Reserves relates to strategic decisions taken in 2019 involving multi-year restructuring programs that will be executed over the next 2-3 years. The strategic decisions are a result of choices in specific Where-To-Play (portfolio streamlining) and How-To-Win (product supply chain transformation) areas of our strategic framework:

- Supply Network Design (SND) Consolidations – Last year we completed detailed SND studies to determine the optimal configuration of our plant facilities. These studies indicated the opportunity to improve long term cost efficiencies, while supporting future business expansion, by consolidating some of our excess high cost factories. This will entail closures, asset write offs and redundancies in the Philippines and Australia over the next 2-3 years, resulting in production cost efficiency benefits thereafter.
- Portfolio Adjustment / Downsizing of Farms – Over the past year and a half, we have engaged all business units in strengthening our core categories and identifying more new categories to develop. As part of this strategic assessment, we have determined that the Agro-Industrial Group (AIG) will be best served by focusing on the profitable and growing Animal Nutrition & Health business and continue to move up the value-added chain in the meat business. The latter means developing our new packaged meat offerings and downsizing in the highly volatile and difficult bio-security livestock farm facilities. We will still participate in the hog farms segment for vertical integration resiliency; but we no longer need as much hog farms and breeder stocks as we have today. This downsizing will progress over the coming year, resulting in reduced losses and volatility from the farm business.

Message from the President and CEO | In Closing



In Closing

2019 was an important recovery year. We are pleased to achieve a record year in Philippines sales revenue, strong profit growth overall, and return the company to a sustainable growth trajectory. But much still needs to be done, and our transformation journey continues in high gear as we take on the new challenges of 2020 and beyond.

Indeed, as we continued our momentum into 2020, a raft of exogenous factors has caused major disruptions. First, the phreatomagmatic eruption of Taal volcano in January; and then, the global covid-19 pandemic.

“ Shifting to the future and what might be the new normal, we remain well-positioned in the long term to serve consumers and create value in attractive business segments. ”

Given the immense impact of covid-19, we have moved quickly on some immediate short-term priorities. Our first priority in this crisis is to ensure the health and safety of all our URC colleagues. Second, we're maximizing the availability of food and beverage products that people and their families need. The next priority is helping society meet and overcome the challenges we all face.

“ We are fortunate to be in the food industry with a strong balance sheet and healthy cash position. ”

Taken together, these priorities help ensure URC is there, there for our employees, there for consumers and the public, there for communities where we live and operate.

Shifting to the future and what might be the new normal, we remain well-positioned in the long term to serve consumers and create value in attractive business segments. Consumption of our products is not likely to dissipate. In fact, the relevance of our categories and consumers' lives potentially increases as we adjust to new consumer and shopper trends. We will be focused on serving colleagues, consumers, customers, communities, building our business for the many more months that will

follow this crisis than the months that will exist within it. But we'll do this responsibly and keep our choices squarely centered on mid and long-term value-creation.

We are fortunate to be in the food industry with a strong balance sheet and healthy cash position. We are confident we can weather the challenges posed by covid-19. The best response to this crisis is to push forward, not to pull back, and that's exactly what we intend to do. We're doubling down to serve consumers and our communities. We're doing this in our interest and society's interest, and in the interest of our long-term shareholders.

We want to express our most profound appreciation to you, our shareholders, for your continued confidence and support to URC.

Thank you very much.

Irwin C. Lee
PRESIDENT & CEO

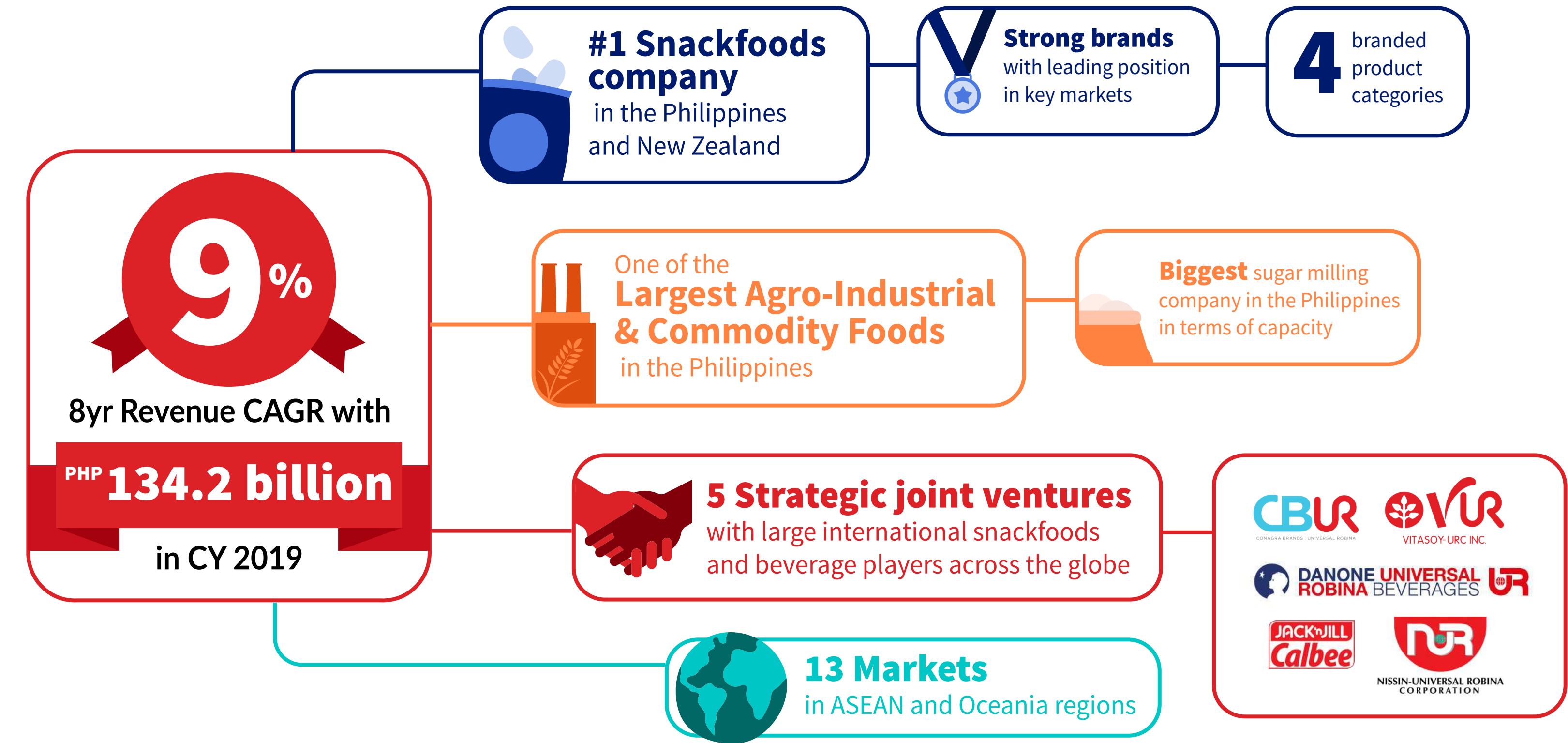


About URC



About URC | Business Highlights

Universal Robina Corporation (URC) was founded in 1954 by Mr. John Gokongwei, Jr., and for over 60 years, URC has delighted its customers with brands of exceptional quality. The winning innovations of URC captured strong market positions and further drove the company to go beyond the Philippines and build a PAN ASEAN OCEANIA footprint spanning 13 markets. Today, URC is the number one or two snack food company in the Philippines & Australia, the market leader in Thailand and New Zealand on biscuits, and a top beverage player in Vietnam. Our credibility of building successful brands through the years, our distribution reach and our technical capabilities in R&D and manufacturing made us the preferred partner of global players as evidenced by our five strategic partnerships with top international snack foods & beverage players. Last but not least, URC is one of the largest and most profitable players in Agro-Industrial & Commodities in the country. We are the largest sugar miller in the Philippines, and a top 3 leader in flour milling and animal feeds milling.



About URC | Vision, Ambition, Values

Our Vision

Delighting consumers with brands of exceptional quality and value, making lives a fun experience.

Our Ambition

To be the Leading Food & Beverage Sustainable Enterprise from the Philippines

Core Values

PASSION TO WIN

We build organizational capability by being entrepreneurial and proactive, driven by a sense of urgency and purpose. We continuously challenge ourselves to deliver world-class brands and consistently rally our people to strive for excellence.

INTEGRITY

We are guided by transparency, ethics and fairness. We build the business with honor and are committed to good governance. Our processes and products meet the highest standards. We are credible in our dealings with both internal and external stakeholders.

DYNAMISM

We cultivate a culture of innovation and productive working relationships. We continuously find ways to improve organizational and people capabilities to meet constantly changing consumer needs.

COURAGE

We seize opportunities in building long-term, sustainable businesses. We make tough people and business decisions to ensure competitive advantage.

About URC | Brand Architecture

Branded Consumer Foods (BCF)

This is the largest business segment of URC with a range of strong household brands that are loved by consumers in the snacking, beverage and noodles categories. We participate in 4 branded super categories that continue to grow across our markets in the ASEAN and Oceania regions.



About URC | Brand Architecture

Agro-Industrial & Commodities (AIC)

This segment is composed of Agro-industrial Group, Sugar and Renewables Group, and Flour and Pasta Division. As a vertically integrated business, AIC supports the branded consumer foods business through its end product such as sugar and flour.



About URC | Geographic Presence

Geographic Locations

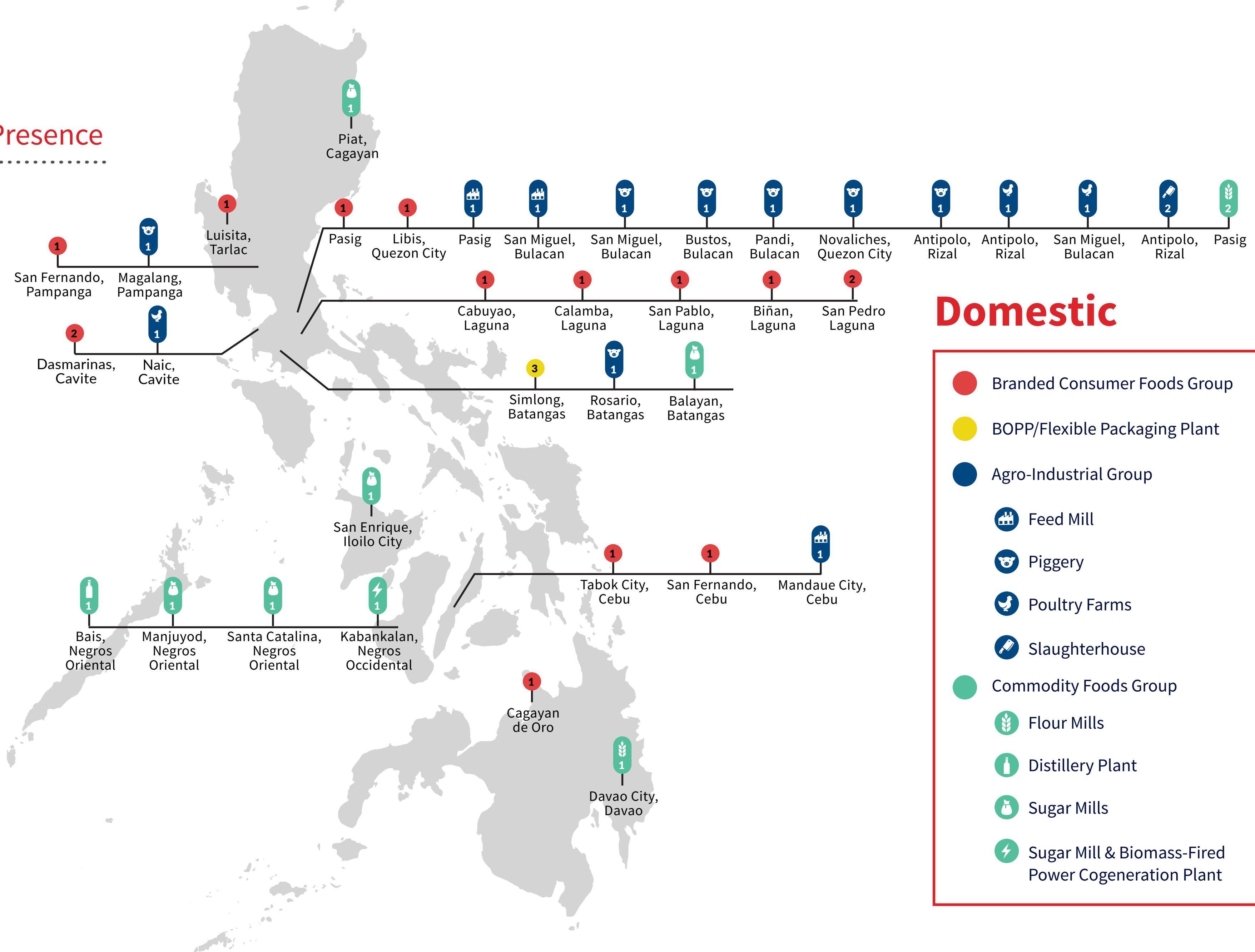
URC FACILITIES

38 Branded Consumer Foods Facilities

15 Agro-Industrial Facilities

11 Commodity Foods Facilities

5 International Sales Offices and Distribution Presence Facilities

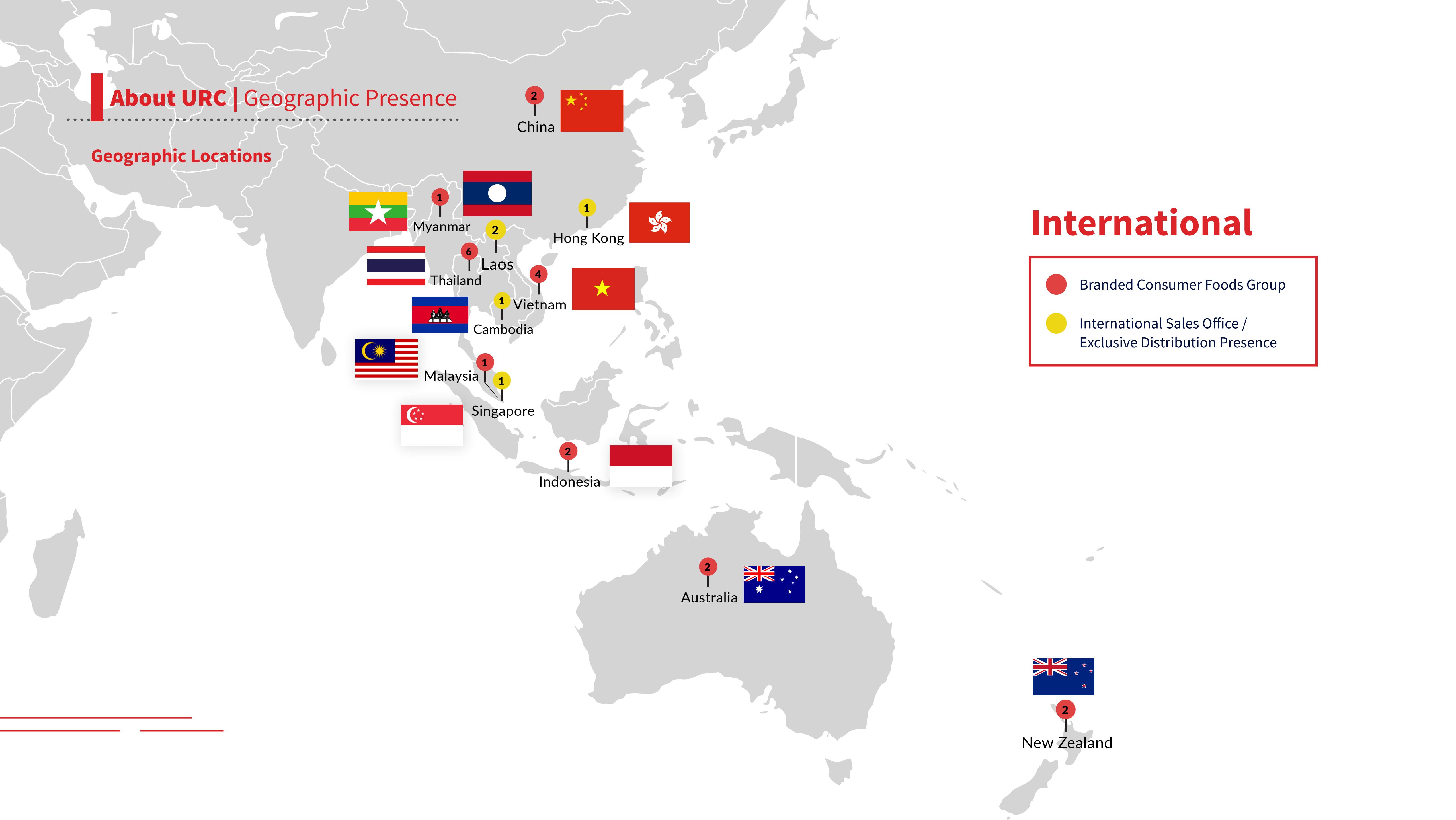


Domestic

- Branded Consumer Foods Group
- BOPP/Flexible Packaging Plant
- Agro-Industrial Group
 - Feed Mill
 - Piggery
 - Poultry Farms
 - Slaughterhouse
- Commodity Foods Group
 - Flour Mills
 - Distillery Plant
 - Sugar Mills
 - Sugar Mill & Biomass-Fired Power Cogeneration Plant

About URC | Geographic Presence

Geographic Locations



International

- Branded Consumer Foods Group
- International Sales Office / Exclusive Distribution Presence

About URC | Geographic Presence

Global Exports

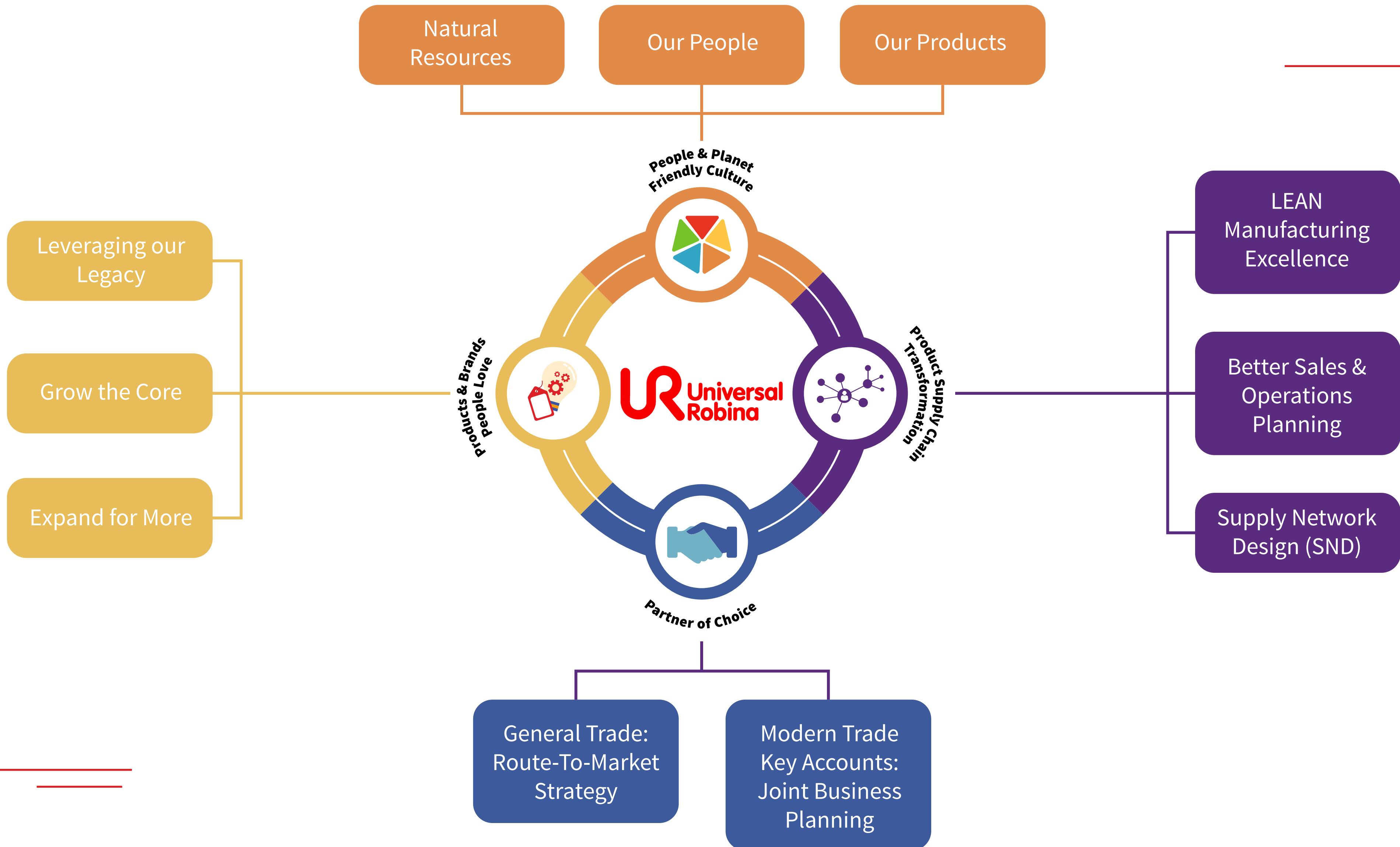
Branded Consumer Foods' one global export team allowed us to approach existing customers in over 50 countries worldwide including America, Europe, Middle East, Africa/Indian Ocean, North Asia, and Oceania/Pacific Islands markets with our complete portfolio of diverse, globally accepted quality products. It allowed us to maximize our sales resources and manufacturing capabilities in order to better serve our established distributors and retail partners in existing markets, as well as to penetrate and explore opportunities in new markets.



Strategy Updates



Strategy Updates



Strategy Updates



I. People & Planet Friendly Culture

URC has a strong foundation of positive people culture. And we aim to enhance this with investments in talent development, digitalization, and simplification initiatives to empower our people further, expand collaboration, and build next-generation leadership. This people development pillar, together with natural resources management and product portfolio improvement, comprises the five materiality focus areas in our sustainability program.

In 2018 we embedded sustainability in URC's corporate strategic thrust. This is a reminder to our employees and shareholders that sustainability is a significant component of our corporate strategy, tightly woven into our culture and the way we operate. We strengthened our governance model to make our execution and decision making more agile. We redesigned the steering committee responsible for the development & delivery of URC's Sustainability Commitments. Senior leaders with regional roles were appointed to integrate and execute sustainability initiatives as One URC. Country heads and division heads were also aligned to support delivering on our commitments.

In 2019, we supplemented our Phase 1 materiality areas with long term commitments aligned to the United Nations Sustainable Development Goals. From our baselining exercise in 2018, we were able to develop our long-term commitments and KPIs, which were cascaded from the corporate level to the plant level across our business operations.

People & Planet Friendly Culture

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love



Strategy Updates

We also started our LIVE SUSTAINABILITY. LIVE URC campaign to cascade our sustainability strategy across our operations in that eventually led to organic execution across our businesses. This led to the following progress in Natural Resources, People, and Products materiality areas, along with its impact towards the United Nations Sustainable Development Goals.

People & Planet Friendly Culture

Product Supply Chain Transformation

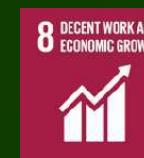
Partner of Choice

Products & Brands People Love

Culture of Safety



LIVING IN AN
INJURY -
FREE
ENVIRONMENT



Engaging our Communities



VIP: Volunteer
& make an impact
program

Education



Flourish
Pilipinas



Kabalikat
Programs



Iskolar
ni Juan

Our Execution Phase Live Sustainability. Live URC

Live Sustainability is our commitment to making life better by integrating Sustainability in everything we do. This is a platform to drive sustainable growth, champion innovation, promote mutual stake holders' success and nurture environmental stewardship

Live Up



Uplift Lives

People

Live Right



Love Our Products

Our Products

Live Clean



Save The Planet

Natural Resources



SAGANA
Sustansiya
Program



Sustainable
Potato
Program



PET Recycling Facility



PARMS (Philippine Alliance for
Recycling and Material
Sustainability)



Convert this plastic waste into
usable fuel, thereby making
non-biodegradable material
finally, truly recyclable.



1. URC Circular Economy
Initiative
2. Waste analysis &
Characterization assessment

Strategy Updates



Our Commitment

We will optimize Energy Use Ratio by 30 % by 2030 along with its impact on Carbon Footprint.



-6%



Substantially improve water use in our facilities by improving our Water Use Ratio by 30%, by 2030.



-11%

People & Planet Friendly Culture

Product Supply Chain Transformation

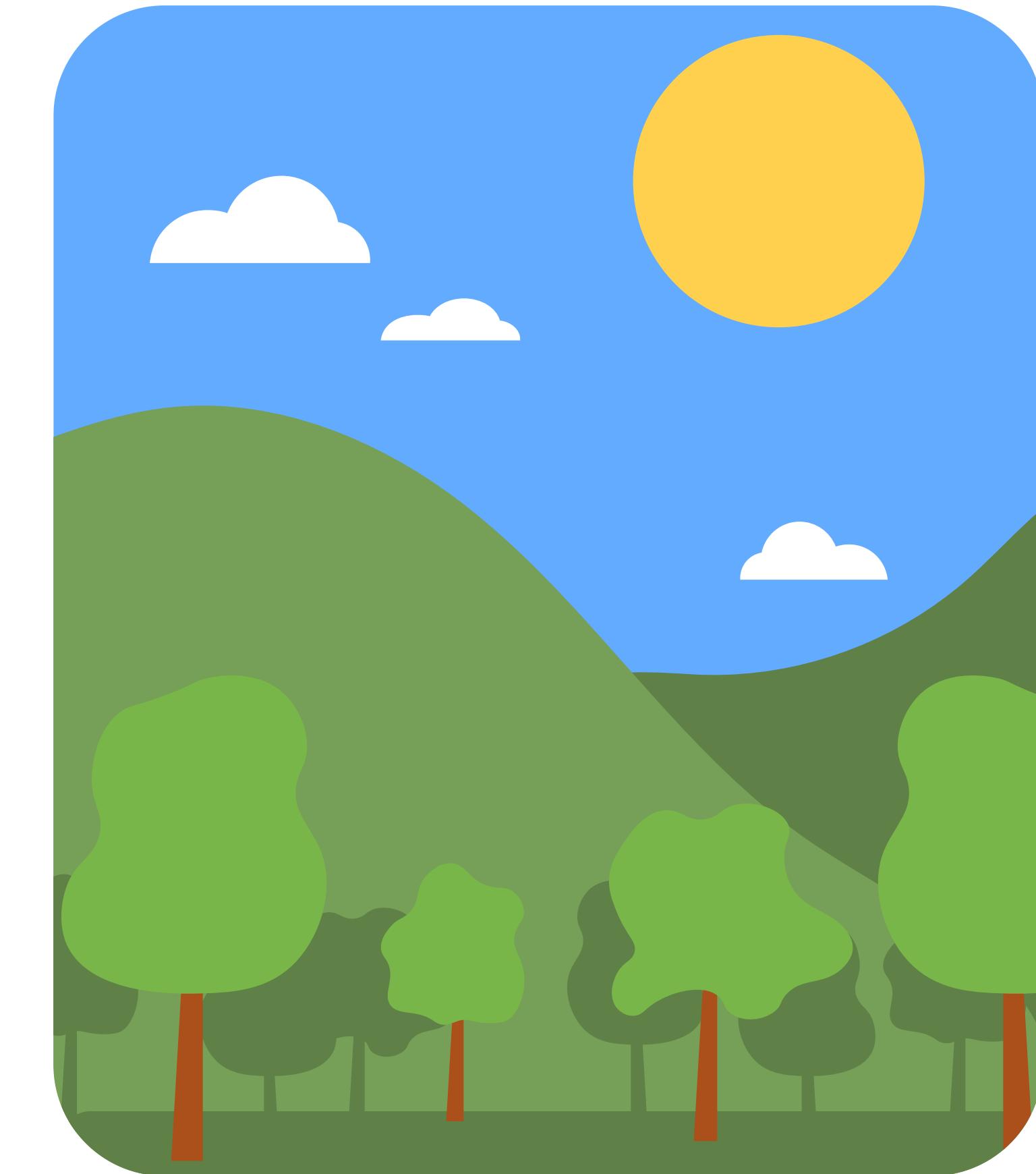
Partner of Choice

Products & Brands People Love

Our 2019 Progress

We have reduced our energy use ratio (EUR) along with its effects to GHG by -6% or equal to 3.65 GJ/metric ton versus our 2018 baseline driven by the improvements from our businesses in the Philippines. We are on track in achieving our 2030 commitments as we further scale our initiatives that drives more efficient use of energy in our value creation while we grow the business.

We are pleased that for CY2019, we improved our water use efficiency by reducing our water use ratio (WUR) by -11% or equal to 5.7 m³/metric ton versus our 2018 baseline at 6.4 m³/metric ton. Our performance was driven by improvements across business divisions as a result of our initiatives in driving recycling of wastewater effluents.



Note: Data covers manufacturing facility of BCF-PH, BCF-INT and Flour only

Strategy Updates



Our People

Our Commitment

Growth In Talent



We empower the organization through our People & Planet Friendly Culture initiatives, ensuring holistic growth of our employees at all levels.

Safety



We promote a safe working environment towards zero lost time injuries in the workplace.

Our Communities



We commit to improve people's capabilities leading to better livelihood through education, improved nutritional level, and environmental stewardship in communities where we live and operate.

People & Planet Friendly Culture



35

hours per employee¹



-9% -26%

LTIFR²

AIFR²



Education: Live UP

Flourish Pilipinas
Kabalikat Program



Nutrition: Live RIGHT

Sustainable Potato
Program
SAGANA Sustansya



Environment: Live CLEAN

Coastal Cleanup
Tree Planting

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love

We've conducted an average 35 training hours per employee in 2019. We are on track with our 2030 commitments as we establish a ONE URC Learning program that will strengthen the competencies of our employees specific to the required needs of the business.

We have reduced our Lost Time Injury Frequency Rate (LTIFR) by -9% or equal to 1.22 and All Injury Frequency Rate (AIFR) by -26% or equal to 7.56 versus our 2018 baseline driven by the improvements on our international operations. We are on track in achieving our 2030 commitments as we increase the safety implementation programs across the operation.

¹ Data covers the total number of URC regular employees excluding BOPP, UFLEX and AU only

² Data covers manufacturing facility of Total URC

Strategy Updates

People & Planet Friendly Culture

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love



Our Products

Our Commitment

Quality

We will consistently deliver products of high quality as we ensure that our processes will always be aligned to the best-in-class standards.

Portfolio

We will improve the nutrition & wellness profile of our product portfolio aligned to the URC Wellness Criteria.

Packaging

We will reduce our packaging footprint and make 60% of our packaging recycle-ready.

Our 2019 Progress



FSSC

2019: 8 Plants

As of 2019, we have an existing FSSC (Food Safety System Certification) to 8 URC plants. This includes 3 plants in Thailand, 4 from Vietnam, and 1 in the Philippines (Distillery-CO2 plant). We are on track in achieving our 2030 commitments as we further pursue the FSSC certification of the remaining URC facilities. Our passion for quality is anchored on our vision to provide our customers with brands of exceptional quality and value.

Total Snack

85% or 150 SKUs passed 1 or more of the URC Wellness Criteria
50% or 89 SKUs passed 2 or more of the URC Wellness Criteria

Beverage

86% or 72 SKUs passed 1 or more of the URC Wellness Criteria
73% or 61 SKUs passed more than 2 of the URC Wellness Criteria.

We started our work in packaging footprint and we are making good progress.

80% of our total packaging is recycle-ready.

We will be releasing our second GRI report this year, which will give more color on our sustainability program and the drivers of our progress in 2019 versus our 2018 baseline.

Strategy Updates



II. Product Supply Chain Transformation

The ongoing transformation of our operating model is key to enable better customer satisfaction, market reach, productivity, cost efficiencies and service responsiveness in our end-to-end product supply chain. In 2018, we started evolving our structure into an integrated supply chain -- ensuring seamless integration from order planning, procurement, manufacturing, and logistics. This new integrated product supply chain organization is undertaking a multi-phased journey in three areas :

LEAN Manufacturing Excellence

We continue to adopt best practices to eliminate waste and optimize conversion costs. In 2019, we piloted LEAN manufacturing in one of our biggest and most diverse facilities (in terms of manufacturing lines) in the Philippines. Through this pilot we aim to create a replicable process that reduces materials waste and utilities cost, improves production yields, and optimizes labor productivity. We expect a total of one billion pesos savings in the Philippines from LEAN over three years.

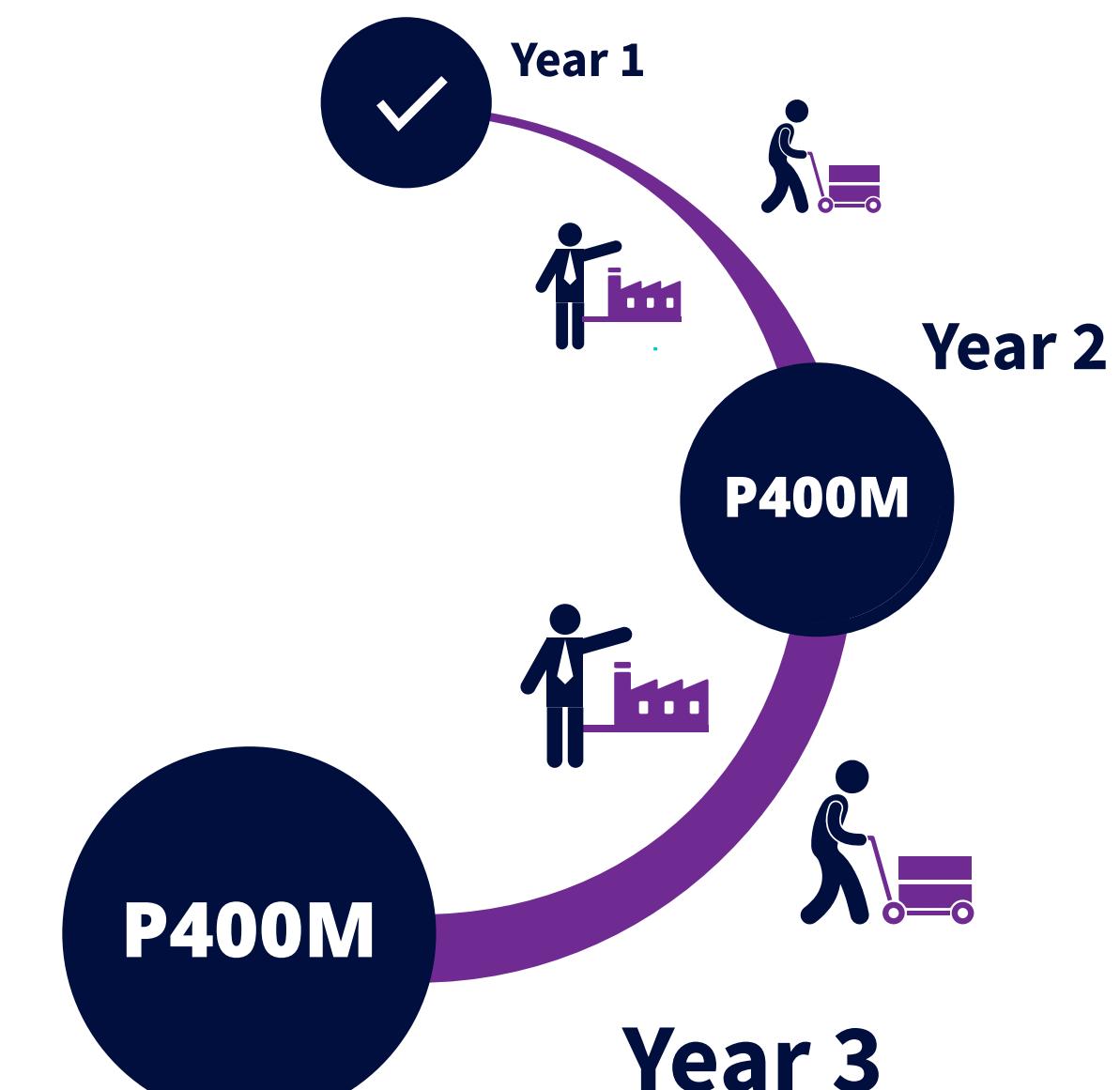
People & Planet
Friendly Culture

**Product Supply
Chain Transformation**

Partner
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Products & Brands
People Love

- LEAN Manufacturing**
- ✓ Successful pilot of Lean in Calamba
 - ✓ Application of LEAN Mindset in the Philippines
 - ✓ Reduced production wastage by 30 bps
 - ✓ Water & Energy Usage Ratio improved more than 10%



We achieved our 2019 target of PHP 200M savings from the implementation of LEAN manufacturing projects in Calamba plus the inculcation of the “LEAN mindset” across the rest of the facilities in the Philippines. The LEAN mindset enabled the organization to be more responsive towards addressing issues raised by line operators, who are now enabled by new capabilities via training and availability of analytical tools. The new integrated supply chain structure also created a more collaborative process to prevent wastage in input material and finished goods. As a result, production wastage was reduced by 30 basis points; and water and energy use ratios improved by more than 10%. For 2020, we expect more savings as we roll out LEAN and replicate our learnings from the pilot to all facilities in the Philippines. We are now expanding this program from manufacturing to other activity systems like formulation, packaging and logistics.

Strategy Updates

People & Planet
Friendly Culture

**Product Supply
Chain Transformation**

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People Love



Better Sales & Operations Planning

Prior to the establishment of our integrated supply chain structure, URC's complexities over time led to siloed operations and discrepancies in operations planning information management. Demand forecasting, materials and production planning, transport and logistics were fragmented and difficult to coordinate. This resulted to inaccuracies in customer order fulfillment and low enterprise order fill rate.

