COVER SHEET

9170

SEC Registration Number

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

(Company's Full Name)

110 E. Rodriguez Avenue, Bagumbayan, Quezon City

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

Geraldo N. Florencio

(Contact Person)

671-2935; 635-0751; 671-3954

(Company Telephone Number)

0 9 **3 0**

Month *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

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 AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **December 31, 2011**

2. Commission identification number **9170**

3. BIR Tax Identification No. **000-400-016-000**

4. **Universal Robina Corporation**
   Exact name of issuer as specified in its charter

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

6. Industry Classification Code: __________ (SEC Use Only)

7. **110 E. Rodriguez Ave., Bagumbayan, Quezon City** **1110**
   Address of issuer's principal office Postal Code

8. **671-2935; 635-0751; 671-3954**
   Issuer'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 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common stock, P1.00 Par value	**2,061,501,933 shares**

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

    Yes [/] **No [ ]**

If yes, state the name of such Stock Exchange and the class/es of securities listed therein

Philippine Stock Exchange **Common stock**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [/] No [ ]

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

Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements are filed as part of this Form 17-Q (pages 12 to 59).

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

Business Overview

Universal Robina Corporation (URC) is one of the largest branded food product companies in the Philippines and has a growing presence in other Asian markets. It was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. The Company is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and day-old chicks, manufacture of animal and fish feeds, glucose and veterinary compounds, flour milling, and sugar milling and refining. The Company is a dominant player with leading market shares in savory snacks, candies and chocolates, and is a significant player in biscuits, with leading positions in cookies and pretzels. URC is also the largest player in the ready to drink (RTD) tea market, and is a respectable 2nd player in the coffee and noodle business.

The Company operates its food business through operating divisions and wholly-owned or majority-owned subsidiaries that are organized into three business segments: branded consumer foods, agro-industrial products and commodity food products.

The branded consumer foods segment, including our packaging division, is the Company’s largest segment. The Company’s branded consumer foods division manufactures and distributes a diverse mix of snack, chocolate, candy, biscuit, bakery, beverage, noodles and tomato-based products. The manufacture, distribution, sales and marketing activities for the Company’s consumer food products are carried out mainly through its branded consumer foods group consisting of snack foods, beverage and grocery divisions, although the Company conducts some of its branded consumer foods operations through its wholly-owned or majority-owned subsidiaries and joint venture companies (i.e. Hunt-URC and Nissin-URC). The Company has a strong brand portfolio created and supported through continuous product innovation, extensive marketing and experienced management. Its brands are household names in the Philippines and a growing number of consumers across Asia are purchasing the Company's branded consumer food products. The Company's packaging division is engaged in the manufacture of polypropylene films for packaging companies.

The Company's agro-industrial products segment operates three divisions, which is engaged in hog and poultry farming (Robina Farms or "RF"), the manufacture and distribution of animal and fish feeds, glucose and soya products (Unversal Corn Products or "UCP"), and the production and distribution of animal health products (Robichem).

The Company's commodity food products segment engages in sugar-milling and refining through its Sugar divisions: URSUMCO, CARSUMCO, SONEDCO and PASSI; and flour-milling and pasta manufacturing and marketing through URC Flour division. The group supplies all the flour and sugar needs of the branded consumer foods segment.

The Company is a core subsidiary of JG Summit Holding, Inc. (JGSHI), one of the largest conglomerates listed in the Philippine Stock Exchange based on total net sales. JGSHI has substantial interests in property development, hotel management, banking and financial services, petrochemicals, air transportation and business interests in other sectors, including power generation and insurance.

The following table summarizes the sale of goods and services of URC for the three months ended December 31, 2011 and 2010:

	Three months ended December 31	
In millions	**2011**	2010
BCFG		
Domestic	**₱8,384**	₱7,416
International	**5,578**	4,771
	13,962	12,187
Packaging	**427**	298
BCFG Total	**14,389**	12,485
AIG	**1,916**	1,621
CFG	**1,893**	2,634
Total	**₱18,198**	₱16,740

Results of Operations

Three Months Ended December 31, 2011 versus December 31, 2010

URC generated a consolidated sale of goods and services of ₱18.198 billion for the three months ended December 31, 2011, 8.7% higher than the revenues posted in the same period last year. Sale of goods and services performance by business segment follows:

Sale of goods and services in URC's branded consumer foods group (BCFG), excluding packaging division, increased by ₱1.775 billion, or 14.6%, to ₱13.962 billion for the three months of fiscal 2012 from ₱12.187 billion registered in the same period of last year. BCFG domestic sales increased by ₱968 million to ₱8.384 billion from ₱7.416 billion posted in the same period last year, which was largely driven by the strong performance of its beverage division which grew by 28.0% on account of growth in sales volume and price increases.

