COVER SHEET

1 2 9 9 8

SEC Registration Number

RFM CORPORATION AND SUBSIDIARIES

(Company's Full Name)

RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

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

Ramon M. Lopez

(Contact Person)

631-8101

(Company Telephone Number)

1 2	**3 1**
Month	Day

(Calendar Year)

17–Q

(Form Type)

Month	Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **SEPTEMBER 30, 2014**

2. Commission Identification Number: **12998**

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

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

5. **Philippines**
   Province, country or other jurisdiction of incorporation or organization

6. ____________ (SEC Use Only)
   Industry Classification Code

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

8. **0632-631-81-01**
   Registrant's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Issued and Outstanding
Common Stock, ₱1.00 par value	**3,500,403,866**

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

Yes [✓] No [ ]

12. Indicate by check mark whether the Registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements are filed as part of this form 17-Q, pages 7 to 43 and are incorporated herein by reference to said quarterly report.

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

Analysis of Results of Operations

YTD September 2014 vs. YTD September 2013

Food and Beverage Company RFM Corporation posted P577.63 million net income for the first nine months of the year or 10% higher than the same period last year. The income was achieved on the back of P7.84 Billion in sales revenues for the first nine months, higher by 10% over the revenues posted for the same period last year.

Growth accelerated in the third quarter, pushing the year-to-date September revenue growth to 10%, coming from a 5% growth in the first half of the year. Faster growth was seen in the ice cream, pasta, flour mixes, milk and bread businesses of the group. Sales could have been higher if not for the bottlenecks in operations caused by the Manila port congestion, aggravated by the delivery trucks shortage due to the poorly-timed implementation of rules on franchised trucking services. While the problem is easing with remedial efforts from government, there is still congestion and supply chain slowdowns that affect the entire industry, especially for deliveries of needed raw materials and packaging requirements, as well as deliveries of finished products to customers and distributors

Despite the operational issues, RFM managed to find ways to improve the supply and distribution system which helped increase further revenue and profit growth in the 3rd quarter. The company was also able to manage its operating expenses, while cost of certain critical inputs were also seen tracking lower than previous periods

Third Quarter 2014 vs. Third Quarter 2013

Group revenues reached P2.84 billion during the third quarter, around 21% higher than P2.35 billion revenues for the same period last year. However, the Group was able to sustain its gross margins and limit its operating costs, thereby obtaining a higher net income of 151M, 9% higher as compared to 138M for the same period last year.

The key financial performance indicators for the Company for the nine-month period ended September 30, 2014 as compared to the same period in 2013, as well as the third quarter of 2014 as compared with the third quarter of 2013, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	For the Quarter Ended		For the Nine-Month Period Ended	
	September 30, 2014	September 30, 2013	**September 30, 2014**	September 30, 2013
Net Revenues	**₱2,843**	₱2,351	**₱7,840**	₱7,118
Net Operating Margin	**245**	177	**811**	703
Net Income (Loss)	**151**	138	**578**	525
EBITDA	**275**	240	**1,000**	922
Current Ratio	**1.41**	1.37	**1.41**	1.30

* *Except current ratio*

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

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

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

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

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

Analysis of Financial Condition and Balance Sheet Accounts

As of September 30, 2014, the Group's Total Assets increased by 3.3% amounting to P13.92Billion compared to December 31, 2013 of P13.48Billion.The increase was primarily from the Noncurrent Assets segment which grew by 28.4% compared to December 31, 2013.

The Group maintains its current ratio of 1.41 as of September 30, 2014(1.82 as of December 31, 2013).The Group's Debt to Equity ratio was 0.55 and .46 on September 30, 2014 and December 31, 2013, respectively.

Notes to Financial Statements

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

The Company discloses the following:

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

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

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

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

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

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

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

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

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

(j) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of September 30, 2014;

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

RFM CORPORATION
Registrant

MA. HERMINIA C. YOUNG	**MINERVA C. LAFORTEZA**
SVP – GM Consumer Group	VP – Finance and Controllership

Dated: **November 4, 2014**

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

	For the period ended	
	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	**₱836**	₱2,885
Accounts receivable (Note 5)	**2,503**	2,348
Inventories (Note 6)	**1,348**	1,548
Other current assets (Note 7)	**908**	215
Total Current Assets	**5,595**	6,996
Noncurrent Assets		
Property, equipment and investment property (Note 8)	**5,461**	5,667
Investment (Note 9)	**462**	458
Other noncurrent Asset (Note 10)	**2,403**	351
Total Noncurrent Assets	**8,327**	6,486
TOTAL ASSETS	**₱13,922**	₱13,482
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**₱837**	₱ 725
Accounts payable and accrued liabilities (Note 12)	**2,829**	2,856
Current portion of Long-term debts	**289**	266
Provisions	**6**	6
Total Current Liabilities	**3,962**	3,853
Noncurrent Liabilities		
Long-term debts - net of current portion	**435**	652
Other noncurrent liabilities (Note 13)	**555**	553
Total Noncurrent Liabilities	**990**	1,205
Total Liabilities	**4,952**	5,058
Equity attributable to equity holders of the Parent Company (Note 13)		
Capital stock	**3,500**	3,160
Capital in excess of par value	**2,049**	789
Deposit for stock subscription	**-**	1,600
Equity reserve	**(8)**	(7)
Net valuation gains on AFS financial assets (Note 16)	**-**	(1)
Revaluation increment on land - net of deferred income tax effect	**1,286**	1,286
Share based compensation	**(2)**	1
Retained earnings	**2,156**	1,602
Non-controlling interests	**(11)**	(7)
Total Equity	**8,970**	8,424
TOTAL LIABILITIES AND EQUITY	**₱13,922**	₱13,482