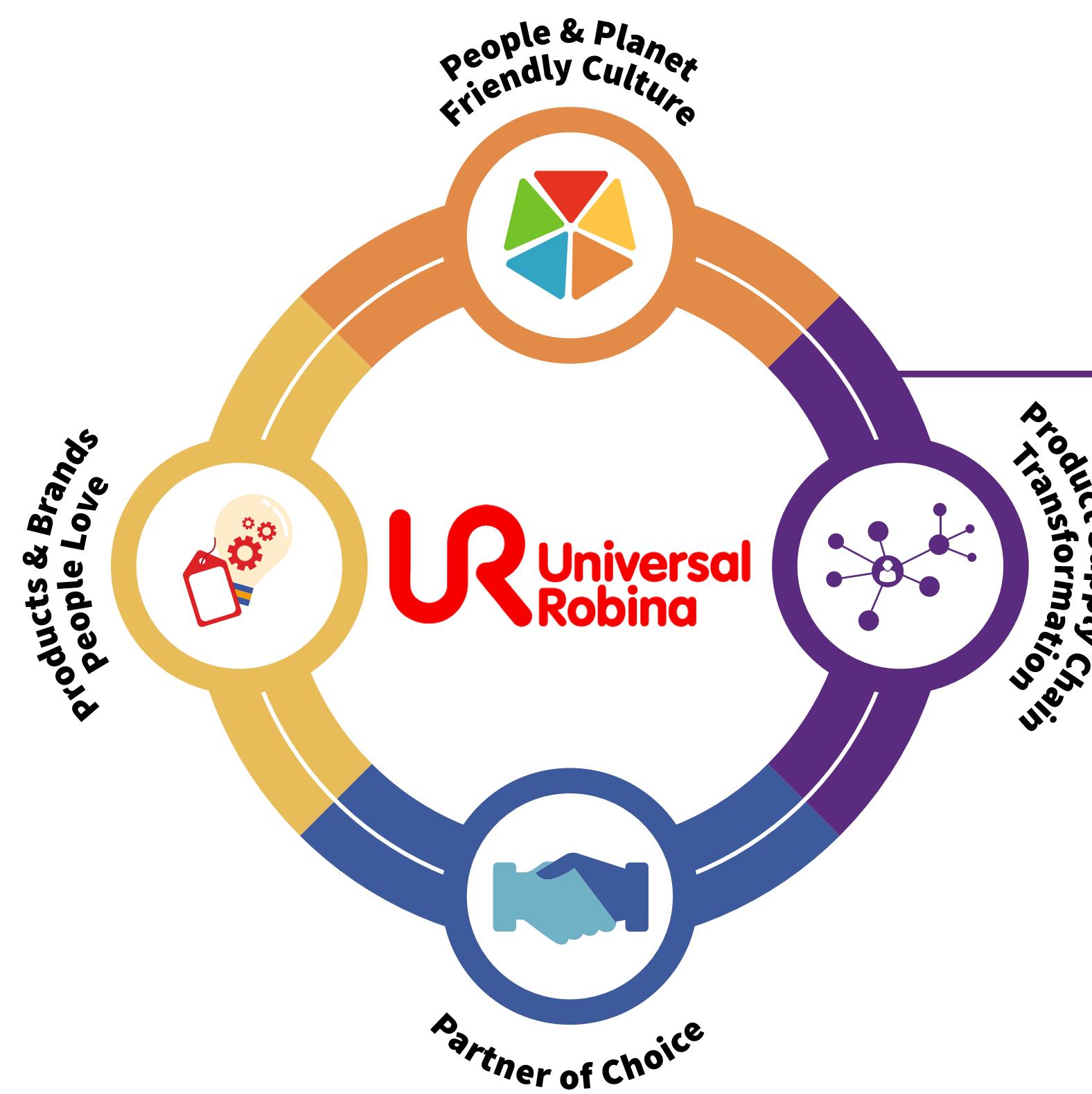
In 2019 we transformed our sales and operations planning governance. Collaboration and process discipline were significantly improved, and forecast coordination across the value chain were aligned. As a result, we significantly improved the timely fulfillment of customer orders and freshness of our products in the market. Our enterprise order fill rate reached as high as 90%+ in the most complex business units, and well over 95% in the simpler SKU line up operations.

Strategy Updates

Supply Network Design (SND)

SND is aimed to optimize our entire production network, given the large number of facilities across the region and the need for additional capacity and space to support future growth. While larger, multi-category plants will

drive higher operational efficiencies, other factors like contingency, resiliency, and distance to demand are also factored into the overall equation. Similar to LEAN, this transformation is also a multi phased approach and will cover both our Philippine and international operations.



People & Planet Friendly Culture

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love

Our Progress:

Last year we completed our Supply Network Design study and we were able to identify the opportunities to improve long term cost efficiencies while supporting future business expansion. This study provided an initial roadmap of optimal supply points to match demand centers of gravity. This will entail some facilities rationalization and consolidation, balancing cost and supply resiliency. The end-state of our supply network design will also enable better regional sourcing support and scale further our Global Exports business.

Consolidation

- BFCG Philippines
- URC Australia



Future Mega Sites



Regional Sourcing



Global Exports



III. Partner of Choice

Our decades of experience enabled us to gain capabilities in serving the evolving retail landscape. Our customer engagement along with the wide product offerings and price points made us one of the biggest suppliers of top retailers today. As we grow the business, we continue to reinvest in capabilities that will drive scale and efficiency in our distribution and account management, as well as supplier base development. We aim to be a strong partner of choice today and the coming years by further raising our collaboration with long term customers and suppliers.

General Trade: Route-To-Market Strategy

Our Route to market strategy focuses on increasing our direct distribution (coverage), better productivity & sales quality (lines sold) driven by consistent perfect store presence like excellent merchandising and quality of product lineup in stores. We piloted a major reinvention of coverage expansion in the Philippines. This has exceeded our initial targets and has contributed significantly to the growth of BCF Philippines.

As part of this route to market reinvention, we are also building new capabilities. The implementation of Sales Force Automation has been instrumental in driving our vision of leapfrogging our distributor capabilities through digitization. This allowed our distributors to cover more stores in the most efficient manner. In addition to handheld devices, we also utilized geotagging in both current and prospective outlets to effectively monitor our salesman productivity in terms of daily routes as well as monthly acquisition of new direct accounts.



Modern Trade Key Accounts: Joint Business Planning

As trade dynamics continue to shift to modern retailers, we made significant investments to step change our engagement with the top modern key accounts across territories. We have re engaged our key customers and drove strategic partnerships through joint business planning. We are reaping the benefit of aggressive growth rates in our key customers as we plan and execute better shopper plans with them. With our continuous customer engagement, we started to be recognized as a preferred supplier by our key customer partners.

Strategy Updates



IV. Products & Brands People Love

In 2018 we established Innovation Process Management (IPM), our platform in our Brand and Products People Love Strategy, that will accelerate our ability to launch new brands. Our direction towards IPM is to strengthen our insighting processes to drive new product development and renovations of existing brands without compromising entrepreneurial speed and agility. IPM also served as a cornerstone of our "Where-to-Play" strategy in which we classified as Grow the Core and Expand for More. Our plans towards Grow the Core ensures that our core products remain competitive by revisiting our proposition while Expand for More focuses on adjacencies in our existing categories, emerging trends, and new sources of growth. In 2019, our IPM delivered the following:



Relaunch of Great Taste White: The relaunch of Great Taste White was considered one of the most critical priorities in 2019. We restaged our original Great Taste White with the better formulation and new packaging along with two new flavors, White Caramel and White Crema. With the relaunch of GT White, we offer the broadest range in the white coffee format in the market, giving consumers more choices on how to enjoy their white coffee mix.



Piattos and V-Cut Party Packs: We started expanding our mainstream snacking portfolio at both ends of our price points. We launched a Piattos and V-Cut in Supersized pack that is priced higher at 55 pesos, which can lift our average selling prices while we launched Mr. Chips at P3.00 to participate in the 1-5 pesos price point.

People & Planet Friendly Culture

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love

When it comes to new flavors, we also launched **Chicharon ni Mang Juan, in Classic Chicharon flavor** as we continue to re-excite our consumers and further build our extruded snacks category. Internationally, in Thailand, we continue to push new flavors that Thai consumers love as we launched Roller Coaster Spicy Shrimp flavor while in Oceania, we launched the limited edition Thins Himalayan Pink Salt.



In biscuits, we've expanded the Dewberry and Cream-O line with Chocoberry and Choco-O Plus.

Strategy Updates



In Q4, we relaunched Cloud 9, and we leveraged on the key strength of the brand as we translated it into a new look and campaign.



People & Planet Friendly Culture

Product Supply Chain Transformation

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Products & Brands People Love



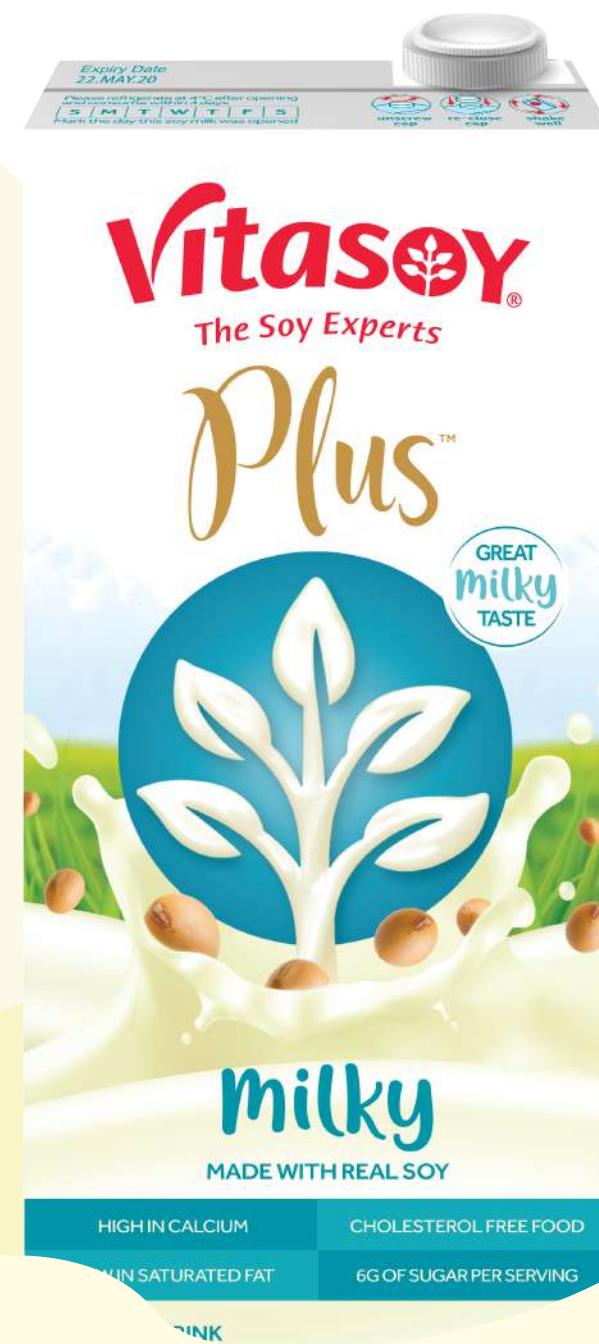
In Beverages, we launched C2 Plus Fiber in Green Apple and Pineapple flavors, a functional adjacency of our C2 brand that promotes better digestion.



In snacks, we've launched a classic crunch version of Nova as our response to a new snacking trend. Nova Classic Crunch has only 90mg per serving of sodium approximately.

Strategy Updates

Another play in wellness is the recent launch of Vitasoy Milky in 1 liter Tetra, which is aimed to target the bigger mainstream dairy segment in the Philippines as it delivers the creamy and milky taste without the beany taste of soy milk.



New Snacking Trends

In Oceania, we have launched snacking crackers such as Natural Cracker Co and Kettle Flat Bread Crackers in Australia, and in New Zealand, we launched both Snax Crunches and Huntley & Palmers Lavosh Crisps.



People & Planet Friendly Culture

Product Supply Chain Transformation

Partner of Choice

Products & Brands People Love



Building adjacencies in beverage

We've relaunched our water brand, Refresh in Q2, as we make a plan to be more deliberate in participating in the water category, which is one of the fastest-growing RTD beverage segments. Apart from expanding our Better For You platform, we relaunched Refresh as a brand with a purpose (100% recycleable) with a new packaging design. In Vietnam, our latest launches, which are the Black Tea and Milk Tea, drove growth in the 1H as consumers look for new beverage experiences beyond fruit-based tea. Our 2019 campaign was successful, and the black tea/milk tea line significantly contributed to C2's total sales by double digits in 2019. Lastly, with our JV in the Philippines with Danone, we continue to drive B'lue, especially in channels like convenience stores by launching B'lue Cactus Tangerine flavor.

Strategy Updates



Building our Value Added Portfolio in AIC:

We started this transformation when we launched packaged meat products, which is the next phase in our value-added chain under Robina Farms brand on top of our meat cuts. These products cater to households looking for more choices in high quality processed meat such as Tocino, Honeycured Bacon, and Skinless Longganisa. We continue to differentiate in terms of quality, which adheres to Robina farms' highest standards, ensuring that it is family-safe, free from Antibiotic Residue and Hormones from our homegrown hogs and a product of our AAA certified abattoir.

Our Animal Nutrition & Health Business (ANH) has been nurturing new growth streams, such as dog feeds, food, and pet care essentials. Our dog meal brand, TopBreed, was formulated to satisfy the nutritional needs of dogs for good health, general well-being, and optimum performance. TopBreed continues to expand its market by entering the modern trade channel. Today, TopBreed is the number #1 dog food in the Philippines in terms of volume, and we continue to nurture this category of ANH.



People & Planet
Friendly Culture

Product Supply
Chain Transformation

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of Choice

Products & Brands
People Love



Besides dog meals, we expanded into dog essentials through ShamPooch Dog Bath Essential and TopB+ Multivitamins. ShamPooch was formulated from natural ingredients to provide top care for dogs by gently washing out dirt while keeping the dog's coat smooth, and shiny, and ensuring a long-lasting fresh scent. It comes in 1Liter, 300ml, and 15ml packages to suit different needs of Petcare owners. TopB+ Multivitamins is a daily nutritional supplement for Dogs of all ages containing all essential multivitamins, Lysine, and Zinc. It enhances growth, boosts brain function, and strengthens immunity. It comes in 60ml and 120 ml bottles.

Corporate Governance



Corporate Governance

Universal Robina Corporation (“The Company”) acknowledges that good corporate governance is essential to build an environment of trust, transparency and accountability necessary for fostering long-term performance, financial stability, business integrity and sustainability of the company for the protection of the interests of shareholders and other stakeholders.

Corporate governance is the framework of rules, systems and processes of the corporation that governs the performance by the Board of Directors and Management of their respective duties and responsibilities to the stakeholders. The Revised Corporate Governance Manual was adopted to institutionalize corporate governance principles as a guide for the daily conduct of business.

The Company continuously strives to strengthen and improve its corporate governance practices by adopting best practices that includes building a competent board, aligning strategies with goals, managing risk effectively, adhering to high standards of ethics and integrity, and promoting accountability by defining roles and responsibilities.

The Company believes that sound and effective corporate practices are fundamental to the smooth, effective and transparent operation of the company, its ability to attract investment and enhance shareholder

value. This includes the Company’s commitment to ensure fair and equitable treatment of all shareholders, including the minority, and the protection of their rights that include:

-  1 **Right to vote on all matters that require their consent or approval**
-  2 **Right to inspect corporate books and records**
-  3 **Right to information**
-  4 **Right to dividends**
-  5 **Appraisal right**

“ The Company believes that sound and effective corporate practices are fundamental to the smooth, effective and transparent operation of the company, its ability to attract investment and enhance shareholder value. ”



Corporate Governance



The Company is transparent and fair in the conduct of the annual and special Shareholders' meetings. To foster active shareholder participation, the Board sends the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least fifteen (15) business days before the meeting, compliant with the Securities Regulation Code. The Shareholders are encouraged to personally attend such meetings and those who are unable to attend are apprised ahead of time of their right to appoint a proxy. Subject to the requirements of law, rules and regulations and the By-Laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy shall be resolved in the favor of the shareholder.

Guided by the principles of fairness, accountability and transparency to the shareholding public, the Company ensures that the result of the votes taken during the most recent Annual or Special Shareholders' Meeting are made available the next working day. In addition, the Minutes of the Annual and Special Shareholders' Meeting may be accessed through the Company Website within five (5) business days from the end of the meeting.

Corporate Governance

Duty to Other Stakeholders

The Company recognizes and places importance on the interdependence between business and society, and promotes a mutually beneficial relationship that encourages the Company's sustainable growth, while contributing to the advancement of the society where it operates. The Company employs value chain processes that take into consideration Economic, Environmental and Social Governance (EESG) issues and concerns



Customers' Welfare

The Company adopts customer relations policies and procedures to protect customer's welfare. This includes providing and making available the customer relations contact information who is empowered to address and attend to customer questions and concerns.



Supplier/Contractor Selection

The Company follows the Supplier Accreditation Policy to ensure that the Company's suppliers and contractors are qualified to meet its commitments. Apart



Employees

The Board also establishes policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and its governance including but not limited to:

- Health, safety and welfare;
- Training and development; and
- Reward and compensation.

1. Performance-enhancing mechanisms for employee participation

The Company abides by the standards and policies set by the Department of Labor and Employment. Likewise, the Company has Security and Safety Manuals that are implemented, reviewed and regularly updated to ensure the security, safety, health, and welfare of the employees in the workplace.

The Company continuously provides learning and development opportunities for its employees through

from the accreditation process, suppliers and contractors also undergo orientation on Company policies and ethical practices.

the John Gokongwei Institute for Leadership and Enterprise Development (JG-ILED), the leadership platform for systematic and sustained development programs across the conglomerate. Its mission is to enable a high performing organization that will facilitate the learning process and develop the intellectual and personal growth of all employees through targeted and customized trainings and development programs.



Corporate Governance

2. Anti-corruption programs and procedures

The Company is committed to promoting transparency and fairness to all stakeholders. The Board sets the tone and makes a stand against corrupt practices by adopting anti-corruption policies and programs. Some of the Company's Anti-Corruption programs are embodied in the Code of Business Conduct and Ethics, Conflict of Interest, Offenses Subject to Disciplinary Action (OSDA), among others. The same are disseminated to all employees across the Company through trainings to embed them in the Company's culture. New employees are oriented regarding policies and procedures related to Business Conduct and Ethics and similar policies. All employees are given periodic reminders. Further, all concerned employees of the Conglomerate are required to comply with the Self-Disclosure Activity on Conflict of Interest and Declaration of Gifts Received on an annual basis.

The Company also has an established suitable framework for whistleblowing and ensure its enforcement to allow employees and other stakeholders to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.

“ The Board sets the tone and makes a stand against corrupt practices by adopting anti-corruption policies and programs. ”



Conflict of Interest

The Company's Code of Business Conduct and Conflict of Interest Policy require employees to make a conscious effort to avoid conflict of interest situations; that his judgment and discretion are not influenced by considerations of personal gain or benefit. A conflict of interest may also occur because of the actions, employment, or investments of an immediate family member of an employee.



Conduct of Business and Fair Dealings

The Company's employees who recommend, endorse, or approve the procurement or sale of goods and services should make a conscious effort to avoid any conflict of interest situation in transactions they are involved in.

Receipt of Gifts from Third Parties

The Company discourages the acceptance of gifts. However, gifts like advertising novelties may be given or accepted during the Christmas season. There is no restriction in the value of the gift that may be accepted. However, accepted gift with estimated value over Php2,000.00 must be disclosed to the Conflicts of Interest Committee.

Compliance with Laws and Regulations

The Company ensures that all transactions comply with relevant laws and regulations. Any deficiencies are immediately rectified.

Respect for Trade Secrets/Use of Non-public Information

The Company has policies that ensure proper and authorized disclosure of confidential information. Disclosures to the public can only be done after the disclosure to SEC and PSE by the Company's authorized officers.

Use of Company Funds, Assets and Information

Employees are required to safeguard Company resources and assets with honesty and integrity. Employees must ensure that these assets are efficiently, effectively, and responsibly utilized.

Corporate Governance



Employment and Labor Laws and Policies

The Company ensures the observance, strict implementation and compliance with employment and labor laws and policies with regards to recruitment, employment, retention and benefits of the employees.



Disciplinary Action

Violation of any provision of the Code of Business Conduct may result to disciplinary action, including dismissal and reimbursement for any loss to the Company that resulted from the employee's actions. If appropriate, a violation may result in legal action against the employee or referral to the appropriate government authorities.



Whistleblowing

The stakeholders may discuss or disclose in writing any concern on potential violation of the Code of Business Conduct with the Conflicts of Interest Committee. Reports or disclosures can be made in writing or by email using the following contact details:

a. email address cicom@jgsummit.com.ph

b. fax number 8395-3888

c. mailing address

Must be sent in a sealed envelope clearly marked
“Strictly Private and Confidential-To Be Opened by Addressee Only”

CICOM

JG Summit Holdings, Inc.

40th Flr. Robinsons Equitable Tower

ADB Avenue, Cor., Poveda Road,

Pasig City

The complaint shall be filed using the Complaint/Disclosure Form (CDF) available in the company website.

All information received in connection with the reports or disclosures shall be strictly confidential and shall not be disclosed to any person without prior consent of CICOM.

The Company commits to protect those who report in good faith from retaliation, harassment and even informal pressures. It will take the necessary and appropriate action to do so in enforcing the policy.



Conflict Resolution

The Conflicts of Interest Committee submits recommendations on courses of action to be taken on conflicts of interest situations. The decision is done by the Executive Committee.

Corporate Governance Highlights

Consistent with the Revised Corporate Governance Manual and pursuant to the recommendations provided in the Code of Corporate Governance for Publicly Listed

Companies (PLCs), the Company strengthened its policies on **Board Diversity, Board Nomination and Election, Succession Planning and Remuneration, Material Related Party Transactions and Whistleblowing** to reinforce the governance framework of the Company. These policies may be accessed in the Company's website, in the Governance section, <https://www.urc.com.ph/corporate-governance/company-policies/>

The Company submitted the Integrated Corporate Governance Report (I-ACGR) to the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE) on May 30, 2019. The I-ACGR is a reportorial requirement under SEC Memorandum Circular No. 15 series of 2017 to all PLCs to disclose the Company's compliance/non-compliance with the recommendations provided under the Corporate Governance Code for PLCs. With the “comply or explain” approach, voluntary compliance to recommended CG best practices is combined with mandatory disclosure. The Company also submitted the Material Related Party Transactions (MRPT) Policy to SEC on October 28, 2019 as required under SEC Memorandum Circular No. 10 series of 2019.

The Company's I-ACGR may be accessed through the Company website by clicking this link, <https://www.urc.com.ph/corporate-governance/I-ACGR>

The Board of Directors

The Board of Directors (“The Board”) is primarily responsible for the governance of the Company and provides an independent check on management. It has the duty to foster the long-term success of the Company and to ensure that the Company’s competitiveness and profitability will be sustained in a manner consistent with its corporate objectives for the best interest of the company and its stakeholders.

The Board formulates the Company’s vision, mission, strategic objectives, policies and procedures that guide its activities, including the means to effectively monitor Management’s performance. It provides direction and approval in relation to matters concerning the Company’s business strategies, policies and plans, while the day-to-day business operations are delegated to the Executive Committee.

The Board exercises care, skill and judgment and observes good faith and loyalty in the conduct and management of the business and affairs of the Company. It ensures that all its actions are within the scope of power and authority as prescribed in the Articles of Incorporation, By-Laws, and existing laws, rules and regulations. To uphold high standard for the Company, its

Shareholders and other Stakeholders, the Board conducts itself with honesty and integrity in the performance of its duties and responsibilities.

“ The Board exercises care, skill and judgment and observes good faith and loyalty in the conduct and management of the business and affairs of the Company.”

Board Duties and Responsibilities

The Company’s Corporate Governance Manual specifies the roles, duties and responsibilities of the Board of Directors in compliance with relevant laws, rules and regulations. In adherence to the principles of corporate governance, the Board is tasked to perform the following:

General Responsibilities

It is the Board’s responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and in the best interest of the Corporation, its Shareholders and Stakeholders, as a whole.

Duties and Functions

To ensure high standard for the Corporation, its Shareholders and other Stakeholders, the Board shall conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

- Act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and all Stakeholders;
- Oversee the development of and approve the Company’s business objectives and strategy, and monitor their implementation, in order to sustain the Company’s long-term viability and strength. The Board shall review and guide corporate strategy, major plans of action, risk management policies and procedures, annual budgets and business plans; set performance objectives; monitor implementation and corporate performance; and oversee major capital expenditures, acquisitions and divestitures;

Corporate Governance

- Oversee the adoption of an effective succession planning program and remuneration policies;
- Adopt policies on board nomination and election that will ensure diversity in board composition in terms of knowledge, expertise and experience;
- Oversee the implementation of a policy and system on RPTs which shall include the review and approval of material or significant RPTs and ensure fairness and transparency of the transactions;
- Oversee the adoption of policies on the selection of Management and Key Officers and the assessment of their performance;
- Oversee the establishment of an internal control system to monitor and manage potential conflicts of interest and an ERM framework to identify, monitor, assess and manage key business risks;
- Annually review, together with Management, the Company's vision and mission;
- Ensure the Corporation's faithful compliance with all applicable laws and regulations, and best business practices;
- Establish and maintain an Investor Relations Program that will keep the Shareholders informed of important developments in the Corporation. The Corporation's CEO shall exercise oversight responsibility over this program;
- Identify the Corporation's Stakeholders in the community in which it operates or are directly affected by its operations and formulate a clear policy of accurate, timely, and effective communication with them;
- Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times;
- Ensure that the Corporation has an independent audit mechanism for the proper audit and review of the Corporation's financial statements by independent auditors;
- Ensure that the Corporation establishes appropriate Corporate Governance policies and procedures pursuant to this Manual and the Governance Code, including but not limited to, policies on conflict of interest, and oversee the effective implementation thereof; and
- Consider the implementation of an alternative dispute resolution system for the amicable settlement of conflicts or differences between the Corporation and its Shareholders, if applicable.



Corporate Governance

Balanced board composition

The Company recognizes the benefits of having a diverse Board and its value in maintaining sound corporate governance while achieving strategic objectives and sustainable growth. The Board Member's biographical details are set out in the succeeding section and may also be found in the Information Statement. The Board is diverse in terms of expertise and professional experience. Furthermore, the posts of Chairman and Chief Executive Officer of the Company are separate to ensure a clear distinction between the Chairman's responsibility to manage the Board and the Chief Executive Officer's responsibility to manage the Company's business. The division of responsibilities between the Chairman and the Chief Executive Officer is clearly established and set out in the Revised Corporate Governance Manual.

"The Company recognizes the benefits of having a diverse Board and its value in maintaining sound corporate governance while achieving strategic objectives and sustainable growth."

Board Independence

The Board has two independent directors that possess all the necessary qualifications and none of the disqualifications to hold the position. The Company reinforce proper mechanisms for disclosure, protection of the rights of shareholders, equitable treatment of shareholders, and the accountability of the Board and Management are in place. In cases of conflicts of interest, Directors with a material interest in any transaction with the Company abstain from participating in the deliberation of the same.

Board Training and Orientation

The Company ensures that directors are able to perform their functions effectively in this rapidly changing environment to cope with heightened regulatory policies, foreign and local demands, and the growing complexity of business. Orientation programs are conducted for first-time directors to ensure that new members are appropriately apprised of their duties and responsibilities. This includes overview of the Company's operations, Code of Conduct, Corporate Governance framework and other relevant topics essential in the performance of their functions. As a matter of continuous professional education, the Company facilitates the training opportunities provided for the Directors and Key Officers.

"Orientation programs are conducted for first-time directors to ensure that new members are appropriately apprised of their duties and responsibilities."

Board Meetings

The Board schedules meetings at the beginning of the year, holds regular meetings in accordance with its By-Laws and convene special meetings when required by business exigencies. The notice and agenda of the meeting and other relevant meeting materials are furnished to the Directors at least five (5) business days prior to each meeting. Meetings are duly minuted. The Independent Directors shall always attend Board meetings. Unless otherwise provided in the By-Laws, their absence shall not affect the quorum requirement. However, the Board may, to promote transparency, require the presence of at least one (1) Independent Director in all its meetings.

To monitor the Directors' compliance with the attendance requirements, the Company submits to the Commission an advisement letter on the Directors' record of attendance in Board meetings.

Corporate Governance

Attendance of Directors

January 1, 2019 to December 31, 2019

| Board | Name | Date of Election | No. of Meetings Held during the year | No. of Meetings Meetings Attended | % |
|---|---------------------------|------------------|--------------------------------------|-----------------------------------|------|
| Director, Chairman Emeritus and Founder | John L. Gokongwei, Jr.+ | May 29, 2019 | 10 | 8* | 80% |
| Director, Chairman Emeritus | James L. Go | May 29, 2019 | 10 | 10 | 100% |
| Director, Chairman | Lance Y. Gokongwei | May 29, 2019 | 10 | 10 | 100% |
| Director, President and CEO | Irwin C. Lee | May 29, 2019 | 10 | 10 | 100% |
| Director, Executive Vice President | Patrick Henry C. Go | May 29, 2019 | 10 | 10 | 100% |
| Director | Johnson Robert G. Go, Jr. | May 29, 2019 | 10 | 10 | 100% |
| Director | Robert G. Coyiuto, Jr. | May 29, 2019 | 10 | 6 | 60% |
| Independent Director | Wilfrido E. Sanchez | May 29, 2019 | 10 | 10 | 100% |
| Independent Director | Cesar V. Purisima | May 29, 2019 | 10 | 10 | 100% |

Note: *Mr. John L. Gokongwei, Jr. passed away on November 9, 2019.

Corporate Governance

The Board Committees

To enable better and more focused attention on the affairs of the Company and aid in the optimal performance of its roles and responsibilities, the Board delegates particular matters to the Board Committees set up for the purpose mainly (a) Audit Committee, (b) Corporate Governance Committee and (c) Board Risk Oversight Committee (BROC).



A. Audit Committee

The Audit Committee provides oversight over the Company's financial reporting, Internal Control System, Internal and External Audit processes, and monitor compliance with applicable laws and regulations. It ensures that systems and processes are put in place to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of business operations, and proper safeguarding and use of the Company's resources and assets.

| Position | Director |
|----------|--|
| Chairman | Cesar V. Purisima (ID) |
| Members | James L. Go Lance Y. Gokongwei Johnson Robert G. Go, Jr. Irwin C. Lee Wilfrido E. Sanchez |

B. Corporate Governance Committee

The Corporate Governance Committee oversees the development and implementation of Corporate Governance principles and policies and recommends a formal framework on the nomination, remuneration and evaluation of the performance of the Directors and key Management Officers consistent with the Company's culture, strategies and the business environment.

| Position | Director |
|----------|--|
| Chairman | Wilfrido E. Sanchez |
| Members | James L. Go Lance Y. Gokongwei Johnson Robert G. Go., Jr. Irwin C. Lee |

Corporate Governance

C. Board Risk Oversight Committee

The Board Risk Oversight Committee oversees the establishment of ERM framework that effectively identify, monitor, assess and manage key business risks and assess the effectiveness of risk management strategies. The BROc is responsible for defining the Company's level of risk tolerance and providing oversight over its risk management policies and procedures to anticipate, minimize, control or manage risks or possible threats to its operational and financial viability.

| Position | Director |
|----------|---|
| Chairman | Lance Y. Gokongwei |
| Members | James L. Go Johnson Robert G. Go., Jr. Irwin C. Lee Cesar V. Purisima |



The Corporate Secretary

The Corporate Secretary assists the Board and the Board Committees in the conduct of their meetings, including preparation of the annual schedule of Board and Committee meetings and the annual Board calendar. She also assists the Board Chairs and its Committees in setting agendas for the meetings, safekeeps and preserves the integrity of the minutes of the meeting of the Board and its Committees, as well as other official records of the Company.

The Corporate Secretary keeps herself abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Company, and advises the Board and the Chairman on all relevant issues as they arise. She works fairly and objectively with the Board, Management and Shareholders and contributes to the flow of information between the Board and Management, the Board and its Committees, and the Board and its Stakeholders, including Shareholders.

Atty. Rosalinda F. Rivera is the current Corporate Secretary of the Company. She was appointed Corporate Secretary of URC on May 22, 2004 and has been Assistant Corporate Secretary since May 2002. She is also the Corporate Secretary of JG Summit Holdings, Inc.,

Robinsons Retail Holdings, Inc., Robinsons Land Corporation, Cebu Air, Inc., JG Summit Petrochemical Corporation, and JG Summit Olefins Corporation.

Prior to joining the Company, she was a Senior Associate at Puno and Puno Law Offices. She received a degree of Juris Doctor from the Ateneo de Manila University School of Law and a Masters of Law degree in International Banking from the Boston University School of Law.



Corporate Governance



The Compliance Officer

The Compliance Officer monitors, reviews, evaluates and ensures the compliance by the Company; its Officers and Directors with the provisions and requirements of the Corporate Governance Manual and the relevant laws, the Corporate Governance Code, rules and regulations and all governance issuances of regulatory agencies. She also ensures the integrity and accuracy of all documentary submissions to the regulators; identifies possible areas of compliance issues and works towards the resolution of the same. She assists the Board and the Corporate Governance Committee in the performance of their governance functions, including their duties to oversee the formulation or review and implementation of the Corporate Governance structure and policies of the Company.

Arlene S. Denzon is the current Compliance Officer and Vice President of the Corporate Governance and Management Systems (CGMS) of JGSHI. She also serves as the Compliance Officer of Robinsons Land Corporation and JG Summit Holdings, Inc. Prior to rejoining JGSHI in February 2013, she was the Senior Vice President and Chief Risk Officer (SVP and CRO) in charge of the Enterprise-wide Risk Management Group of Digitel Mobile Philippines, Inc. (DMPI, more popularly known as Sun Cellular) until December, 2012. Ms. Denzon started her

career in the Gokongwei Group in 1991 and performed various roles including Accounting Manager of JGSHI until 1997, Assistant Vice President - Special Assistant to the Chairman until 2001, Vice President – Treasurer and Acting Chief Financial Officer of URC International until 2003 before she was seconded to DMPI in 2004. Prior to JGSHI, Ms. Denzon had three years working experience as external auditor in Sycip, Gorres, Velayo & Co.

She is a Certified Public Accountant Board top-notcher and obtained her Bachelor of Accountancy degree, Magna Cum Laude, from the Polytechnic University of the Philippines.



Corporate Governance

Enterprise Risk Management, Accountability And Audit

The Company recognizes the increasing importance of sound risk management practices to drive business growth and sustainability. The Company implemented systems and processes to facilitate proper risk identification, monitoring and control, which are key to effective corporate governance. Timely and accurate management and financial reporting systems, internal controls, and audits are also employed to protect and maximize stakeholders' value.

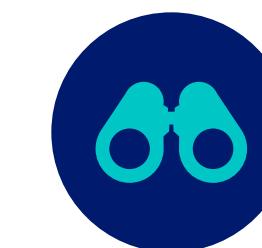
The Board oversees Management's adoption and implementation of a sound risk management framework for identifying, monitoring and managing key risk areas. The BOD reviews Management reports with due diligence to enable the company to anticipate, minimize, control and manage risks or possible threats to its operational and financial viability.

“ The Company implemented systems and processes to facilitate proper risk identification, monitoring and control, which are key to effective corporate governance ”

Enterprise Risk Management

Through a sound Enterprise Risk Management (ERM) framework, the Company effectively identifies, monitors, assesses and manages key business risks. The framework guides the Board in identifying units/business lines and enterprise level risk exposures, as well as the effectiveness of risk management strategies.

The **ERM framework** revolves around the following eight interrelated risk management approaches:



1. Internal Environmental Scanning

It involves the review of the overall prevailing risk profile of the Business Unit (BU) to determine how risks are viewed and addressed by the management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the BU.



2. Objective Setting

The Company's BOD mandates Management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives that are aligned with the Company's goals.



3. Event Identification

It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.



4. Risk Assessment

The identified risks are analyzed relative to the probability and severity of potential loss that serves as basis for determining how the risks will be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's action or monitoring, and risks that may materially weaken the Company's earnings and capital.



5. Risk Response

The Company's BOD, through the oversight role of the Internal Control Group ensures action plan is executed to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.



6. Control Activities

Policies and procedures are established and approved by the Company's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.

Corporate Governance



7. Information and Communication

Relevant risk management information is identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.



8. Monitoring

The Internal Control Group of the respective Company and BUs and Corporate Internal Audit constantly monitor the management of risks through audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

assesses and manages key business risks. The framework guides the Board in identifying units/business lines and enterprise level risk exposures, as well as the effectiveness of risk management strategies.

1. Risk Identification

Is the critical step of the risk management process. The objective of risk identification is the early identification of events that may have negative impact on the Company's ability to achieve its goals and objectives.

1.1. Risk Indicator – is a potential event or action that may prevent the continuity of operation or business

1.2. Risk Driver – is an event or action that triggers the risk to materialize

1.3. Value Creation Opportunities – is the positive benefit of addressing or managing the risk

2. Identification of Existing Control Measures

Activities, actions or measures already in place to control, prevent or manage the risk.

3. Risk Rating/Score

Is the quantification of the likelihood and impact to the Company if the risk materializes. The rating has two (2) components:

3.1. Probability – the likelihood of occurrence of risk

3.2. Severity – the magnitude of the consequence of risk

4. Risk Management Strategy

Is the structured and coherent approach to managing the identified risk.

5. Risk Mitigation Action Plan

Is the overall approach to reduce the risk impact severity and/or probability of occurrence.