BCFG International sales significantly increased by 16.9% to ₱5.578 billion for the three months of fiscal 2012 from ₱4.771 billion posted in the same period last year. In US dollar terms, sales registered an increase of 17.4% from US$109 million posted for the three months of fiscal 2011 to US$128 million recorded in the same period of this year due to increases in sales volume and prices by 9.3% and 7.0%, respectively. This was supported by significant increase in revenues from China, Thailand, Vietnam and Malaysia.

Sale of goods and services of BCFG, excluding packaging division, accounted for 76.7% of total URC consolidated sale of goods and services for the three months ended December 31, 2011.

Sales in URC's packaging division increased by 43.3% to ₱427 million for the three months of fiscal 2012 from ₱298 million posted in the same period last year primarily due to increase in sales volume and selling price.

Sale of goods and services in URC's AIG amounted to ₱1.916 billion for the three months of fiscal 2012, an 18.2% increase from ₱1.621 billion recorded in the same period last year. URC's feed business grew by 20.3% on the back of higher sales volume and prices while farm business increased by 16.0% due to higher sales volume.

Sale of goods and services in URC's CFG amounted to ₱1.893 billion for the three months of fiscal 2012 or down by 28.1% from ₱2.634 billion reported in the same period last year. This was primarily due to 54.2% decline in net sales of sugar business as a result of lower sales volume and prices while flour business grew by 14.1% due to price increases.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱1.128 billion, or 9.0%, to ₱13.608 billion for the three months of fiscal 2012 from ₱12.480 billion reported in the same period last year. Cost of sales went up due to increase in sales volume and costs of major raw materials.

URC's gross profit for the three months of fiscal 2012 amounted to ₱4.590 billion, higher by 7.7% from ₱4.260 billion posted in the same period last year. Gross profit margin remains at 25%.

URC's selling and distribution costs, and general and administrative expenses consist primarily of compensation benefits, advertising and promotion costs, freight and other selling expenses, depreciation, repairs and maintenance expenses and other administrative expenses. Selling and distribution costs, and general and administrative expenses increased by ₱339 million or 14.8% to ₱2.632 billion for the three months of fiscal 2012 from ₱2.293 billion registered in the same period of fiscal 2011. This increase resulted primarily from the following factors:

- 24.0% or ₱204 million increase in advertising and promotion costs to ₱1.053 billion for the three months of fiscal 2012 from ₱849 million in the same period last year to support the new SKUs launched and boost up sales of existing products in light of increasing market competition.

- 23.2% or ₱127 million increase in freight and delivery charges to ₱675 million for the three months of fiscal 2012 from ₱548 million in the same period last year due to increase in trucking and shipping costs associated with higher fuel prices and increased volume.

As a result of the above factors, operating income was slightly lower at ₱1.958 billion for the three months of fiscal 2012 from ₱1.967 billion reported in the same period of fiscal 2011.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue decreased by ₱35 million or 10.5% to ₱297 million for the three months of fiscal 2012 from ₱332 million in the same period of fiscal 2011 due to maturity of certain AFS investments and amortization of bond premiums.

Market valuation gain on financial instruments at FVPL of ₱341 million was reported for the three months of fiscal 2012 as against ₱521 million market valuation loss recognized in the same period of fiscal 2011 due to recoveries in the market values of bond and equity security investments.

Equity in net income of a joint venture amounted to ₱16 million for the three months of fiscal 2012 as against ₱9 million reported in the same period of fiscal 2011 due to higher net income of Hunt-Universal Robina Corporation.

URC's finance costs consist mainly of interest expense which increased by ₱20 million or 8.1%, to ₱266 million for the three months of fiscal 2012 from ₱246 million recorded in the same period of fiscal 2011 due to increased level of financial debt.

Foreign exchange gain - net amounted to ₱206 million for the three months of fiscal 2012 from ₱63 million foreign exchange loss reported in the same period last year due to currency translation adjustments.

Other income (expense) - net consists of gain (loss) on sale of fixed assets and investments, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net increased from ₱26 million other expense - net for the three months of fiscal 2011 to ₱46 million other income - net in the same period this year.

The Company recognized provision for income tax of ₱236 million for the three months of fiscal 2012, an increase of ₱130 million from ₱106 million in the same period last year due to higher taxable income and provision for deferred tax liability on unrealized gain on foreign exchange.

URC's unaudited net income for the three months of fiscal 2012 amounted to ₱2.362 billion, higher by ₱1.017 billion or 75.6% from ₱1.345 billion posted in the same period last year, due to increase in market values of bond and equity holdings and foreign exchange gain from foreign currency denominated transactions.