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

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

	For the Quarter Ended September 30		For the Nine-Month Period Ended September 30	
	2014	2013	**2014**	2013
NET REVENUES	**₱2,843**	₱2,351	**₱7,840**	₱7,118
DIRECT COSTS AND EXPENSES	**1,895**	1,564	**4,994**	4,527
GROSS PROFIT	**948**	787	**2,846**	2,591
SELLING AND MARKETING EXPENSES	**(555)**	(466)	**(1,574)**	(1,415)
GENERAL AND ADMINISTRATIVE EXPENSES	**(148)**	(144)	**(461)**	(473)
NET OPERATING INCOME	**245**	177	**811**	703
OTHER INCOME (CHARGES) – Net (Note 17)	**15**	(28)	**11**	(41)
INCOME BEFORE PROVISION FOR INCOME TAX	**260**	149	**822**	662
PROVISION FOR INCOME TAX	**(109)**	(11)	**(244)**	(137)
NET INCOME	**₱151**	₱138	**₱578**	₱525
Attributable to:				
Equity holders of the Parent Company	**₱150**	₱138	**₱ 577**	₱ 524
Minority interests (Note 2)	1	(-)	**1**	1
	₱151	₱138	**₱578**	₱ 525
Basic/Diluted Earnings Per Share (Note 9)	**₱0.043**	₱0.044	**₱ 0.165**	₱ 0.166

See accompanying Notes to Unaudited Consolidated Financial Statements

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

	For the Quarter Ended September 30		For the Nine-Month Period Ended September 30	
	2014	2013	**2014**	2013
NET INCOME	**₱151**	₱138	**₱578**	₱525
OTHER COMPREHENSIVE INCOME	**–**	–	**–**	–
Total comprehensive income for the period	**₱ 151**	₱ 138	**₱ 578**	₱ 525
Attributable to:				
Equity holders of the Parent Company	**₱150**	138	**₱ 577**	₱ 524
Minority interests (Note 2)	1	(-)	**1**	1
	₱151	₱138	**₱ 578**	₱ 525

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Attributable to Equity Holders of the Parent										
	Capital Stock	Capital In Excess of Par Value	Deposit for Stock Subscription	Equity Reserve	Net Unrealized Gain on AFS Financial Assets	Revaluation Increment	Share-based Compensation	Retained Earnings	Total	Minority Interests	Total Equity
BALANCES AT JANUARY 1, 2013	**₱3,160**	**₱789**	**₱–**	**₱(7)**	**₱2**	**₱569**	**₱–**	**₱1,042**	**₱5,555**	**₱(2)**	**₱5,553**
Net income for the period	–	–	–	–	–	–	–	524	524	3	527
Cash dividend declaration	–	–	–	–	–	–	–	(188)	(188)	–	(188)
Cumulative actuarial gain on defined benefit plan	–	–	–	–	–	–	–	-	-	–	-
BALANCES AT SEPTEMBER 30, 2013	**₱3,160**	**₱789**	**₱–**	**₱(7)**	**₱2**	**₱569**	**₱–**	**₱1,378**	**₱5,891**	**₱1**	**₱5,892**
Net income for the period	–	–	–	–	–	–	–	447	447	(11)	436
Remasurement gain on defined benefit plan	–	–	–	–	–	–	–	(35)	(35)	–	(35)
Revaluation of land	–	–	–	–	–	717	–	–	717	–	717
Valuation gains realized through profit and loss	–	–	–	–	(2)	–	–	–	(2)	–	(2)
Net changes in fair value of AFS financial assets	–	–	–	–	(1)	–	–	–	(1)	–	(1)
Cash dividend	–	–	–	–	–	–	–	(188)	(188)	(2)	(190)
Deposits for stock subscription	–	–	1,600	–	–	–	–	–	1,600	–	1,600
Share-based compensation plan	–	–	–	–	–	–	1	–	1	–	1
BALANCES AT DECEMBER 31, 2013	**₱3,160**	**₱789**	**₱1,600**	**₱(7)**	**₱(1)**	**₱1,286**	**₱1**	**₱1,602**	**₱8,430**	**₱(12)**	**₱8,418**
Net income for the period	–	–	–	–	–	–	–	577	577	1	578
Cash dividend declaration	–	–	–	–	–	–	–	(121)	(121)	–	(121)
Net changes in fair value	–	–	–	–	–	–	–	98	98	–	98
Net valuation gains	–	–	–	(1)	1	–	–	–	–	–	–
Share based compensation	–	–	–	–	–	–	(3)	–	(3)	–	(3)
Issuance of capital stock	340	1260	(1600)	–	–	–	–	–	–	–	–
BALANCES AT SEPTEMBER 30, 2014	**₱3,500**	**₱2,049**	**₱–**	**₱(8)**	**₱(0)**	**₱1,286**	**₱(2)**	**₱2,156**	**₱8,981**	**₱(11)**	**₱8,970**