Results of the Risk Assessment Process is summarized in a Dashboard that highlights the risks that require urgent actions and mitigation plan. The dashboard helps Management to monitor, manage and decide a risk strategy and needed action plan.

Risk Assessment Tool

To help Business Units in the Risk Assessment Process, the Risk Assessment Tool, which is a database driven web application, was developed for departments and units to facilitate the assessment, monitoring and management of risks.

The Risk Assessment Tool documents the following activities:

Through a sound Enterprise Risk Management (ERM) framework, the Company effectively identifies, monitors,

Internal Controls

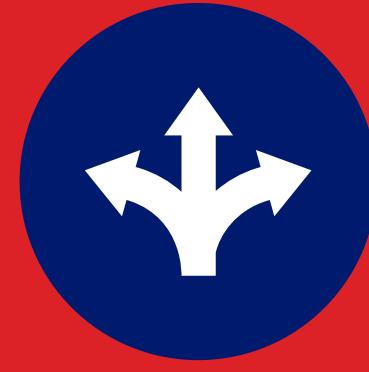
With the leadership of the Company's Chief Financial Officer (CFO), internal control is embedded in the operations of the company and in each BU thus increasing their accountability and ownership in the execution of the BU's internal control framework. To accomplish the established goals and objectives, BUs implement robust and efficient process controls to ensure:



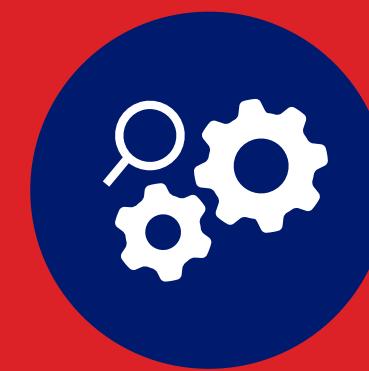
- 1** Compliance with policies, procedures, laws and regulations



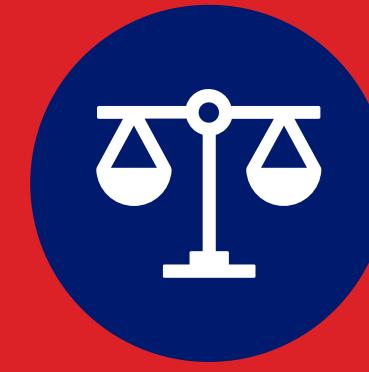
- 2** Economic and efficient use of resources



- 3** Check and balance and proper segregation of duties



- 4** Identification and remediation control weaknesses



- 5** Reliability and integrity of information



- 6** Proper safeguarding of company resources and protection of company assets through early detection and prevention of fraud

Adequate and Timely Information

To enable the Directors to properly fulfill their duties and responsibilities, Management provides the Directors with complete, adequate, and timely information about the matters to be taken up in their meetings. Information may include the background or explanation on matters brought before the Board, disclosures, budgets, forecasts, and internal financial documents. If the information provided by Management is not sufficient, further inquiries may be made by a Director to enable him to properly perform his duties and responsibilities. The Directors have independent access to Management and to the Corporate Secretary.

The Directors, either individually or as a Board, and in the performance of their duties and responsibilities, may seek access to independent professional advice within the guidelines set by the Board.

Accountability and Audit

The Board ensures that its Shareholders are provided with a balanced and comprehensible assessment of the Company's performance, position and prospects on a quarterly basis. Interim and other reports that could adversely affect its business are also made available in the Company website including its submissions and disclosures to the SEC and Philippine Stock Exchange (PSE). Management formulates the rules and procedures on financial reporting and internal control for presentation to the Audit Committee in accordance with the following guidelines:

1. The extent of its responsibility in the preparation of the financial statements of the Company, with the corresponding delineation of the responsibilities that pertain to the External Auditor, should be clearly defined;
2. An effective system of internal control that will ensure the integrity of the financial reports and protection of the assets of the Company for the benefit of all Shareholders and other Stakeholders;
3. On the basis of the approved Internal Audit Plan, Internal Audit examinations should cover, at the minimum, the evaluation of the adequacy and effectiveness of controls that cover the Company's governance, operations and information systems, including the reliability and integrity of financial and operation information, effectiveness and efficiency of operations, protection of assets, and compliance with contracts, laws, rules, and regulations;
4. The Company consistently complies with the financial reporting requirements of the SEC;
5. The External Auditor shall be rotated or changed every five (5) years or earlier, or the signing partner of the External Auditing firm assigned to the Company, should be changed with the same frequency. The Corporate IA Head should submit to the Audit Committee and Management an annual report on the Internal Audit department's activities, responsibilities, and performance relative to the Internal Audit Plan as approved by the Audit and Risk Committee. The annual report should include significant risk exposures, control issues, and such other matters as may be needed or requested by the Board and Management. The Internal Audit Head should certify that he conducts his activities in accordance with the International Standards on the Professional Practice of Internal Auditing. If he does not, the Internal Audit Head shall disclose to the Board and Management the reasons why he has not fully complied with the said documents; and
6. The Board, after consultations with the Audit Committee shall recommend to the Shareholders an External Auditor duly accredited by the SEC who shall undertake an independent audit of the Company, and shall provide an objective assurance on the matter by which the financial statements shall be prepared and presented to the Shareholders.



Corporate Governance

Internal Audit

The Corporate Internal Audit is focused on delivering its mandate of determining whether the governance, risk management and control processes, as designed and represented by management, are adequate and functioning in a manner that provides reasonable level of confidence that:

1. Employees' actions are compliant with policies, standards, procedures, and applicable laws and regulations;
2. Quality and continuous improvement are fostered in the control processes;
3. Programs, plans, and objectives are achieved;
4. Resources are acquired economically, used efficiently, and protected adequately;
5. Significant financial, managerial, and operating information is accurate, reliable, and timely;

6. Significant key risks are appropriately identified and managed; and

7. Significant legislative or regulatory issues impacting the Company are recognized and properly addressed.

Opportunities for improving management control, profitability and the Company's reputation may be identified during audits.



Corporate Governance

Other Matters



Audit and Audit-Related Fees

| Name of Auditor | Audit Fee | Non-Audit Fee |
|-----------------------------|---------------|---------------|
| SyCip, Gorres, Velayo & Co. | Php12,077,000 | -0- |



Ownership structure

Holding 5% shareholding or more (as of December 31, 2019)

| Shareholder | Number of Shares | Percent | Beneficial Owner |
|--|------------------|---------|----------------------------------|
| JG Summit Holdings, Inc. | 1,215,223,061 | 55.13% | Same as record owner |
| PCD Nominee Corporation (Non-Filipino) | 686,055,483 | 31.13% | PCD Participants & their clients |
| PCD Nominee Corporation (Filipino) | 268,162,896 | 12.17% | PCD Participants & their clients |

Dealing in securities (changes in shareholdings of directors and key officers)



A. Elected Directors for the calendar year 2019

| Name of Director | Number of Direct Shares | % to Total Outstanding Shares |
|---------------------------|-------------------------|-------------------------------|
| John L. Gokongwei, Jr.+ | 0 | 0 |
| James L. Go | 1 | 0% |
| Lance Y. Gokongwei | 500,001 | 0.02% |
| Patrick Henry C. Go | 45,540 | 0% |
| Johnson Robert G. Go, Jr. | 1 | 0% |
| Roberto G. Coyiuto, Jr. | 1 | 0% |
| Irwin C. Lee | 1 | 0% |
| Wilfrido E. Sanchez | 1 | 0% |
| Cesar V. Purisima | 1 | 0% |

Note: Mr. John L. Gokongwei, Jr. passed away on November 9, 2019.



Corporate Governance



B. Elected Officers for the calendar year 2019

| Name of Officer | Position/ Designation | Number of Direct Shares | % to Total Outstanding Shares |
|---------------------------|--|-------------------------|-------------------------------|
| Cornelio S. Mapa, Jr. | Executive Vice President, Corporate Strategy | 0 | 0% |
| Bach Johann M. Sebastian | Senior Vice President, Digital Strategic and Investments Group | 0 | 0% |
| David J. Lim, Jr. | Senior Vice President | 0 | 0% |
| Francisco M. Del Mundo | Senior Vice President and Chief Financial Officer | 0 | 0% |
| Michael P. Liwanag | Senior Vice President, Investor Relations | 25,000 | 0% |
| Alan D. Surposa | Senior Vice President and Chief Procurement Officer | 20,000 | 0% |
| Chona R. Ferrer | First Vice President | 0 | 0% |
| Marcia Y. Gokongwei | Vice President | 578,795 | 0.03% |
| Teofilo B. Eugenio, Jr. | Vice President | 0 | 0% |
| Vincent Henry C. Go | Vice President | 45,540 | 0% |
| Ellison Dean C. Lee | Vice President | 40,000 | 0% |
| Renato P. Cabati | Vice President | 40,000 | 0% |
| Anne Patricia C. Go | Vice President | 8,855 | 0% |
| Socorro ML. Banting | Vice President | 0 | 0% |
| Charles Bernard A. Tañega | Treasurer | 0 | 0% |
| Rosalinda F. Rivera | Corporate Secretary | 0 | 0% |
| Arlene S. Denzon | Compliance Officer | 0 | 0% |
| Anna Milagros D. David | Chief Marketing Officer | 49,630 | 0% |



Corporate Governance

Dividends

The Board of Directors of Universal Robina Corporation ("URC") approved on February 28, 2019 the declaration of the following cash dividends from the unrestricted retained earnings of URC as of December 31, 2018:



a) Regular Cash Dividend of One Peso and Fifty Centavos (P1.50) per share and paid on March 28, 2019 and



b) Special Cash Dividend of One Peso and Sixty Five Centavos (P1.65) per share and paid on July 25, 2019

Company Website

The Company updates the public with operating and financial results through timely disclosures filed with SEC and PSE. These are available on the company's website: www.urc.com.ph



BOD and Executive Officers



BOD and Executive Officers

Board of Directors

James L. Go

Chairman Emeritus

Lance Y. Gokongwei

Chairman

Irwin C. Lee

President & Chief Executive Officer

Patrick Henry C. Go

Director

Johnson Robert G. Go, Jr.

Director

Robert G. Coyiuto, Jr.

Director

Wilfrido E. Sanchez

Independent Director

Cesar V. Purisima

Independent Director

Advisory Board

Pascual S. Guerzon



BOD and Executive Officers

Corporate Officers

Irwin C. Lee

President and Chief Executive Officer

Anna Milagros D. David

Chief Marketing Officer

Francisco M. del Mundo

Chief Financial Officer

Ma. Celia H. Fernandez-Estavillo

Chief Legal Counsel

David J. Lim Jr.

*Senior Vice President,
Quality, Engineering, Sustainability &
Technical Services*

Michael P. Liwanag

*Senior Vice President and
Investor Relations Officer*

Carlos G. Santos

Chief Information Officer

Elisa O. Abalajon

Vice President, Human Resources

Adriano M. Diaz de Rivera

*Vice President, Supply Chain
Planning & Logistics*

Anne Patricia C. Go

Vice President, Marketing Services

Krishna Mohan Suri

*Vice President,
Global Innovation, Research &
Development*

Rebecca Yap

Vice President, Procurement

Socorro ML. Banting

Vice President

Rosalinda F. Rivera

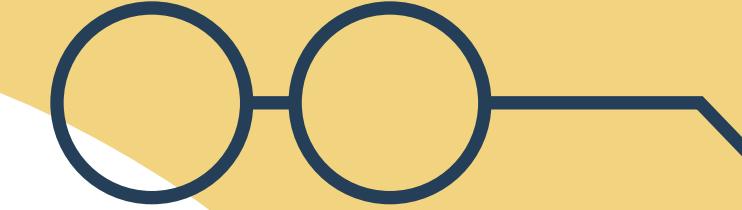
Corporate Secretary

Arlene S. Denzon

Compliance Officer

Charles Bernard A. Tañega

Corporate Treasurer



BOD and Executive Officers

Executive Management Team

Paul A. Musgrave

CEO, URC Oceania

Francis Emmanuel B. Puno

*Senior Vice President and Regional Director,
URC Indonesia, Malaysia and Singapore*

Laurent Levan

*Senior Vice President and Regional Director,
URC Indochina*

Jean Pierre S. Gamboa

*General Manager, China and Frontier
Markets*

Premchai Navarasuchitr

General Manager, Thailand

Taufiqurrahman Basthami ST

General Manager, Indonesia

Keerati Chuplang

General Manager, Myanmar

Marcia Y. Gokongwei

*Co-Managing Director, Operations,
URC BCFG*

Anna Milagros D. David

*Co-Managing Director,
URC BCFG PH Brands & Categories*

Renato P. Cabati

*Managing Director,
Sugar & Renewables (SURE)*

Vincent Henry C. Go

*Managing Director, Agro-Industrial Group
(AIG) and Food Services*

Ellison Dean C. Lee

Managing Director, Flour and Breads

Brian M. Go

*Vice President Global Export & Frontier
Markets*

Teofilo B. Eugenio, Jr.

*Vice President & General Manager,
Nissin URC and Pasta*

Oscar Villamora

*Vice President, Customer Development,
Southeast Asia (SEA)*

David Roos

General Manager, Danone URC

Maria Sarah P. Albert

General Manager, Vitasoy URC

Ramon C. Agustines

General Manager, Packaging





STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PARENT COMPANY FINANCIAL STATEMENTS

The management of Universal Robina Corporation (the Parent Company) is responsible for the preparation and fair presentation of the parent company financial statements, including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Parent Company's financial reporting process.

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

Sycip, Gorres, Velayo and Co., the independent auditors appointed by the stockholders, have audited the parent company financial statements in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

LANCE Y. GOKONGWEI
Chairman

IRWIN C. LEE
President and
Chief Executive Officer

FRANCISCO M. DEL MUNDO
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this ____ day of April, 2020 affiant(s) exhibiting to me the following documents as follows:

| NAMES | DOCUMENT TYPE | DOCUMENT NUMBER | DATE OF ISSUE | PLACE OF ISSUE |
|------------------------|---------------|-----------------|---------------|----------------|
| Lance Y. Gokongwei | CTC | 14503307 | 01.21.20 | Pasig City |
| Irwin C. Lee | Passport | P8857404A | 09.23.18 | Manila |
| Francisco M. Del Mundo | Passport | P9624564A | 11.20.18 | Manila |

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TERA TOWER, Bridgetowne, E. Rodriguez Jr. Avenue (C5 Road), Ugong Norte, Quezon City, Metro Manila, Philippines 1110. Telephone No. +632.516.9888



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Universal Robina Corporation
8th Floor, Tera Tower, Bridgetowne
E. Rodriguez, Jr. Avenue (C5 Road)
Ugong Norte, Quezon City, Metro Manila

Opinion

We have audited the consolidated financial statements of Universal Robina Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019 and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

A key audit matter is one that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter below was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. The description of how our audit addressed the matter is provided in that context.

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

Recoverability of Goodwill and Intangible Assets

As of December 31, 2019, the Group's goodwill attributable to the acquisition of Consolidated Snacks, Pty. Ltd., Griffin's Food Limited and other acquired entities amounted to ₦31.2 billion. The Group's intangible assets with indefinite useful lives pertaining to trademarks and product formulation amounted to ₦9.4 billion and ₦0.4 billion, respectively. These items are significant to the consolidated financial statements. Under PFRS, the Group is required to test annually the amount of goodwill and intangible assets with indefinite useful lives for impairment. Accordingly, management has performed an impairment test on its goodwill and other intangible assets with indefinite useful lives. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the terminal growth rate.

The Group's disclosures about goodwill and intangible assets are included in Notes 3 and 15 to the consolidated financial statements.

Audit response

We reviewed the value in use and fair value less costs to sell calculations (FVLCTS) prepared by management. We involved our internal specialists in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate, discount rate and the terminal growth rate. We compared the key assumptions used, such as revenue growth and terminal growth rates against the historical performance of the cash generating unit (CGU), industry/market outlook and other relevant external data. We also assessed the reasonableness of the discount rate used by comparing these against entities with similar risk profiles and market information. For FVLCTS calculations, we evaluated the reasonableness of the valuation by comparison with recent comparative market transactions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible assets with indefinite useful lives.

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted the new lease standard, PFRS 16, *Leases*, under the modified retrospective approach. This new standard resulted to significant changes in the Group's lease recognition policies, procedures and controls. The Group's adoption of PFRS 16 is significant to our audit because the amounts that were recognized as a result of the adoption significantly affect the consolidated financial statements. In addition, the implementation of PFRS 16 involves application of significant management judgement and estimation in the following areas: (1) whether the contract contains a lease; (2) determining the lease term, including evaluating whether the Group has the ability to exercise options to extend the lease; (3) determining the incremental borrowing rates; and (4) selection and application of accounting policy elections and practical expedients available under the modified retrospective approach.

The Group recognized an increase in right-of-use (ROU) assets and lease liabilities both amounting to ₩3.2 billion as of January 1, 2019. In addition, the Group recognized amortization expense and interest expense of ₩673.8 million and ₩188.4 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Note 36 to the consolidated financial statements.

Audit response

We obtained an understanding of the Group's implementation process for PFRS 16. This included the determination of the population of the lease contracts covered by PFRS 16, the selection of the transition approach and the election of available practical expedients. This also included the calculation of the financial impact of transition and gathering of information used in this calculation. We selected sample lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements in 2019) from the lease contract database and identified their contractual terms and conditions. We traced these selected contracts to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

We tested the underlying lease data used (e.g., lease payments, lease term) by agreeing the terms of the selected contracts with the lease calculation. For selected lease contracts with renewal options, we reviewed management's assessment of whether it is reasonably certain that the Group will exercise the option to renew. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management, including the transition adjustments.

We reviewed the disclosures related to leases, including the transition adjustments, based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Sugar Revenue Recognition

Effective January 1, 2019, the Group adopted the new revenue recognition guidance for sugar millers under Philippine Interpretations Committee (PIC) Questions and Answers (Q&A) No. 2019-03. This PIC Q&A addresses industry issues on the application of PFRS 15, *Revenue from Contracts with Customers*, by sugar millers. The adoption of PIC Q&A 2019-03 resulted in significant changes in the Group's revenue recognition policies, procedures and controls. The adoption is significant to our audit because this involves application of significant management judgment and estimation in: (1) identifying output sharing and cane purchase agreements; (2) determining whether criteria for recognizing revenue on output sharing arrangements are met; (3) determining whether there are other promises in the contract that are separate performance obligations; and (4) determining the timing of the satisfaction of each performance obligation.

Refer to Notes 2 and 3 of the consolidated financial statements for the disclosure in relation to the adoption of revenue recognition guidance for sugar millers.

Audit response

We obtained an understanding of the Group's process in implementing the new revenue recognition guidance. We reviewed the Group's adoption papers and accounting policies prepared by management, including revenue stream identification and scoping, and contract analysis. We also confirmed our understanding of the Group's milling and purchase arrangements with its customers. We reviewed whether the accounting policies appropriately apply the five-step model and recognition and measurement requirements of PFRS 15 to these milling arrangements.

In addition, we checked whether management has identified and estimated all components of the transaction price (variable consideration and consideration payable to a customer) and applied the constraint on variable consideration. We evaluated management's assumptions (historical trend of purchases from planters, sugar prices) by comparing the historical experience of the Group with the assumptions used in its estimates as it relates to the transaction price.

We also reviewed the application of the accounting policy in relation to the adoption of the new standard, as well as the related disclosures.

Accounting for Intersnack Group GmbH (Intersnack)'s Investment in Uni Snack Holding Company Ltd. (UHC)

On December 23, 2019, the Group sold 40% of its consolidated businesses in Australia and New Zealand to Intersnack through the issuance by UHC of shares of stock representing 40% of its issued capital, giving rise to ₩5.0 billion in non-controlling interest; this was in exchange for ₩7.2 billion of cash and 100% ownership interest in Yarra Valley Snack Foods Pty Ltd (Yarra Valley). As part of the transaction, Intersnack also has the option to purchase up to an additional 9% interest in UHC. These transactions were accounted for as a single equity transaction without the Group losing control over UHC. These transactions are significant to our audit as the amounts involved are material to the consolidated financial statements. In addition, accounting for these transactions required significant management judgments and estimates, which include the assessment of retention of control, accounting for the purchase option and the determination of the fair values of assets and liabilities assumed as part of consideration. Refer to Notes 3, 9 and 22 to the consolidated financial statements for details on the transactions.

Audit response

We obtained and reviewed the relevant contracts and agreements related to the transactions. We evaluated management's judgments on the group retaining control over UHC, and whether the purchase option gives Intersnack present access to the corresponding economic returns from UHC. We reviewed the identification of the underlying assets and liabilities of Yarra Valley and the provisional fair values determined based on our understanding of the acquired entity's business and management's explanations on the rationale for the transaction. We reviewed the calculation of non-controlling interest and equity reserve arising from the transaction. We involved our internal specialists in reviewing the valuation methodology and evaluating the inputs used in determining the fair value of the purchase option. We also reviewed management's judgments on the classification and measurement of the purchase option. We reviewed the presentation and disclosures of this transaction in the consolidated financial statements.

Other Information

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

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

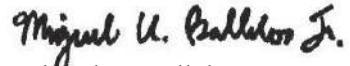
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Miguel U. Ballelos, Jr.

SYCIP GORRES VELAYO & CO.



Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-AR-1 (Group A),

April 3, 2019, valid until April 2, 2022

Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8125210, January 7, 2020, Makati City

April 3, 2020

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|--|-------------------------|------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 7) | ₱20,484,260,858 | ₱13,023,101,912 |
| Financial assets at fair value through profit or loss (Note 8) | 414,899,618 | 420,153,416 |
| Receivables (Note 10) | 15,998,957,924 | 14,405,323,971 |
| Inventories (Note 11) | 24,374,509,971 | 22,085,770,041 |
| Biological assets (Note 14) | 733,435,525 | 741,719,637 |
| Other current assets (Note 12) | 2,838,568,366 | 3,733,665,505 |
| | 64,844,632,262 | 54,409,734,482 |
| Noncurrent Assets | | |
| Property, plant and equipment (Note 13) | 54,626,409,715 | 51,950,316,266 |
| Right-of-use assets (Note 36) | 3,613,579,513 | – |
| Biological assets (Note 14) | 224,128,072 | 366,184,414 |
| Goodwill (Note 15) | 31,194,495,817 | 31,194,495,817 |
| Intangible assets (Note 15) | 11,673,128,525 | 11,730,260,354 |
| Investments in joint ventures (Note 16) | 421,625,100 | 520,917,509 |
| Deferred tax assets (Note 32) | 620,165,818 | 195,485,985 |
| Other noncurrent assets (Note 17) | 1,434,825,051 | 1,568,318,583 |
| | 103,808,357,611 | 97,525,978,928 |
| TOTAL ASSETS | ₱168,652,989,873 | ₱151,935,713,410 |

(Forward)

| | December 31 | |
|---|-------------------------|------------------|
| | 2019 | 2018 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other accrued liabilities (Note 19) | ₱21,297,748,872 | ₱22,766,759,527 |
| Short-term debts (Notes 18 and 22) | 3,848,485,273 | 2,461,385,106 |
| Trust receipts payable (Notes 11 and 22) | 8,747,355,847 | 6,019,613,469 |
| Income tax payable | 535,595,909 | 720,742,396 |
| Lease liabilities - current portion (Note 36) | 504,164,127 | — |
| | 34,933,350,028 | 31,968,500,498 |
| Noncurrent Liabilities | | |
| Long-term debts (Notes 20 and 22) | 30,386,077,608 | 31,457,123,882 |
| Deferred tax liabilities (Note 32) | 3,880,163,558 | 4,228,752,279 |
| Lease liabilities - net of current portion (Note 36) | 3,216,854,082 | — |
| Other noncurrent liabilities (Notes 16 and 21) | 1,052,042,403 | 287,857,481 |
| | 38,535,137,651 | 35,973,733,642 |
| | 73,468,487,679 | 67,942,234,140 |
| Equity | | |
| Equity attributable to equity holders of the parent | | |
| Paid-up capital (Note 22) | ₱23,422,134,732 | ₱23,422,134,732 |
| Retained earnings (Note 22) | 66,644,456,817 | 63,789,482,388 |
| Other comprehensive income (Note 23) | 3,229,388,251 | 2,334,566,528 |
| Equity reserve (Note 22) | (2,665,824,256) | (5,075,466,405) |
| Treasury shares (Note 22) | (679,489,868) | (679,489,868) |
| | 89,950,665,676 | 83,791,227,375 |
| Equity attributable to non-controlling interest (Note 22) | 5,233,836,518 | 202,251,895 |
| | 95,184,502,194 | 83,993,479,270 |
| TOTAL LIABILITIES AND EQUITY | ₱168,652,989,873 | ₱151,935,713,410 |

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|--|--------------------------------|------------------|------------------|
| | 2019 | 2018 | 2017 |
| SALE OF GOODS AND SERVICES (Notes 24 and 34) | ₱134,174,527,579 | ₱127,769,949,329 | ₱125,007,824,013 |
| COST OF SALES (Note 24) | 93,861,929,762 | 90,332,569,341 | 85,693,355,234 |
| GROSS PROFIT | 40,312,597,817 | 37,437,379,988 | 39,314,468,779 |
| Selling and distribution costs (Note 25) | (19,827,312,084) | (18,719,558,853) | (19,250,876,212) |
| General and administrative expenses (Note 26) | (5,473,328,075) | (5,337,208,345) | (5,111,425,807) |
| OPERATING INCOME | 15,011,957,658 | 13,380,612,790 | 14,952,166,760 |
| Finance costs (Note 30) | (1,669,869,069) | (1,661,700,393) | (1,427,329,826) |
| Net foreign exchange gains (losses) | (557,668,047) | (174,658,640) | 154,190,672 |
| Finance revenue (Note 29) | 327,611,502 | 359,281,191 | 225,582,853 |
| Equity in net losses of joint ventures (Note 16) | (158,602,482) | (132,407,965) | (280,533,323) |
| Market valuation gain (loss) on financial assets and liabilities at fair value through profit or loss - net (Note 8) | (5,253,797) | (35,424,289) | 71,016,151 |
| Provision for credit and impairment losses (Notes 10, 11 and 15) | (2,211,403) | (45,001,536) | (21,423,202) |
| Other income (loss) - net (Notes 13, 16, 17 and 19) | (1,049,552,732) | (145,821,109) | 276,737,549 |
| INCOME BEFORE INCOME TAX | 11,896,411,630 | 11,544,880,049 | 13,950,407,634 |
| PROVISION FOR INCOME TAX (Note 32) | 1,781,727,853 | 2,082,093,827 | 2,797,486,301 |
| NET INCOME | ₱10,114,683,777 | ₱9,462,786,222 | ₱11,152,921,333 |
| NET INCOME ATTRIBUTABLE TO: | | | |
| Equity holders of the parent (Note 33) | 9,772,121,586 | ₱9,204,306,540 | ₱10,888,080,693 |
| Non-controlling interests (Notes 16 and 22) | 342,562,191 | 258,479,682 | 264,840,640 |
| | ₱10,114,683,777 | ₱9,462,786,222 | ₱11,152,921,333 |
| EARNINGS PER SHARE (Note 33) | | | |
| Basic/diluted, for income attributable to equity holders of the parent | ₱4.43 | ₱4.18 | ₱4.94 |

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|--|--------------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| NET INCOME | ₱10,114,683,777 | ₱9,462,786,222 | ₱11,152,921,333 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| <i>Items to be reclassified to profit or loss in subsequent periods, net of tax:</i> | | | |
| Cumulative translation adjustments (Note 23) | 1,197,749,346 | 1,630,309,574 | (1,392,324,892) |
| Unrealized loss on cash flow hedge (Notes 9 and 23) | (4,600,119) | (3,336,554) | (11,359,659) |
| Unrealized gain on available-for-sale financial assets (Notes 17 and 23) | – | – | 2,950,000 |
| | 1,193,149,227 | 1,626,973,020 | (1,400,734,551) |
| <i>Item not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Remeasurement gains on defined benefit plans (Notes 23 and 31) | (471,116,684) | 300,219,467 | 39,544,208 |
| Income tax effect | 141,335,005 | (90,065,840) | (11,863,262) |
| Unrealized gain on financial assets at fair value through other comprehensive income (Notes 17 and 23) | 25,990,000 | 4,320,000 | – |
| | (303,791,679) | 214,473,627 | 27,680,946 |
| OTHER COMPREHENSIVE INCOME (LOSS) | 889,357,548 | 1,841,446,647 | (1,373,053,605) |
| TOTAL COMPREHENSIVE INCOME | ₱11,004,041,325 | ₱11,304,232,869 | ₱9,779,867,728 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Equity holders of the parent | ₱10,666,943,309 | ₱11,046,721,446 | ₱9,512,498,099 |
| Non-controlling interests | 337,098,016 | 257,511,423 | 267,369,629 |
| | ₱11,004,041,325 | ₱11,304,232,869 | ₱9,779,867,728 |

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to Equity Holders of the Parent | | | | | | | | | | | | | | | Equity Attributable to Non-controlling Interest (Notes 16 and 23) | Total Equity | | |
|--|--|----------------------------|-----------------------|----------------------------------|--------------------------------|-------------------------|------------------------------------|---|---|---|----------------------------------|--------------------------|---------------------------|-----------------|-----------------|---|-----------------|--|--|
| | Paid-up Capital (Note 22) | | | | Retained Earnings (Note 22) | | | | Other Comprehensive Income (Loss) (Note 23) | | | | | | | | | | |
| | Capital Stock | Additional Paid-in Capital | Total Paid-up Capital | Unappropriated Retained Earnings | Appropriated Retained Earnings | Total Retained Earnings | Cumulative Translation Adjustments | Net Unrealized Gain on Financial Assets at FVOCI / AFS Investment (Note 17) | Unrealized Gain on Cash Flow Hedge (Note 9) | Remeasurement Losses on Defined Benefit Plans | Total Other Comprehensive Income | Equity Reserve (Note 22) | Treasury Shares (Note 22) | | | | | | |
| Balances as at January 1, 2019, as previously stated | ₱2,230,160,190 | ₱21,191,974,542 | ₱23,422,134,732 | ₱61,789,482,388 | ₱2,000,000,000 | ₱63,789,482,388 | ₱2,480,952,279 | ₱28,580,000 | ₱4,600,119 | (₱179,565,870) | ₱2,334,566,528 | (₱5,075,466,405) | (₱679,489,868) | ₱83,791,227,375 | ₱202,251,895 | ₱83,993,479,270 | | | |
| Effect of adoption of sugar revenue recognition – PFRS 15 (Note 2) | – | – | – | 25,962,727 | – | 25,962,727 | – | – | – | – | – | – | – | 25,962,727 | – | 25,962,727 | | | |
| Balances as at January 1, 2019, as restated | 2,230,160,190 | 21,191,974,542 | 23,422,134,732 | 61,815,445,115 | 2,000,000,000 | 63,815,445,115 | 2,480,952,279 | 28,580,000 | 4,600,119 | (179,565,870) | 2,334,566,528 | (5,075,466,405) | (679,489,868) | 83,817,190,102 | 202,251,895 | 84,019,441,997 | | | |
| Net income for the year | – | – | – | – | 9,772,121,586 | – | 9,772,121,586 | – | – | – | – | – | – | 9,772,121,586 | 342,562,191 | 10,114,683,777 | | | |
| Other comprehensive income (loss) | – | – | – | – | – | – | – | – | – | – | – | – | – | 894,821,723 | (5,464,175) | 889,357,548 | | | |
| Total comprehensive income | – | – | – | 9,772,121,586 | – | 9,772,121,586 | 1,197,749,346 | 25,990,000 | (4,600,119) | (324,317,504) | 894,821,723 | – | – | 10,666,943,309 | 337,098,016 | 11,004,041,325 | | | |
| Cash dividends (Note 22) | – | – | – | – | (6,943,109,884) | – | (6,943,109,884) | – | – | – | – | – | – | (6,943,109,884) | (294,000,000) | (7,237,109,884) | | | |
| Gain from sale of equity interest in a subsidiary (Note 22) | – | – | – | – | – | – | – | – | – | – | – | – | – | 2,409,642,149 | – | 2,409,642,149 | | | |
| Balances as at December 31, 2019 | ₱2,230,160,190 | ₱21,191,974,542 | ₱23,422,134,732 | ₱64,644,456,817 | ₱2,000,000,000 | ₱66,644,456,817 | ₱3,678,701,625 | ₱54,570,000 | ₱– | (₱503,883,374) | ₱3,229,388,251 | (₱2,665,824,256) | (₱679,489,868) | ₱89,950,665,676 | ₱5,233,836,518 | ₱95,184,502,194 | | | |
| Balances as at January 1, 2018, as previously stated | ₱2,227,638,933 | ₱20,856,143,110 | ₱23,083,782,043 | ₱58,743,842,044 | ₱4,500,000,000 | ₱63,243,842,044 | ₱850,642,705 | ₱24,260,000 | ₱7,936,673 | (₱390,687,756) | ₱492,151,622 | (₱5,075,466,405) | (₱341,137,179) | ₱81,403,172,125 | ₱282,840,472 | ₱81,686,012,597 | | | |
| Effect of adoption of new accounting standard – PFRS 9 (Note 2) | – | – | – | (1,715,556,312) | – | (1,715,556,312) | – | – | – | – | – | – | – | (1,715,556,312) | – | (1,715,556,312) | | | |
| Balances as at January 1, 2018, as restated | 2,227,638,933 | 20,856,143,110 | 23,083,782,043 | 57,028,285,732 | 4,500,000,000 | 61,528,285,732 | 850,642,705 | 24,260,000 | 7,936,673 | (390,687,756) | 492,151,622 | (5,075,466,405) | (341,137,179) | 79,687,615,813 | 282,840,472 | 79,970,456,285 | | | |
| Net income for the year | – | – | – | – | 9,204,306,540 | – | 9,204,306,540 | – | – | – | – | – | – | 9,204,306,540 | 258,479,682 | 9,462,786,222 | | | |
| Other comprehensive income (loss) | – | – | – | – | – | – | – | 1,630,309,574 | 4,320,000 | (3,336,554) | 211,121,886 | 1,842,414,906 | – | – | 1,842,414,906 | (968,259) | 1,841,446,647 | | |
| Total comprehensive income | – | – | – | 9,204,306,540 | – | 9,204,306,540 | 1,630,309,574 | 4,320,000 | (3,336,554) | 211,121,886 | 1,842,414,906 | – | – | 11,046,721,446 | 257,511,423 | 11,304,232,869 | | | |
| Cash dividends (Note 22) | – | – | – | – | (6,943,109,884) | – | (6,943,109,884) | – | – | – | – | – | – | (6,943,109,884) | (338,100,000) | (7,281,209,884) | | | |
| Issuance of shares (purchase of treasury shares) (Note 22) | 2,521,257 | 335,831,432 | 338,352,689 | – | – | – | – | – | – | – | – | – | – | (338,352,689) | – | – | | | |
| Reversal of appropriation of retained earnings (Note 22) | – | – | – | – | 2,500,000,000 | (2,500,000,000) | – | – | – | – | – | – | – | – | – | – | | | |
| Balances as at December 31, 2018 | ₱2,230,160,190 | ₱21,191,974,542 | ₱23,422,134,732 | ₱61,789,482,388 | ₱2,000,000,000 | ₱63,789,482,388 | ₱2,480,952,279 | ₱28,580,000 | ₱4,600,119 | (₱179,565,870) | ₱2,334,566,528 | (₱5,075,466,405) | (₱679,489,868) | ₱83,791,227,375 | ₱202,251,895 | ₱83,993,479,270 | | | |
| Balances as at January 1, 2017 | ₱2,227,638,933 | ₱20,856,143,110 | ₱23,083,782,043 | ₱56,298,871,235 | ₱3,000,000,000 | ₱59,298,871,235 | ₱2,242,967,597 | ₱21,310,000 | ₱19,296,332 | (₱415,839,713) | ₱1,867,734,216 | (₱5,075,466,405) | (₱341,137,179) | ₱78,833,783,910 | ₱15,470,843 | ₱78,849,254,753 | | | |
| Net income for the year | – | – | – | – | 10,888,080,693 | – | 10,888,080,693 | – | – | – | – | – | – | 10,888,080,693 | 264,840,640 | 11,152,921,333 | | | |
| Other comprehensive income (loss) | – | – | – | – | – | – | – | (1,392,324,892) | 2,950,000 | (11,359,659) | 25,151,957 | (1,375,582,594) | – | – | (1,375,582,594) | 2,528,989 | (1,373,053,605) | | |
| Total comprehensive income | – | – | – | – | 10,888,080,693 | – | 10,888,080,693 | (1,392,324,892) | 2,950,000 | (11,359,659) | 25,151,957 | (1,375,582,594) | – | – | 9,512,498,099 | 267,369,629 | 9,779,867,728 | | |
| Cash dividends (Note 22) | – | – | – | – | (6,943,109,884) | – | (6,943,109,884) | – | – | – | – | – | – | (6,943,109,884) | – | (6,943,109,884) | | | |
| Appropriation of retained earnings (Note 22) | – | – | – | – | (1,500,000,000) | 1,500,000,000 | – | – | – | – | – | – | – | – | – | – | | | |
| Balances as at December 31, 2017 | ₱2,227,638,933 | ₱20,856,143,110 | ₱23,083,782,043 | ₱58,743,842,044 | ₱4,500,000,000 | ₱63,243,842,044 | ₱850,642,705 | ₱24,260,000 | ₱7,936,673 | (₱390,687,756) | ₱492,151,622 | (₱5,075,466,405) | (₱341,137,179) | ₱81,403,172,125 | ₱282,840,472 | ₱81,686,012,597 | | | |

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|--|--------------------------------|-----------------|-----------------|
| | 2019 | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | ₱11,896,411,630 | ₱11,544,880,049 | ₱13,950,407,634 |
| Adjustments for: | | | |
| Depreciation and amortization (Note 27) | 7,310,056,927 | 6,369,775,844 | 6,104,063,359 |
| Finance costs (Note 30) | 1,669,869,069 | 1,600,072,501 | 1,427,329,826 |
| Net foreign exchange losses (gains) | 557,668,047 | 174,658,640 | (154,190,672) |
| Finance revenue (Note 29) | (327,611,502) | (359,281,191) | (225,582,853) |
| Equity in net losses of joint ventures (Note 16) | 158,602,482 | 132,407,965 | 280,533,323 |
| Loss (gain) arising from changes in fair value less estimated costs to sell of biological assets (Note 14) | 70,184,825 | 467,471,975 | (118,841,072) |
| Loss (gain) on sale/disposals of property, plant and equipment (Note 13) | 5,478,708 | (629,392,076) | (239,361,566) |
| Market valuation loss (gain) on financial assets at fair value through profit or loss (Note 8) | 5,253,797 | 35,424,289 | (71,016,151) |
| Provision for credit and impairment losses (Notes 10, 11 and 15) | 2,211,403 | 45,001,536 | 21,423,202 |
| Unamortized debt issue costs recognized as expense on pretermination of long-term debt (Notes 20 and 30) | — | 61,627,892 | — |
| Operating income before working capital changes | 21,348,125,386 | 19,442,647,424 | 20,974,765,030 |
| Decrease (increase) in: | | | |
| Receivables | (2,318,944,164) | (921,314,586) | (933,282,952) |
| Inventories | (2,368,577,423) | (3,704,007,347) | 185,447,755 |
| Biological assets | (27,562,723) | (272,030) | (262,992,645) |
| Other current assets | 845,787,837 | (634,703,473) | (874,122,137) |
| Increase (decrease) in: | | | |
| Accounts payable and other accrued liabilities | (1,273,079,149) | 1,443,040,708 | 1,090,362,231 |
| Trust receipts payable | 2,751,087,671 | 2,758,725,897 | (1,390,608,195) |
| Net cash generated from operations | 18,956,837,435 | 18,384,116,593 | 18,789,569,087 |
| Income taxes paid | (2,304,626,825) | (2,558,923,595) | (3,458,322,291) |
| Interest paid | (1,316,264,578) | (1,527,185,331) | (1,308,340,934) |
| Interest received | 274,971,649 | 359,587,480 | 230,671,556 |
| Net cash provided by operating activities | 15,610,917,681 | 14,657,595,147 | 14,253,577,418 |

(Forward)

| | Years Ended December 31 | | |
|---|--------------------------------|------------------------|------------------------|
| | 2019 | 2018 | 2017 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisitions of: | | | |
| Property, plant and equipment (Note 13) | (8,988,692,240) | (8,641,730,098) | (8,129,671,952) |
| Investments in joint ventures (Note 16) | (125,000,000) | (406,841,074) | (349,776,367) |
| Subsidiary, net of cash acquired (Note 16) | – | (173,995,570) | – |
| Intangible assets (Note 15) | – | (11,234,200) | (4,475,330) |
| Financial assets at fair value through profit or loss | – | – | (8,285) |
| Proceeds from: | | | |
| Sale of business without loss of control (Note 22) | 7,204,512,000 | – | – |
| Sale/disposals of property, plant and equipment (Note 16) | 30,934,961 | 691,614,716 | 269,369,636 |
| Settlement of derivatives (Note 9) | – | – | 4,595,140 |
| Decrease (increase) in other noncurrent assets | 108,994,799 | (170,240,967) | (216,545,822) |
| Dividends received (Note 8) | 16,151,435 | 32,302,870 | 18,500,000 |
| Net cash used in investing activities | (1,753,099,045) | (8,680,124,323) | (8,408,012,980) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayments of: | | | |
| Short-term debts (Notes 18 and 37) | (₱771,313,583) | (₱4,050,000,000) | (₱3,850,000,000) |
| Long-term debts (Notes 20 and 37) | – | (15,356,761,921) | – |
| Proceeds from availments of: | | | |
| Short-term debts (Notes 18 and 37) | 2,100,000,000 | 4,650,000,000 | 4,284,475,807 |
| Long-term debt (Notes 20 and 27) | – | 14,226,028,915 | – |
| Principal portion of lease liabilities (Note 36) | (753,266,948) | – | – |
| Cash dividends paid (Note 22) | (7,237,109,884) | (6,943,109,884) | (7,170,959,884) |
| Increase in other noncurrent liabilities | 265,030,725 | 21,956,187 | 40,735,510 |
| Net cash used in financing activities | (6,396,659,690) | (7,451,886,703) | (6,695,748,567) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 7,461,158,946 | (1,474,415,879) | (850,184,129) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 13,023,101,912 | 14,497,517,791 | 15,347,701,920 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ₱20,484,260,858 | ₱13,023,101,912 | ₱14,497,517,791 |

See accompanying Notes to Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Universal Robina Corporation (hereinafter referred to as “the Parent Company” or “URC”) was incorporated on September 28, 1954, domiciled in the Republic of the Philippines, and is listed in the Philippine Stock Exchange. On October 28, 2002, the Parent Company’s corporate life was extended for another 50 years or until September 28, 2054. The registered office address of the Parent Company is at 8th Floor Tera Tower, Bridgetowne, E. Rodriguez, Jr. Avenue (C5 Road), Ugong Norte, Quezon City, Metro Manila.