URC's unaudited core earnings before tax (operating profit after equity earnings, net finance revenue and other income - net) for the three months of fiscal 2012 amounted to ₱2.051 billion from ₱2.035 billion reported in the same period last year.

Net income attributable to equity holders of the parent increased by ₱978 million to ₱2.218 billion for the three months of fiscal 2012 from ₱1.240 billion in the same period last year as a result of the factors discussed above.

Non-controlling interest represents primarily the share in the net income (loss) attributable to non-controlling shareholders of the following subsidiaries of URC: URC International, URC's direct subsidiary in which it holds approximately 77.0% economic interest and Nissin- URC, URC's 65.0%-owned subsidiary. Non-controlling interest in net income of subsidiaries increased from ₱105 million for the three months of fiscal 2011 to ₱144 million for the same period this year due to higher net income reported by URC International.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱2.785 billion for the three months of fiscal 2012, at par with ₱2.794 billion recorded in the same period of fiscal 2011.

The Company is not aware of any material off-balance sheet transactions, arrangements and obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period that would have a significant impact on the Company's operations and/or financial condition.

Financial Position

December 31, 2011 vs. September 30, 2011

URC's financial position remained to be strong with a current ratio of 1.67:1 as of December 31, 2011. Financial debt to equity ratio of 0.47:1 for the period is within comfortable level. Book value per share increased to ₱20.89 as at December 31, 2011 from ₱19.77 as at September 30, 2011. Total outstanding common shares as of December 31, 2011 remained at 2.062 billion shares.

The Company's cash requirements have been sourced through cash flow from operations. Net cash provided by operating activities for the three months ended December 31, 2011 was ₱4.480 billion. Net cash used in investing activities for the period amounted to ₱1.030 billion mainly due to acquisition of property, plant and equipment. Net cash provided by financing activities amounted to ₱1.044 billion mainly due to proceeds from short-term borrowings.

As of December 31, 2011, the Company is not aware of any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

Material Changes in Fiscal 2012 Financial Statements
(Increase/Decrease of 5% or more versus FY 2011)

Statements of Comprehensive Income - Three months ended December 31, 2011 versus same period in fiscal 2011

8.7% increase in sale of goods and services was due to the following:
Sale of goods and services in URC's branded consumer foods group (BCFG), excluding packaging division, increased by ₱1.775 billion, or 14.6%, to ₱13.962 billion for the three months of fiscal 2012 from ₱12.187 billion registered in the same period of last year. BCFG domestic sales increased by ₱968 million to ₱8.384 billion from ₱7.416 billion posted in the same period last year, which was largely driven by the strong performance of its beverage division which grew by 28.0% on account of growth in sales volume and increase in prices.

BCFG International sales significantly increased by 16.9% to ₱5.578 billion for the three months of fiscal 2012 from ₱4.771 billion posted in the same period last year. In US dollar amount, sales registered an increase of 17.4% from US$109 million posted for the three months of fiscal 2011 to

US$128 million recorded in the same period of this year due to increases in sales volume and prices by 9.3% and 7.0%, respectively. This was supported by significant increase in revenues from China, Thailand, Vietnam and Malaysia.

Sale of goods and services of BCFG, excluding packaging division, accounted for 76.7% of total URC consolidated sale of goods and services for the three months ended December 31, 2011.

Sales in URC's packaging division increased by 43.3% to ₱427 million for the three months of fiscal 2012 from ₱298 million posted in the same period last year primarily due to increase in sales volume and selling price.

Sale of goods and services in URC's AIG amounted to ₱1.916 billion for the three months of fiscal 2012, an 18.2% increase from ₱1.621 billion recorded in the same period last year. URC's feed business grew by 20.3% on the back of higher sales volume and prices while farm business increased by 16.0% due to higher sales volume.

Sale of goods and services in URC's CFG amounted to ₱1.893 billion for the three months of fiscal 2012 or down by 28.1% from ₱2.634 billion reported in the same period last year. This was primarily due to 54.2% decrease in net sales of sugar business as a result of lower sales volume and prices while flour business grew by 14.1% due to price increases.