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

	For the Period Ended September 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income after income tax	**₱577**	₱525
Adjustments for:		
Depreciation and amortization	**235**	246
Operating income (loss) before working capital changes	**812**	771
Decrease (increase) in Current Assets	**(649)**	36
Increase (decrease) in Current Liabilities	**27**	143
Net cash from (used in) operating activities	**190**	950
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal (Acquisition) of investments and property and equipment, net	**(27)**	(295)
Decrease (Increase) in other noncurrent assets	**(2,049)**	19
Net cash used in investing activities	**(2,076)**	(276)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments (Repayment) of Long-term and obligations / bank loans	**(81)**	(1048)
Increase (decrease) in Noncurrent Liabilities	**39**	-
Dividends paid	**(121)**	(102)
Net cash from financing activities	**(163)**	(1,150)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,049)**	(476)
CASH AND CASH EQUIVALENTS, JANUARY 1	**2,885**	1,475
CASH AND CASH EQUIVALENTS, SEPTEMBER 30	**₱836**	₱999

See accompanying Notes to Consolidated Financial Statements

1. Corporate Information

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

The registered office address of the Parent Company is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

2. Summary of Significant Accounting and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for the Group's land, which are stated at appraised values, and available-for-sale (AFS) financial assets and derivative liability that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional currency. All values are rounded off to the nearest million pesos (₱000,000), except for the number of shares or when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the Philippine Securities and Exchange Commission (SEC) which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements* with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) in 2014 and 2013 and in compliance with PFRSs in 2011.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended pronouncements starting January 1, 2013. Adoption of these new and amended pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Government Loans* (Amendments)
- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*

  Effective January 1, 2013, PFRS 11 will supersede PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* PFRS 11 will remove the option to account for jointly controlled entities using the proportionate consolidation method. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Under PFRS 11, the Group's investment in URICI meets the definition of a joint venture. On October 1, 2012, the Parent Company requested for an exemptive relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI. Engrain-RFM Pacific, Inc., a new joint venture acquired by the Group in 2013, will be accounted for using the equity method in accordance with PFRS 11.

- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*

  The Group has updated its accounting policy on fair value measurement as a result of the adoption of PFRS 13. The adoption of PFRS 13 has no significant impact on the fair value measurements of the Group. Additional disclosure requirements were made in compliance with the requirements in PFRS 13.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (OCI) (Amendments)

  As a result of adopting the said amendments to PAS 1, the Group has modified its presentation of items of other comprehensive income in the statements of comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time will be presented separately from items that will never be reclassified.

- PAS 19, *Employee Benefits* (Revised)

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred. It also replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, as at the beginning of the annual period.

  Prior to the adoption of the Revised PAS 19, the Group's accounting policy is to recognize actuarial gains and losses on defined benefit plans in full in other comprehensive income and transferred to retained earnings in the period they arise. Thus, the adoption of the Revised PAS 19 did not have a significant impact on the Group's financial position. The adoption of the Revised PAS 19 also did not have an impact on the Group's statements of cash flows. Further, there is no significant impact on the Group's earnings per share.

- PAS 27, *Separate Financial Statements (Amendments)*
- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements to PFRSs* (2009-2011 cycle)

Summary of Significant Accounting Policies

<u>Basis of Consolidation</u>
The consolidated financial statements comprise the financial statements of the Group prepared for the same reporting year as the Parent Company, using consistent accounting policies.

The consolidated subsidiaries, which are all incorporated in the Philippines and the effective percentages of ownership is as follows:

	Percentage of Ownership	
	September 30, 2014	December 31, 2013
Cabuyao Logistics and Industrial Center, Inc.(CLIC)**	**100.00**	100.00
Interbake Commissary Corporation (ICC)	**100.00**	100.00
RFM Equities, Inc. (REI)	**100.00**	100.00
RFM Insurance Brokers, Inc. (RIBI)	**-**	100.00
Conglomerate Securities and Financing Corporation (CSFC)	**-**	86.14
RFM Foods Philippines Corporation*	**100.00**	100.00
Southstar Bottled Water Company, Inc. (Southstar)*	**100.00**	100.00
Swift Tuna Corporation*	**100.00**	100.00
Invest Asia Corporation (Invest Asia)	**96.00**	96.00
Rizal Lighterage Corporation (RLC)	**93.60**	93.60
FWBC Holdings, Inc.	**83.38**	83.38
Filipinas Water Bottling Company, Inc. (FWBC)	**58.37**	58.37
RFM Canning and Marketing, Inc. (RFM Canning)*	**70.00**	70.00
WS Holdings, Inc. (WHI)	**60.00**	60.00

**Dormant*

***Changed its name from Cabuyao Meat Processing Corporation to Cabuyao Logistics and Industrial Center, Inc. in 2013*

In 2014, the Parent Company sold all its shares in RIBI and CSFC, subsidiaries, at a total cash consideration of ₱16.80 million and ₱17.99 million, respectively and accordingly executed corresponding deeds of absolute sale of shares of stock with the new shareholders.

In 2012, the Parent Company acquired additional shares in RLC, a subsidiary, at a total cash consideration of ₱0.08 million and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders.

In 2011, the Parent Company acquired additional 10.53% ownership interest in RLC, a subsidiary, at a total cost of ₱8.66 million, and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders.

Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control is achieved when the Parent Company 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 Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from involvement with the investee; and,
- The ability to use power over the investee to affect the amount of the investor’s returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Parent Company’s voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of income and comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.
A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

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

Non-controlling Interest
Non-controlling interest represents the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

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

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

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

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 up to three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for securities at fair value through profit and loss (FVPL), the initial measurement of financial assets includes any transactions costs. The Group's financial assets are further classified into the following categories: financial assets at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities as financial liabilities at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate) and other financial liabilities. The classification depends on the purpose for which the investments were acquired or whether they are quoted in an active market. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each balance sheet date.