The Parent Company is a majority owned subsidiary of JG Summit Holdings, Inc. (“the Ultimate Parent Company” or “JGSHI”).

The Parent Company and its subsidiaries (hereinafter referred to as “the Group”) is one of the largest branded food products companies in the Philippines and has a strong presence in ASEAN markets. The Group is involved in a wide range of food-related businesses which are organized into three (3) business segments: (a) the branded consumer food segment which manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, packed cakes, beverages, instant noodles and pasta; (b) the agro-industrial segment which engages in hog and poultry farming, production and distribution of animal health products and manufacture and distribution of animal feeds, glucose and soya bean products; and (c) the commodity food segment which engages in sugar milling and refining, flour milling and pasta manufacturing and renewable energy development. The Parent Company also engages in the manufacture of bi-axially oriented polypropylene (BOPP) films for packaging companies and flexible packaging materials to cater various URC branded products. The Parent Company’s packaging business is included in the branded consumer food segment.

The operations of certain subsidiaries are registered with the Board of Investments (BOI) as preferred pioneer and nonpioneer activities. Under the terms of the registrations and subject to certain requirements, the Parent Company and certain subsidiaries are entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of three (3) years to seven (7) years from respective start dates of commercial operations (see Note 35).

The Group is also subject to certain regulations with respect to, among others, product composition, packaging, labeling, advertising and safety.

The principal activities of the Group are further described in Note 6.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value, inventories that have been measured at lower of cost and net realizable value (NRV) and biological assets and agricultural produce that have been measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine Peso. The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso. All values are rounded to the nearest peso except when otherwise stated.

The functional currencies of the Group's consolidated foreign subsidiaries follow:

| Subsidiaries | Country of Incorporation | Functional Currency |
|---|--------------------------|---------------------|
| URC Asean Brands Co. Ltd. (UABCL) | British Virgin Islands | US Dollar - |
| Hong Kong China Foods Co. Ltd. (HCFCL) | - do - | - do - |
| URC International Co. Ltd. (URCICL) | - do - | - do - |
| URC Oceania Co. Ltd. (URC Oceania) | - do - | - do - |
| Shanghai Peggy Foods Co., Ltd. (Shanghai Peggy) | China | Chinese Renminbi |
| URC China Commercial Co. Ltd. (URCCCL) | - do - | - do - |
| Xiamen Tongan Pacific Food Co., Ltd. | - do - | - do - |
| Guangzhou Peggy Foods Co., Ltd. | - do - | - do - |
| Shantou SEZ Shanfu Foods Co., Ltd. | - do - | - do - |
| Jiangsu Acesfood Industrial Co., Ltd. | - do - | - do - |
| Shantou Peggy Co. Ltd. | - do - | - do - |
| URC Hong Kong Company Limited | Hong Kong | Hong Kong Dollar |
| PT URC Indonesia | Indonesia | Indonesian Rupiah |
| URC Snack Foods (Malaysia) Sdn. Bhd. (URC Malaysia) | Malaysia | Malaysian Ringgit |
| Ricellent Sdn. Bhd. | - do - | - do - |

| Subsidiaries | Country of Incorporation | Functional Currency |
|--|--------------------------|---------------------|
| URC Foods (Singapore) Pte. Ltd. | Singapore | Singapore Dollar |
| Acesfood Network Pte. Ltd. | - do - | - do - |
| Acesfood Holdings Pte. Ltd. | - do - | - do - |
| Acesfood Distributors Pte. Ltd. | - do - | - do - |
| Advanson International Pte. Ltd. (Advanson) | - do - | - do - |
| URC (Thailand) Co., Ltd. | Thailand | Thai Baht |
| Siam Pattanasin Co., Ltd. | - do - | - do - |
| URC (Myanmar) Co. Ltd. | Myanmar | Myanmar Kyat |
| URC Vietnam Co., Ltd. | Vietnam | Vietnam Dong |
| URC Hanoi Company Limited | - do - | - do - |
| URC Central Co. Ltd. | - do - | - do - |
| URC New Zealand Holding Co. Ltd. (URC NZ HoldCo) | New Zealand | New Zealand Dollar |
| URC New Zealand Finance Co. Ltd. (URC NZ FinCo) | - do - | - do - |
| Griffin's Food Limited (Griffin's) | - do - | - do - |
| Nice and Natural Limited | - do - | - do - |
| URC Australia Holding Company Ltd. (URC AU HoldCo) | Australia | Australian Dollar |
| URC Australia Finance Company Ltd. (URC AU FinCo) | - do - | - do - |
| Consolidated Snacks Pty Ltd. (CSPL) | - do - | - do - |
| Yarra Valley Group Holding Pty Ltd. (Yarra Valley) | - do - | - do - |
| Snack Brands Australia Partnership | - do - | - do - |
| Uni Snack Holding Company Ltd. (UHC) | - do - | - do - |
| Uni Snack Mid Company Ltd. (UMC) | - do - | - do - |

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned direct subsidiaries as of December 31, 2019 and 2018.

| Subsidiaries | Place of Incorporation | Effective Percentages of Ownership |
|--|------------------------|------------------------------------|
| CFC Corporation | Philippines | 100.00 |
| Bio-Resource Power Generation Corporation and a Subsidiary (BRPGC) | - do - | 100.00 |
| URC Snack Ventures Inc. (USVI)* | - do - | 100.00 |
| URC Beverage Ventures Inc. (UBVI)** | - do - | 100.00 |
| Nissin – URC (NURC) | - do - | 51.00 |
| CFC Clubhouse Property, Inc. (CCPI) | - do - | – |
| URC Philippines, Ltd. (URCPL) | British Virgin Islands | 100.00 |
| URCICL and Subsidiaries*** | - do - | 100.00 |
| Universal Robina (Cayman), Ltd. (URCL) | Cayman Islands | 100.00 |
| URCCCL | China | 100.00 |

* Formerly Calbee - URC, Inc. (CURCI)

** Formerly Hunt - URC (HURC)

***Subsidiaries are located in Thailand, Singapore, Malaysia, Vietnam, Indonesia, China, Hong Kong, Myanmar, New Zealand and Australia.

Change in Ownership Structure of URC AU HoldCo and URC NZ HoldCo (a subsidiary of URCICL)

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with extensive product portfolio, agreed to buy 40% of Oceania (SBA and Griffin's New Zealand).

On December 23, 2019, the Australian Foreign Investment Review Board (FIRB) approved the transaction. Following the approval, the transaction was completed on December 23, 2019 (see Note 22).

In 2019, UHC and UMC were incorporated under URCICL.

Acquisition of USVI

In September 2018, the Parent Company entered into a share purchase agreement with its joint venture partner, Calbee, Inc., to purchase the latter's 50% equity interest in Calbee-URC, Inc. (CURCI). As a result of the sale, CURCI became a wholly-owned subsidiary of URC (see Note 16).

On November 10, 2018, CURCI's Board of Directors and stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Calbee-URC Inc." to "URC Snack Ventures Inc." (USVI), which was approved by the Philippine Securities and Exchange Commission (SEC) on February 26, 2019.

Acquisition of UBSI

In September 2018, the Parent Company entered into a share purchase agreement with its joint venture partner, ConAgra Grocery Products Company, LLC., to purchase the latter's 50% equity interest in Hunt-Universal Robina Corporation (HURC). As a result of the sale, HURC became a wholly-owned subsidiary of URC (see Note 16).

On January 7, 2019, HURC's Board of Directors and stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Hunt-Universal Robina Corporation" to "URC Beverage Ventures Inc." (UBSI), which was approved by the SEC on February 28, 2019.

Merger of CCPI

On March 10, 2015 and May 27, 2015, the Board of Directors (BOD) and stockholders of the Parent Company, respectively, approved the plan to merge CCPI with the Parent Company. On April 25, 2017 and June 28, 2017, the BOD and stockholders of the Parent Company approved the revised Plan of Merger and Articles of Merger between CCPI and the Parent Company. On April 24, 2018, the SEC approved the merger (see Note 22).

Control

Control is achieved when the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group 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 Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and

- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the 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 statement of comprehensive income from the date the Parent Company gains control until the date it ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

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

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

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

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in the consolidated statement of income; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. Some of the Group's subsidiaries have a local statutory accounting reference date of September 30. These are consolidated using management prepared information on a basis coterminous with the Group's accounting reference date.

Below are the subsidiaries with a different accounting reference date from that of the Parent Company:

| <u>Subsidiaries*</u> | <u>Year-end</u> |
|---|-----------------|
| Bio-resource Power Generation Corporation | September 30 |
| Southern Negros Development Corporation | -do- |

**Dormant/non-operating subsidiaries*

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. This policy also covers purchase of assets that constitutes acquisition of a business. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are recognized in profit or loss in the consolidated statement of income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant PFRSs. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (the date the Group attains control) and the resulting gain or loss, if any, is recognized in the consolidated statement of income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Combinations of Entities Under Common Control

Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory (“business combinations under common control”), the Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Q&A No. 2011-02, PFRS 3.2 - *Common Control Business Combinations*. The purchase method of accounting is used, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interest method.

In applying the pooling-of-interests method, the Group follows the Philippine Interpretations Committee Q&A No. 2012-01, PFRS 3.2 - *Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously-held interest, if any, in the entity over the net fair value of the identifiable net assets recognized.

If after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously-held equity interest, if any, the excess is recognized immediately in the consolidated statement of income as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years, except that the Group has adopted the following PFRSs and Philippine Accounting Standards (PAS) and Philippine Interpretations beginning January 1, 2019. The adoption of the new and amended standards and interpretations did not have any impact on the consolidated financial statements of the Group unless otherwise indicated.

• **PFRS 16, *Leases***

In 2019, the Group adopted PFRS 16, *Leases* which sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*.

The standard includes two recognition exemptions for lessees – leases of “low-value” assets and short term leases (i.e., leases with a term of 12 months or less). At the commencement date, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., right-of-use or ROU asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset. Upon occurrence of certain events (e.g., a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments), lessees are required to remeasure the lease liability and recognize the remeasurement as an adjustment to the ROU asset. Lessor accounting under PFRS 16 is substantially unchanged in comparison to the accounting under PAS 17 and related interpretations.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 did not have an impact for leases where the Group is the lessor.

In the adoption of PFRS 16, the Group has chosen to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, January 1, 2019. Therefore, the comparative information was not restated and continues to be reported under PAS 17 and related interpretations.

In using the modified retrospective approach, the Group has availed of the following practical expedients provided under the standard:

- PFRS 16 was not applied to leases for which the lease term is within 12 months from the date of initial application;
- The Group has relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Initial direct costs have been excluded from the measurement of ROU assets at the date of initial application.

The Group has also elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*. The Group will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

As comparative information is not restated, the Group is not required to provide a third statement of financial position at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

The impact on the Group's consolidated statement of financial position as at January 1, 2019 upon the adoption of PFRS 16 are as follows:

| | Increase (Decrease) |
|-----------------------------------|--------------------------------|
| ASSETS | |
| Other current assets (Note 12) | (₱12,895,971) |
| Right-of-use assets (Note 36) | 3,209,031,113 |
| Other noncurrent assets (Note 17) | (31,687,670) |
| | ₱3,164,447,472 |
| LIABILITIES AND EQUITY | |
| Lease liabilities (Note 36) | ₱3,164,447,472 |

The Group has leases for various items such as land, office spaces, warehouses, machinery and equipment, transportaton equipment and furniture and fixtures. 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 operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement date at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (i.e., recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalized and the leased payments were recognized as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Other current assets" and "Accounts payable and other accrued liabilities" accounts in the consolidated statement of financial position.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases (as lessee), except for short-term leases and leases of low-valued assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as operating leases

The Group recognized ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets for most leases were recognized based on the carrying amount as if the standard has always been applied since the commencement date but discounted using the incremental borrowing rate at the date of initial application. In some leases, the ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any previously recognized prepaid rent or accrued rent. Lease liabilities were recognized based on the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

Asset retirement obligation on operating leases

Before the adoption of PFRS 16, costs of asset retirement obligation on operating leases were capitalized as part of "Property, plant and equipment" account. Upon adoption of PFRS 16, these costs are presented within "ROU assets" account in the consolidated statement of financial position. There is no change in the measurement as it is accounted for under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* both before and upon adoption of PFRS 16.

Based on the foregoing, the Group recognized ROU assets and lease liabilities of ₲3.2 billion and ₲3.2 billion, respectively as at January 1, 2019, and ₲3.6 billion and ₲3.7 billion, respectively as at December 31, 2019.

The lease liabilities as at January 1, 2019 can be reconciled to the opening lease commitments as at December 31, 2018 as follows:

| | |
|---|-----------------------|
| Operating lease commitments as at December 31, 2018 | ₱2,579,576,860 |
| Weighted average incremental borrowing rate at January 1, 2019 | 4.00% - 7.96% |
| Discounted operating lease commitments at January 1, 2019 | 2,073,343,820 |
| Less: Commitments relating to short term leases | (86,822,379) |
| Add: Payments in optional extension periods not recognized at December 31, 2018 | 1,177,926,031 |
| Lease liabilities as at January 1, 2019 | ₱3,164,447,472 |
| Operating lease commitments as at December 31, 2018 | ₱2,579,576,860 |
| Weighted average incremental borrowing rate at January 1, 2019 | 4.00% - 7.96% |
| Discounted operating lease commitments at January 1, 2019 | 2,073,343,820 |
| Less: Commitments relating to short term leases | (86,822,379) |
| Add: Payments in optional extension periods not recognized at December 31, 2018 | 1,177,926,031 |
| Lease liabilities as at January 1, 2019 | ₱3,164,447,472 |

- *PFRS 15, Revenue from Contracts with Customers*

With the effectiveness of PFRS 15 on January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued PIC Q&A 2019-3, Revenue Recognition Guidance for Sugar Millers, to assist the companies operating in the sugar industry in the adoption of PFRS 15. The interpretation states that a miller recognize revenue arising from its sugar milling operation under either output sharing agreement (OSA) or cane purchase agreement (CPA), and that providing free-period storage constitutes a separate performance obligation in the case of OSA.

In response to concerns raised by the sugar industry on the implementation and adoption of the PIC Q&A, the SEC issued MC No. 6 on April 4, 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of one (1) year.

The Group availed of the deferral of adoption of the above specific provisions. effective January 1, 2019, the Group adopted PIC Q&A No. 2019-3 using modified retrospective approach. Under this approach, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed as of this date. The Group elected to apply the standard to all contracts that are not completed as at December 31, 2018. The Group assessed that the impact of the adoption on the January 1, 2018 financial statements is not significant to the consolidated financial statements taken as a whole. Accordingly, no adjustments were made in the January 1, 2018 opening balance.. As of December 31, 2019, the Group now is in full compliance with PFRS 15 with its sugar business adopting the said standard, both under OSA and CPA.

Set out below are the amounts by which each financial statement line item is affected as at January 1, 2019. The adoption of PFRS 15 did not have an impact on the Group's other comprehensive income nor on its operating, investing and financing cash flows at January 1, 2019. Impact in beginning balance of retained earnings is ₱26.0 million.

Group's statement of comprehensive income for the year ended December 31, 2019

| | Before Adoption | Adjustment | After Adoption |
|----------------------------|------------------------|-------------------|-----------------------|
| Sale of goods and services | ₱133,245,422,149 | ₱929,105,430 | ₱134,174,527,579 |
| Cost of Sales | 92,959,343,945 | 902,585,817 | 93,861,929,762 |

Group's statement of financial position as of December 31, 2019

| | Before Adoption | Adjustment | After Adoption |
|--------------------|------------------------|-------------------|-----------------------|
| Inventories | ₱24,347,990,357 | ₱26,519,614 | ₱24,374,509,971 |
| Deferred tax asset | 628,121,702 | (7,955,884) | 620,165,818 |

The nature of the adjustment as at January 1, 2019 and the reasons for the significant changes in the consolidated statement of income for the year ended December 31, 2019 as presented in the above table are described below:

- a) The Group has determined that all contracts under PAS 18 qualify as contracts under PFRS 15. Under PAS 18, milling contracts entered into by the Group with the planters for the conversion of the planters' sugar cane into raw sugar through OSA is not considered as a revenue contract, but is now within the scope of PFRS 15. Planters are considered customers under this arrangement and the Group provides services to the planters in the form of conversion processes of sugar cane to raw sugar.
- b) Other than the sale of goods and services, providing free-period storage is identified as a separate performance obligation for the planters' share under OSA, stored at the Group's warehouse.
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

The Group is required to determine 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 shall assume 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, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Based on the Group's assessment, it has no material uncertain tax treatments. Accordingly, the adoption of this Interpretation has no significant impact on the consolidated financial statements.

- 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. The Group 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 Group has amended the benefits of its retirement plan during the year and accordingly, applied this amendment. The application of this amendment did not have significant impact on the Group's consolidated financial statements.

- 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 of the Group.

- *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's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

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:

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

All other assets are classified as noncurrent.

A liability is current when:

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

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures certain financial instruments and nonfinancial assets at fair value at each reporting date. Fair values of financial instruments measured at amortized cost and investment properties carried at cost are disclosed in Note 5.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the 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 value measurement is directly or indirectly
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair observable value measurement is unobservable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair

For assets and liabilities that are recognized in the 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 date.

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 placement, and that are subject to insignificant risk of changes in value.

Financial Instruments

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

a) Financial assets

Initial recognition and measurement

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

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

In order for a financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are '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.

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

Subsequent measurement

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

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

The financial assets of the Group as of December 31, 2019 and 2018 consist of financial assets at amortized cost, financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments), derivative assets at FVOCI and financial assets at FVTPL (equity instruments).

Financial assets at amortized cost (debt instruments)

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

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

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

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

Financial assets designated at FVOCI (equity instruments)

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

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

The Group elected to classify irrevocably its investments in club shares under this category.

Financial assets at FVTPL (equity instruments)

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in the consolidated statements of income.

This category includes equity instruments held for trading and currency options.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are

measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

Determining the stage for impairment

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

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

Staging assessment

PFRS 9 establishes a three-stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a significant increase in credit risk since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a significant increase in credit risk since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, then entities shall revert to recognizing 12-month ECL.
- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

b) Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at FVTPL

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

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

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

Other financial liabilities

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

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

This category applies to the Group's accounts payable and accrued expenses (excluding advances from customers, advances from third parties, statutory and taxes payables), short-term debt and trust receipts payable and long-term debt.

Derecognition

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

c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories, including goods-in-process, are recorded at cost and subsequently valued at the lower of cost and NRV. NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs.

When the inventories are sold, the carrying amounts of those inventories are recognized under ‘Cost of sales’ in the consolidated statement of income in the period when the related revenue is recognized.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Finished goods, goods-in-process, raw materials, containers and packaging materials, and spare parts and supplies

Cost is determined using the weighted average method. Finished goods and goods-in-process include direct materials and labor, and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

Materials in-transit

Cost is determined using the specific identification basis.

Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:

- | | |
|-------------------|--|
| Swine livestock | <ul style="list-style-type: none">- Breeders (livestock bearer)- Sucklings (breeders' offspring)- Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)- Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat) |
| Poultry livestock | <ul style="list-style-type: none">- Breeders (livestock bearer)- Chicks (breeders' offspring intended to be sold as breeders) |

Biological assets are measured on initial recognition and at each reporting date at its fair value less estimated costs to sell. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers and meats, while the agricultural produce in poultry livestock is the hatched chick and table eggs.

A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset are included in the consolidated statement of income in the period in which it arises.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and impairment losses, if any.

The initial cost of an item of property, plant and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition. Cost also includes:

- (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and

(b) asset retirement obligation relating to property, plant and equipment installed/constructed on leased properties, if any, for the corresponding liability. Land is stated at cost less any impairment in value.

Subsequent costs are capitalized as part of the ‘Property, plant and equipment’ in the consolidated statement of financial position, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Cost of repairs and maintenance are expensed when incurred.

Foreign exchange differentials arising from foreign currency borrowings used for the acquisition of property, plant and equipment are capitalized to the extent that these are regarded as adjustments to interest costs.

Depreciation and amortization of property, plant and equipment commence once the property, plant and equipment are available for use and are computed using the straight-line method over the estimated useful life (EUL) of the assets regardless of utilization.

The EUL of property, plant and equipment of the Group follow:

| | Years |
|-----------------------------------|----------|
| Land improvements | 5 to 10 |
| Buildings and improvements | 10 to 30 |
| Machinery and equipment | 10 |
| Transportation equipment | 5 |
| Furniture, fixtures and equipment | 5 |

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms. The residual values, useful lives and methods of depreciation and amortization of property, plant and equipment are reviewed periodically and adjusted, if appropriate, at each reporting date to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

Construction-in-progress and equipment in transit are stated at cost. This includes the cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress and equipment in transit are not depreciated until such time as the relevant assets are completed and put into operational use.

Construction in-progress and equipment in transit are transferred to the related ‘Property, plant and equipment’ in the consolidated statement of financial position when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use are completed, and the property, plant and equipment are ready for service.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become 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 the Group).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of income, in the period the item is derecognized.

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

Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment loss, if any. Land is carried at cost less any impairment loss, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of an investment property.

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of asset given up.

The Group’s investment properties consist solely of buildings and building improvements and are depreciated using the straight-line method over their EUL ranging from 10 to 30 years (see Note 17).

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic useful benefits from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or by the end of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

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

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the investee at the date of acquisition which is not identifiable to specific assets.

Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units 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 groups of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses, if any. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see further discussion under Impairment of nonfinancial assets).

Where goodwill forms part of a cash-generating unit 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 cash-generating unit retained.

Intangible Assets

Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible asset acquired in a business combination is its fair value at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses, if any. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The EUL of intangible assets are assessed to be either finite or indefinite.

The useful lives of intangible assets with a finite life are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight line basis over the asset's EUL and assessed for impairment, whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level (see further discussion under Impairment of nonfinancial assets). Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

A summary of the policies applied to the Group's intangible assets follows:

| | EUL | Amortization method used | Internally generated or acquired |
|-----------------------|-------------------|----------------------------|-------------------------------------|
| Product Formulation | Indefinite | No amortization | Acquired |
| Trademarks/Brands | Indefinite | No amortization | Acquired |
| Trademarks | Finite (4 years) | Straight line amortization | Acquired |
| Software Costs | Finite (10 years) | Straight line amortization | Acquired |
| Customer Relationship | Finite (35 years) | Straight line amortization | Acquired |

Investment in Joint Ventures

The Group has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties who have joint control over the arrangement have rights to the net assets of the arrangements.

The Group's investment in joint venture is accounted for using the equity method of accounting.

Under the equity method, the investment in a joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture. The consolidated statement of income reflects the Group's share in the results of operations of the joint venture. Where there has been a change recognized directly in the investees' equity, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the consolidated statement of changes in equity. Profits and losses arising from transactions between the Group and the joint ventures are eliminated to the extent of the interest in the joint ventures.

The Group discontinues applying the equity method when its investments in investee companies are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the associates or joint venture. When the investees subsequently report net income, the Group will resume applying the equity method but only after its equity in the net income equals the equity in net losses of associates and joint venture not recognized during the period the equity method was suspended.

The investee company's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property, plant and equipment (see Note 13), right-of-use assets (Note 36), investment properties (see Note 17), investment in joint ventures (see Note 16), goodwill and intangible assets (see Note 15).

Except for goodwill and intangible assets with indefinite useful lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written-down to its recoverable amount.

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 (or cash-generating unit).

Impairment losses are recognized under ‘Provision for credit and impairment losses’ in the consolidated statement of income.

The following criteria are also applied in assessing impairment of specific assets:

Property, plant and equipment, right-of-use assets, investment properties, intangible assets with definite useful lives

For property, plant and equipment, investment properties, intangible assets with definite useful lives, 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. After such a reversal, the depreciation and amortization expense are adjusted in future years to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

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 by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operations 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 on the basis of the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are tested for impairment annually as of reporting date either individually or at the cash-generating unit level, as appropriate.

Investments in joint ventures

After application of the equity method, the Group determines whether it is necessary to recognize additional impairment losses on the Group's investments in joint ventures. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the joint ventures and the acquisition cost and recognizes the amount under 'Provision for credit and impairment losses' in the consolidated statement of income.

Revenue Recognition

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

Sale of goods and services

Revenue from sale of goods and services is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods and services. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods and services, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer, if any.

Sale of sugar

Sale of raw sugar is recognized upon (a) endorsement and transfer of quedans for quedan-based sales and (b) shipment or delivery and acceptance by the customers for physical sugar sales. Sale of refined sugar and alcohol is recognized upon shipment of delivery and acceptance by the customers. Sale of molasses warehouse receipts, which represents ownership title over the molasses inventories.

Rendering of tolling services

Revenue derived from tolling activities is recognized as revenue at the point in time when the related services have been rendered.

Revenue outside the scope of PFRS 15:

Dividend income

Dividend income is recognized when the shareholder's right to receive the payment is established.

Interest income

Interest income is recognized as it accrues using the EIR method under which interest income is recognized at the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) 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 (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense under 'Finance cost' in the consolidated statement of income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Contingencies

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

Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Pension Costs

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 benefit costs comprise the following:

- Current service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements 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 in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes related restructuring costs.

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.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to consolidated statement of income in subsequent periods.

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit

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

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

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

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

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

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

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

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

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

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

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

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

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sale 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 sale of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Accounts payable and other accrued liabilities” in the consolidated statement of financial position.

Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate. Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the EIR method over the term of the loans.

Leases – Group as a Lessee (Upon adoption of PFRS 16 beginning January 1, 2019)

The Group assesses whether a contract is, or contains a lease, at the inception of a contract. This assessment involves the exercise of judgment about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of the asset and whether the Group has the right to direct the use of the asset. The Group recognizes a ROU asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases and leases of low-value assets.

Right-of-use assets

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 measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received, and any estimated costs to be incurred 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 its estimated useful life and the lease term. ROU assets, which are presented under ‘Noncurrent Assets’ in the statement of financial position, are subject to impairment.

The depreciation period for each class of ROU assets follow:

| | Period |
|----------------------------|------------|
| Land and land improvements | 10 years |
| Buildings and improvements | 2-20 years |
| Machinery and equipment | 2 years |
| Transportation equipment | 2 years |
| Furniture and fixture | 2 years |

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 reflected 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 commencement date if the interest rate implicit to 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

The Group applies the short-term lease recognition exemption to its short-term leases of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Leases (Prior to adoption of PFRS 16)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, 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 or assets, even if that right is not explicitly specified in an arrangement.

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 an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

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

Group as a lessee

A lease is classified at the inception date as finance lease or an operating lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in 'Finance costs' in the consolidated statement of income.

A leased asset is depreciated over the EUL of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the EUL of the asset and the lease term.

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

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Rent income

Rent income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Cost and Expenses

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

Foreign Currency Translation/Transactions

The functional and presentation currency of the Parent Company and its Philippine subsidiaries is the Philippine Peso. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the reporting date. All differences are taken to the consolidated statement of income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group companies

As of reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange prevailing at reporting date and their respective statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity as ‘Cumulative translation adjustments’ under ‘Other comprehensive income’. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

The Group has determined that the cumulative translation adjustments will not be realized in the foreseeable future. Therefore, the Group does not recognize deferred tax liabilities on its cumulative translation adjustments.

Common Stock

Capital stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as ‘Additional paid-in capital’ in the consolidated statement of changes in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income (loss), dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

Other Comprehensive Income

Other comprehensive income comprises items of income and expenses (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs.

Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. Any consideration paid or received in connection with treasury shares are recognized directly in equity.

When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. When shares are sold, the treasury share account is credited and reduced by the weighted average cost of the shares sold. The excess of any consideration over the cost is credited to additional paid-in capital.

Transaction costs incurred such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties (net of any related income tax benefit) in relation to issuing or acquiring the treasury shares are accounted for as reduction from equity, which is disclosed separately.

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.

Dividends on Common Stocks

Dividends on common shares are recognized as a liability and deducted from equity when approved by BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

Earnings Per Share (EPS)

Basic EPS is computed by dividing consolidated net income attributable to equity holders of the Parent Company (consolidated net income less dividends on preferred shares) by the weighted average number of common stocks issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the consolidated net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6 to the consolidated financial statements.

Events after Reporting Date

Any post year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at reporting date (adjusting event) is reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

Standards Issued but not yet Effective

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

Effective 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 PFSSs 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, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

a. *Revenue recognition on sale of goods and services*

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (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 buyer; (c) determining method to estimate variable consideration and assessing the constraint; and (d) recognition of revenue as the Group satisfies the performance obligation.

i. *Existence of a contract*

The Group enters into a contract with customer through an approved purchase order which constitutes a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified. In the case of sales to key accounts and distributors, the combined approved purchase order and trading terms agreement/exclusive distributorship agreement constitute a valid contract. 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.

ii. 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.

Based on management assessment, other than the sale of goods and services, no other performance obligations were identified except in the case of milling revenue.

iii. Recognition of revenue as the Group satisfies the performance obligation

The Group recognizes its revenue for all revenue streams at a point in time, when the goods are sold and delivered and when services are already rendered.

iv. Recognition of milling revenue under output sharing agreement and cane purchase agreement

The Group applies both output sharing agreement and cane purchase agreement in relation to milling operation. Under output sharing agreement, milling revenue is recognized based on the fair value of the millshare at average raw sugar selling price on the month with sugar production after considering in-purchase, which represents cane purchase agreement. Under cane purchase agreement, the Group purchases raw sugar from the traders and/or planters. The in-purchase rate is derived by determining the total raw sugar purchases and the total planters' share. Raw production costs are allocated systematically based on the output sharing and cane purchase agreement rates.

b. Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

c. Determining whether it is reasonably certain that a renewal and termination option will be exercised - The Group as a lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to renew the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include renewal and termination options. The Group applies judgment in evaluating whether it is reasonably certain 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 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 terminate (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases, together with any periods covered by an option to renew the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group did not include the option to renew nor the option to terminate the lease in the lease term as the Group assessed that it is not reasonably certain that these options will be exercised.

d. Assessment of retention of control

The Group determined that it has retained control over UHC, following the sale of 40% of its ownership interest in UHC to Intersnack. The Group considered the impact of the terms and conditions of the shareholders' agreement and other related agreements, and assessed that it still has control over UHC. URC retained control because it still has:

- (i) power over UHC through URC's representation in UHC's BOD;
- (ii) exposure or rights to variable returns from its involvement with UHC; and
- (iii) the ability to use its power to direct UHC's decision-making over its operations (i.e., the ability to direct the relevant activities of UHC), in order to affect its returns from UHC.

e. Accounting for the purchase option

The Group issued a purchase option as part of its transaction to sell 40% of its ownership interest in UHC to Intersnack. Based on its assessment of the terms of the instrument reflected in the shareholders' agreement, the option should be accounted for as a derivative liability under PFRS 9, *Financial Instruments*. The Group considered the following:

- (i) The option holder has no present access to the returns associated with the shares subject to the call option; and
- (ii) The option will not be settled with the payment by the option holder of a fixed amount of cash because of certain contractual terms of the option.

Estimates

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

a. Assessment for ECL on trade receivables

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

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

The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate. Accordingly, the provision for ECL on trade receivables is sensitive to changes in assumptions about forecasted economic conditions.

The Group has assessed that the ECL on trade receivables is not material because substantial amount of receivables are normally collected within one year. The carrying amount of trade receivables is ₦13.6 billion and ₦12.1 billion as at December 31, 2019 and 2018, respectively (see Note 10).

b. Assessment for ECL on Other Financial Assets at Amortized Cost

The Group determines the allowance for ECL using general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets at amortized cost. ECL is provided for credit losses that result from possible default events within the next 12-months unless there has been a significant increase in credit risk since initial recognition in which case ECL is provided based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and,

- Actual or expected significant adverse changes in the operating results of the borrower.

The Group also considers financial assets that are more than 90 days past due to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018.

c. *Determination of fair values less estimated costs to sell of biological assets*

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

As of December 31, 2019 and 2018, the Group's biological assets carried at fair values less estimated costs to sell amounted to ₦1.0 billion and ₦1.1 billion, respectively (see Note 14). For the years ended December 31, 2019, 2018 and 2017, the Group recognized changes in the fair value less costs to sell of biological assets amounting to ₦70.2 million loss, ₦467.5 million loss and ₦118.8 million gain, respectively (see Note 14). Changes in fair value of biological assets are recognized in the consolidated statement of income.

d. *Impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value in use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.30% to 10.50% and 7.80% to 10.80% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value in use:

Growth rate estimates - growth rates include revenue growth and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

Discount rates - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

Value-in-use is most sensitive to changes in discount rate and growth rate.