9.0% increase in cost of sales
Due to increase in sales volume

24.6% increase in selling and distribution costs
Due to increase in advertising and promotions costs and freight and delivery charges

16.1% decrease in general and administrative expenses
Due to decline in personnel-related costs and other administrative expenses

165.4% increase in mark-to-market gain on financial instruments at FVPL
Due to increase in market values of bonds and equity securities held

10.5% decrease in finance revenue
Due to maturity of certain AFS investments and amortization of bond premiums

8.1% increase in finance costs
Due to increase in level of financial debt during the period against the same period last year

425.0% increase in foreign exchange gain - net
Due to higher foreign exchange gain on foreign currency denominated transactions

75.4% increase in equity in net earnings
Due to increase in net income of Hunts-URC

275.0% increase in other income - net
Due to increase in miscellaneous income

122.2% increase in provision for income tax
Due to higher taxable income of the parent company and provision for deferred tax liability on unrealized gain on foreign exchange during the period

37.1% increase in net income attributable to non-controlling interest
Due to higher net income of URC International

158.1% increase in other comprehensive income
Due to increase in unrealized gain on AFS investments and lower unrealized loss on cumulative translation adjustments from foreign currency denominated accounts

Statements of Financial Position – December 31, 2011 versus September 30, 2011

98.8% increase in cash and cash equivalents
Due to increase in money market placements sourced from income from operations and short-term borrowings

18.4% increase in receivables
Due to increase in trade receivables and advances to suppliers

13.0% decrease in other current assets
Due to decline in input taxes and prepaid expenses

17.5% increase in investment in a joint venture
Due to equity share in net income of HURC

16.6% decrease in other non-current assets
Due to decline in deferred input tax and miscellaneous deposits

25.3% increase in accounts payable and other accrued liabilities
Due to increase in trade payable and accruals for interest expense and advertising and promotion costs

18.3% increase in short-term debt
Due to additional loan availments during the period

92.4% increase in trust receipts and acceptances payable
Due to increased utilization of trust receipts facilities

42.1% increase in income tax payable
Due to higher taxable income of the parent company

31.8% increase in deferred tax liabilities - net
Due to provision for deferred tax liability by the parent company on unrealized foreign exchange gain

120.9% increase in net pension liability
Due to accrual of pension expense

7.6% increase in retained earnings
Due to net income during the period

15.8% increase in other comprehensive income
Due to increase in market values of AFS investments, net of decline in cumulative translation adjustments

11.3% increase in equity attributable to non-controlling interests
Due to share in net income of URC International and Nissin-URC during the period

The Company's key performance indicators are employed across all businesses. Comparisons are then made against internal target and previous period's performance. The Company and its significant subsidiaries' top five (5) key performance indicators are as follows: (in Million Pesos)

Universal Robina Corporation (Consolidated)			
	YTD December 2011	YTD December 2010	Index
Revenue	₱18,198	₱16,740	109
EBIT	1,958	1,967	100
EBITDA	2,785	2,794	100
Net Income	2,362	1,345	176
Total assets	75,264	68,311	110

URC International			
	YTD December 2011	YTD December 2010	Index
Revenue	₱5,539	₱4,752	117
EBIT	580	488	119
EBITDA	814	733	111
Net Income	583	398	146
Total assets	16,890	15,359	110

Nissin - URC			
	YTD December 2011	YTD December 2010	Index
Revenue	₱367	₱347	106
EBIT	32	49	65
EBITDA	40	60	67
Net Income	23	36	64
Total assets	933	770	121

URC Philippines, Limited			
	YTD December 2011	YTD December 2010	Index
Revenue	₱–	₱–	–
EBIT	–	–	–
EBITDA	–	–	–
Net Income (Loss)	294	(85)	546
Total assets	17,121	16,817	102

Universal Robina (Cayman), Ltd.			
	YTD December 2011	YTD December 2010	Index
Revenue	₱–	₱–	–
EBIT	–	–	–
EBITDA	–	–	–
Net Income	624	354	176
Total assets	12,811	10,272	125

PART II - OTHER INFORMATION

All current disclosures were already reported under SEC Form 17-C.

SIGNATURES

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

UNIVERSAL ROBINA CORPORATION

JAMES L. GO
Chairman and Chief Executive Officer
Date 02/13/2012

LANCE Y. GOKONGWEI
President and Chief Operating Officer
Date 02/13/2012

CONSTANTE T. SANTOS
Senior Vice President - Corporate Controller
Date 02/13/2012

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Thousand Pesos)

	Unaudited December 31 2011	Audited September 30 2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	**₱9,040,940**	₱4,546,882
Financial assets at fair value through profit and loss (Note 8)	**11,015,232**	10,652,072
Available-for-sale investments (Note 9)	**5,411,567**	5,511,551
Receivables - net (Note 10)	**8,781,554**	7,419,825
Inventories (Note 11)	**10,121,428**	9,724,785
Biological assets	**888,700**	911,265
Other current assets (Note 12)	**566,616**	651,356
Total Current Assets	**45,826,037**	39,417,736
Noncurrent Assets		
Property, plant and equipment - net (Note 13)	**27,036,645**	26,423,221
Intangible assets (Note 14)	**1,463,851**	1,463,851
Biological assets	**415,436**	459,054
Investments in a joint venture (Note 15)	**105,735**	89,967
Investment properties (Note 16)	**67,235**	68,149
Deferred tax assets	**54,485**	98,508
Other noncurrent assets (Note 17)	**294,421**	353,198
Total Noncurrent Assets	**29,437,808**	28,955,948
	₱75,263,845	₱68,373,684