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

As of September 30, 2014 and December 31, 2013, the Group has no financial assets and financial liabilities at FVPL and HTM investments.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of September 30, 2014 and December 31, 2013, the Group's loans and receivables include cash in banks and cash equivalents, accounts receivable, advances to related parties and other current receivables.

AFS financial assets

Non-derivative financial assets are designated as AFS when they are not classified in any of the three other categories. The Group classifies financial assets as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as "Net changes in fair value of AFS financial assets". When the financial asset is disposed of, the cumulative gain or loss previously recorded in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on financial assets are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investments. The major factor of this decision is whether or not the Group will experience inevitable further losses on investments. These financial assets are classified as noncurrent unless there is intention to dispose of such assets within 12 months of the balance sheet date.

AFS financial assets in unquoted equity securities are carried at historical cost, net of impairment.

As of September 30, 2014 and December 31, 2013 and 2012, the Group's AFS financial assets include investments in unquoted redeemable preferred and common shares, and quoted common and golf club shares.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals).

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

Financial liabilities are classified as current, except for maturities greater than twelve months after the balance sheet date. These are classified as noncurrent liabilities.

As of September 30, 2014 and December 31, 2013 and 2012, the Group's other financial liabilities include bank loans, accounts payable and accrued liabilities, long-term debts, finance lease obligations and advances from related parties.

<u>Derivatives</u>
Derivative financial instruments (swaps and option contracts to economically hedge exposure to fluctuations in interest rates) are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for as at FVPL, where any gains or losses arising from changes in fair value on derivatives are taken directly to consolidated statement of income for the year, unless the transaction is a designated and effective hedging instrument.

<u>Impairment of Financial Assets</u>
The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of

impairment loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.
If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

AFS financial assets
For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 30% or more and “prolonged” as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Interest income” account in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Financial Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

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

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

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

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

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

Inventories

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

Finished goods and goods in process	-	direct materials, direct labor, and a proportion of manufacturing overhead costs, determined using the weighted average method
Raw materials, spare parts and supplies	-	purchase cost using the weighted average method

NRV is the selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

For goods in process, cost includes the applicable allocation of fixed and variable overhead costs.

For raw materials, NRV is the current replacement cost. In case of spare parts and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the balance sheet date.

An allowance for inventory obsolescence is provided for slow-moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Investment Properties

Investment properties consist of land and building and improvement that are not occupied substantially for use by, or in the operations of the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and any impairment losses.

Depreciation of investment properties is computed using the straight-line method over the useful lives of the assets,

Depreciation ceases at the earlier of the date the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the investment property is derecognized.

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

Investment properties are derecognized from the accounts when they have been either disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization, and any impairment in value.

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

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

The initial cost of items of property, plant and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property, plant and equipment.

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

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

Leasehold improvements are amortized over the life of the assets or the lease term, whichever is shorter.

Construction in progress are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. These assets are not depreciated until such time that the relevant assets are completed and available for use.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

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

Investments in an Associate and Joint Ventures

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

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

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

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

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

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

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

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

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

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

Impairment of Noncurrent Non-financial Assets

The carrying values of property, plant and equipment, investments in joint ventures and investment in an associate are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

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

Previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount of an asset, but not, however, to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had there been no impairment loss recognized for the asset in prior years. A reversal of an impairment loss is recognized in the consolidated statement of income.

Capital Stock

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

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Capital in excess of par value" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case shares are issued to extinguish or to settle the liability of the Parent Company, the share shall be measured at either the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to the "Capital in excess of par value" account.

Equity Reserve

Equity reserve is the difference between the acquisition cost of an entity under common control and the Parent Company's proportionate share in the net assets of the entity acquired as a result of a business combination accounted for using the pooling-of-interests method. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

Share-based Compensation Plan

URICI, through Unilever Philippines, Inc., operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted and including any market performance conditions, excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets, employee of the entity remaining over a specified time period, etc.) and impact of any non-vesting conditions (e.g. the requirement for employees to serve).

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

When the options are exercised, URICI issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

The grant of options over its equity instruments to the employees of URICI is treated as a capital contribution.

Deposit for Stock Subscriptions

Deposit for stock subscriptions represent the amount received which will be applied as payment in exchange for a fixed number of the Parent Company's capital stock. These are classified as equity if there is sufficient unissued authorized capital stock; or if in the case where the unissued capital stock is insufficient to cover the amount of the deposit, the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and the proposed increase has been filed with the Philippine SEC on or before the balance sheet date. Otherwise, the deposits are classified as liability.

Retained Earnings

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

Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Revenue Recognition

Revenue from sale of goods and services from manufacturing and service operations is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding value-added tax (VAT), returns and discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for RIBI, an insurance broker, which acts as an agent. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods (Manufacturing)

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and there is actual delivery made and the same is accepted by the buyer.

Sale of services (Service)

Revenue is recognized upon performance of services in accordance with the substance of the relevant agreements.

Rent

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

Interest and financing income

Interest income is recognized as the interest accrues using the effective interest method.

Dividend Income

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

Cost and Expense Recognition

Cost of Sales and Services

Cost of sales is recognized when goods are delivered to and accepted by the buyer. Cost of services is recognized when the related services are performed.