As of December 31, 2019 and 2018, the balance of the Group's goodwill and intangible assets with indefinite useful lives, net of accumulated depreciation, amortization and impairment loss follow:

| | 2019 | 2018 |
|-----------------------------|-----------------|-----------------|
| Goodwill (Note 15) | ₱31,194,495,817 | ₱31,194,495,817 |
| Intangible assets (Note 15) | 11,673,128,525 | 11,730,260,354 |

e. *Assessment of impairment of nonfinancial assets*

The Group assesses the impairment of its nonfinancial assets (i.e., property, plant and equipment, right-of-use assets, investment properties, investment in joint venture and intangible assets with finite useful lives) 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:

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- 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.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

For the years ended December 31, 2019 and 2017, the Group did not recognize any impairment losses on its property, plant and equipment (see Note 13), right-of-use assets (see Note 36), investment properties (Note 17), goodwill and its other intangible assets (see Note 15). For the year ended December 31, 2018, the Group recognized impairment losses on its goodwill and property, plant and equipment amounting to ₧17.6 million and ₧1.7 million, respectively. No impairment was recognized for its right-of-use assets, investment properties and other intangibles.

As of December 31, 2019 and 2018, the balances of the Group's nonfinancial assets with finite useful lives, excluding biological assets, net of accumulated depreciation, amortization and impairment losses follow:

| | 2019 | 2018 |
|---|-----------------|-----------------|
| Property, plant and equipment (Note 13) | ₱54,626,409,715 | ₱51,950,316,266 |
| Right-of-use assets (Note 36) | 3,613,579,513 | — |
| Intangible assets (Note 15) | 1,885,191,854 | 1,942,323,683 |
| Investment in joint ventures (Note 16) | 421,625,100 | 520,917,509 |
| Investment properties (Note 17) | 33,173,512 | 36,384,879 |

f. *Determination of the fair value of intangible assets and property, plant and equipment acquired in a business combination*

The Group measures the identifiable assets and liabilities acquired in a business combination at fair value at the date of acquisition.

The fair value of the intangible assets acquired in a business combination is determined based on the net sales forecast attributable to the intangible assets, growth rate estimates and royalty rates using comparable license agreements. Royalty rates are based on the estimated arm's length royalty rate that would be paid for the use of the intangible assets. Growth rate estimate includes long-term growth rate and terminal growth rate applied to future cash flows beyond the projection period.

The fair value of property, plant and equipment acquired in a business combination is determined based on comparable properties after adjustments for various factors such as location, size and shape of the property. Cost information and current prices of comparable equipment are also utilized to determine the fair value of equipment.

g. *Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (see Note 31). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

As of December 31, 2019 and 2018, the balance of the Group's present value of defined benefit obligations and other benefits is shown in Note 31 to the consolidated financial statements.

h. Recognition of deferred income tax assets

The Group reviews the carrying amounts of its deferred income taxes at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of the deferred tax assets to be utilized.

As of December 31, 2019 and 2018, the Group recognized net deferred tax assets amounting to ₱620.2 million and ₱195.5 million, respectively (see Note 32), as the Group believes sufficient taxable income will allow these deferred tax assets to be utilized.

Net deferred tax liabilities amounted to ₱3.9 billion and ₱4.2 billion as of December 31, 2019 and 2018, respectively (see Note 32).

As of December 31, 2019 and 2018, the Group has certain subsidiaries which are under ITH. As such, no deferred tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period (see Note 35).

The recognized and unrecognized deferred tax assets for the Group are disclosed in Note 32.

i. Valuation of ROU assets and lease liabilities

The application of PFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include determining the lease term and determining the interest rate to be used for discounting future cash flows.

Lease term. The lease term determined by the Group comprises non-cancellable period of lease contracts, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. For lease contracts with indefinite term, the Group estimates the length of the contract to be equal to the economic useful life of noncurrent assets located in the leased property and physically connected with it or determines the length of the contract to be equal to the

average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of ROU assets.

Discount rate. The Company cannot readily determine the interest rate implicit in the lease, therefore it uses its IBR to measure lease liabilities. The IBR is determined using the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

g. *Determination of fair values of assets acquired and liabilities assumed in a business combination*

The net assets acquired and liabilities assumed in the acquisition of Yarra Valley are measured at their acquisition-date fair values. These were determined through a purchase price allocation for which the Group will engage the services of a third-party valuer. This valuation has not yet been finalized as of reporting date, and provisional amounts were used to account for the acquisition. See Note 2 for the accounting policy on provisional accounting.

As of December 31, 2019, the fair value of net assets acquired and liabilities assumed as part of the acquisition of Yarra Valley amounting to ₦513.8 million. No provisional goodwill has been recognized as the Group has to finalize the information with respect to the fair values of identifiable assets and liabilities arising from the business combination. See Note 22 for details on this acquisition. Any changes in these acquisition-date fair values that are known within the measurement period will be recorded retrospectively, in accordance with PFRSs.

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivative financial instruments, comprise cash and cash equivalents, financial assets at FVTPL, financial assets at FVOCI/AFS financial assets, and interest-bearing loans and other borrowings. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as trade receivables and payables which arise directly from its operations. One of the Group's subsidiaries is a counterparty to derivative contracts. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures.

The BOD of the Parent Company and its subsidiaries review and approve policies for managing each of these risks and they are summarized below, together with the related risk management structure.

Risk Management Structure

The Group's risk management structure is closely aligned with that of the Ultimate Parent Company. The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

The BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

AC

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and both the internal and external audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and auditing standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal and external auditors are done based on plan and deviations are explained through the performance of direct interface functions with the internal and external auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

Enterprise Risk Management Group (ERMG)

The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

- a. recommending risk policies, strategies, principles, framework and limits;
- b. managing fundamental risk issues and monitoring of relevant risk decisions;
- c. providing support to management in implementing the risk policies and strategies; and
- d. developing a risk awareness program.

Corporate Governance Compliance Officer

Compliance with the principles of good corporate governance is also one of the primary objectives of the BOD. To assist the BOD in achieving this purpose, the BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance with the provisions and requirements of the Corporate Governance Manual and other requirements on good corporate governance, identifying and monitoring control compliance risks, determining violations and recommending penalties on such infringements for further review and approval of the BOD, among others.

Day-to-day risk management functions

At the business unit or company level, the day-to-day risk management functions are handled by four (4) different groups, namely:

- a. Risk-taking personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
- b. Risk control and compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
- c. Support. This group includes back office personnel who support the line personnel.
- d. Risk management. This group pertains to the business unit's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

Enterprise Resource Management (ERM) Framework

The Parent Company's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Parent Company. The Parent Company's BOD also shares the responsibility with the ERMG in promoting the risk awareness program enterprise-wide.

The ERM framework revolves around the following eight interrelated risk management approaches:

- a. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
- b. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
- c. Event Identification. It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
- d. Risk Assessment. The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
- e. Risk Response. The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.

- f. Control Activities. Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
- g. Information and Communication. Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
- h. Monitoring. The ERMG, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

Risk management support groups

The Group's BOD created the following departments within the Group to support the risk management activities of the Parent Company and the other business units:

- a. Corporate Security and Safety Board (CSSB). Under the supervision of ERMG, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
- b. Corporate Supplier Accreditation Team (CORPSAT). Under the supervision of ERMG, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
- c. Corporate Management Services (CMS). The CMS is responsible for the formulation of enterprise-wide policies and procedures.
- d. Corporate Planning (CORPLAN). The CORPLAN is responsible for the administration of strategic planning, budgeting and performance review processes of business units.
- e. Corporate Insurance Department (CID). The CID is responsible for the administration of the insurance program of business units concerning property, public liability, business interruption, money and fidelity, and employer compensation insurances, as well as, in the procurement of performance bonds.

Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks such as foreign currency risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Credit Management Division (CMD) of the Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVTPL, financial assets at FVOCI/AFS financial assets and certain derivative financial instruments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

a. Credit risk exposure

With respect to credit risk arising from financial assets of the Group, which comprise cash and cash equivalents, receivables, financial assets at FVTPL and financial assets at FVOC, the Group's maximum exposure to credit risk is equal to its carrying amount as of December 31, 2019 and 2018, except for the Group's trade receivables as of December 31, 2019 and 2018 with carrying value of ₦13.6 billion and ₦12.1 billion, respectively, and collateral with fair value amounting to ₦2.9 billion and ₦2.8 billion as of December 31, 2019 and 2018, respectively, resulting to net exposure of ₦10.7 billion and ₦9.3 billion, respectively.

The collateral securities related to the Group's trade receivables consist of standby letters of credit. The Group holds no other collateral or guarantee that would reduce the maximum exposure to credit risk.

b. Risk concentrations of the maximum exposure to credit risk

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

In order to avoid excessive concentrations of risk, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2019 and 2018 before taking into account any collateral held or other credit enhancements are categorized by geographic location follows:

| | 2019 | | | | | | |
|--|-----------------|-----------------|----------------|----------------|---------------|-------------|-----------------|
| | Philippines | Asia | New Zealand | Australia | United States | Others | Total |
| Amortized cost: | | | | | | | |
| Cash and cash equivalents* (Note 7) | ₱4,855,565,370 | ₱13,679,076,047 | ₱964,614,414 | ₱918,069,813 | ₱- | ₱- | ₱20,417,325,644 |
| Receivables (Note 10): | | | | | | | |
| Trade receivables | 7,976,316,071 | 2,697,022,456 | 797,891,165 | 2,046,033,051 | 14,326,882 | 57,252,232 | 13,588,841,857 |
| Due from related parties | 893,959,761 | 98,963,264 | - | - | - | - | 992,923,025 |
| Advances to officers and employees | 128,606,887 | 9,345,770 | - | - | - | - | 137,952,657 |
| Interest receivable | 16,187,764 | 29,991,003 | - | - | - | - | 46,178,767 |
| Non-trade and other receivables | 1,092,220,854 | 66,929,330 | 15,920,630 | 57,990,804 | - | - | 1,233,061,618 |
| Total financial assets at amortized cost | 14,962,856,707 | 16,581,327,870 | 1,778,426,209 | 3,022,093,668 | 14,326,882 | 57,252,232 | 36,416,283,568 |
| Financial assets at FVTPL: | | | | | | | |
| Equity securities (Note 8) | 414,899,618 | - | - | - | - | - | 414,899,618 |
| Financial assets at FVOCI: | | | | | | | |
| Equity securities (Note 17) | 76,290,000 | - | - | - | - | - | 76,290,000 |
| | ₱15,454,046,325 | ₱16,581,327,870 | ₱1,778,426,209 | ₱3,022,093,668 | ₱14,326,882 | ₱57,252,232 | ₱36,907,473,186 |

* Excludes cash on hand

| | 2018 | | | | | | |
|--|-----------------|----------------|----------------|----------------|---------------|-------------|-----------------|
| | Philippines | Asia | New Zealand | Australia | United States | Others | Total |
| Amortized cost: | | | | | | | |
| Cash and cash equivalents* (Note 7) | ₱6,778,173,501 | ₱3,485,633,654 | ₱1,518,874,359 | ₱1,164,705,153 | ₱- | ₱- | ₱12,947,386,667 |
| Receivables (Note 10): | | | | | | | |
| Trade receivables | 4,092,400,288 | 4,919,980,265 | 1,110,640,137 | 1,900,543,956 | 20,255,518 | 40,568,500 | 12,084,388,664 |
| Due from related parties | 716,143,819 | 129,657,810 | - | - | - | - | 845,801,629 |
| Advances to officers and employees | 130,111,597 | 15,033,683 | - | - | - | - | 145,145,280 |
| Interest receivable | 9,690,349 | - | - | - | - | - | 9,690,349 |
| Non-trade and other receivables | 1,097,107,751 | 205,845,576 | 17,344,722 | - | - | - | 1,320,298,049 |
| Total financial assets at amortized cost | 12,823,627,305 | 8,756,150,988 | 2,646,859,218 | 3,065,249,109 | 20,255,518 | 40,568,500 | 27,352,710,638 |
| Financial assets at FVTPL: | | | | | | | |
| Equity securities (Note 8) | 420,153,416 | - | - | - | - | - | 420,153,416 |
| Derivative assets designated as accounting hedge (Note 12) | - | - | 6,389,048 | - | - | - | 6,389,048 |
| Financial assets at FVOCI: | | | | | | | |
| Equity securities (Note 17) | 50,300,000 | - | - | - | - | - | 50,300,000 |
| | ₱13,294,080,721 | ₱8,756,150,988 | ₱2,653,248,266 | ₱3,065,249,109 | ₱20,255,518 | ₱40,568,500 | ₱27,829,553,102 |

* Excludes cash on hand

ii. Concentration by industry

The tables below show the industry sector analysis of the Group's financial assets as of December 31, 2019 and 2018 before taking into account any collateral held or other credit enhancements.

| | 2019 | | | | | |
|--|-----------------|--------------------------|----------------|--------------------|----------------|-----------------|
| | Manufacturing | Financial Intermediaries | Petrochemicals | Tele-Communication | Others* | Total |
| Amortized cost: | | | | | | |
| Cash and cash equivalents** (Note 7) | ₱— | ₱20,417,325,644 | ₱— | ₱— | ₱— | ₱20,417,325,644 |
| Receivables (Note 10): | | | | | | |
| Trade receivables | 13,040,437,910 | — | 6,631,851 | — | 541,772,096 | 13,588,841,857 |
| Due from related parties | 108,163,925 | 33,539,220 | — | — | 851,219,880 | 992,923,025 |
| Advances to officers and employees | 114,038,433 | — | — | — | 23,914,224 | 137,952,657 |
| Interest receivable | — | 46,178,767 | — | — | — | 46,178,767 |
| Non-trade and other receivables | 898,069,310 | 41,685,016 | 58,003,442 | 6,249,876 | 229,053,974 | 1,233,061,618 |
| Total financial assets at amortized cost | 14,160,709,578 | 20,538,728,647 | 64,635,293 | 6,249,876 | 1,645,960,174 | 36,416,283,568 |
| Financial assets at FVTPL: | | | | | | |
| Equity securities (Note 8) | — | — | — | — | 414,899,618 | 414,899,618 |
| Financial assets at FVOCI: | | | | | | |
| Equity securities (Note 17) | — | — | — | — | 76,290,000 | 76,290,000 |
| | ₱14,160,709,578 | ₱20,538,728,647 | ₱64,635,293 | ₱6,249,876 | ₱2,137,149,792 | ₱36,907,473,186 |

*Includes real estate, agriculture, automotive, mining and electrical industries.

**Excludes cash on hand

| | 2018 | | | | | |
|--|-----------------|--------------------------|----------------|--------------------|----------------|-----------------|
| | Manufacturing | Financial Intermediaries | Petrochemicals | Tele-Communication | Others* | Total |
| Amortized cost: | | | | | | |
| Cash and cash equivalents** (Note 7) | ₱— | ₱12,947,386,667 | ₱— | ₱— | ₱— | ₱12,947,386,667 |
| Receivables (Note 10): | | | | | | |
| Trade receivables | 11,791,998,739 | — | 316,057 | — | 292,073,868 | 12,084,388,664 |
| Due from related parties | 44,910,646 | 28,646,754 | — | — | 772,244,229 | 845,801,629 |
| Advances to officers and employees | 125,797,555 | — | — | — | 19,347,725 | 145,145,280 |
| Interest receivable | — | 9,690,349 | — | — | — | 9,690,349 |
| Non-trade and other receivables | 1,068,474,296 | 21,576,156 | 7,884,799 | 19,046,448 | 203,316,350 | 1,320,298,049 |
| Total financial assets at amortized cost | 13,031,181,236 | 13,007,299,926 | 8,200,856 | 19,046,448 | 1,286,982,172 | 27,352,710,638 |
| Financial assets at FVTPL: | | | | | | |
| Equity securities (Note 8) | — | — | — | — | 420,153,416 | 420,153,416 |
| Derivative assets designated as accounting hedge (Note 12) | 6,389,048 | — | — | — | — | 6,389,048 |
| Financial assets at FVOCI: | | | | | | |
| Equity securities (Note 17) | — | — | — | — | 50,300,000 | 50,300,000 |
| | ₱13,037,570,284 | ₱13,007,299,926 | ₱8,200,856 | ₱19,046,448 | ₱1,757,435,588 | ₱27,829,553,102 |

*Includes real estate, agriculture, automotive, mining and electrical industries.

**Excludes cash on hand

iii. Credit quality per class of financial assets

The tables below show the credit quality by class of financial assets as of December 31, 2019 and 2018, gross of allowance for credit losses:

| | 2019 | | | | |
|--|-------------------------------|----------------|-------------------|-----------------------------------|-----------------|
| | Neither Past Due Nor Impaired | | | Past Due or Individually Impaired | Total |
| | High Grade | Standard Grade | Substandard Grade | | |
| Amortized cost: | | | | | |
| Cash and cash equivalents* (Note 7) | ₱20,417,325,644 | ₱- | ₱- | ₱- | ₱20,417,325,644 |
| Receivables (Note 10): | | | | | |
| Trade receivables | 11,921,969,017 | — | — | 1,806,951,997 | 13,728,921,014 |
| Due from related parties | 992,923,025 | — | — | — | 992,923,025 |
| Advances to officers and employees | 18,752,307 | 95,955,364 | — | 42,891,668 | 157,599,339 |
| Interest receivable | 45,288,161 | — | — | 890,606 | 46,178,767 |
| Non-trade and other receivables | 495,422,939 | 327,096,227 | — | 599,866,146 | 1,422,385,312 |
| Total financial assets at amortized cost | 33,891,681,093 | 423,051,591 | — | 2,450,600,417 | 36,765,333,101 |
| Financial assets at FVTPL (Note 8): | | | | | |
| Equity securities | 414,899,618 | — | — | — | 414,899,618 |
| Financial assets at FVOCI: | | | | | |
| Equity securities (Note 17) | 76,290,000 | — | — | — | 76,290,000 |
| | ₱34,382,870,711 | ₱423,051,591 | ₱- | ₱2,450,600,417 | ₱37,256,522,719 |

*Excludes cash on hand

| | 2018 | | | | |
|--|-------------------------------|----------------|-------------------|-----------------------------------|-----------------|
| | Neither Past Due Nor Impaired | | | Past Due or Individually Impaired | Total |
| | High Grade | Standard Grade | Substandard Grade | | |
| Amortized cost: | | | | | |
| Cash and cash equivalents* (Note 7) | ₱12,947,386,667 | ₱- | ₱- | ₱- | ₱12,947,386,667 |
| Receivables (Note 10): | | | | | |
| Trade receivables | 9,501,989,205 | — | — | 2,728,573,462 | 12,230,562,667 |
| Due from related parties | 845,801,629 | — | — | — | 845,801,629 |
| Advances to officers and employees | 12,472,463 | 36,386,918 | 7,194,732 | 108,737,849 | 164,791,962 |
| Interest receivable | 9,541,911 | — | — | 148,438 | 9,690,349 |
| Non-trade and other receivables | 737,541,761 | 303,517,633 | — | 468,562,349 | 1,509,621,743 |
| Total financial assets at amortized cost | 24,054,733,636 | 339,904,551 | 7,194,732 | 3,306,022,098 | 27,707,855,017 |
| Financial assets at FVTPL (Note 8): | | | | | |
| Equity securities | 420,153,416 | — | — | — | 420,153,416 |
| Derivative assets designated as accounting hedge (Note 12) | 6,389,048 | — | — | — | 6,389,048 |
| Financial assets at FVOCI: | | | | | |
| Equity securities (Note 17) | 50,300,000 | — | — | — | 50,300,000 |
| | ₱24,531,576,100 | ₱339,904,551 | ₱7,194,732 | ₱3,306,022,098 | ₱28,184,697,481 |

*Excludes cash on hand

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top ten (10) banks, including an affiliated bank, in the Philippines in terms of resources and profitability.

Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

iv. Credit risk under general approach and simplified approach

| | 2019 | | | |
|--|------------------------|---------------------|---------------------|------------------------|
| | General Approach | | | Simplified Approach |
| | Stage 1 | Stage 2 | Stage 3 | |
| Amortized cost: | | | | |
| Cash and cash equivalents* (Note 7) | ₱20,417,325,644 | ₱- | ₱- | ₱- |
| Receivables (Note 10): | | | | |
| Trade receivables | — | — | — | 13,728,921,014 |
| Due from related parties | 992,923,025 | — | — | — |
| Advances to officers and employees | 137,952,657 | — | 19,646,682 | — |
| Interest receivable | 46,178,767 | — | — | — |
| Non-trade and other receivables | 822,519,166 | 410,542,452 | 189,323,694 | — |
| Total financial assets at amortized cost | 22,416,899,259 | 410,542,452 | 208,970,376 | 13,728,921,014 |
| Financial assets at FVTPL (Note 8): | | | | |
| Equity securities | 414,899,618 | — | — | — |
| Financial assets at FVOCI: | | | | |
| Equity securities (Note 17) | 76,290,000 | — | — | — |
| | ₱22,908,088,877 | ₱410,542,452 | ₱208,970,376 | ₱13,728,921,014 |

*Excludes cash on hand

| | 2018 | | | |
|--|------------------|--------------|--------------|---------------------|
| | General Approach | | | |
| | Stage 1 | Stage 2 | Stage 3 | Simplified Approach |
| Amortized cost: | | | | |
| Cash and cash equivalents* (Note 7) | ₱12,947,386,667 | ₱- | ₱- | ₱- |
| Receivables (Note 10): | | | | |
| Trade receivables | – | – | – | 12,230,562,667 |
| Due from related parties | 845,801,629 | – | – | 0 |
| Advances to officers and employees | 145,145,280 | – | 19,646,682 | – |
| Interest receivable | 9,690,349 | – | – | – |
| Non-trade and other receivables | 1,041,059,394 | 279,238,655 | 189,323,694 | – |
| Total financial assets at amortized cost | 14,989,083,319 | 279,238,655 | 208,970,376 | 12,230,562,667 |
| Financial assets at FVTPL (Note 8): | | | | |
| Equity securities | 420,153,416 | – | – | – |
| Derivative assets designated as accounting hedge (Note 12) | 6,389,048 | – | – | – |
| Financial assets at FVOCI: | | | | |
| Equity securities (Note 17) | 50,300,000 | – | – | – |
| | ₱15,465,925,783 | ₱279,238,655 | ₱208,970,376 | ₱12,230,562,667 |

*Excludes cash on hand

v. Aging analysis

An aging analysis of the Group's past due or individually impaired receivables as of December 31, 2019 and 2018 are as follows:

| | 2019 | | | | |
|------------------------------------|---------------------------|---------------|---------------|--------------|-----------------------------|
| | Past Due But Not Impaired | | | | Impaired Financial Assets |
| | Less than 30 Days | 30 to 60 Days | 60 to 90 Days | Over 90 Days | Total |
| Trade receivables | ₱1,367,303,271 | ₱174,080,784 | ₱10,999,967 | ₱114,488,818 | ₱140,079,157 ₱1,806,951,997 |
| Advances to officers and employees | 1,855,835 | 2,216,849 | 1,545,750 | 17,626,552 | 19,646,682 42,891,668 |
| Nontrade and other receivables | 43,354,114 | 38,265,148 | 78,479,509 | 251,334,287 | 189,323,694 600,756,752 |
| Balances at end of year | ₱1,412,513,220 | ₱214,562,781 | ₱91,025,226 | ₱383,449,657 | ₱349,049,533 ₱2,450,600,417 |

| | 2018 | | | | |
|------------------------------------|---------------------------|---------------|---------------|--------------|-----------------------------|
| | Past Due But Not Impaired | | | | Impaired Financial Assets |
| | Less than 30 Days | 30 to 60 Days | 60 to 90 Days | Over 90 Days | Total |
| Trade receivables | ₱1,696,079,869 | ₱204,326,180 | ₱116,597,861 | ₱565,395,549 | ₱146,174,003 ₱2,728,573,462 |
| Advances to officers and employees | 3,788,295 | 130,182 | 1,659,548 | 83,513,142 | 19,646,682 108,737,849 |
| Nontrade and other receivables | 231,517,066 | 6,950,793 | 2,038,714 | 38,880,520 | 189,323,694 468,710,787 |
| Balances at end of year | ₱1,931,385,230 | ₱211,407,155 | ₱120,296,123 | ₱687,789,211 | ₱355,144,379 ₱3,306,022,098 |

Liquidity risk

Liquidity risk is the risk of not being able to meet funding obligation such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. It also maintains a portfolio of highly marketable and diverse financial assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

Maturity Profile of Financial Liabilities

The tables below summarize the maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on the remaining undiscounted contractual cash flows.

| | 2019 | | | | | Total |
|---|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | On Demand | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | More than 5 years | |
| Financial liabilities at amortized cost: | | | | | | |
| Accounts payable and other accrued liabilities: | | | | | | |
| Trade payable and accrued expenses** | ₱8,558,494,035 | ₱11,915,441,559 | ₱379,746,923 | ₱- | ₱- | ₱20,853,682,517 |
| Due to related parties | 151,785,243 | – | – | – | – | 151,785,243 |
| Short-term debts* | – | 3,851,473,421 | – | – | – | 3,851,473,421 |
| Trust receipts payable* | – | 8,763,964,585 | – | – | – | 8,763,964,585 |
| Long-term debts* | – | 161,689,285 | 320,708,563 | 32,032,677,804 | – | 32,515,075,652 |
| Lease liabilities | – | 209,511,617 | 519,363,605 | 2,195,913,016 | 2,718,442,085 | 5,643,230,323 |
| | ₱8,710,279,278 | ₱24,902,080,467 | ₱1,219,819,091 | ₱34,228,590,820 | ₱2,718,442,085 | ₱71,779,211,741 |

*Includes future interest

**Excludes statutory liabilities

| | 2018 | | | | | Total |
|---|-----------------------|------------------------|-----------------------|------------------------|------------------------|--------------------|
| | On Demand | 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | | |
| Financial liabilities at amortized cost: | | | | | | |
| Accounts payable and other accrued liabilities: | | | | | | |
| Trade payable and accrued expenses** | ₱7,555,767,195 | ₱14,483,455,869 | ₱389,153,647 | ₱- | ₱22,428,376,711 | |
| Due to related parties | 164,624,582 | – | – | – | – | 164,624,582 |
| Short-term debts* | – | 2,464,651,336 | – | – | – | 2,464,651,336 |
| Trust receipts payable* | – | 6,038,711,014 | – | – | – | 6,038,711,014 |
| Long-term debts* | – | 261,685,556 | 785,056,667 | 34,675,088,951 | 35,721,831,174 | |
| | ₱7,720,391,777 | ₱23,248,503,775 | ₱1,174,210,314 | ₱34,675,088,951 | ₱66,818,194,817 | |

*Includes future interest

**Excludes statutory liabilities

Market risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. For the years ended December 31, 2019, 2018 and 2017, approximately 31.4%, 33.8%, and 34.3% of the Group's total sales, respectively, are denominated in currencies other than the functional currency. In addition, 4.4% and 3.0% of the Group's debt is denominated in US Dollars as of December 31, 2019 and 2018, respectively.

The Group estimates a reasonably possible change of +5.00 in the US Dollar to Philippine Peso exchange rate would have an impact of approximately ₱27.5 million and ₱81.4million on income before income tax for the years ended December 31, 2019 and 2018, respectively. An equal change in the opposite direction would have decreased income before income tax by the same amount.

The impact of the range of reasonably possible changes in the exchange rates of the other currencies against the Philippine Peso on the Group's income before income tax as of December 31, 2019 and 2018 are deemed immaterial.

The exchange rates used to restate the US dollar-denominated financial assets and liabilities were ₱50.64 to US\$1.00 and ₱52.58 to US\$1.00 as of December 31, 2019 and 2018, respectively.

Equity price risk

Equity price risk is the risk that the fair values of equities will change as a result of changes in the levels of equity indices and the value of individual stocks.

The table below shows the effect on equity as a result of a change in the fair value of equity instruments held as financial assets at FVTPL investments due to reasonably possible changes in equity indices:

| | 2019 | 2018 |
|---|--------------------|----------------------|
| Changes in PSEi | 14.49% | (14.49%) |
| Change in trading gain (loss) at equity portfolio | ₱57,113,121 | (₱57,113,121) |
| | (103.71%) | 103.71% |
| | (59.81%) | 59.81% |

The Group's investment in golf shares designated as financial assets at FVOCI are susceptible to market price risk arising from uncertainties about future values of the investment security. The Group's estimates an increase of 1.00% would have an impact of approximately ₱0.8 million and ₱0.5 million on equity for the year ended December 31, 2019 and 2018, respectively. An equal change in the opposite direction would have decreased equity by the same amount.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the subsidiaries' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

The following tables show information about the Group's financial instruments that are exposed to interest rate risk and presented by maturity profile:

| | 2019 | | | | | | Debt Issuance | | | Carrying Value (in Philippine Peso) |
|----------------------------------|---------------|-----------------|---------------|-----------------|-------------|-------|----------------------------------|-------------------------|------------------------|---|
| | <1 year | >1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | Total | Total (in Philippine Peso) | (in Philippine Peso) | | |
| Liabilities: | | | | | | | | | | |
| Foreign currencies: | | | | | | | | | | |
| <i>Floating rate</i> | | | | | | | | | | |
| Australian Dollar loan | AU\$8,987,286 | AU\$490,891,198 | | AU\$– | | AU\$– | AU\$499,878,484 | ₱17,200,057,755 | ₱110,736,987 | ₱17,089,320,768 |
| Interest rate: BBSY Bid+1.25% | | | | | | | | | | |
| New Zealand Dollar loans | NZ\$9,505,456 | NZ\$9,557,683 | NZ\$9,531,569 | NZ\$404,453,228 | | NZ\$– | NZ\$433,047,936 | 13,462,223,310 | 165,466,470 | 13,296,756,840 |
| Interest rate: NZ BKBM+1.10% | | | | | | | | | | |
| | | | | | | | ₱30,662,281,065 | ₱276,203,457 | ₱30,386,077,608 | |

| | 2018 | | | | | | Total (in Philippine Peso) | Issuance Costs (in Philippine Peso) | Debt Carrying Value (in Philippine Peso) |
|--------------------------|----------------|----------------|-----------------|----------------|-----------------|-----------------|----------------------------------|---|---|
| | <1 year | >1-<2 years | >2-<3 years | >3-<4 years | >4-<5 years | Total | | | |
| Liabilities: | | | | | | | | | |
| Foreign currencies: | | | | | | | | | |
| Floating rate | | | | | | | | | |
| Australian Dollar loan | AU\$13,625,723 | AU\$13,700,180 | AU\$494,387,449 | | AU\$- | AU\$- | AU\$521,713,352 | ₱17,922,355,336 | ₱179,697,514 ₱17,742,657,822 |
| Interest rate: | | | | | | | | | |
| BBSY Bid+1.25% | | | | | | | | | |
| New Zealand Dollar loans | NZ\$12,753,563 | NZ\$12,580,750 | NZ\$12,649,875 | NZ\$12,615,313 | NZ\$407,511,625 | NZ\$458,111,126 | 13,924,974,927 | 210,508,867 | 13,714,466,060 |
| Interest rate: | | | | | | | | | |
| NZ BKBM+1.10% | | | | | | | | | |
| | | | | | | | ₱31,847,330,263 | ₱390,206,381 | ₱31,457,123,882 |

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the long-term debts. With all other variables held constant, the Group's income before tax is affected through the impact on floating rate borrowings, as follows:

| | Change in basis points | Effect on income before tax |
|------|------------------------|--------------------------------|
| 2019 | +100 | (₱299,653,411) |
| | -100 | 299,653,411 |
| 2018 | +100 | (₱320,970,394) |
| | -100 | 320,970,394 |

5. Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each asset and liability for which it is practicable to estimate such value:

Cash and cash equivalents, receivables (except amounts due from and due to related parties), accounts payable and other accrued liabilities, short-term debts and trust receipts payable.

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

Amounts due from and due to related parties

Carrying amounts of due from and due to related parties which are payable and due on demand approximate their fair values.

Financial assets at FVTPL, derivatives and financial assets at FVOCI

Fair values of quoted equity securities are based on quoted prices published in markets.

Biological assets

Biological assets are measured at their fair values less costs to sell. The fair values of Level 2 biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit while Level 3 are determined based on adjusted commercial farmgate prices. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

The Group has determined that the highest and best use of the sucklings and weanlings is finishers while for other biological assets is their current use.

Investment properties

Fair value of investment properties is based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers in 2017, including independent external appraisers, on the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.

Long-term debts

The fair value of long-term debts are based on the discounted value of future cash flows (interests and principal) using market rates plus a certain spread.

Fair Value Measurement Hierarchy for Assets and Liabilities

| | December 31, 2019 | | | | |
|--|-------------------|--------------|-------------|-----------------|------------------|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair value |
| Assets measured at fair value | | | | | |
| Financial assets | | | | | |
| Financial assets at FVTPL (Note 8): | | | | | |
| Quoted equity securities | ₱414,899,618 | ₱414,899,618 | | ₱- | ₱414,899,618 |
| Financial assets at FVOCI | | | | | |
| Quoted equity securities (Note 17) | 76,290,000 | — | 76,290,000 | — | 76,290,000 |
| Deposits (Note 17) | 612,546,621 | — | — | 612,546,621 | 612,546,621 |
| | ₱1,103,736,239 | ₱414,899,618 | ₱76,290,000 | ₱612,546,621 | ₱1,103,736,239 |
| Non-financial assets | | | | | |
| Biological assets (Note 14) | ₱957,563,597 | ₱- | ₱59,841,764 | ₱897,721,833 | ₱957,563,597 |
| Assets for which fair values are disclosed | | | | | |
| Investment properties (Note 17) | ₱33,173,512 | ₱- | ₱- | ₱324,572,000 | ₱324,572,000 |
| Liabilities for which fair values are disclosed | | | | | |
| Long-term debts (Note 20) | ₱30,386,077,608 | ₱- | ₱- | ₱30,556,330,251 | ₱30,556,330,251 |

| | December 31, 2018 | | | | |
|--|-------------------|--------------|--------------|-----------------|------------------|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair value |
| Assets measured at fair value | | | | | |
| Financial assets | | | | | |
| Financial assets at FVTPL (Note 8): | | | | | |
| Quoted equity securities | ₱420,153,416 | ₱420,153,416 | | ₱- | ₱420,153,416 |
| Derivative assets designated as accounting hedge (Note 12) | 6,389,048 | 6,389,048 | — | — | 6,389,048 |
| Financial assets at FVOCI | | | | | |
| Quoted equity securities (Note 17) | 50,300,000 | — | 50,300,000 | — | 50,300,000 |
| Deposits (Note 17) | 766,539,097 | — | — | 766,539,097 | 766,539,097 |
| | ₱1,243,381,561 | ₱426,542,464 | ₱50,300,000 | ₱766,539,097 | ₱1,243,381,561 |
| Non-financial assets | | | | | |
| Biological assets (Note 14) | ₱1,107,904,051 | ₱- | ₱137,522,046 | ₱970,382,005 | ₱1,107,904,051 |
| Assets for which fair values are disclosed | | | | | |
| Investment properties (Note 17) | ₱36,384,879 | ₱- | ₱- | ₱324,572,000 | ₱324,572,000 |
| Liabilities for which fair values are disclosed | | | | | |
| Long-term debts (Note 20) | ₱31,457,123,882 | ₱- | ₱- | ₱31,585,901,825 | ₱31,585,901,825 |

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. Non-financial assets determined under Level 3 include investment properties and biological assets. No transfers between any level of the fair value hierarchy took place in the equivalent comparative period.

Descriptions of significant unobservable inputs to valuation of biological assets and investment properties under Level 3 of the fair value category follow:

| Account | Valuation Technique | Significant Unobservable Inputs |
|-----------------------|---|---|
| Biological assets | Adjusted commercial farmgate prices | Commercial farmgate prices |
| Investment properties | Market data approach and Cost approach | Price per square meter, size, shape, location, time element, replacement cost and depreciation for improvements |

Significant increases (decreases) in reasonable profit margin applied would result in a significantly higher (lower) fair value of the biological assets.

Significant unobservable inputs

| | |
|-------------------------------------|---|
| Size | Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value. |
| Shape | Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property. |
| Location | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road. |
| Time element | An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data. |
| Replacement cost | Estimated amount of money needed to replace in like kind and in new condition an asset or group of assets, taking into consideration current prices of materials, labor, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition and installation in place without provision for overtime or bonuses for labor, and premiums for materials. |
| Depreciation | Depreciation as evidenced by the observed condition in comparison with new units of like kind tempered by consideration given to extent, character, and utility of the property which is to be continued in its present use as part of a going concern but without specific relations to earnings. |
| Adjusted commercial farmgate prices | Fair value based on commercial farmgate prices, adjusted by considering the age, breed and genetic merit |

6. Business Segment Information

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has four (4) reportable operating segments as follows:

- The branded consumer food products segment manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, instant noodles and pasta. This segment also includes the packaging division, which manufactures BOPP films primarily used in packaging; and its subsidiary, which manufactures flexible packaging materials for the packaging requirements of various branded food products. Its revenues are in their peak during the opening of classes in June and Christmas season.
- The agro-industrial products segment engages in hog and poultry farming, manufacturing and distribution of animal feeds, glucose and soya products, and production and distribution of animal health products. Its peak season is during summer and before Christmas season.
- The commodity food products segment engages in sugar milling and refining, and flour milling and pasta manufacturing and renewable energy. The peak season for sugar is during its crop season, which normally starts in November and ends in April while flour and pasta's peak season is before and during the Christmas season.
- The corporate business segment engages in bonds and securities investment and fund sourcing activities.

No operating segments have been aggregated to form the above reportable operating business segments.