Selling and Marketing, and General and Administrative Expenses

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

Other Comprehensive Income (Loss)

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

Pension Benefits

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

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

Defined benefits costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- 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 when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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 in other comprehensive income and transferred to retained earnings in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. 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.

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

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

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

<u>Income Taxes</u>
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax

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

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

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

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

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

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

Earnings Per Share

Basic earnings per share is computed by dividing the net income for the year attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to any stock split or stock dividends declared and stock rights exercised during the year, if any.

Diluted earnings per share is computed by adjusting the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares outstanding during the year for the effects of all dilutive potential common shares.

The Parent Company does not have potentially dilutive common shares.

Segment Reporting

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

Foreign Currency-Denominated Transactions and Translations

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the parent company statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the profit or loss, any exchange component of that gain or loss shall be recognized in the parent company statement of income.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Events After the Balance Sheet Date

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

Pronouncements Issued but Not yet Effective

The Group will adopt the following pronouncements when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended pronouncements to have significant impact on its financial statements:

Effective in 2014

- PFRS 10, PFRS 12 and PAS 27, *Investment Entities (Amendments)*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*, remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*, relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments are not relevant to the Group because currently, the Group does not apply hedge accounting.

- Philippine Interpretation IFRIC 21, *Levies*, clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 2, *Share-based Payment - Definition of Vesting* Condition, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The Group shall consider this amendment for future share-based payment arrangements.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business* Combination, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRSs.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint* Arrangements, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio* Exception, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

- PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*, stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3.

Effective in 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied.

No Effective Mandatory Date and Adoption

- PFRS 9, *Financial Instruments: Classification and Measurement*, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an impact on the classification and measurement of the Group's financial assets but potentially have no significant impact on the classification and measurement of the Group's financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. The adoption of the third phase of PFRS 9 will not have an impact to the Group because the Group does not apply hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not early adopt PFRS 9 but will continue to evaluate and conduct a study on the possible impact of adopting the limited amendments to the classification and measurement model and second phase of PFRS 9 when they are completed.

Deferred by SEC

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This interpretation is not relevant to the Group.

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

The preparation of the Group's consolidated financial statements requires management to exercise judgments, make accounting estimates and use assumptions that affect the amounts reported and the disclosures made. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from these estimates, and such estimates will be adjusted accordingly, when the effects become determinable.

Accounting judgments, estimates and assumptions 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.

<u>Judgments</u>
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 in the amounts recognized in the consolidated financial statements.

Classification of financial instruments
The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet. Classification of financial instruments is reviewed at each balance sheet date.

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is "significant" or "prolonged" requires

judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for the quoted equity securities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In light of the changing business model of Philtown Properties, Inc. (Philtown), the Parent Company performed an impairment testing of its AFS financial assets in Philtown using the "Adjusted Net Asset Method". In using this method, the fair values of the assets and liabilities of Philtown were determined as of impairment testing date, December 31, 2013 and 2012. The net assets of Philtown were compared against the carrying value of the Parent Company's investment in Philtown. The Parent Company determined that its AFS financial assets in Philtown were impaired as of December 31, 2012. Impairment loss was recognized on the said AFS financial assets amounting to ₱544.50 million in 2012. No impairment loss was recognized in 2013.

Provisions
The estimate of the probable costs for the resolution of possible third party claims has been developed in consultation with outside consultant/legal counsel handling the Group's defense on these matters and is based upon an analysis of potential results. When management and its outside consultant/legal counsel believe that the eventual liabilities under these and any other claims, if any, will not have a material effect on the consolidated financial statements, no provision for probable losses is recognized in the Group's consolidated financial statements. The amount of provision is being reassessed at least on an annual basis to consider new relevant information.

Determination of the classification of leases
The Group has entered into various lease agreements as a lessee. The Group accounts for lease arrangements as finance lease when the lease term is for the major part of the life of the asset and the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable. Otherwise, the leases are accounted for as operating leases.

<u>Accounting Estimates and Assumptions</u>
The key estimates and assumptions concerning the future and other key sources of estimation at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of asset and liabilities within the next financial year are discussed below.

Estimation of allowance for doubtful accounts
The Group maintains allowance for doubtful accounts based on the results of the individual and collective assessments. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. If no future cash flows is expected, impairment loss is equal to the carrying balance of the receivables. Factors considered in individual assessment are payment history, inactive accounts, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past due status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made during the year.

Estimation of inventory obsolescence
The Group estimates the allowance for inventory obsolescence related to inventories based on a certain percentage of non-moving inventories. The level of allowance is evaluated by management based on past experiences and other factors affecting the saleability of goods such as present demand in the market and emergence of new products, among others.

Determnination of NRV of inventories
The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such

events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Estimation of allowance for probable losses
Allowance for probable losses of prepaid expenses is based on the ability of the Group to recover the carrying value of the assets. Accounts estimated to be potentially unrecoverable are provided with adequate allowance through charges to the consolidated statement of income in the form of allowance for probable loss.

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives of depreciable property, plant and equipment and investment properties based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa. The estimated useful lives of property, plant and equipment and investment properties are discussed in Note 2 to the consolidated financial statements. There had been no changes in the estimated useful lives of property, plant and equipment and investment properties in 2013 and 2012.

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

The appraisal increase on land at appraised value amounting to ₱1,286.35 million and ₱568.94 million as of December 31, 2013 and 2012, respectively, is presented as "Revaluation increment on land" account, net of deferred income tax effect of ₱551.29 million and ₱243.83 million, in the equity section of the consolidated balance sheets.

Impairment of property, plant and equipment, investment properties and investments in associate and joint ventures
The Group assesses whether there are indications of impairment on its property, plant and equipment, investment properties and investments in associates, at least on an annual basis. If there are, impairment testing is performed. This requires an estimation of the value-in-use of the CGUs to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill
The Group reviews for impairment the carrying value of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as discount rates, future capital requirements and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. In 2013 and 2012, the Parent Company performed an impairment test with respect to its goodwill resulting from its acquisition of URICI amounting to ₱190.56 million as of December 31, 2013 and 2012. The Parent Company used a discount rate of 5.27% and the growth rate assumption on sales of URICI through out the projection period. No impairment losses were recognized for the years ended December 31, 2013, 2012 and

2011.

Recognition of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Estimation of pension benefits obligations and costs
The determination of the Group's obligation and costs of pension benefits depends on the selection by management of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others the discount rate, expected rate of return and rate of salary increase. The Group recognizes all actuarial gains and losses in the consolidated statement of comprehensive income, and therefore generally affects the recorded obligation. While management believes that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension obligation.

4. Segment Information

The Group's management reports its operating business segments into the following: (a) institutional business, (b) consumer business, and (c) other operations. The institutional business segment primarily manufactures and sells flour and bread products, manufactures pasta, flour and rice-based mixes to institutional customers. The consumer business segment manufactures and sells ice cream, milk and juices, sells pasta products, and flour and rice-based mixes. Other segments consist of insurance, financing, lighterage, moving, cargo handling, office space leasing and other services shown in aggregate as "Other operations".

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade, wages and taxes currently payable and accrued liabilities.

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

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

Information with regard to the Group's significant business segments is as follows (amounts in millions):

For the Quarter Ended September 30, 2014

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱1,173	₱1,654	₱16	₱–	**₱2,843**
Intersegment sales	–	–	17	(17)	**–**
	₱1,173	₱1,654	₱33	₱(17)	**₱2,843**
Results					
Income (loss) from operations	₱138	₱164	₱(57)	₱-	**₱245**
Other income (charges) - net					**15**
Provision for income tax					**(109)**
Net income					**151**
Other information					
Segment assets	₱10,149	₱8,944	₱6,953	₱(12,586)	**₱13,460**
Investments	–	315	1,373	(1,226)	**462**
Consolidated Total Assets	₱10,149	₱9,259	₱8,326	₱(13,812)	**₱13,922**
Consolidated Total Liabilities					**₱4,952**
Depreciation and amortization					**₱75**

For the Nine-Month Period Ended September 30, 2014

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱2,989	₱4,818	₱33	₱–	**₱7,840**
Intersegment sales	–	–	36	(36)	**–**
	₱2,989	₱4,818	₱69	(₱36)	**₱7,840**
Results					
Income (loss) from operations	₱512	₱429	₱(130)	₱–	**₱811**
Other income (charges) - net					**11**
Provision for income tax					**(244)**
Net income					**578**
Other information					
Segment assets	₱10,149	₱8,944	₱6,6953	₱(12,586)	**₱13,460**
Investments	–	315	1,373	(1,226)	**462**
Consolidated Total Assets	₱10,149	₱9,259	₱8,326	₱(13,812)	**₱13,922**
Consolidated Total Liabilities					**₱4,952**
Depreciation and amortization					**₱235**

For the Quarter Ended September 30, 2013

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱969	₱1,363	₱19	₱–	**₱2,351**
Intersegment sales	–	–	13	(13)	**–**
	₱969	₱1,363	₱32	(₱13)	**₱2,351**
Results					
Income (loss) from operations	₱198	₱(5)	₱(42)	₱–	**₱151**
Other income (charges) - net					**(2)**
Provision for income tax					**(11)**
Net income					**138**
Other information					
Segment assets	₱8,713	₱3,885	₱3,822	₱(6,085)	**₱10,335**
Investments	–	315	1,432	(1,211)	**536**
Consolidated Total Assets	₱8,713	₱4,200	₱5,254	₱(7,296)	**₱10,871**
Consolidated Total Liabilities					**₱4,979**
Depreciation and amortization					**₱88**

For the Nine-Month Period Ended September 30, 2013

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱2,864	₱4,209	₱45	₱–	**₱7,118**
Intersegment sales	–	–	30	(30)	**–**
	₱2,864	₱4,209	₱75	₱(30)	**₱7,118**
Results					
Income (loss) from operations	₱601	₱249	₱(147)	₱–	**₱703**
Other income (charges) - net					**(41)**
Provision for income tax					**(137)**
Net income					**525**
Other information					
Segment assets	₱8,713	₱3,885	₱3,822	₱(6,085)	**₱10,335**
Investments	–	315	1,432	(1,211)	**536**
Consolidated Total Assets	₱8,713	₱4,200	₱5,254	₱(10,737)	**₱10,871**
Consolidated Total Liabilities				₱–	**₱4,979**
Depreciation and amortization					**₱245**

5. Accounts Receivable

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Trade receivables	**₱3,105**	₱2,484
Advances to related parties	**13**	14
Other receivables	**132**	189
	3,250	2,687
Less allowance for doubtful accounts	**747**	339
	₱2,503	₱2,348

6. Inventories

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

7. **Other Current Assets**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Deposits on purchases	**₱143**	₱46
Creditable withholding taxes	**134**	64
Input VAT	**249**	56
Prepaid expenses and other current assets – net of allowance for probable losses	**382**	49
	₱908	₱215

8. **Property , Equipment and Investment Property**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Property, plant and equipment		
At cost	**₱3,064**	₱3,277
At appraised value	**2,364**	2,364
Investment property	**33**	36
	₱5,461	₱5,677

9. **Investment**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
AFS financial assets (Note 11)	**₱312**	₱316
Investments in associates (Note 11)	**150**	142
	₱462	₱458

10. **Interest in a Joint Venture Proportionately Consolidated**

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (ULP), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and ULP, the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱3,704.19 million and ₱2,260.90 million as of December 31, 2013 and 2012, respectively.