Management monitors the operating results of business segments separately for the purpose of making decisions about resource allocation and performance assessment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance costs and revenues), market valuation gain and loss, foreign exchange gains or losses, other revenues and expenses and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following tables present the financial information of each of the operating segments in accordance with PFRSs except for Earnings before interest, income taxes and depreciation/amortization (EBITDA) and Earnings before interest and income taxes (EBIT) as of and for the years ended December 31, 2019, 2018 and 2017.

The Group's business segment information follows (amounts in thousands):

| | As of and for the year ended December 31, 2019 | | | | |
|---|--|--------------------|--------------------|-----------------------|----------------------|
| | Branded Consumer Food | Agro-Industrial | Commodity Food | Corporate Business | Total |
| Sale of Goods and Services | | | | | |
| Third party | ₱105,886,280 | ₱13,138,215 | ₱15,150,033 | ₱- | ₱134,174,528 |
| Inter-segment | 19,469,025 | 12,000 | 7,976,445 | - | (27,457,470) |
| | ₱125,355,305 | ₱13,150,215 | ₱23,126,478 | ₱- | (₱27,457,470) |
| | | | | | ₱134,174,528 |
| Result | | | | | |
| Earnings before interest, income taxes and depreciation/amortization (EBITDA) | ₱17,562,549 | ₱1,309,580 | ₱5,074,282 | (₱1,624,396) | ₱- |
| | (5,539,825) | (422,106) | (1,100,122) | (248,004) | - |
| Depreciation and amortization (Note 27) | | | | | (7,310,057) |
| Earnings before interest and income tax (EBIT) | ₱12,022,724 | ₱887,474 | ₱3,974,160 | (₱1,872,400) | ₱- |
| | | | | | 15,011,958 |
| Finance revenue (Note 29) | ₱203,803 | ₱162 | ₱1,205 | ₱122,442 | ₱- |
| | | | | | 327,612 |
| Finance costs (Note 30) | (₱1,207,899) | (₱150,716) | (₱231,814) | (₱79,440) | ₱- |
| | | | | | (1,669,869) |
| Equity in net loss of joint ventures (Note 16) | ₱- | ₱- | ₱- | (₱158,602) | ₱- |
| | | | | | (158,602) |
| Market valuation gain on financial assets and liabilities at FVTPL (Note 8) | ₱- | ₱- | ₱- | (₱5,254) | ₱- |
| | | | | | (5,254) |
| Provision for credit and impairment losses (Notes 10, 11 and 15) | (₱2,211) | ₱- | ₱- | ₱- | ₱- |
| | | | | | (2,211) |
| Other expenses* | | | | | (1,607,222) |
| Income before income tax | | | | | 11,896,412 |
| Provision for income tax (Note 32) | | | | | (1,781,728) |
| Net income | | | | | ₱10,114,684 |
| Other Information | | | | | |
| Total assets | ₱133,181,540 | ₱7,903,695 | ₱22,903,714 | ₱4,664,041 | ₱- |
| Total liabilities | ₱58,847,775 | ₱4,498,489 | ₱6,626,024 | ₱3,496,200 | ₱- |
| Capital expenditures | ₱6,538,448 | ₱699,550 | ₱1,713,010 | ₱37,684 | ₱- |
| Non-cash expenses other than depreciation and amortization: | | | | | |
| Credit and impairment losses on: | | | | | |
| Receivables (Note 10) | (₱2,208) | ₱- | ₱- | ₱- | ₱- |
| Inventories (Note 11) | (3) | - | - | - | (3) |
| | (₱2,211) | ₱- | ₱- | ₱- | ₱- |
| | | | | | (₱2,211) |

* Include net foreign exchange losses and other revenues (expenses).

| | As of and for the year ended December 31, 2018 | | | | |
|---|--|--------------------|--------------------|-----------------------|----------------------|
| | Branded Consumer Food | Agro-Industrial | Commodity Food | Corporate Business | Eliminations |
| | | | | | Total |
| Sale of Goods and Services | | | | | |
| Third party | ₱102,537,877 | ₱11,693,453 | ₱13,538,619 | ₱— | ₱— |
| Inter-segment | 17,266,362 | 63,901 | 5,353,541 | — | (22,683,804) |
| | ₱119,804,239 | ₱11,757,354 | ₱18,892,160 | ₱— | (₱22,683,804) |
| | | | | | ₱127,769,949 |
| Result | | | | | |
| Earnings before interest, income taxes and depreciation/amortization (EBITDA) | ₱15,674,743 | ₱1,237,539 | ₱4,487,433 | (₱1,649,326) | ₱— |
| Depreciation and amortization (Note 27) | (4,756,491) | (419,526) | (948,368) | (245,391) | — |
| Earnings before interest and income tax (EBIT) | ₱10,918,252 | ₱818,013 | ₱3,539,065 | (₱1,894,717) | ₱— |
| Finance revenue (Note 29) | ₱208,796 | ₱102 | ₱23,931 | ₱126,452 | ₱— |
| Finance costs (Note 30) | (₱1,419,134) | (₱66,536) | (₱84,784) | (₱91,246) | ₱— |
| Equity in net loss of joint ventures (Note 16) | ₱— | ₱— | ₱— | (₱132,408) | ₱— |
| Market valuation gain on financial assets and liabilities at FVTPL (Note 8) | ₱— | ₱— | ₱— | (₱35,424) | ₱— |
| Provision for credit and impairment losses (Notes 10, 11 and 15) | (₱45,002) | ₱— | ₱— | ₱— | (45,002) |
| Other expenses* | | | | | (320,480) |
| Income before income tax | | | | | 11,544,880 |
| Provision for income tax (Note 32) | | | | | (2,082,094) |
| Net income | | | | | ₱9,462,786 |
| Other Information | | | | | |
| Total assets | ₱117,089,788 | ₱7,846,913 | ₱21,713,667 | ₱5,285,345 | ₱— |
| Total liabilities | ₱56,251,419 | ₱4,598,732 | ₱5,882,522 | ₱1,209,561 | ₱— |
| Capital expenditures | ₱5,468,991 | ₱696,640 | ₱2,191,679 | ₱284,420 | ₱— |
| Non-cash expenses other than depreciation and amortization: | | | | | |
| Credit and impairment losses on: | | | | | |
| Receivables (Note 10) | (₱17,774) | ₱— | ₱— | ₱— | ₱— |
| Property, plant and equipment | (1,700) | — | — | — | (1,700) |
| Goodwill (Note 15) | (17,580) | — | — | — | (17,580) |
| Inventories (Note 11) | (7,948) | — | — | — | (7,948) |
| | (₱45,002) | ₱— | ₱— | ₱— | ₱— |
| | | | | | (₱45,002) |

* Include net foreign exchange losses and other revenues (expenses).

| | As of and for the year ended December 31, 2017 | | | | |
|---|--|--------------------|--------------------|---------------------|----------------------|
| | Branded Consumer Food | Agro-Industrial | Commodity Food | Corporate Business | Eliminations |
| | | | | | Total |
| Sale of Goods and Services | | | | | |
| Third party | ₱103,095,968 | ₱10,110,653 | ₱11,801,203 | ₱- | ₱- |
| Inter-segment | 15,303,639 | 122,304 | 6,189,868 | - | (21,615,811) |
| | ₱118,399,607 | ₱10,232,957 | ₱17,991,071 | ₱- | (₱21,615,811) |
| | | | | | ₱125,007,824 |
| Result | | | | | |
| Earnings before interest, income taxes and depreciation/amortization (EBITDA) | ₱16,608,493 | ₱2,178,990 | ₱3,930,971 | (₱1,662,224) | ₱- |
| Depreciation and amortization (Note 27) | (4,480,403) | (398,721) | (1,014,338) | (210,601) | - |
| Earnings before interest and income tax (EBIT) | ₱12,128,090 | ₱1,780,269 | ₱2,916,633 | (₱1,872,825) | ₱- |
| Finance revenue (Note 29) | ₱108,162 | ₱179 | ₱11,469 | ₱105,773 | ₱- |
| Finance costs (Note 30) | (₱1,298,675) | (₱44,056) | (₱51,249) | (₱33,350) | ₱- |
| Equity in net loss of joint ventures (Note 16) | ₱- | ₱- | ₱- | (₱280,533) | ₱- |
| Market valuation gain on financial assets and liabilities at FVPL (Note 8) | ₱- | ₱- | ₱- | ₱71,016 | ₱- |
| Provision for credit and impairment losses (Note 11) | (₱21,423) | ₱- | ₱- | ₱- | ₱- |
| Other expenses* | | | | | 430,927 |
| Income before income tax | | | | | 13,950,407 |
| Provision for income tax (Note 32) | | | | | (2,797,486) |
| Net income | | | | | ₱11,152,921 |
| Other Information | | | | | |
| Total assets | ₱112,007,686 | ₱6,558,891 | ₱18,536,399 | ₱10,537,823 | ₱- |
| Total liabilities | ₱57,021,889 | ₱3,225,428 | ₱4,420,186 | ₱1,287,284 | ₱- |
| Capital expenditures | ₱4,436,763 | ₱761,141 | ₱2,630,024 | ₱301,744 | ₱- |
| Non-cash expenses other than depreciation and amortization: | | | | | |
| Credit and impairment losses on: | | | | | |
| Receivables | (₱18,553) | ₱- | ₱- | ₱- | ₱- |
| Inventories (Note 11) | (2,870) | - | - | - | - |
| | (₱21,423) | ₱- | ₱- | ₱- | (₱21,423) |

* Include net foreign exchange losses and other revenues (expenses).

Inter-segment Revenues

Inter-segment revenues are eliminated at the consolidation level.

Segment Results

Segment results pertain to the net income (loss) of each of the operating segments excluding the amounts of market valuation gains and losses on financial assets at FVPL, foreign exchange gains and losses and other revenues and expenses which are not allocated to operating segments.

Segment Assets

Segment assets are resources owned by each of the operating segments excluding significant inter-segment transactions.

Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding significant inter-segment transactions. The Group also reports to the chief operating decision maker the breakdown of the short-term and long-term debts of each of the operating segments.

Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the additions to investment property and property plant and equipment during the period.

Geographic Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore, Vietnam, Myanmar, New Zealand and Australia.

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|----------|--------------------------|--------------------------|--------------------------|
| | (In Thousands) | | |
| Domestic | ₱92,016,612 | ₱84,566,692 | ₱82,137,541 |
| Foreign | 42,157,916 | 43,203,257 | 42,870,283 |
| | ₱134,174,528 | ₱127,769,949 | ₱125,007,824 |

The Group has no customer which contributes 10% or more of the consolidated revenues of the Group.

The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets, deferred tax assets and pension assets:

| | December 31, 2019 | December 31, 2018 |
|----------|--------------------------|--------------------------|
| | (In Thousands) | |
| Domestic | ₱38,370,529 | ₱33,507,048 |
| Foreign | 64,741,373 | 63,757,555 |
| | ₱103,111,902 | ₱97,264,603 |

7. Cash and Cash Equivalents

This account consists of:

| | 2019 | 2018 |
|----------------------------------|------------------------|-----------------|
| Cash on hand | ₱66,935,214 | ₱75,715,245 |
| Cash in banks (Note 34) | 3,627,188,460 | 3,895,390,938 |
| Short-term investments (Note 34) | 16,790,137,184 | 9,051,995,729 |
| | ₱20,484,260,858 | ₱13,023,101,912 |

Cash in banks earn interest at the prevailing bank deposit rates. Short-term investments represent money market placements that are made for varying periods depending on the immediate cash requirements of the Group and earn interest ranging from 0.05% to 7.50%, from 0.05% to 6.80% and from 0.05% to 6.50% for foreign currency-denominated money market placements for the years ended December 31, 2019, 2018 and 2017, respectively. Peso-denominated money market placements, on the other hand, earn interest ranging from 2.48% to 3.20%, from 1.50% to 5.50% and from 1.20% to 3.40% for the years ended December 31, 2019, 2018 and 2017.

Interest earned on cash and cash equivalents amounted to ₱311.5 million, ₱327.0 million and ₱212.7 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 29).

8. Financial Assets at Fair Value Through Profit or Loss

This account consists of investments held-for-trading amounting to ₦414.9 million and ₦420.2 million as of December 31, 2019 and 2018, respectively. Investments held-for-trading consist of quoted equity securities issued by certain domestic entities.

Market valuation on financial instruments at fair value through profit and loss amounted to ₦5.3 million loss, ₦35.4 million loss and ₦71.0 million gain for the years ended December 31, 2019, 2018 and 2017, respectively.

The Group received dividends from its quoted equity securities amounting to ₦16.2 million, ₦32.3 million and ₦12.9 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 29).

9. Derivative Financial Instruments

Derivatives designated as accounting hedge

Currency Option

As part of its asset and liability management, the Group uses derivatives, particularly currency option, as cash flow hedges in order to reduce its exposure to market risks.

The Group entered into currency options with a total notional amount of NZ\$28.2 million and initial fair value of ₦7.5 million. The Group recognized unrealized loss (presented under 'Other comprehensive income') amounting to ₦4.6 million, ₦3.3 million and ₦11.4 million for the years ended December 31, 2019, 2018 and 2017. The Group made a settlement of ₦4.6 million in 2019 for the related derivatives.

The Group's currency options have nil value and a positive fair value of ₦6.4 million as of December 31, 2019 and 2018, respectively (see Note 12).

Call Option

As part of change in ownership of URC Oceania Group, Intersnack was also given an option to acquire an additional 9% equity share in UHC. The call option has a fair value of ₦305.8 million as of December 31, 2019 recorded under 'Accounts Payable and Other Accrued Liabilities' (see Note 19).

10. Receivables

This account consists of:

| | 2019 | 2018 |
|------------------------------------|------------------------|-----------------|
| Trade receivables (Note 34) | ₱13,728,921,014 | ₱12,230,562,667 |
| Due from related parties (Note 34) | 992,923,025 | 845,801,629 |
| Non-trade receivables | 940,812,881 | 980,754,057 |
| Advances to officers and employees | 157,599,339 | 164,791,962 |
| Interest receivable (Note 34) | 46,178,767 | 9,690,349 |
| Others | 481,572,431 | 528,867,686 |
| | 16,348,007,457 | 14,760,468,350 |
| Less allowance for credit losses | 349,049,533 | 355,144,379 |
| | ₱15,998,957,924 | ₱14,405,323,971 |

Allowance for Credit Losses on Receivables

Changes in allowance for impairment losses on receivables follow:

| | 2019 | | | |
|-------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Individual Assessment | | Collective Assessment | |
| | Trade Receivables | Other Receivables | Trade Receivables | Total |
| Balances at beginning of the period | ₱127,033,476 | ₱208,970,376 | ₱19,140,527 | ₱355,144,379 |
| Provision for credit losses | 2,247 | 2,206,477 | - | 2,208,724 |
| Write-off | (2,511,366) | (2,206,477) | - | (4,717,843) |
| Others | (3,585,727) | - | - | (3,585,727) |
| Balances at end of the period | ₱120,938,630 | ₱208,970,376 | ₱19,140,527 | ₱349,049,533 |

| | 2018 | | | |
|--------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Individual Assessment | | Collective Assessment | |
| | Trade Receivables | Other Receivables | Trade Receivables | Total |
| Balances at beginning of the period | ₱153,990,523 | ₱208,970,376 | ₱13,561,291 | ₱376,522,190 |
| Provision for credit losses | 12,194,872 | — | 5,579,236 | 17,774,108 |
| Others | (39,151,919) | — | — | (39,151,919) |
| Balances at end of the period | ₱127,033,476 | ₱208,970,376 | ₱19,140,527 | ₱355,144,379 |

Allowance for credit losses on other receivables includes credit losses on nontrade receivables, advances to officers and employees and other receivables. Allowance for credit losses on advances to officers and employees amounted to ₱19.6 million as of December 31, 2019 and 2018. Allowance for credit losses on nontrade and other receivables amounted to ₱189.3 million as of December 31, 2019 and 2018.

Non-trade and other receivables are noninterest-bearing and are due and demandable.

11. Inventories

This account consists of inventories as follows:

| | 2019 | 2018 |
|------------------------------------|------------------------|------------------------|
| Raw materials | ₱8,936,932,459 | ₱8,573,783,243 |
| Finished goods | 7,373,069,435 | 6,153,119,351 |
| Spare parts and supplies | 4,329,580,895 | 4,140,804,017 |
| Containers and packaging materials | 2,070,051,257 | 2,111,369,788 |
| Goods in-process | 1,664,875,925 | 1,106,693,642 |
| | ₱24,374,509,971 | ₱22,085,770,041 |

Under the terms of the agreements covering liabilities under trust receipts totaling ₱8.7 billion and ₱6.0 billion as of December 31, 2019 and 2018, respectively, certain inventories which approximate the trust receipts payable, have been released to the Group under trust receipt agreement with the banks. The Group is accountable to these banks for the trusted merchandise or their sales proceeds.

Inventory obsolescence included in ‘Cost of sales’, amounted to ₦573.1 million, ₦749.0 million and ₦638.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Group recognized impairment losses on its inventories amounting to nil, ₦7.9 million and ₦2.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

12. Other Current Assets

This account consists of:

| | 2019 | 2018 |
|---|---------------------------|-----------------------|
| Input VAT | ₦1,062,325,854 | ₦1,599,204,239 |
| Advances to suppliers | 1,001,719,423 | 1,517,145,432 |
| Prepaid insurance | 311,636,727 | 262,671,126 |
| Prepaid taxes | 249,997,040 | 147,684,689 |
| Prepaid rent | 46,317,873 | 42,096,258 |
| Derivatives designated as accounting hedge (Note 9) | — | 6,389,048 |
| <u>Other prepaid expenses</u> | <u>166,571,449</u> | <u>158,474,713</u> |
| | ₦2,838,568,366 | ₦3,733,665,505 |

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. Also included in the account are advances made to contractors related to construction activities. These are applied against progress billings which occur within one year from the date the advances arose.

Other prepaid expenses include prepayments of advertising and office supplies.

13. Property, Plant and Equipment

The rollforward of this account follows:

| | As of and for the year ended December 31, 2019 | | | | |
|--|--|-----------------------|----------------------------|-------------------------|------------------------|
| | Land | Land Improvements | Buildings and Improvements | Machinery and Equipment | Sub-total |
| Cost | | | | | |
| Balance at beginning of year | ₱3,748,093,521 | ₱2,020,928,072 | ₱18,308,946,671 | ₱73,187,178,560 | ₱97,265,146,824 |
| Additions | — | 390,606,942 | 1,557,247,813 | 5,278,482,315 | 7,226,337,070 |
| Additions from acquisition of subsidiaries (Note 16) | — | — | 29,148,248 | 659,837,348 | 688,985,596 |
| Disposals, reclassifications and other adjustments (Note 19) | 24,589,917 | (14,218,768) | (33,763,383) | (1,389,732,153) | (1,413,124,387) |
| Balance at end of year | 3,772,683,438 | 2,397,316,246 | 19,861,579,349 | 77,735,766,070 | 103,767,345,103 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | — | 754,568,956 | 8,378,044,362 | 50,905,095,518 | 60,037,708,836 |
| Depreciation and amortization (Note 27) | — | 75,299,276 | 895,172,593 | 4,742,600,865 | 5,713,072,734 |
| Additions from acquisition of subsidiaries (Note 16) | — | — | 14,747,981 | 248,628,009 | 263,375,990 |
| Disposals, reclassifications and other adjustments (Note 19) | — | (5,527,427) | 234,955,532 | (1,404,667,027) | (1,175,238,922) |
| Balance at end of year | — | 824,340,805 | 9,522,920,468 | 54,491,657,365 | 64,838,918,638 |
| Net Book Value | ₱3,772,683,438 | ₱1,572,975,441 | ₱10,338,658,881 | ₱23,244,108,705 | ₱38,928,426,465 |

| | As of and for the year ended December 31, 2019 | | | | |
|--|--|-----------------------------------|--------------------------|-----------------------|-------------------------|
| | Transportation Equipment | Furniture, Fixtures and Equipment | Construction In-progress | Equipment In-transit | Total |
| Cost | | | | | |
| Balance at beginning of year | ₱2,645,015,231 | ₱5,303,718,980 | ₱7,832,623,483 | ₱4,870,159,025 | ₱117,916,663,543 |
| Additions | 152,383,808 | 413,113,549 | 1,037,578,357 | 159,279,456 | 8,988,692,240 |
| Additions from acquisition of subsidiaries (Note 16) | 1,471,310 | 15,849,306 | — | — | 706,306,212 |
| Disposals, reclassifications and other adjustments (Note 19) | (30,210,347) | 59,959,258 | 246,937,907 | (15,302,133) | (1,151,739,702) |
| Balance at end of the year | 2,768,660,002 | 5,792,641,093 | 9,117,139,747 | 5,014,136,348 | 126,459,922,293 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | 2,061,485,901 | 3,867,152,540 | — | — | 65,966,347,277 |
| Depreciation and amortization (Note 27) | 211,583,960 | 515,746,153 | — | — | 6,440,402,847 |
| Additions from acquisition of subsidiaries (Note 16) | 1,471,310 | 12,694,555 | — | — | 277,541,855 |
| Disposals, reclassifications and other adjustments (Note 19) | 5,623,083 | 318,836,438 | — | — | (850,779,401) |
| Balance at end of year | 2,280,164,254 | 4,714,429,686 | — | — | 71,833,512,578 |
| Net Book Value | ₱488,495,748 | ₱1,078,211,407 | ₱9,117,139,747 | ₱5,014,136,348 | ₱54,626,409,715 |

| | As of and for the year ended December 31, 2018 | | | | |
|--|--|-----------------------------------|----------------------------|-------------------------|------------------------|
| | Land | Land Improvements | Buildings and Improvements | Machinery and Equipment | Sub-total |
| Cost | | | | | |
| Balance at beginning of year | ₱3,727,711,355 | ₱1,704,819,183 | ₱16,605,754,803 | ₱69,703,010,941 | ₱91,741,296,282 |
| Additions | — | 127,631,305 | 1,671,216,410 | 3,356,378,331 | 5,155,226,046 |
| Additions from acquisition of subsidiaries (Note 16) | — | — | — | 115,275,827 | 115,275,827 |
| Disposals, reclassifications and other adjustments | 20,382,166 | 188,477,584 | 31,975,458 | 12,513,461 | 253,348,669 |
| Balance at end of year | 3,748,093,521 | 2,020,928,072 | 18,308,946,671 | 73,187,178,560 | 97,265,146,824 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | — | 670,717,018 | 7,516,009,094 | 46,464,498,911 | 54,651,225,023 |
| Depreciation and amortization (Note 27) | — | 84,943,231 | 806,054,484 | 4,610,183,001 | 5,501,180,716 |
| Disposals, reclassifications and other adjustments | — | (1,091,293) | 55,980,784 | (169,586,394) | (114,696,903) |
| Balance at end of year | — | 754,568,956 | 8,378,044,362 | 50,905,095,518 | 60,037,708,836 |
| Net Book Value | ₱3,748,093,521 | ₱1,266,359,116 | ₱9,930,902,309 | ₱22,282,083,042 | ₱37,227,437,988 |
| | As of and for the year ended December 31, 2018 | | | | |
| | Transportation Equipment | Furniture, Fixtures and Equipment | Construction In-progress | Equipment In-transit | Total |
| Cost | | | | | |
| Balance at beginning of year | ₱2,476,588,603 | ₱4,868,933,076 | ₱5,882,128,787 | ₱3,169,822,628 | ₱108,138,769,376 |
| Additions | 181,992,862 | 573,199,933 | 1,770,790,472 | 960,520,785 | 8,641,730,098 |
| Additions from acquisition of subsidiaries (Note 16) | 2,021,293 | 274,742 | 55,718 | — | 117,627,580 |
| Disposals, reclassifications and other adjustments | (15,587,527) | (138,688,771) | 179,648,506 | 739,815,612 | 1,018,536,489 |
| Balance at end of the year | 2,645,015,231 | 5,303,718,980 | 7,832,623,483 | 4,870,159,025 | 117,916,663,543 |
| Accumulated Depreciation and Amortization | | | | | |
| Balance at beginning of year | 1,831,800,835 | 3,401,615,215 | — | — | 59,884,641,073 |
| Depreciation and amortization (Note 27) | 209,519,017 | 455,481,200 | — | — | 6,166,180,933 |
| Disposals, reclassifications and other adjustments | 20,166,049 | 10,056,125 | — | — | (84,474,729) |
| Balance at end of year | 2,061,485,901 | 3,867,152,540 | — | — | 65,966,347,277 |
| Net Book Value | ₱583,529,330 | ₱1,436,566,440 | ₱7,832,623,483 | ₱4,870,159,025 | ₱51,950,316,266 |

In July 2018, CFC Corporation executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its parcel of land costing ₱3.4 million at ₱584.9 million selling price. Gain on disposal attributable to sale was ₱581.5 million, which was recognized under ‘Other income (loss) - net’ in the consolidated statements of income.

In May 2017, Century Pacific Food Inc. (CNPF) entered into an asset purchase agreement with the Parent Company to purchase the machineries and equipment used in manufacturing the Hunt's branded products for a total consideration of ₡145.1 million, net of tax. As of date of sale, the net book value of these assets amounted to ₡28.1 million. The Group recognized gain on disposal amounting to ₡117.0 million, under 'Other income (loss) - net' in the consolidated statements of income. The sale was completed on August 31, 2017.

CNPF also entered into a Compensation Agreement with the Parent Company to acquire the exclusive right to manufacture and sell Hunt's branded products amounting to ₡214.2 million which the Group recognized in the consolidated statements of income.

In January 2017, the Parent Company executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its three parcels of land costing ₡1.0 million for a total consideration of ₡111.3 million. Gain on disposal attributable to the sale amounted to ₡110.3 million, which was recognized under 'Other income (loss) - net' in the consolidated statements of income.

Borrowing Costs

For the years ended December 31, 2019, 2018 and 2017, no borrowing costs have been incurred related to property, plant and equipment under construction.

Depreciation

The breakdown of consolidated depreciation and amortization of property, plant and equipment follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|----------------------|
| Cost of sales (Note 24) | ₱5,769,099,525 | ₱5,444,705,459 | ₱5,270,962,412 |
| Selling and distribution costs (Note 25) | 189,087,851 | 219,016,116 | 162,600,854 |
| General and administrative expenses (Note 26) | 482,215,471 | 502,459,358 | 483,418,814 |
| | ₱6,440,402,847 | ₱6,166,180,933 | ₱5,916,982,080 |

Collateral

As of December 31, 2019 and 2018, the Group has no property and equipment that are pledged as collateral.

14. Biological Assets

Total biological assets shown in the consolidated statements of financial position follow:

| | 2019 | 2018 |
|--------------------|---------------------|-----------------------|
| Current portion | ₱733,435,525 | ₱741,719,637 |
| Noncurrent portion | 224,128,072 | 366,184,414 |
| | ₱957,563,597 | ₱1,107,904,051 |

These biological assets consist of:

| | 2019 | 2018 |
|-------------------|---------------------|-----------------------|
| Swine livestock | | |
| Commercial | ₱711,301,722 | ₱709,045,374 |
| Breeder | 136,695,328 | 278,316,362 |
| Poultry livestock | | |
| Commercial | 22,133,803 | 32,674,263 |
| Breeder | 87,432,744 | 87,868,052 |
| | ₱957,563,597 | ₱1,107,904,051 |

The rollforward analysis of this account follows:

| | 2019 | 2018 |
|--|------------------------|-----------------------|
| Balances at beginning of year | ₱1,107,904,051 | ₱1,678,576,389 |
| Additions | 3,641,918,030 | 3,200,666,651 |
| Disposals | (3,483,083,335) | (3,303,867,014) |
| Write-down | (238,990,324) | — |
| Loss arising from changes in fair value less estimated costs to sell | (70,184,825) | (467,471,975) |
| Balances at end of year | ₱957,563,597 | ₱1,107,904,051 |

The Group has 209,640 and 232,724 heads of swine livestock and 529,971 and 731,177 heads of poultry livestock as of December 31, 2019 and 2018, respectively.

15. Goodwill and Intangible Assets

The movements of goodwill follow:

| | 2019 | 2018 |
|---------------------------------------|------------------------|-----------------|
| Cost | | |
| Balances at beginning and end of year | ₱31,460,215,108 | ₱31,460,215,108 |
| Accumulated impairment losses | | |
| Balances at beginning of year | 265,719,291 | 248,139,704 |
| Additional impairment during the year | — | 17,579,587 |
| Balances at end of year | 265,719,291 | 265,719,291 |
| Net book value at end of year | ₱31,194,495,817 | ₱31,194,495,817 |

As of December 31, 2019 and 2018, the Group's goodwill pertains to the following:\

| | |
|---|------------------------|
| Acquisition of CSPL in September 2016 | ₱16,492,854,332 |
| Acquisition of NZSFHL in November 2014 | 13,913,396,261 |
| The excess of the acquisition cost over the fair values of the net assets acquired by UABCL in 2000 | 775,835,598 |
| Acquisition of Balayan Sugar Mill in February 2016 | 12,409,626 |
| | ₱31,194,495,817 |

The composition and movements of intangible assets follow:

| | As of and for the year ended December 31, 2019 | | | | |
|---|--|------------------------|--------------------|--------------------------|------------------------|
| | Trademarks/ Brands | Product Formulation | Software Costs | Customer Relationship | Total |
| Cost | | | | | |
| Balances at beginning of period | ₱9,564,461,252 | ₱425,000,000 | ₱91,177,370 | ₱2,201,281,173 | ₱12,281,919,795 |
| Additions | — | — | — | — | — |
| Disposal/others | — | — | (26,482,619) | — | (26,482,619) |
| | 9,564,461,252 | 425,000,000 | 64,694,751 | 2,201,281,173 | 12,255,437,176 |
| Accumulated Amortization and Impairment Losses | | | | | |
| Balances at beginning of period | 201,524,581 | — | 78,247,580 | 271,887,280 | 551,659,441 |
| Amortization during the period (Note 27) | — | — | 11,593,520 | 73,357,370 | 84,950,890 |
| Disposal/others | — | — | (45,171,696) | (9,129,984) | (54,301,680) |
| | 201,524,581 | — | 44,669,404 | 336,114,666 | 582,308,651 |
| Net Book Value at End of Period | ₱9,362,936,671 | ₱425,000,000 | ₱20,025,347 | ₱1,865,166,507 | ₱11,673,128,525 |

| | As of and for the year ended December 31, 2018 | | | | |
|---|--|------------------------|--------------------|--------------------------|------------------------|
| | Trademarks/ Brands | Product Formulation | Software Costs | Customer Relationship | Total |
| Cost | | | | | |
| Balances at beginning of period | ₱9,564,461,252 | ₱425,000,000 | ₱79,955,581 | ₱2,201,281,173 | ₱12,270,698,006 |
| Additions | — | — | 11,234,200 | — | 11,234,200 |
| Disposal/others | — | — | (12,411) | — | (12,411) |
| | 9,564,461,252 | 425,000,000 | 91,177,370 | 2,201,281,173 | 12,281,919,795 |
| Accumulated Amortization and Impairment Losses | | | | | |
| Balances at beginning of period | 201,524,581 | — | 60,900,396 | 198,236,997 | 460,661,974 |
| Amortization during the period (Note 27) | — | — | 17,973,401 | 78,862,555 | 96,835,956 |
| Disposal/others | — | — | (626,217) | (5,212,272) | (5,838,489) |
| | 201,524,581 | — | 78,247,580 | 271,887,280 | 551,659,441 |
| Net Book Value at End of Period | ₱9,362,936,671 | ₱425,000,000 | ₱12,929,790 | ₱1,929,393,893 | ₱11,730,260,354 |

Trademarks and product formulation were acquired from General Milling Corporation in 2008.

Total intangible assets acquired from the acquisition of CSPL and NZSFHL in 2016 and 2014 were composed of brands of ₱9.3 billion, customer relationships of ₱2.2 billion and software costs of ₱56.3 million.

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amounts of goodwill and other intangible assets were determined based on value in use calculations for goodwill allocated to UABCL and the Balayan Sugar Mill, and fair value less costs to sell (FVLCTS) for goodwill allocated to CSPL and NZSFHL.

Value in use calculations used cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.30% to 10.50% and 7.80% to 10.80% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value in use:

Growth rate estimates - growth rates include revenue growth and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates. Growth rates used in computing the projected future cash flows ranged from 2.00% to 6.90% and 2.0% to 12.1% as of December 31, 2019 and 2018, respectively.

Discount rates - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

FVLCTS of CSPL and NZSFHL were based on enterprise values that were derived from EBITDA multiples. These enterprise values served as basis for the transaction price in the sale of 40% ownership interest in the Oceania business (Note 22). This fair value measurement is categorized as a Level 2 fair value measurement, since it is observable from the recent transaction.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the Group's acquisitions to materially exceed their recoverable amounts.

16. Investments in Joint Ventures

The rollforward analysis of this account follows:

| | 2019 | 2018 |
|---|-----------------------|----------------|
| Acquisition Cost | | |
| Balance at beginning of year | ₱1,143,634,145 | ₱1,147,543,071 |
| Additional investments | 59,921,287 | 324,341,074 |
| Reclassification to investment in subsidiaries due to step-up acquisition | – | (328,250,000) |
| Balance at end of year | 1,203,555,432 | 1,143,634,145 |
| Accumulated Equity in Net Earnings | | |
| Balance at beginning of year | (623,052,189) | (596,122,551) |
| Equity in net losses during the year | (158,602,482) | (132,407,965) |
| Reclassification to investment in subsidiaries due to step-up acquisition | – | 105,478,327 |
| Balance at end of year | (781,654,671) | (623,052,189) |
| Cumulative Translation Adjustments | (275,661) | 335,553 |
| Net Book Value at End of Year | ₱421,625,100 | ₱520,917,509 |

Proper Snack Foods Ltd.

On June 30, 2017, Griffin's purchased 50.1% of the shares in Proper Snack Foods Ltd. (PSFL) approximately NZ\$7.8 million (₱275.3 million), which includes deferred consideration amounting to NZ\$1.5 million (₱51.5 million) recorded in the consolidated statement of financial position.

Vitasoy-URC, Inc.

On October 4, 2016, the Parent Company entered into a joint venture agreement with Vita International Holdings Limited, a corporation duly organized in Hong Kong to form Vitasoy - URC (VURCI), a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Vitasoy" brand name, which is under exclusive license to VURCI in the Philippines.

On January 31, 2018, the Parent Company made an additional subscription to the unissued authorized capital stock of VURCI consisting of 29,000,000 common shares for a total cost of ₱290.0 million.

Danone Universal Robina Beverages, Inc.

On May 23, 2014, the Parent Company entered into a joint venture agreement with Danone Asia Holdings Pte. Ltd., a corporation duly organized in the Republic of Singapore to form Danone Universal Robina Beverages, Inc. (DURBI), a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the “B’lue” brand name, which is under exclusive license to DURBI in the Philippines.

In 2019, the Parent Company made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 10,000,000 common shares for a total cost of ₱125.0 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

In 2018, the Parent Company made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 5,000,000 common shares for a total cost of ₱82.5 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

Equity in net losses in the 2017 consolidated statement of income amounting to ₱280.5 million includes the excess of the share in net loss over the investment in DURBI amounting to ₱147.6 million presented in ‘Other noncurrent liabilities’ as of December 31, 2018.

URC Snacks Ventures Inc.

On January 17, 2014, the Parent Company entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form Calbee-URC, Inc. (CURCI), a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the “Calbee Jack ‘n Jill” brand name, which is under exclusive license to CURCI in the Philippines.

On February 26, 2019, the SEC approved the amendment of CURCI’s Articles of Incorporation for the change in its corporate name from Calbee-URC, Inc. to URC Snack Ventures, Inc. (USVI).

In September 2018, the Parent Company entered into a share purchase agreement with its joint venture partner, Calbee, Inc., to sell the latter’s 50% equity interest in CURCI for a total consideration of ₱171.0 million, which approximates the fair values of identifiable net assets acquired. The purchase of the additional 50% shares will allow the Parent Company to have full control of CURCI, consistent with its agenda of driving an aligned and scalable snacking category growth. As a result of the sale, CURCI became a wholly-owned subsidiary of the Parent Company.

Calbee-URC Malaysia

On August 23, 2017, URC Malaysia entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form Calbee-URC Malaysia Sdn Bhd (CURM), a corporation registered with the Companies Commission of Malaysia organized to manufacture savoury snack products. Total consideration amounted to MYR2.7 million (₱34.3 million).

URC Beverages Ventures, Inc.

The Parent Company has an equity interest in Hunt-Universal Robina Corporation (HURC), a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the “Hunt’s” brand name, which is under exclusive license to HURC in the Philippines.

On January 7, 2019, the SEC approved the amendment of the HURC’s Articles of Incorporation for the change in its corporate name from Hunt - Universal Robina Corporation to URC Beverage Ventures, Inc (UBVI).

In September 2018, the Parent Company entered into a share purchase agreement with its joint venture partner, ConAgra Grocery Products Company, LLC., to sell the latter’s 50% equity interest in HURC for a total consideration of ₱3.2 million, which approximates the fair values of identifiable net assets acquired. A loss of

₱55.6 million was recognized under “Other income (loss) - net” account in the 2018 consolidated statement of income as a result of the remeasurement of the 50% previously held interest in HURC. The acquisition of the HURC shares of ConAgra will resulted in the Parent Company having full control of HURC and will allow URC to integrate and simplify its business operations as part of its Philippine business portfolio. As a result of the sale, HURC became a wholly-owned subsidiary of URC.