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

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

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

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

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

11. **Other Noncurrent Asset**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Deferred income tax assets - net	**₱63**	₱83
Goodwill	**191**	191
Other noncurrent assets	**2,149**	78
	₱2,403	₱351

12. **Accounts Payable and Accrued Liabilities**

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Accounts payable and accrued liabilities	**₱2,419**	₱2,614
Income tax payable	**174**	57
Advances to related parties	**68**	88
Customers' deposits	**168**	97
	₱2,829	₱2,856

13. Other Noncurrent Liabilities

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Deferred income tax liabilities	**473**	505
Net pension obligation	**82**	46
Security deposits	**0**	2
	555	553

14. Equity

Capital Stock

As of September 30, 2014 and December 31, 2013, the Parent Company has 3,978,265,015 authorized common stock with ₱1 par value. Issued and outstanding common stocks were 3,500,403,866 shares and 3,160,403,866 shares as of March 31, 2014 and December 31, 2013.

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

Year	Date of Transaction	Common Stock Transactions	
1993		185,800,356	
1994	August 3, 1994	93,304,663	(a)
1995	April 7, 1995	1,116,420,076	(b)
1997	February 25, 1997	5,950,650	(c)
1998		20,042,392	(c)
1999		1,804,979	(c)
2000	July 21, 2000	229,582,173	(d)
2000	December 14, 2000	45,252,983	(d)
2001		21,950,505	(c)
2002		195,891,163	(c)
2006	March 17, 2006	47,857,244	(d)
2008	January 9, 2008	1,963,857,184	(e)
2008	July 29, 2008	(767,310,502)	(f)
2014		340,000,000	(g)
		3,500,403,866	

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.
(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.
(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.
(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.
(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.
(f) Cost of retired shares amounted to ₱991.76 million.

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.
(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.
(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.
(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.
(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.
(f) Cost of retired shares amounted to ₱991.76 million.
(g) Follow-on offering through a placing transaction with several existing shareholders

On August 28, 2013, the Board of Directors approved the amendment of the Article X of the Articles of Incorporation of the Parent Company removing the pre-emptive right of the stockholders on all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the Board of Directors.

Deposit for stock subscriptions
On November 28, 2013, the Board of Directors approved the proposed issuance of 340 million shares of capital stock to its existing shareholders, namely, Horizons Realty, Inc., BJS Development Corporation, Triple Eight Holdings, Inc. and RPMC Resources, Inc. at the price of ₱4.77 per share. The said shares will be issued pursuant to the equity fund raising of the Parent Company consisting of a placing and subscription transaction which will be implemented in two concurrent stages comprising of: (a) the offer and sale by the said existing shareholders not exceeding 450 million of their existing shares in the Parent Company ("the placement tranche") and (b) as part of the transaction, the subscription by the selling shareholders and the issuance by the Parent Company to the selling shareholders of unissued common shares at most in the same number and share price as the shares sold in the placement tranche ("the subscription tranche"), with such new common shares being listed as soon as practicable thereafter. In view of the foregoing, the Parent Company wrote to the SEC on December 4, 2013 requesting that the proposed issuance of the 340 million common shares be exempted from the registration requirements under the Securities Regulation Code (SRC).

The placing agreement for the placing transaction was executed by and among the Parent Company, the placing agent and the aforementioned shareholders on October 3, 2013, whereas the subscription agreement for the subscription transaction was executed between Parent Company and the shareholders on December 9, 2013.

On January 2014, the SEC has approved the request for exemption for registration requirements under the SRC. The amount received for the stock subscription, net of transaction costs, in relation to the subscription tranche amounted to ₱1,599.94 million, was presented as deposit for stock subscriptions in the 2014 and 2013 consolidated balance sheet.

Retained Earnings
On October 1, 2014 the BOD approved the declaration of ₱0.032842 cash dividend per share or a total of ₱114.96 million to its stockholders as of October 16, 2014.

On February 26, 2014 the BOD approved the declaration of ₱0.034515 cash dividend per share or a total of ₱120.82 million to its stockholders as of April 7, 2014.

On August 28, 2013 the BOD approved the declaration of ₱0.027256 cash dividend per share or a total of ₱86.14 million to its stockholders as of September 11, 2013.

On April 30, 2013 the BOD approved the declaration of ₱0.032369 cash dividend per share or a total of ₱102.30 million to its stockholders as of May 16, 2013.

On November 14, 2012, the BOD approved the declaration of ₱0.02434 cash dividend per share or a total of ₱76.93 million representing the full declaration of 30% recurring net income for 2011 to its stockholders as of November 28, 2012. The dividends were paid on December 26, 2012.

On June 27, 2012, the BOD approved the declaration of property dividends consisting of the Parent Company's 41,431,346 common shares in Philtown Properties, Inc. On August 13, 2012, the SEC approved the distribution of 41,042,080 shares and were issued to the stockholders on September 7, 2012 at ₱3.49 per share or a total of ₱143.39 million.

On February 29, 2012, the BOD approved the declaration of ₱0.02391 cash dividend per share or a total of ₱75.57 million representing the first tranche of the 30% of recurring net income for 2011 to its stockholders as of March 14, 2012. The dividends were paid on April 12, 2012.

The Parent Company's retained earnings as of December 31, 2013 is restricted to the extent of the amount of the undistributed equity in net earnings of an associate included in its retained earnings amounting to ₱53.85 million. These will only be available for declaration as dividends when these are actually received.

15. **Related Party Transactions**

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

The transactions from related parties are made under normal commercial terms and conditions. Outstanding balances as at September 30, 2014 and December 31, 2013 are unsecured and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. Advances to/from related parties are noninterest-bearing and collectible/payable on demand.

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

a. Sales and purchases of products and services to/from the Parent Company and its subsidiaries:

	Sales and Services		Purchases	
	For the period ended September 30		For the period ended September 30	
	2014	2013	**2014**	2013
Parent Company	**34,521**	74,445	35,941	64,679
ICC	**-**	47,639	34,521	74,445
RLC	**34,521**	17,041	–	–

b. The Parent Company entered into a management agreement with ICC under which the Parent Company shall receive from ICC a monthly fee of ₱2.50 million. Total service income amounted to ₱15 million, and ₱30.00 million in 2013 and 2012, respectively.

   In addition, ICC leases its production facility and warehouse from the Parent Company for its manufacturing operations and warehousing of its raw materials and finished goods.

c. The Parent Company utilizes RLC for its lighterage requirements.

d. The Parent Company has availments/extensions of both interest-bearing and non-interest-bearing cash advances mainly for working capital purposes and investment activities from/to subsidiaries and other related parties with no fixed repayment terms. Advances to a subsidiary are subject to annual interest of 9% on the monthly outstanding balance.

e. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine whereby URICI pays service fees equivalent to 7% of the total net sales value of goods distributed.

16. Financial Risk Management Objectives and Policies

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

Credit risk

Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top

25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. With respect to credit risk arising from financial assets other than installment contracts and accounts receivable (such as cash and cash equivalents and AFS financial assets), the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments.

The credit quality of financial assets is managed by the Group using internal credit ratings.

Credit quality of cash in banks and cash equivalents and AFS financial assets are based on the nature of the counterparty and the Group's internal rating system.

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

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

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

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

Management is tasked to minimize interest rate risk through interest rate swaps and options, and having a mix of variable and fixed interest rates on its loans. Presently, the Group's short-term and long-term debts and obligations are market-determined, with the long-term debts and obligations interest rates based on PDST-F-1 plus a certain spread.

URICI is not expecting significant exposures to interest rate risk considering the short-term maturities of its bank loans.

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

Foreign exchange risk
The Group's exposure to foreign exchange risk results from the Parent Company and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2013 and 2012.

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

Equity price risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stock. Management strictly monitors

the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of quoted common and golf club shares, which are classified as AFS financial assets.

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

17. Fair Value Measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2013:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
AFS investments in unquoted redeemable preferred shares in Philtown	December 31, 2012	₱307,447	₱–	₱–	₱307,447
Property, plant and equipment at appraised value	December 31, 2013	2,564,222	–	–	2,564,222
Asset for which fair value is disclosed					
Investment properties	December 31, 2013	92,120	–	–	92,120

In 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

AFS investments in Philtown preferred shares
In light of the changing business model of Philtown, the Parent Company performed an impairment testing of its AFS financial assets in Philtown by estimating their fair value using the "Adjusted Net Asset Method" in which the outstanding assets and liabilities of Philtown were valued at fair values as of December 31, 2013 and 2012 and the net amount is compared against the carrying value of the Parent Company's investment in Philtown. A significant portion of the assets of Philtown are real estate properties of which the appraised values of the land were determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-15% to 20%), location (-20% to 10%), shape (-20% to 10%) and utility (-20% to -5%).

Property, plant and equipment at appraised value
The appraised value of the land was determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-20% to -10%) and location (-5% to 10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land.

Investment properties
The fair value of the investment properties was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on terrain, size, location and utility.of these forward foreign exchange contracts is recognized immediately in the consolidated statement of income.

18. Other Income (Charges)

	For the Period Ended September 30	
	2014 (Unaudited)	2013 (Unaudited)
	(amounts in millions)	
Interest expense	**(₱37)**	**(₱35)**
Interest income	**4**	**6**
Other income, net	**44**	**17**
	(₱11)	**(₱12)**

19. **Earnings per Share (EPS)**

		For the Period Ended September 30	
		2014 (Unaudited)	2013 (Unaudited)
a.	Net income attributable to equity holders of the Parent Company (Amounts in Millions)	**₱578**	**₱525**
b.	Common shares outstanding	3,500,403,866	3,160,403,866
c.	Weighted average common shares outstanding	3,500,403,866	3,160,403,866
d.	Basic earnings per share (a/b)	**₱0.166**	**₱0.167**
e.	Diluted earnings per share (a/c)	**₱0.166**	**₱0.167**

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of September 30, 2014
(Amounts in Millions)

	Amount	**%**
Under Six (6) Months	₱2,080	67%
Six (6) Months to One (1) Year	714	23%
Over One (1) Year	311	10%
	₱3,105	**100%**