As of December 31, 2019 and 2018, the Parent Company has the following percentage of ownership of shares in its joint ventures and its related equity in the net assets are summarized below:

| | Place of Business | Percentage of Ownership | | Equity in Net Assets (in MM) | |
|-------|-------------------|-------------------------|-------|------------------------------|--------|
| | | 2019 | 2018 | 2019 | 2018 |
| VURCI | Philippines | 50.00 | 50.00 | ₱76.3 | ₱199.0 |
| DURBI | -do- | 50.00 | 50.00 | — | — |
| PSFL | New Zealand | 50.10 | 50.10 | 312.8 | 293.3 |
| CURM | Malaysia | 50.00 | 50.00 | 32.5 | 34.7 |

Summarized financial information in respect of the Group's joint ventures as of December 31, 2019 and 2018 are presented below (in thousands).

| | CURM | | DURBI | | VURCI | | PSFL | |
|------------------------|-----------------|----------|------------------|-----------|------------------|-----------|-----------------|----------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Current assets | ₱142,673 | ₱120,611 | ₱671,399 | ₱427,870 | ₱475,390 | ₱577,131 | ₱122,410 | ₱113,092 |
| Noncurrent assets | 21,786 | 9,637 | 7,702 | 10,940 | 844,629 | 550,599 | 671,877 | 586,249 |
| Current liabilities | 99,495 | 60,946 | 934,039 | 789,169 | 717,420 | 729,019 | 128,966 | 79,672 |
| Noncurrent liabilities | — | — | 9,522 | 3,440 | 450,000 | — | 40,751 | 33,103 |
| Revenue | 275,118 | 64,080 | 583,760 | 466,261 | 315,444 | 242,359 | 548,500 | 413,870 |
| Costs and expenses | 270,900 | 63,837 | 749,776 | 717,032 | 531,775 | 496,388 | 513,389 | 387,001 |
| Net income (loss) | 2,021 | (5,092) | (166,016) | (222,791) | (239,067) | (243,806) | 39,684 | 26,868 |

The summarized financial information presented above represents amounts shown in the joint ventures' financial statements prepared in accordance with PFRSs.

The joint venture companies are private companies and there are no quoted prices available for their shares.

No dividends were declared and received for the years ended December 31, 2019 and 2018.

As of December 31, 2019 and 2018, there were no agreements entered into by the joint ventures that may restrict dividends and other capital distributions to be paid, or loans and advances to be made or repaid to or from the Group. In addition, the Group has no share on commitments and contingencies of its joint ventures.

17. Other Noncurrent Assets

This account consists of:

| | 2019 | 2018 |
|---------------------------|-----------------------|----------------|
| Deposits | ₱612,546,621 | ₱766,539,097 |
| Input VAT | 514,866,037 | 634,328,645 |
| Financial assets at FVOCI | 76,290,000 | 50,300,000 |
| Investment properties | 33,173,512 | 36,384,879 |
| Pension asset (Note 31) | — | 15,589,696 |
| Others | 197,948,881 | 65,176,266 |
| | ₱1,434,825,051 | ₱1,568,318,583 |

Deposits

The Group's deposits pertain to the installation of power and water meters, returnable containers and security deposits for operating leases of plants, warehouses and office buildings.

Input VAT

Input tax pertains to VAT from purchases and/or importations of various parts, supplies, equipment, machineries and or capital goods, which will be claimed as credit against output tax liabilities in a manner prescribed by pertinent revenue regulations.

Financial Assets at FVOCI

As of December 31, 2019 and 2018, financial assets at FVOCI consists of equity securities with the following movement:

| | 2019 | 2018 |
|---|--------------------|-------------|
| Balance at beginning of period | ₱50,300,000 | ₱45,980,000 |
| Changes in fair value during the period | 25,990,000 | 4,320,000 |
| Balance at end of period | ₱76,290,000 | ₱50,300,000 |

Fair value changes of financial assets at FVOCI are presented as components of 'Other comprehensive income' in Equity (see Note 23).

Investment Properties

The rollforward analysis of investment properties follows:

| | 2019 | 2018 |
|---|--------------------|--------------|
| Cost | | |
| Balance at beginning of period | ₱94,554,666 | ₱107,947,364 |
| Reclassification to property, plant and equipment | – | (13,392,698) |
| Balance at end of period | 94,554,666 | 94,554,666 |
| Accumulated depreciation | | |
| Balance at beginning of period | 58,169,787 | 62,659,225 |
| Depreciation (Notes 26 and 27) | 3,211,367 | 3,286,562 |
| Reclassification to property, plant and equipment | – | (7,776,000) |
| Balance at end of period | 61,381,154 | 58,169,787 |
| Net book value at end of period | ₱33,173,512 | ₱36,384,879 |

The investment properties consist of buildings and building improvements which are leased out to related and third parties (see Notes 34 and 36).

Total rental income earned from investment properties (included under ‘Other income (loss) - net’ in the consolidated statements of income) amounted to ₱112.4 million, ₱61.2 million and ₱57.9 million for years ended December 31, 2019, 2018 and 2017, respectively.

Direct operating expenses (included under ‘General and administrative expenses’ in the consolidated statements of income) arising from investment properties amounted to ₱0.8 million for the years ended December 31, 2019, 2018 and 2017.

Collateral

As of December 31, 2019 and 2018, the Group has no investment properties that are pledged as collateral.

Others

Others include noncurrent portion of advances to suppliers and deferred charges

18. Short-term Debts

This account consists of:

| | 2019 | 2018 |
|--|-----------------------|----------------|
| Peso-denominated loan - unsecured with interest of 3.95% and 5.55% for the years ended December 31, 2019 and 2018, respectively | ₱1,980,000,000 | ₱600,000,000 |
| Thai Baht denominated loans - unsecured with interest ranging from 2.18% to 2.22% and from 2.16% to 2.40% for the years ended December 31, 2019 and 2018, respectively | 1,535,498,728 | 1,467,098,720 |
| Malaysian Ringgit denominated loan - unsecured with interest at 4.43% and 4.62% for the years ended December 31, 2019 and 2018, respectively | 332,986,545 | 394,286,386 |
| | ₱3,848,485,273 | ₱2,461,385,106 |

Accrued interest payable on the Group's short-term debts (included under 'Accounts payable and other accrued liabilities' in the consolidated statements of financial position) amounted to ₱15.7 million and ₱5.7 million as of December 31, 2019 and 2018, respectively. Interest expense from the short-term debts amounted to ₱93.9 million, ₱134.9 million and ₱66.6 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 30).

19. Accounts Payable and Other Accrued Liabilities

This account consists of:

| | 2019 | 2018 |
|--------------------------------------|------------------------|-----------------|
| Trade payables (Note 34) | ₱13,461,966,827 | ₱13,531,720,134 |
| Accrued expenses | 6,284,949,047 | 7,159,227,021 |
| Customers' deposits | 373,750,960 | 496,197,812 |
| Derivative liabilities (Note 9) | 305,835,400 | — |
| Advances from stockholders (Note 34) | 192,691,243 | 247,216,898 |
| VAT payable | 167,096,180 | 758,822,733 |
| Due to related parties (Note 34) | 151,785,243 | 164,624,582 |
| Withholding taxes payable | 148,494,243 | 236,709,093 |
| Others | 211,179,729 | 172,241,254 |
| | ₱21,297,748,872 | ₱22,766,759,527 |

Trade payables are noninterest-bearing and are normally settled on 30-60 day terms. Trade payables arise from purchases of inventories which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

The accrued expenses account consists of:

| | 2019 | 2018 |
|-----------------------------|-----------------------|----------------|
| Advertising and promotions | ₱3,289,303,049 | ₱3,988,888,494 |
| Personnel costs | 1,005,262,168 | 998,589,089 |
| Contracted services | 464,476,698 | 278,581,376 |
| Utilities | 302,097,687 | 335,649,820 |
| Freight and handling costs | 270,631,087 | 341,656,474 |
| Rent | 97,735,880 | 252,144,351 |
| Professional and legal fees | 46,067,820 | 121,959,369 |
| Others | 809,374,658 | 841,758,048 |
| | ₱6,284,949,047 | ₱7,159,227,021 |

Customers' deposits represent downpayments for the sale of goods or performance of services which will be applied against accounts receivables upon delivery of goods or rendering of services.

Accrued professional and legal fees include fees or services rendered by third party consultants for the review of the Group's brand portfolio in 2019 and 2018. The related expense recognized under 'Other income (expense) - net' in the 2019 and 2018 consolidated statement of income amounted to ₦161.3 million and ₦341.5 million, respectively.

Others include accruals for taxes and licenses, interest expense, restructuring provision and other benefits. In 2019, the Group recorded a restructuring provision related to downsizing of farm operations and consolidation of plant operations. The key objectives of the restructuring are: (a) to focus on the profitable and growing animal nutrition and health business, (b) maximize the value-added chain concentrating on the processed meat business and (c) to improve long-term cost efficiencies for both farm and plant operations. The restructuring provision consists of write-down of biological assets (Note 14), property, plant and equipment (Note 13) and accrual of employee redundancy costs amounting ₦239.0 million, ₦453.7 million and ₦137.1 million, respectively. The related expense is recognized under "Other income (expense) - net" in the consolidated statement of income.

20. Long-term Debts

This account consists of:

| | 2019 | | | 2018 | | |
|-------------------|------------------------|--------------------------------------|------------------------|------------------------------|---------------------|------------------------|
| | Principal | Unamortized debt issuance cost | Net | Unamortized debt issuance | | Net |
| | | | | Principal | cost | |
| URC AU FinCo Loan | ₦17,200,057,755 | ₦110,736,987 | ₦17,089,320,768 | ₦17,922,355,336 | ₦179,697,514 | ₦17,742,657,822 |
| URC NZ FinCo Loan | 13,462,223,310 | 165,466,470 | 13,296,756,840 | 13,924,974,927 | 210,508,867 | 13,714,466,060 |
| | ₦30,662,281,065 | ₦276,203,457 | ₦30,386,077,608 | ₦31,847,330,263 | ₦390,206,381 | ₦31,457,123,882 |

URC AU FinCo Loan due 2021

On September 30, 2016, URC AU FinCo entered into a syndicated term loan facility agreement guaranteed by the Parent Company payable in five years, amounting to AU\$484.2 million (₦17.9 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, CSPL. The loan obtained bears a market interest rate plus a certain spread, payable quarterly, maturing on September 30, 2021.

URC NZ FinCo NZ\$395 Million Term Loan due 2023

On October 22, 2018, URC NZ FinCo entered into a term loan facility agreement guaranteed by the Parent Company payable in five years, amounting to NZ\$395.0 million (₱14.4 billion), with various banks for payment of the NZ\$420 million term loan due in 2019. The loan obtained bears a market interest rate plus a certain spread, payable quarterly, and maturing on October 22, 2023.

URC NZ FinCo NZ\$420 Million Term Loan due 2019

On November 13, 2014, URC NZ FinCo entered into a term loan facility agreement guaranteed by the Parent Company payable in five years, amounting to NZ\$420.0 million (₱12.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZSFHL. The loan obtained bears a market interest rate plus a certain spread, payable quarterly, and maturing on November 13, 2019.

In October 2018, URC NZ FinCo prepaid its 5-year term loan under Clause 7.1 of the underlying Facility Agreement at face value plus accrued interest. Total payment amounted to NZ\$423.8 million (approximately ₱15.5 billion), which includes accrued interest. The prepayment resulted in the recognition of the unamortized debt issue costs of US\$1.7 million (approximately ₱61.6 million) as expense presented under ‘Finance costs’ which represents the difference between the settlement amount and the carrying value of the loan at the time of settlement (see Note 30).

These long-term loans have no collateral but are all guaranteed by the Parent Company.

For each of these loans, the Group is required to maintain consolidated debt to equity ratio of not greater than 2.5 to 1.0. The Group has complied with all of its debt covenants as of December 31, 2019 and 2018.

21. Other Noncurrent Liabilities

This account consists of:

| | 2019 | 2018 |
|---------------------------------|-----------------------|--------------|
| Net pension liability (Note 31) | ₱761,383,080 | ₱21,967,651 |
| Miscellaneous (Note 16) | 290,659,323 | 265,889,830 |
| | ₱1,052,042,403 | ₱287,857,481 |

Miscellaneous includes asset retirement obligation and other noncurrent liabilities.

Asset retirement obligation arises from obligations to restore the leased manufacturing sites, warehouses and offices of CSPL at the end of the respective lease terms. These provisions are calculated as the present value of the estimated expenditures required to remove any leasehold improvements. These costs are currently capitalized as part of the cost of the plant and equipment and are amortized over the shorter of the lease term and the useful life of assets.

As of December 31, 2019 and 2018, the carrying value of asset retirement obligation amounted to ₲90.9 million and ₲91.3 million, respectively. The amortization of this asset retirement obligation (included under ‘Finance costs’ in the consolidated statement of income) amounted to ₦3.3 million, ₦3.5 million and ₦3.4 million for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 30).

22. Equity

The details of the Parent Company’s common stock as of December 31, 2019 and 2018 follow:

| | 2019 | 2018 |
|------------------------------|----------------------|---------------|
| Authorized shares | 2,998,000,000 | 2,998,000,000 |
| Par value per share | ₦1.00 | ₦1.00 |
| Issued shares: | | |
| Balance at beginning of year | 2,230,160,190 | 2,227,638,933 |
| Issuance during the year | — | 2,521,257 |
| Balance at end of year | 2,230,160,190 | 2,230,160,190 |
| Outstanding shares | 2,204,161,868 | 2,204,161,868 |

The paid-up capital of the Parent Company consists of the following as of December 31, 2019 and 2018:

| | |
|----------------------------|------------------------|
| Common stock | ₦2,230,160,190 |
| Additional paid-in capital | 21,191,974,542 |
| Total paid-up capital | ₦23,422,134,732 |

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings, while capital represents total equity.

Following is a computation of the Group's debt-to-capital ratio:

| | December 31, 2019 | December 31, 2018 |
|----------------------------------|------------------------|-------------------|
| (a) Short-term debts (Note 18) | ₱3,848,485,273 | ₱2,461,385,106 |
| Trust receipts payable (Note 11) | 8,747,355,847 | 6,019,613,469 |
| Long-term debts (Note 20) | 30,386,077,608 | 31,457,123,882 |
| | ₱42,981,918,728 | ₱39,938,122,457 |
| (b) Capital | ₱95,184,502,194 | ₱83,993,479,270 |
| (c) Debt-to-capital ratio (a/b) | 0.45:1 | 0.48:1 |

The Group's policy is to not exceed a debt-to-capital ratio of 2:1. The Group considers its total equity as capital.

Cumulative Redeemable Preferred Shares

The Group's authorized preferred shares of stock are 12.00% cumulative, nonparticipating, and nonvoting. In case of dissolution and liquidation of the Parent Company, the holders of the preferred shares shall be entitled to be paid an amount equal to the par value of the shares or ratably insofar as the assets of the Parent Company may warrant, plus accrued and unpaid dividends thereon, if any, before the holders of the common shares of stock can be paid their liquidating dividends. The authorized preferred stock is 2,000,000 shares at par value of ₱1.00 per share. There have been no issuances of preferred stock as of December 31, 2019 and 2018.

Retained Earnings

Accumulated equity in net earnings of the subsidiaries

A portion of the Group's retained earnings corresponding to the undistributed net earnings of the subsidiaries and joint ventures amounting to ₦59.6 billion and ₦53.2 billion as of December 31, 2019 and 2018, respectively, is not available for dividend declaration. This becomes available for dividend declaration upon dividend distribution by the investees.

Dividends

Details of the Group's dividend declarations follow:

Parent Company

On March 10, 2020, the Parent Company's BOD declared regular cash dividends amounting to ₦1.50 per share to stockholders of record as of March 24, 2020. On the same date, the Parent Company's BOD declared special cash dividends amounting to ₦1.65 per share to stockholders of record as of June 1, 2019. Total dividends declared amounted to ₦6.9 billion to be paid on April 20, 2020 and June 26, 2020.

On February 28, 2019, the Parent Company's BOD declared regular cash dividends amounting to ₦1.50 per share to stockholders of record as of March 14, 2019. On the same date, the Parent Company's BOD declared special cash dividends amounting to ₦1.65 per share to stockholders of record as of July 1, 2019. Total dividends declared amounted to ₦6.9 billion. On March 28, 2019, the regular cash dividend was paid amounting to ₦3.3 billion. On July 26, 2019, the special cash dividend was paid amounting to ₦3.6 billion.

On February 5, 2018, the Parent Company's BOD declared regular cash dividends amounting to ₦3.15 per share to stockholders of record as of February 26, 2018. On March 22, 2018, the total dividends declared was paid amounting to ₦6.9 billion.

On February 15, 2017, the Parent Company's BOD declared regular cash dividends amounting to ₦3.15 per share to stockholders of record as of March 1, 2017. On March 27, 2017, the total dividends declared was paid amounting to ₦6.9 billion.

NURC

On June 6, 2019, NURC's BOD approved the declaration of cash dividends amounting to 600.00 million (3.17 per share) to stockholders of record as of December 31, 2018 payable on or before September 30, 2019.

On March 23, 2018, NURC's BOD approved the declaration of cash dividends amounting to ₦690.00 million (₦3.65 per share) to stockholders of record as of December 31, 2017 payable on or before September 30, 2018.

There were no dividend declarations and dividend payments to stockholders of NURC for the year ended December 31, 2017.

The Group intends to maintain an annual cash dividend payment ratio of 50.0% of the Group's consolidated net income from the preceding fiscal year, subject to the requirements of the applicable laws and regulations and the absence of circumstances which may restrict the payment of such dividends. The BOD may, at any time, modify such dividend payment ratio.

Appropriation of retained earnings

On December 18, 2018, the BOD approved the reversal of the appropriation of retained earnings in the aggregate amount of ₦2.5 billion, which was approved by the BOD in its resolutions adopted on September 27, 2016 and December 15, 2017.

On December 15, 2017, the BOD approved the additional appropriation of retained earnings amounting to ₦1.5 billion for capital expenditure commitments to expand capacities in the snack foods and beverage businesses across branded consumer food operations, which are expected to be completed within the next two years.

Treasury Shares

Under the Articles and Plan of Merger of CCPI with and into the Parent Company which was approved by the SEC on April 24, 2018, the Parent Company has issued 2,521,257 common shares to the stockholders of CCPI. Since CCPI is a wholly-owned subsidiary of URC, these issued shares were consequently classified as treasury shares amounting to ₦338.4 million.

The Parent Company has outstanding treasury shares of 26.0 million shares (₦679.5 million) as of December 31, 2019 and 2018, restricting the Parent Company from declaring an equivalent amount from unappropriated retained earnings as dividends.

Equity Reserve

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with an extensive product portfolio, agreed to buy 40% of Oceania business (SBA and Griffin's) to leverage on the Group's and Intersnack's know-how from their respective markets. This transaction is expected to yield better manufacturing, supply chain and sustainability practices and will set the groundwork for an even larger and more efficient Oceania operations. Considerations received for the transaction consisted of cash and Yarra Valley net assets amounting to US\$142.0 million (₦7.2 billion) and US\$10.1 million (₦0.5 billion), respectively.

On December 23, 2019, the Australian FIRB approved the transaction. The Group engaged the services of a third party valuer to conduct the purchase price allocation. The accounting for the business combination will be completed based on further valuations and studies carried out within twelve months from the completion date.

As a result of the sale, the equity interest of URC changed from 100.0% to 60.0%. The excess of the total consideration received over the carrying amount of the equity transferred and call option issued to NCI amounting to ₦2.4 billion is presented under “Equity reserve” in the consolidated statements of financial position. See Note 9 for disclosure on the call option.

In December 2014, URC entered into a share purchase agreement with Nissin Foods (Asia) Pte. Ltd. to sell 14.0% of its equity interest in NURC for a total consideration of ₦506.7 million. As a result of the sale, the equity interest of URC changed from 65.0% to 51.0%. The excess of the consideration received over the carrying amount of the equity transferred to NCI amounting to ₦481.1 million is presented under “Equity reserve” in the consolidated statements of financial position.

In August 2012, the Parent Company acquired 23.0 million common shares of URCICL from International Horizons Investment Ltd for ₦7.2 billion. The acquisition of shares represented the remaining 23.00% interest in URCICL. As a result of the acquisition, the Parent Company now holds 100.00% interest in URCICL. The Group charged equity reserve from the acquisition amounting to about ₦3.7 billion presented under “Equity reserve” in the consolidated statements of financial position.

Non-controlling Interest

The equity interest held by non-controlling interest in subsidiaries with material non-controlling interest as of December 31, 2019 and 2018 as follows:

| | Percentage of Ownership of Material NCI | |
|------|---|-------|
| | 2019 | 2018 |
| NURC | 49.00 | 49.00 |
| UHC | 40.00 | — |

The summarized financial information (before inter-company eliminations) of subsidiaries with material non-controlling interest follows (in thousands):

| | NURC | | UHC | |
|------------------------|------------|------------|------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| Current assets | ₦1,543,576 | ₦1,388,075 | ₦6,842,073 | ₦— |
| Noncurrent assets | 1,344,946 | 1,193,411 | 51,734,288 | — |
| Current liabilities | 1,845,306 | 1,769,632 | 4,800,314 | — |
| Noncurrent liabilities | 168,831 | 20,512 | 34,643,347 | — |
| Revenue | 6,344,753 | 5,755,858 | 19,800,977 | — |
| Costs and expenses | 4,532,473 | 4,935,042 | 17,512,287 | — |
| Net income | 694,195 | 601,600 | 526,258 | — |

The accumulated non-controlling interest of material non-controlling interest as follows:

| | 2019 | 2018 |
|------|-----------------------|-------------|
| UHC | ₱4,988,486,607 | ₱- |
| NURC | 439,948,802 | 388,216,510 |

The accumulated non-controlling interest as of December 31, 2019 and 2018 amounted to ₱5.2 billion and ₱202.3 million, respectively.

The profit allocated to non-controlling interest for the years ended December 31, 2019, 2018 and 2017, amounted to ₱343.0 million, ₱258.5 million and ₱264.8 million, respectively.

Record of Registration of Securities with SEC

Summarized below is the Parent Company's track record of registration of securities under the Securities Registration Code:

| Date of offering | Type of offering | No. of shares offered | Par value | Offer price | Authorized number of shares | Issued and outstanding shares |
|----------------------------|--|-----------------------|-----------|-------------|---|-------------------------------|
| February 17, 1994 | Registration of authorized capital stock | – | ₱1.00 | ₱– | 1,998,000,000 common shares 2,000,000 preferred shares | – |
| February 23, 1994 | Initial public offering Subscribed and fully paid common shares | 929,890,908 | 1.00 | 1.00 | – | 929,890,908 |
| | New common shares | 309,963,636 | 1.00 | 21.06 | – | 309,963,636 |
| July 21, 1995 (Forward) | 20.00% stock dividend | 247,970,907 | – | – | – | 247,970,907 |

| Date of offering | Type of offering | No. of shares offered | Par value | Offer price | Authorized number of shares | Issued and outstanding shares |
|--|---|--|-----------|-------------|--------------------------------|-------------------------------|
| October 15, 2001 | 10.00% stock dividend | 148,782,542 | ₱— | ₱— | — | 148,782,542 |
| June 20, 2003 | Property-for-share swap [the Parent Company shares in exchange for property of Robinsons Supermarket Corporation (RSC)] | 49,871,556 | — | — | — | 49,871,556 |
| December 16, 2005 | Increase in authorized capital stock (payment by way of 15.00% stock dividend) | — | — | — | 1,000,000,000 common shares | 252,971,932 |
| February 7, 2006 | New share offering for common shares: a. Primary shares b. Secondary shares c. Over-allotment shares | 282,400,000 352,382,600 95,217,400 | 1.00 | 17.00 | — | 282,400,000 |
| November 14, 2007 to October 20, 2008 | Acquisition of Parent Company's shares under the share buy-back Program | — | — | — | — | (75,104,200) |
| April 21, 2009 | Issuance of shares to JGSHI | — | — | — | — | 5,787,452 |
| December 8, 2009 to January 27, 2011 (Forward) | Acquisition of Parent Company's shares under the share buy-back program | — | — | — | — | (91,032,800) |

| Date of offering | Type of offering | No. of shares offered | Par value | Offer price | Authorized number of shares | Issued and outstanding shares |
|--------------------|--|-----------------------|-----------|-------------|-----------------------------|-------------------------------|
| June 14, 2012 | Sale of treasury shares | – | ₱— | ₱— | – | 120,000,000 |
| September 30, 2016 | Sale of treasury shares | – | – | – | – | 22,659,935 |
| April 24, 2018 | Issuance of shares to stockholders | – | – | – | – | 2,521,257 |
| April 24, 2018 | Re-purchase of shares issued to stockholders | – | – | – | – | (2,521,257) |
| | | | | | | <u>2,204,161,868</u> |

The table below provides information regarding the number of stockholders of the Parent Company:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---------------|----------------------|----------------------|----------------------|
| Common shares | 1,003 | 1,012 | 1,017 |

23. Components of Other Comprehensive Income

The breakdown and movement of other comprehensive income attributable to equity holders of the Parent Company follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|--|-----------------------|-------------------|-------------------|
| <i>Items to be reclassified to profit or loss in subsequent periods, net of tax:</i> | | | |
| Cumulative translation adjustments | ₱3,678,701,625 | ₱2,480,952,279 | ₱850,642,705 |
| Net unrealized gain on AFS financial assets | | | |
| Balance at beginning of period | – | 24,260,000 | 21,310,000 |
| Reclassification due to PFRS 9 | – | (24,260,000) | – |
| Change in fair value during the period (Note 17) | – | – | 2,950,000 |
| Balance at end of period | – | – | 24,260,000 |
| Net unrealized gain (loss) on cash flow hedges: | | | |
| Balance at beginning of period | 4,600,119 | 7,936,673 | 19,296,332 |
| Change in fair value during the period (Note 9) | (4,600,119) | (3,336,554) | (11,359,659) |
| Balance at end of period | – | 4,600,119 | 7,936,673 |
| | 3,678,701,625 | 2,485,552,398 | 882,839,378 |
| <i>Item not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Net unrealized gain on financial assets at FVOCI | | | |
| Balance at beginning of period | 28,580,000 | – | – |
| Reclassification due to PFRS 9 | – | 24,260,000 | – |
| Change in fair value during the period (Note 17) | 25,990,000 | 4,320,000 | – |
| Balance at end of period | 54,570,000 | 28,580,000 | – |
| Remeasurement losses on defined benefit plans, gross of tax: | | | |
| Balance at beginning of period | (256,522,672) | (558,125,366) | (594,056,733) |
| Remeasurement gains on defined benefit plans during the period (Note 31) | (463,310,720) | 301,602,694 | 35,931,367 |
| Balance at end of period | (719,833,392) | (256,522,672) | (558,125,366) |
| Income tax effect | 215,950,018 | 76,956,802 | 167,437,610 |
| Balance at end of period | (503,883,374) | (179,565,870) | (390,687,756) |
| | (449,313,374) | (150,985,870) | (390,687,756) |
| | ₱3,229,388,251 | ₱2,334,566,528 | ₱492,151,622 |

The breakdown and movement of other comprehensive income attributable to non-controlling interests follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|---------------------|---------------------|-------------------|
| <i>Item not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Remeasurement losses on defined benefit Plans, gross of tax: | | | |
| Balance at beginning of period | (₱2,336,952) | (₱953,725) | (₱4,566,566) |
| Remeasurement gain on defined benefit plans during the period (Note 31) | (7,805,964) | (1,383,227) | 3,612,841 |
| Balance at end of period | (10,142,916) | (2,336,952) | (953,725) |
| Income tax effect | 3,042,875 | 701,086 | 286,118 |
| | (₱7,100,041) | (₱1,635,866) | (₱667,607) |

24. Sale of Goods and Services/Cost of Sales

Sale of goods and services include revenue from tolling services amounting to ₱1.2 billion, ₱241.8 million and ₱179.8 million for the years ended December 31, 2019 2018 and 2017, respectively.

Cost of sales account consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|----------------------------|------------------------|------------------------|------------------------|
| Raw materials used | ₱63,361,227,250 | ₱61,935,144,153 | ₱58,991,536,243 |
| Direct labor | 6,360,549,254 | 6,229,393,398 | 5,788,350,160 |
| Overhead costs | 25,918,285,625 | 23,292,309,420 | 20,862,774,466 |
| Total manufacturing costs | 95,640,062,129 | 91,456,846,971 | 85,642,660,869 |
| Goods in-process | (558,182,283) | (218,195,227) | 3,638,910 |
| Cost of goods manufactured | 95,081,879,846 | 91,238,651,744 | 85,646,299,779 |
| Finished goods | (1,219,950,084) | (906,082,403) | 47,055,455 |
| | ₱93,861,929,762 | ₱90,332,569,341 | ₱85,693,355,234 |

The Group's raw materials used include raw materials and container and packaging materials inventory.

Overhead costs are broken down as follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|------------------------|-------------------|-------------------|
| Utilities | ₱8,373,558,035 | ₱7,898,234,689 | ₱7,576,345,534 |
| Depreciation and amortization (Note 27) | 6,302,960,643 | 5,548,177,852 | 5,377,003,923 |
| Personnel expenses (Note 28) | 3,582,738,030 | 3,344,085,895 | 3,112,919,756 |
| Repairs and maintenance | 3,407,462,606 | 2,943,488,316 | 2,548,246,214 |
| Security and other contracted services | 781,742,318 | 722,503,684 | 649,866,606 |
| Rental expense | 205,284,893 | 523,104,472 | 513,373,944 |
| Insurance | 200,592,711 | 192,985,628 | 198,832,730 |
| Handling and delivery charges | 238,260,011 | 176,880,414 | 185,825,028 |
| Research and development | 86,888,100 | 86,766,264 | 82,323,639 |
| Others | 2,738,798,278 | 1,856,082,206 | 618,037,092 |
| | ₱25,918,285,625 | ₱23,292,309,420 | ₱20,862,774,466 |

Others include excise taxes amounting to ₱1.4 billion, ₱1.2 billion and nil for the years ended December 31, 2019, 2018 and 2017, respectively.

25. Selling and Distribution Costs

This account consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|------------------------|-------------------|-------------------|
| Freight and other selling expenses | ₱8,744,768,724 | ₱8,640,063,341 | ₱8,836,677,237 |
| Advertising and promotions | 8,007,416,008 | 7,105,834,748 | 7,602,693,478 |
| Personnel expenses (Note 28) | 2,417,165,856 | 2,475,786,677 | 2,333,202,923 |
| Depreciation and amortization (Note 27) | 319,222,942 | 219,016,116 | 239,982,836 |
| Repairs and maintenance | 124,619,270 | 131,244,077 | 96,269,637 |
| Others | 214,119,284 | 147,613,894 | 142,050,101 |
| | ₱19,827,312,084 | ₱18,719,558,853 | ₱19,250,876,212 |

26. General and Administrative Expenses

This account consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|-------------------|-------------------|
| Personnel expenses (Note 28) | ₱2,834,313,060 | ₱2,882,430,173 | ₱2,946,018,579 |
| Depreciation and amortization (Note 27) | 687,873,342 | 602,581,876 | 487,076,600 |
| Security and contracted services | 372,219,881 | 285,204,116 | 263,010,037 |
| Taxes, licenses and fees | 241,262,338 | 256,080,911 | 245,171,407 |
| Repairs and maintenance | 229,681,422 | 243,392,263 | 142,522,762 |
| Rental expense (Note 36) | 229,404,741 | 236,787,812 | 214,483,196 |
| Professional and legal fees | 228,281,772 | 217,085,528 | 201,415,585 |
| Travel and transportation | 154,739,024 | 150,412,629 | 160,850,872 |
| Communication | 124,345,022 | 122,195,855 | 140,911,147 |
| Utilities | 42,529,228 | 60,836,183 | 57,251,993 |
| Stationery and office supplies | 24,320,840 | 30,784,674 | 29,591,597 |
| Donations and contributions | 6,210,131 | 29,603,765 | 7,233,729 |
| Others | 298,147,274 | 219,812,560 | 215,888,303 |
| | ₱5,473,328,075 | ₱5,337,208,345 | ₱5,111,425,807 |

Other include insurance, memberships, bank charges, and representation and entertainment related to general and administrative functions.

27. Depreciation and Amortization

The breakdown of consolidated depreciation and amortization follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|-------------------|-------------------|
| Cost of sales (Notes 13, 24 and 36) | ₱6,302,960,643 | ₱5,548,177,852 | ₱5,377,003,923 |
| Selling and distribution costs (Notes 13, 25 and 36) | 319,222,942 | 219,016,116 | 239,982,836 |
| General and administrative expenses (Notes 13, 15, 17, 26 and 36) | 687,873,342 | 602,581,876 | 487,076,600 |
| | ₱7,310,056,927 | ₱6,369,775,844 | ₱6,104,063,359 |

28. Personnel Expenses

This account consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---------------------------|-----------------------|-------------------|-------------------|
| Salaries and wages | ₱6,342,290,939 | ₱6,278,052,294 | ₱5,902,127,792 |
| Other employee benefits | 2,140,720,386 | 2,247,665,666 | 2,322,941,873 |
| Pension expense (Note 31) | 351,205,621 | 176,584,785 | 167,071,593 |
| | ₱8,834,216,946 | ₱8,702,302,745 | ₱8,392,141,258 |

The breakdown of personnel expenses follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2015 |
|---|-----------------------|-------------------|-------------------|
| Cost of sales (Note 24) | ₱3,582,738,030 | ₱3,344,085,895 | ₱3,112,919,756 |
| Selling and distribution costs (Note 25) | 2,417,165,856 | 2,475,786,677 | 2,333,202,923 |
| General and administrative expenses (Note 26) | 2,834,313,060 | 2,882,430,173 | 2,946,018,579 |
| | ₱8,834,216,946 | ₱8,702,302,745 | ₱8,392,141,258 |

29. Finance Revenue

This account consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|-------------------------------|---------------------|-------------------|-------------------|
| Bank interest income (Note 7) | ₱311,460,067 | ₱326,978,321 | ₱212,661,705 |
| Dividend income (Note 8) | 16,151,435 | 32,302,870 | 12,921,148 |
| | ₱327,611,502 | ₱359,281,191 | ₱225,582,853 |

30. Finance Costs

This account consists of finance costs arising from:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|-----------------------|-----------------------|
| Long-term debts (Note 20) | ₱866,375,210 | ₱1,354,936,980 | ₱1,239,928,198 |
| Interest expense on liabilities (Note 36) | 188,347,893 | — | — |
| Short-term debts (Note 18) | 93,925,041 | 134,922,658 | 66,560,687 |
| Net interest on net pension liability (Note 31) | 26,381,202 | 8,751,555 | 9,068,871 |
| Others (Notes 20 and 21) | 494,839,723 | 163,089,200 | 111,772,070 |
| | ₱1,669,869,069 | ₱1,661,700,393 | ₱1,427,329,826 |

Others include unamortized debt issue costs recognized as expense on pretermination of NZD loan, interest incurred on liabilities under trust receipts, amortization of asset retirement obligation and other financing charges.

31. Pension Costs

The Group has a funded, noncontributory defined benefit retirement plan covering all its employees. The pension funds are being administered and managed through JG Summit Multi-Employer Retirement Plan, with Robinsons Bank Corporation (RBC) as Trustee. The plan provides for retirement, separation, disability and death benefits to its members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of its contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD of the Ultimate Parent Company are represented in the Executive Retirement Committee. RBC manages the funds based on the mandate as defined in the trust agreement.

Under the existing regulatory framework, Republic Act (RA) 7641, *the Philippine Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under law. The law does not require minimum funding of the plan. The Parent Company and all of its subsidiaries meet the minimum retirement benefit under RA 7641.

Net pension asset (liability) included in the consolidated statements of financial position follow:

| | 2019 | 2018 |
|-----------------------------|-----------------------|--------------|
| Pension asset (Note 17) | ₱- | ₱15,589,696 |
| Pension liability (Note 21) | (761,383,080) | (21,967,651) |
| | (₱761,383,080) | (₱6,377,955) |

Changes in net defined benefit liability of funded funds of the Group are as follows:

| 2019 | | | | | | | | | | | | | |
|---|--------------------------------------|-----------------------------------|---------------------------|---------------|---------------|--|--|--|--|--------------|---------------|----------------------|-----------------|
| Net benefit cost in consolidated statements of income | | | | | | Remeasurements in other comprehensive income | | | | | | | |
| January 1, 2019 | Current service cost (Note 28) | Past service cost (Note 28) | Finance cost (Note 30) | Subtotal | Benefits paid | Return on plan assets (excluding amount included in net interest cost) | Actuarial changes arising from changes in experience | Actuarial changes arising from demographic adjustments | Actuarial changes arising from changes in financial assumptions | Subtotal | Contributions | December 31, 2019 | |
| Present value of defined benefit obligation | ₱2,060,607,006 | ₱203,574,299 | ₱121,250,120 | ₱143,286,707 | ₱468,111,126 | (₱152,251,708) | ₱- | ₱48,574,536 | (₱18,574,799) | ₱492,589,653 | ₱522,589,390 | ₱- | ₱2,899,055,814 |
| Fair value of plan assets | (2,054,229,051) | - | - | (116,905,505) | (116,905,505) | 152,251,708 | (51,472,706) | - | - | - | (51,472,706) | (67,317,180) | (2,137,672,734) |
| | ₱6,377,955 | ₱203,574,299 | ₱121,250,120 | ₱26,381,202 | ₱351,205,621 | ₱- | (₱51,472,706) | ₱48,574,536 | (₱18,574,799) | ₱492,589,653 | ₱471,116,684 | (₱67,317,180) | ₱761,383,080 |

| 2018 | | | | | | |
|---|--------------------------------------|---------------------------|---------------|---------------|--|--|
| Net benefit cost in consolidated statements of income | | | | | | Remeasurements in other comprehensive income |
| January 1, 2018 | Current service cost (Note 28) | Finance cost (Note 30) | Subtotal | Benefits paid | Return on plan assets (excluding amount included in net interest cost) | Actuarial changes arising from changes in experience |
| Present value of defined benefit obligation | ₱2,250,032,759 | ₱176,584,785 | ₱121,634,967 | ₱298,219,752 | (₱145,747,035) | ₱- |
| Fair value of plan assets | (2,079,224,934) | - | (112,883,412) | (112,883,412) | 145,747,035 | 45,017,615 |
| | ₱170,807,825 | ₱176,584,785 | ₱8,751,555 | ₱185,336,340 | ₱- | ₱45,017,615 |
| | | | | | (₱62,574,266) | ₱466,322 |
| | | | | | (₱283,129,138) | (₱283,129,138) |
| | | | | | (₱345,237,082) | (₱345,237,082) |
| | | | | | (₱213,268) | (₱213,268) |
| | | | | | (51,363,797) | (51,363,797) |
| | | | | | 45,017,615 | 45,017,615 |
| | | | | | (1,521,558) | (1,521,558) |
| | | | | | (₱51,577,065) | (₱51,577,065) |
| | | | | | ₱2,030,322 | ₱2,030,322 |
| | | | | | ₱6,377,955 | ₱6,377,955 |

The fair value of net plan assets of the Group by each class as at the end of the reporting period are as follows:

| | 2019 | 2018 |
|-------------------------------------|-----------------------|----------------|
| Assets | | |
| Cash and cash equivalents (Note 34) | ₱19,721,001 | ₱445,167,836 |
| Loans receivable | 240,570,000 | 240,570,000 |
| Financial assets at FVOCI | 86,935,900 | 872,101,658 |
| Investments at amortized cost | 328,572,712 | 336,285,640 |
| UITF investments | 1,313,720,699 | — |
| Interest receivable | 5,009,207 | 16,307,541 |
| Prepaid taxes | 840 | 759,980 |
| Land | 143,201,000 | 143,201,000 |
| | 2,137,731,359 | 2,054,393,655 |
| Liabilities | | |
| Accrued trust and management fees | 58,625 | 164,603 |
| | ₱2,137,672,734 | ₱2,054,229,052 |

The costs of defined benefit pension plan as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for defined benefit plans are as follows:

| | Parent Company | | NURC | | UBVI | |
|-----------------|----------------|-------|-------|-------|------|-------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Discount rate | 4.91% | 7.33% | 4.88% | 7.31% | — | 7.40% |
| Salary increase | 5.70% | 5.70% | 5.70% | 5.70% | — | 5.70% |

The overall expected rate of return on assets is determined based on the market expectation prevailing on that date, applicable to the period over which the obligation is to be settled.

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

| | Increase (Decrease) | Parent Company | | NURC | | UBVI | |
|-----------------|------------------------|-------------------------------|-------------------------------|---------------------------|---------------------------|--------|-----------------------|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Discount rate | 1.00% (1.00%) | (₱235,033,950) 273,449,444 | (₱143,013,836) 163,812,150 | (₱4,945,848) 5,722,738 | (₱2,452,824) 2,798,885 | — — | (₱328,428) 390,430 |
| Salary increase | 1.00% (1.00%) | 281,947,303 (246,797,516) | 177,988,158 (157,768,850) | 5,865,354 (5,159,532) | 3,022,258 (2,688,918) | — — | 419,502 (357,295) |

The Group expects to contribute ₱289.2 million in the pension fund in 2020.

Shown below is the maturity analysis of the Group's expected (undiscounted) benefit payments:

| | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| Less than one year | ₱210,584,111 | ₱172,255,639 |
| More than one year to five years | 1,064,247,687 | 947,528,189 |
| More than five years to 10 years | 1,660,917,933 | 1,409,906,313 |
| More than 10 years to 15 years | 2,119,848,493 | 1,711,149,123 |
| More than 15 years to 20 years | 2,178,874,761 | 1,814,430,836 |
| More than 20 years | 5,834,070,929 | 5,100,579,845 |

Shown below is the average duration of the defined benefit obligation at the end of the reporting period:

| | 2019 | 2018 |
|----------------|---------|---------|
| | (Years) | (Years) |
| Parent Company | 18 | 18 |
| NURC | 17 | 17 |
| UBVI | — | 21 |

32. Income Taxes

Provision for income tax consists of:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|----------|-----------------------|-----------------------|-----------------------|
| Current | ₱2,220,880,800 | ₱2,004,462,439 | ₱2,584,562,832 |
| Deferred | (439,152,947) | 77,631,388 | 212,923,469 |
| | ₱1,781,727,853 | ₱2,082,093,827 | ₱2,797,486,301 |

Components of the Group's net deferred tax assets and liabilities follow:

| | Net deferred tax assets | | Net deferred tax liabilities | |
|--|-------------------------|-------------|------------------------------|-------------|
| | 2019 | 2018 | 2019 | 2018 |
| Deferred tax assets on: | | | | |
| Net unrealized foreign exchange loss | ₱106,489,365 | ₱- | ₱- | ₱- |
| Loss arising from changes in fair value less estimated point-of-sale costs of swine stocks | 10,081,568 | - | - | - |
| Pension liabilities | 223,134,051 | 79,085,718 | 230,542,430 | 144,652,177 |
| Nondeductible accruals | - | - | 318,702,139 | 214,771,891 |
| Leases | 31,562,949 | 147,408 | 53,106,721 | 11,525,815 |
| Impairment losses on trade receivables and property and equipment | 100,852,134 | 100,852,134 | - | - |
| Inventory write-downs | 33,546,186 | 27,377,429 | 5,962,337 | 5,961,639 |
| Foreign subsidiaries | 95,810,488 | 100,068,558 | - | - |
| Unearned revenue | - | - | 22,726,694 | 22,726,694 |
| NOLCO | 30,665,352 | 36,499,802 | - | - |
| MCIT | 34,312 | 34,312 | - | - |
| | 632,176,405 | 344,065,361 | 631,040,321 | 399,638,216 |

| | Net deferred tax assets | | Net deferred tax liabilities | |
|--|-------------------------|--------------|------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Deferred tax liabilities on: | | | | |
| Gain arising from changes in fair value less estimated point-of-sale costs of swine stocks | – | 10,973,879 | – | – |
| Borrowing costs | – | 1,977,244 | – | – |
| Accelerated depreciation | – | – | 483,787,981 | 506,773,573 |
| Intangibles | – | – | 2,945,109,949 | 2,965,938,522 |
| Undistributed income of foreign subsidiaries | 4,054,703 | – | 759,708,553 | 708,771,887 |
| Unearned revenue | 7,955,884 | – | 322,597,396 | 446,906,513 |
| Foreign subsidiaries | – | 468,328 | – | – |
| Net unrealized foreign exchange gain | – | 135,159,925 | – | – |
| | 12,010,587 | 148,579,376 | 4,511,203,879 | 4,628,390,495 |
| Net deferred tax assets (liabilities) | ₱620,165,818 | ₱195,485,985 | (₱3,880,163,558) | (₱4,228,752,279) |

As of December 31, 2019 and 2018, the Group's subsidiaries did not recognize deferred tax assets amounting to ₱220.3 million and ₱231.6 million, respectively, since management believes that future taxable income will not be available to allow all or part of the deferred tax assets to be utilized.

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|-------------------|
| Statutory income tax rate | 30.00% | 30.00% | 30.00% |
| Increase (decrease) in tax rate resulting from | | | |
| Net income of subsidiaries with different tax rate | (14.17) | (8.26) | (8.95) |
| Income exempt from tax | (2.20) | (2.64) | (1.42) |
| Equity in net income of a joint venture | (0.40) | (0.34) | (0.60) |
| Interest income subjected to final tax | (0.27) | (0.31) | (0.23) |
| Nondeductible interest expense | 0.11 | 0.13 | 0.09 |
| Change in value of financial assets at FVPL | 0.01 | 0.09 | (0.15) |
| Others | 1.90 | (0.64) | 1.31 |
| Effective income tax rate | 14.98% | 18.03% | 20.05% |

Under Philippine tax laws, the Group is subject to income taxes, as well as other taxes (presented as ‘Taxes and licenses’ in the consolidated statements of income). Other taxes paid consist principally of documentary stamp taxes, real estate taxes and municipal taxes.

Income taxes include the minimum corporate income tax (MCIT), regular corporate income tax (RCIT), final tax paid at the rate of 20.0% for peso deposits and 7.5% for foreign currency deposits on gross interest income from bank deposits and short-term investments.

Current tax regulations provide that the RCIT rate shall be 30.0% and interest allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax beginning January 1, 2009.

Current tax regulations also provide for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Group commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception.

Current tax regulations further provides that an OSD equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the years ended

December 31, 2019, 2018 and 2017, the Group did not claim the OSD in lieu of the itemized deductions.

Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under ‘General and administrative expenses’ in the consolidated statements of income) amounting to ₱76.2 million, ₱57.5 million and ₱61.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

MCIT

An MCIT of 2.0% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years.

33. Earnings Per Share

The following reflects the income and share data used in the basic/dilutive EPS computations:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|-------------------|-------------------|
| Net income attributable to equity holders of the parent | ₱9,772,121,586 | ₱9,204,306,540 | ₱10,888,080,693 |
| Weighted average number of common shares | 2,204,161,868 | 2,204,161,868 | 2,204,161,868 |
| Basic/dilutive EPS | ₱4.43 | ₱4.18 | ₱4.94 |

The weighted average number of common shares excludes the treasury shares. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

There were no potential dilutive shares for the years ended December 31, 2019, 2018 and 2017.

34. Related Party Transactions

The Group, in the regular conduct of its business, has entered into transactions with JGSHI, its ultimate parent, and other related parties principally consisting of sales, purchases, advances and reimbursement of expenses, regular banking transactions, leases and, management and administrative service agreements. Transactions with related parties are generally settled in cash.

Intercompany transactions with subsidiaries are eliminated in the accompanying consolidated financial statements. Details of related party transactions are as follows:

| | | December 31, 2019 | | | | | |
|------------------------------------|-----------------------------|---------------------------|---|---|---|--|-----------------------------|
| Related Party | Category/Transaction | Amount/ Volume | Cash and Cash Equivalents (Note 7) | Trade Receivable (Payable) - net (Notes 10 and 19) | Non-trade Receivable (Payable) - net (Notes 10 and 19) | Terms | Conditions |
| | | | | (Payable) - net (Notes 10 and 19) | (Payable) - net (Notes 10 and 19) | | |
| Ultimate Parent Company | Advances | ₱ – | ₱ – | ₱ – | ₱ 524,540,551 | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental expense | 202,207,091 | – | – | – | | |
| Entity under common control | | | | | | | |
| Due from related parties | Advances | – | – | – | 468,382,475 | On demand; non-interest bearing | Unsecured; no impairment |
| | Sales | 1,269,262,009 | – | 215,065,891 | – | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental income | 44,028,240 | – | – | – | On demand; non-interest bearing | Unsecured; no impairment |
| | Engineering services | 9,557,254 | – | – | – | | |
| | Contracted services | 125,798,697 | – | – | – | | |
| Due to related parties | | – | – | – | (151,785,243) | On demand | Unsecured |
| Cash and cash equivalents | Cash in bank | 99,590,571 | 435,189,020 | – | – | Interest-bearing at prevailing market rate; due and demandable | Unsecured; no impairment |
| | Money market placements | (770,399,025) | 1,445,603,986 | – | – | Interest-bearing at prevailing market rate; due from 7 to 71 days; with interest ranging from 1.5% to 2.8% | Unsecured; no impairment |
| | Interest income | 31,228,303 | – | 717,908 | – | Due from 7 to 71 days | Unsecured; no impairment |
| Subsidiaries | | | | | | | |
| Due from related parties | Sales | 890,027,531 | – | 40,210,396 | – | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental income | 22,558,622 | – | – | – | | |
| Due to related parties | Purchases | 6,756,740,989 | – | (97,294,910) | – | On demand | Unsecured |
| Joint Venture | Purchases | 1,034,585,102 | – | (64,894,000) | – | 1 to 30 days; | Unsecured |
| | Sales | 15,118,364 | – | 12,828,560 | – | non-interest bearing | |
| | Rental income | 1,427,517 | – | – | – | | |

| | | December 31, 2018 | | | | | |
|-----------------------------|-------------------------|-------------------|--|--|--|--|-----------------------------|
| Related Party | Category/Transaction | Amount/ Volume | Cash and Cash Equivalents (Note 7) | Trade Receivable (Payable) - net (Notes 10 and 19) | Non-trade Receivable (Payable) - net (Notes 10 and 19) | Terms | Conditions |
| | | | | ₱- | ₱- | | |
| Ultimate Parent Company | Advances | ₱- | ₱- | ₱- | ₱298,465,468 | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental expense | 191,681,600 | — | — | — | | |
| Entity under common control | | | | | | | |
| Due from related parties | Advances | — | — | — | 547,336,161 | On demand; non-interest bearing | Unsecured; no impairment |
| | Sales | 1,120,358,698 | — | 103,086,078 | — | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental income | 37,327,677 | — | — | — | | |
| | Engineering services | 12,918,430 | — | — | — | | |
| | Contracted services | 116,083,484 | — | — | — | | |
| Due to related parties | | — | — | — | (164,624,582) | On demand | Unsecured |
| Cash and cash equivalents | Cash in bank | 145,020,946 | 335,598,449 | — | — | Interest-bearing at prevailing market rate; due and demandable | Unsecured; no impairment |
| | Money market placements | (1,832,041,774) | 2,216,003,012 | — | — | Interest-bearing at prevailing market rate; due from 7 to 90 days; with interest ranging from 1.5% to 5.5% | Unsecured; no impairment |
| | Interest income | 75,013,989 | — | 3,616,138 | — | Due from 7 to 90 days | Unsecured; no impairment |
| Subsidiaries | | | | | — | | |
| Due from related parties | Sales | 819,324,713 | — | 124,600,418 | — | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental income | 20,934,624 | — | — | — | | |
| Due to related parties | Purchases | 5,927,521,672 | — | (583,395,154) | — | On demand | Unsecured |
| Joint Venture | Purchases | 1,045,752,811 | — | (82,456,142) | — | 1 to 30 days; non-interest bearing | Unsecured |
| | Sales | 47,496,986 | — | 7,316,815 | — | | |
| | Rental income | 917,280 | — | — | — | | |

| | | December 31, 2017 | | | | | |
|-----------------------------|-------------------------|-------------------|--|--|--|--|-----------------------------|
| Related Party | Category/Transaction | Amount/ Volume | Cash and Cash Equivalents (Note 7) | Trade Receivable (Payable) - net (Notes 10 and 19) | Non-trade Receivable (Payable) - net (Notes 10 and 19) | Terms | Conditions |
| Ultimate Parent Company | Advances | ₱- | ₱- | ₱- | ₱439,409,131 | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental expense | 177,081,208 | — | — | — | | |
| Entity under common control | | | | | | | |
| Due from related parties | Advances | — | — | — | 956,830,499 | On demand; non-interest bearing | Unsecured; no impairment |
| | Sales | 995,485,756 | — | 77,348,339 | — | | |
| | Rental income | 37,966,278 | — | — | — | On demand; non-interest bearing | Unsecured; no impairment |
| | Engineering services | 17,420,461 | — | — | — | | |
| Due to related parties | Contracted services | 103,675,870 | — | — | — | | |
| | | — | — | — | (106,452,798) | On demand | Unsecured |
| | | | | | | | |
| Cash and cash equivalents | Cash in bank | (205,215,801) | 190,577,503 | — | — | Interest-bearing at prevailing market rate; due and demandable | Unsecured; no impairment |
| | Money market placements | 1,512,724,554 | 4,048,044,786 | — | — | Interest-bearing at prevailing market rate; due from 2 to 40 days; with interest ranging from 1.2% to 3.4% | Unsecured; no impairment |
| | Interest income | 30,148,933 | — | 3,401,689 | — | | |
| Subsidiaries | | | | | | | |
| Due from related parties | Sales | 630,964,853 | — | 30,023,194 | — | On demand; non-interest bearing | Unsecured; no impairment |
| | Rental income | 17,126,605 | — | — | — | | |
| Due to related parties | Purchases | 5,102,874,725 | — | (339,334,405) | — | On demand | Unsecured |
| Joint Venture | Purchases | 1,384,805,724 | — | (69,986,122) | — | 1 to 30 days; non-interest bearing | Unsecured |
| | Sales | 158,109,871 | — | 187,398,912 | — | | |

The Group maintains savings and current accounts and time deposits with an entity under common control which is a local commercial bank. Cash and cash equivalents earn interest at the prevailing bank deposit rates.

As of December 31, 2019 and 2018, the Group has advances from stockholders amounting to ₡192.7 million and ₡247.2 million, respectively (see Note 19). These advances are non-interest bearing and payable on demand.

Transactions with the retirement plan

The Parent Company entered into an agreement to lease the land of the retirement plan for a period of one (1) year, renewable annually. Rentals incurred amounted to ₡25.3 million for the years ended December 31, 2019 and 2018. Terms are unsecured, noninterest-bearing and payable on demand.

Included in the Group's retirement plan assets are special savings deposits with RBC. As of December 31, 2019 and 2018, special savings deposit with RBC amounting to ₡19.5 million and ₡445.2 million bears annual interest rates ranging from 0.3% to 3.0% and from 1.5% to 5.8%, respectively.

Compensation of Key Management Personnel

The compensation of the Group's key management personnel by benefit type follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|------------------------------|---------------------|---------------------|---------------------|
| Short-term employee benefits | ₱332,029,853 | ₱291,597,774 | ₱256,914,335 |
| Post-employment benefits | 123,379,622 | 81,989,490 | 70,445,960 |
| | ₱455,409,475 | ₱373,587,264 | ₱327,360,295 |

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

Approval Requirements and Limits on the Amount and Extent of Related Party Transactions

Material related party transactions (MRPT) refers to any related party transaction/s, either individually, or in aggregate over a twelve (12)-month period with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited financial statements.

All individual MRPT's shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

35. Registration with the BOI

Certain operations of the Parent Company are registered with the BOI as preferred pioneer and nonpioneer activities. As registered enterprises, these entities are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

Sugar Millsite - Tolong

On January 14, 2015, Sugar Millsite - Tolong was registered with the BOI as an expanding producer of raw sugar.

Under the terms of the registration and subject to certain requirements, Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from February 2015 (as an expanding producer raw sugar) or actual start of commercial operations, whichever is earlier but in case earlier than the date of registration; (b) importation of capital equipment, spare parts and accessories at zero (0) duty from the date of effectivity of Executive Order (EO) No. 70 and its implementing rules and regulations for a period of five (5) years reckoned from the date its registration or until the expiration of EO No. 70 whichever is earlier; (c) additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board. This may be availed of for the first five (5) years from date of registration but not simultaneously with ITH; (d) importation of consigned equipment for a period of ten (10) years from the date of registration, subject to posting of re-export bond; (e) tax credit equivalent to national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from start of commercial operations; (f) exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten (10) years from the date of registration; (g) employment of foreign nationals; (h) simplifications of customs procedures for the importation of equipment, spare parts, raw materials and supplies.

The ITH entitlement has ended last February 14, 2018.

Sugar Millsite - Sonedco

On June 29, 2018, Sugar Millsite - Sonedco was registered with the BOI as an expanding producer of refined sugar and its by-product (molasses).

Under the terms of the registration and subject to certain requirements, Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from September 2018 (as an expanding producer of refined sugar and its by-product) or actual start of commercial operation, whichever is earlier but availment shall in no case be earlier than the date of registration; (b) importation of capital equipment, spare parts and accessories at zero (0) duty under EO No. 22 and its implementing rules; (c) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with Customs Bonded Manufacturing Warehouse (CBMW) exporting at least seventy percent (70%) of production; (d) additional deduction for labor expense for a period of five (5) years from registration an amount equivalent to fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board. This may be availed of for the first five (5) years from the date of registration but not simultaneously with ITH; (e) importation of consigned equipment for a period of ten (10) years from date of registration, subject to posting of re-export bond; (f) employment of foreign nationals; (g) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (h) exemption from wharfage dues, and export tax duty, impost and fee for a period of ten (10) years from the date of registration; (i) access to CBMW subject to the BOC rules and regulations, and additional deduction from taxable income equivalent to 100% of expenses incurred in the development of necessary and major infrastructure facilities.

The said expansion started commercial operation on November 27, 2018.

Sugar Millsite - Balayan

On September 8, 2017, Sugar Millsite - Balayan was registered with the BOI as an expanding producer of raw sugar and its by-product (molasses).

Under the terms of the registration and subject to certain requirements, Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from November 2018 (as an expanding producer of raw sugar and its by-product) or actual start of commercial operation, whichever is earlier but in no case be earlier than the date of registration; (b) importation of capital equipment, spare parts and accessories at zero (0) duty under EO No. 22 and its implementing rules. Only equipment directly needed and exclusively use in its operation shall be entitled to capital equipment incentives; (c) additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board. This may be availed of for the first five (5) years from the date of registration but not simultaneously with ITH; (d) importation of consigned equipment for a period of ten (10) years from date of registration, subject to posting of re-export bond; (e) employment of foreign nationals; and (f) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies. The said expansion will start commercial operation early of 2019.

Cogeneration

On September 26, 2014, Cogeneration was registered with the BOI as a Renewable Energy (RE) developer of Bagasse-fired power plant.

Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of seven (7) years at which the RE plant generated the first kilowatt-hour energy after commissioning or testing, or two months from date of commissioning, whichever is earlier; (b) duty-free importation of RE machinery, equipment, and materials including control and communication equipment; (c) tax exemption of carbon credits; (d) special realty tax rates on equipment and machinery, (e) NOLCO during the first three years from the start of commercial operation shall be carried over as a deduction from the gross income as defined in the National Internal Revenue Code (NIRC) for the next seven (7) years immediately following the year of such loss; (f) after availment of the ITH, the enterprise shall pay a corporate tax of 10% on its taxable income as defined in the NIRC, provided that it shall pass on the savings to the end users in the form of lower power rates; (g) the plant, machinery, and equipment that are reasonably needed and actually used for the exploration, development, and utilization of RE resources may be depreciated using a rate not exceeding twice the rate which would have been used had the annual allowance been computed in accordance with the rules and regulations prescribed by the Department of Finance and the provisions of the NIRC; (h) the sale of fuel or power generated by the enterprise from renewable sources of energy such as biomass as well as its purchases of local supply of goods, properties, and services needed for the development, construction, and installation of its plant facilities, and the whole process of exploration and development of RE sources up to its conversion into power shall be subject to zero percent VAT pursuant to NIRC; (i) tax credit equivalent to 100% of the value of VAT and custom duties that would have been paid on the purchase of RE machinery, equipment, materials and parts had these items been imported shall be given to the enterprise that purchases machinery, equipment, materials and parts from a domestic manufacturer.

Distillery

On August 28, 2013, Distillery was registered with the BOI as a manufacturer of bio-ethanol (fuel grade ethanol).

Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of seven (7) years from March 2014 or date of commissioning, whichever is earlier; (b) duty-free importation of RE machinery, equipment, and materials including control and communication equipment; (c) tax exemption of carbon credits; (d) special realty tax rates on equipment and machinery (e) NOLCO during the first three years from the start of commercial operation shall be carried over as a deduction from the gross income as defined in the NIRC for the next seven (7) years immediately following the year of such loss; (f) after availment of the ITH, the enterprise shall pay a corporate tax of 10.0% on its taxable income as defined in the NIRC, provided that it shall pass on the savings to the end users in the form of lower power rates; (g) the plant, machinery, and equipment that are reasonably needed and actually used for the exploration, development, and utilization of RE resources may be depreciated using a rate not exceeding twice the rate which would have been used had the annual allowance been computed in accordance with the rules and regulations prescribed by the Department of Finance and the provisions of the NIRC. The enterprise that applies for accelerated depreciation shall no longer be eligible to avail of the ITH; (h) the sale of fuel or power generated by the enterprise from renewable sources of energy such as biomass as well as its purchases of local supply of goods, properties, and services needed for the development, construction, and installation of its plant facilities, and the whole process of exploration and development of RE sources up to its conversion into power shall be subject to zero percent VAT pursuant to NIRC; (i) tax credit equivalent to 100.0% of the value of VAT and custom duties that would have been paid on the purchase of RE machinery, equipment, materials and parts had these items been imported shall be given to the enterprise that purchases machinery, equipment, materials and parts from a domestic manufacturer.

Robina Farms (RF) - Poultry

Expanding producer of table eggs

On July 23, 2018, RF - Poultry was registered as an expanding producer of table eggs for the new commercial layer houses, with a non-pioneer status.

RF - Poultry is eligible to the grant of the following incentives: (a) ITH for three (3) years from July 2018 or actual start of commercial operations, whichever is earlier, but shall not be earlier than the date of registration. Income qualified for ITH shall be limited to the income directly attributable to the eligible revenue generated from registered project; (b) exemption from taxes and duties on imported spare parts and consumable supplies with CBMW exporting at least seventy percent (70%) of production; (c) additional deduction for a period of five (5) years from registration an amount equivalent to fifty percent (50%) of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year; (d) importation of consigned equipment for a period of ten (10) years from date of registration subject to posting of re-export bond; (e) employment of foreign nationals; (f) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (g) exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration; (h) access to CBMW subject to customs rules and regulations; and (i) additional deduction from taxable income equivalent to 100% of expenses incurred in the development of necessary and major infrastructure facilities.

Expanding producer of parent stock day-old chicks and producer of table eggs and its by-products

On January 30, 2008, RF - Poultry was registered with the BOI as an expanding producer of parent stock day-old chicks. On June 4 of the same year, it was registered as a new producer of table eggs and its by-products. Both activities are on a nonpioneer status.

Under the terms of the registration and subject to certain requirements, RF - Poultry is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from October 2008 (as an expanding producer of parent stock day-old chicks) and for a period of four (4) years from October 2009 (as a new producer of table eggs and its by-products); (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Custom rules and regulations, provided firm exports at least 70.0% of production output; (g) exemption from wharfage dues, any export tax, duty, impost and fees for a period of ten (10) years from date of registration; (h) importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond; (i) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70.0% of production; (j) tax and duty exemption on the imported breeding stocks and genetic materials within ten (10) years from the date of registration; and (k) tax credit on tax and duty portion of domestic breeding stocks and genetic materials within ten (10) years from the date of registration.

Robina Farms (RF) - Hogs

Expanding producer of finisher hogs

On October 28, 2019, RF - Hogs was registered with the BOI as a new producer of processed meat products, with a non-pioneer status.

Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of four (4) years from October 2019 or actual start of commercial operations, whichever is earlier, but availment shall not be earlier than the date of registration. The income qualified for ITH shall be limited to the income directly attributable to the eligible revenue generated from registered project. The enterprise can avail of bonus year subject to certain terms and conditions provided that the aggregate ITH availment (regular and bonus years) shall not exceed eight (8) years; (b) importation of capital equipment, spare parts and accessories at zero (0) duty under Executive Order No. 85 and its Implementing Rules and Regulation; (c) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least seventy percent (70%) of production; (d) additional deduction for labor expense for a period of five (5) years from registration an amount equivalent to fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, subject to certain terms and conditions; (e) importation of consigned equipment for a period of ten (10) years from date of registration subject to posting of re-export bond; (f) employment of foreign nationals; (g) simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies; (h) exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten (10) years from date of registration; (i) access to CBMW subject to the Customs rules and regulations; (j) tax and duty exemption on imported breeding stocks and genetic materials within ten (10) years from the date of registration; and (k) tax credit on tax and duty portion of domestic breeding stocks and genetic materials within ten (10) years from date of registration.

Expanding producer of finisher hogs

On January 30, 2008, RF - Hogs was registered with the BOI as an expanding producer of finisher hogs in RF 11, Antipolo City and RF 12, Bulacan on a nonpioneer status. Under the terms of the registration and subject to certain requirements, RF - Hogs is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from October 2009 but only from the sales generated from the registered projects; (b) additional deduction from taxable income on wages subject to certain terms and conditions; (c) employment of foreign nationals; (d) tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from start of commercial operations; (e) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies; (f) access to CBMW subject to Custom rules and regulations, provided firm exports at least 70% of production output; (g) exemption from wharfage dues, any export tax, duty, impost and fees for a period of ten (10) years from date of registration; (h) importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond; (i) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least 70% of production; (j) tax and duty exemption on the imported breeding stocks and genetic materials within ten (10) years from the date of registration; and (k) tax credit on tax and duty portion of domestic breeding stocks and genetic materials within ten (10) years from the date of registration.

URC Flour

On December 5, 2018, URC Flour was registered with the BOI as an expanding producer of flour, with a non-pioneer status.

Under the terms of the registration and subject to certain requirements, the Parent Company is entitled to the following fiscal and non-fiscal incentives: (a) ITH for a period of three (3) years from July 2019 or actual start of commercial operations, whichever is earlier but availment shall not be earlier than the date of registration. The income qualified for ITH shall be limited to the income directly attributable to the eligible revenue generated from registered project; (b) importation of capital equipment, spare parts and accessories at zero (0) duty under Executive Order No. 57 and its Implementing Rules and Regulations; (c) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least seventy percent (70%) of production; (d) additional deduction for labor expense for a period of five (5) years from registration an amount equivalent to fifty percent (50%) of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, subject to certain terms and conditions; (e) importation of consigned equipment for a period of ten (10) years from date of registration subject to posting of re-export bond; (f) employment of foreign nationals; (g) simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies; (h) exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten (10) years from date of registration; (i) access to CBMW subject to the Customs rules and regulations; and (j) additional deduction from taxable income equivalent to 100% of expenses incurred in the development of necessary and major infrastructure facilities.

36. Commitments and Contingencies

Milling Contracts

Milling contracts with various planters provide for a 60%-70% share to the planters (including related parties) and 30%-40% share to the Group of sugar and molasses produced from sugar canes milled. The Sugar Industry Development Act of 2015 provides that, to ensure the immediate payment of farmers and secure their income from sugarcane, farmers may enter into any payment method with the sugar mill.

Sugar under Custody but not owned

As of December 31, 2019 and 2018, the Group has in its custody sugar owned by several quedan holders with volume of 502,903 Lkg and 502,051 Lkg, respectively. The said volume of sugar is not reflected in the statement of financial position since this is not owned by the Group. The Group is accountable to both quedan holders and sugar traders for the value of these trusted sugar or their sales proceeds.

Leases

The Group's leases mostly pertain to land, office spaces, warehouses, machinery and equipments, transportaton equipment and furniture and fixtures. Leases of land, office spaces, warehouses, machinery and equipments, transportaton equipment and furniture and fixtures generally have terms ranging from two (2) to 30 years.

Right-of-use Assets

Set out below are the carrying amounts of ROU assets recognized and the movements during the year ended December 31, 2019:

| | As of and for the year ended December 31, 2019 | | | | | |
|---|--|----------------------------|-------------------------|--------------------------|-----------------------|----------------|
| | Land and Land improvements | Buildings and Improvements | Machinery and Equipment | Transportation Equipment | Furniture and Fixture | Total |
| Cost | | | | | | |
| Balances at beginning of year | ₱- | ₱- | ₱- | ₱- | ₱- | ₱- |
| Effect of adoption of PFRS 16 (Note 2) | 1,060,064,680 | 2,088,618,728 | 45,618,627 | 11,045,050 | 3,684,027 | 3,209,031,112 |
| Balance at beginning of year, as restated | 1,060,064,680 | 2,088,618,728 | 45,618,627 | 11,045,050 | 3,684,027 | 3,209,031,112 |
| Additions | – | 1,157,519,075 | 10,635,792 | 19,945,336 | – | 1,188,100,203 |
| Other adjustments | 1,347,536 | (113,407,173) | (2,918,451) | (4,717,482) | (122,427) | (119,817,997) |
| Balance at end of year | 1,061,412,216 | 3,132,730,630 | 53,335,968 | 26,272,904 | 3,561,600 | 4,277,313,318 |
| Accumulated Depreciation | | | | | | |
| Balance at beginning of year | – | – | – | – | – | – |
| Depreciation | 105,949,615 | 522,350,920 | 33,077,712 | 10,252,506 | 2,142,718 | 673,773,471 |
| Other adjustments | 40,504 | (3,991,667) | (1,751,231) | (4,331,514) | (5,758) | (10,039,666) |
| Balance at end of year | 105,990,119 | 518,359,253 | 31,326,481 | 5,920,992 | 2,136,960 | 663,733,805 |
| Net Book Value at end of year | ₱955,422,097 | ₱2,614,371,377 | ₱22,009,487 | ₱20,351,912 | ₱1,424,640 | ₱3,613,579,513 |

Lease Liabilities

The rollforward analysis of the Group's lease liabilities as at December 31, 2019 follows:

| | |
|---|----------------|
| As at January 1, 2019, as previously reported | ₱- |
| Effect of adoption of PFRS 16 (Note 2) | 3,164,447,472 |
| As at January 1, 2019, as restated | 3,164,447,472 |
| Additions | 1,165,463,043 |
| Accretion (Note 30) | 188,347,893 |
| Payments | (753,266,948) |
| Cumulative translation adjustment | (43,973,251) |
| As at December 31, 2019 | ₱3,721,018,209 |

The maturity analysis of lease liabilities is disclosed in Note 4, *Financial Risk Management Objectives and Policies*.

Summarized below are the amounts recognized in the 2019 consolidated statement of comprehensive income in relation to the Group's leases:

Cost of Sales and Services

| | |
|---|--------------|
| Cost of services - depreciation of ROU assets | ₱255,075,037 |
| Rent expense - short term leases | 205,284,893 |
| | <hr/> |
| | 460,359,930 |

Operating Expenses

| | |
|-------------------------------------|---------------|
| Selling and distribution costs | |
| Depreciation of ROU assets | ₱301,202,808 |
| Rent expense - short term leases | 452,763,162 |
| General and administrative expenses | |
| Depreciation of ROU assets | 117,495,626 |
| Rent expense - short term leases | 229,404,741 |
| | <hr/> |
| | 1,100,866,337 |

Other Income (Losses)

| | |
|---|--------------|
| Finance cost and other charges - accretion of lease liabilities | ₱188,347,893 |
| Rent income | 117,385,869 |

Operating Lease Commitments - Group as a Lessor

The Group has entered into (1) one-year renewable, noncancelable leases with various related parties covering certain land and buildings where office spaces are located. Future minimum rentals receivable under noncancelable operating leases amounted to ₱72.5 million ₱73.3 million and ₱63.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Operating Lease Commitments - Group as a Lessee (Prior to adoption of PFRS 16)

The Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to twenty years from the date of the contracts and are renewable under certain terms and conditions. The Group's rentals incurred on these leases (included under 'Selling and distribution costs' and 'General and administrative expenses' in the consolidated statements of income) amounted to ₱682.2 million, ₱937.6 million and ₱976.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Future minimum rentals payable under noncancelable operating leases follow:

| | December 9 | December 8 | December 7 |
|---|-----------------------|----------------|----------------|
| Within one year | ₱764,674,589 | ₱752,048,217 | ₱792,639,232 |
| After one year but not more than five years | 2,280,129,598 | 1,362,757,872 | 1,708,022,477 |
| More than five years | 5,857,143,316 | 464,770,770 | 506,731,716 |
| | ₱8,901,947,503 | ₱2,579,576,859 | ₱3,007,393,425 |

Finance Lease Commitments - Group as a Lessee (Prior to adoption of PFRS 16)

Some of the Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the Group on a straight-line basis over the term of the right ranging from 30 to 50 years. The amortization on these leases (included under 'General and administrative expenses' in the consolidated statements of income) amounted to ₱5.2 million, ₱2.5 million and ₱2.4 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Others

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts, under arbitration or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

37. Supplemental Disclosure to Cash Flow Statements

The Group's noncash activities are as follows:

| | December 31, 2019 | December 31, 2018 | December 31, 2017 |
|---|-----------------------|-------------------|-------------------|
| Cumulative translation adjustment (Note 23) | ₱1,197,749,346 | ₱1,630,309,574 | (₱1,392,324,892) |
| Accrued earn-out of PSFL (Note 16) | — | — | (51,516,704) |
| Sale of equity interest without loss of control (Note 22) | 513,794,155 | — | — |

Reclassifications between accounts considered in the preparation of cash flow statement for the year ended December 31, 2018 include: (a) from investment properties to property, plant and equipment with book value of ₱5.6 million (see Note 17); and (b) from investment in joint ventures to investment in subsidiaries amounting to ₱222.8 million (see Note 16).

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

| | Short-term debts | Long-term debts | Total liabilities from financing activities |
|-------------------------------|------------------|-----------------|---|
| January 1, 2019 | ₱2,461,385,106 | ₱31,457,123,882 | ₱33,918,508,988 |
| Cash flows from availment | 2,100,000,000 | — | 2,100,000,000 |
| Cash flows from settlement | (771,313,583) | — | (771,313,583) |
| Foreign exchange movement/CTA | 58,413,750 | (1,171,744,302) | (1,113,330,552) |
| Others | — | 100,698,028 | 100,698,028 |
| December 31, 2019 | ₱3,848,485,273 | ₱30,386,077,608 | ₱34,234,562,881 |

38. Approval for the Release of the Financial Statements

The accompanying consolidated financial statements of the Group were authorized for issue by the AC and the BOD on April 3, 2020.

39. Events after the Reporting Date

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The Group remains vigilant on the potential impact of the outbreak on its supply chain and on consumer demand. Given the fluidity of the situation, the Group has yet to fully ascertain the risk and impact of the COVID-19 pandemic. The Group's selling operations remain open and it currently has sufficient inventory that enables it to operate its business at normal levels across the different geographic locations where it has facilities, in both domestic and international markets.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation. The Group continues to abide by and comply with all the rules and regulations issued by the government in relation to the COVID-19 pandemic. To mitigate the impact of COVID-19 on its operations, the Group has implemented a robust business continuity plan and has started to execute programs to ensure the safety and well-being of its employees such as flexible schedules, proper and frequent sanitation of plant premises, temperature screenings and work from home arrangements.

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