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other accrued liabilities (Note 19)	**₱9,110,618**	₱7,270,818
Current portion of long-term debt (Note 20)	**8,223,366**	8,205,764
Short-term debt (Note 18)	**6,804,424**	5,749,633
Trust receipts and acceptances payable (Note 11)	**2,786,855**	1,448,156
Income tax payable	**580,699**	408,700
Total Current Liabilities	**27,505,962**	23,083,071
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 20)	**2,986,105**	3,002,447
Deferred tax liabilities - net	**237,004**	237,004
Net pension liability	**54,450**	24,651
Total Noncurrent Liabilities	**3,277,559**	3,264,102
Total Liabilities	**30,783,521**	26,347,173

(Forward)

	Unaudited December 31 2011	Audited September 30 2011
Equity		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 21)	**₱13,455,557**	₱13,455,557
Retained earnings (Note 21)	**31,356,280**	29,137,859
Other comprehensive income	**673,620**	581,745
Treasury shares (Note 21)	**(2,414,026)**	(2,414,026)
	43,071,431	40,761,135
Equity attributable to non-controlling interests	**1,408,893**	1,265,376
Total Equity	**44,480,324**	42,026,511
	₱75,263,845	₱68,373,684

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousand Pesos, Except Per Share Amount)

	Three Months Ended December 31	
	2011	2010
SALE OF GOODS AND SERVICES	**₱18,198,200**	₱16,739,614
COST OF SALES	**13,607,872**	12,479,783
GROSS PROFIT	**4,590,328**	4,259,831
Selling and distribution costs	**(2,170,931)**	(1,742,692)
General and administrative expenses	**(461,551)**	(550,271)
OPERATING INCOME	**1,957,846**	1,966,868
Market valuation gain (loss) on financial instruments at fair value through profit or loss	**340,545**	(520,594)
Finance revenue	**297,335**	331,517
Finance costs	**(265,999)**	(246,006)
Foreign exchange gain (loss) - net	**205,805**	(63,315)
Equity in net income of a joint venture	**15,768**	8,991
Other income (expense) - net	**46,344**	(26,476)
INCOME BEFORE INCOME TAX	**2,597,644**	1,450,985
PROVISION FOR INCOME TAX	**235,706**	106,067
NET INCOME	**2,361,938**	1,344,918
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on AFS investments	**112,642**	(185,403)
Cumulative translation adjustments	**(20,767)**	27,221
OTHER COMPREHENSIVE INCOME (LOSS)	**91,875**	(158,182)
TOTAL COMPREHENSIVE INCOME	**₱2,453,813**	₱1,186,736
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,218,421**	₱1,240,209
Non-controlling interest	**143,517**	104,709
	₱2,361,938	₱1,344,918
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,310,296**	₱1,082,027
Non-controlling interest	**143,517**	104,709
	₱2,453,813	₱1,186,736
BASIC/DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 22)	**₱1.08**	**₱0.60**

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousand Pesos, except Number of Shares)

	Three Months Ended December 31	
	2011	2010
CAPITAL STOCK - ₱1 par value (Note 21)		
Preferred stock		
Authorized - 2,000,000 shares		
Issued - none		
Common stock		
Authorized - 2,998,000,000 shares in 2011 and 2010		
Issued - 2,227,638,933 shares in 2011 and 2010	**₱2,227,639**	₱2,227,639
Additional issuance	**–**	–
Balance at end of period	**2,227,639**	2,227,639
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of year	**11,227,918**	11,227,918
Additional issuance	–	–
Balance at end of period	**11,227,918**	11,227,918
PAID-UP CAPITAL	**13,455,557**	13,455,557
RETAINED EARNINGS (Note 21)		
Appropriated		
Balance at beginning of year	**5,000,000**	3,000,000
Balance at end of period	**5,000,000**	3,000,000
Unappropriated		
Balance at beginning of year	**24,137,859**	25,418,632
Net income	**2,218,421**	1,240,209
Balance at end of period	**26,356,280**	26,658,841
Balance at end of period	**31,356,280**	29,658,841
CUMULATIVE TRANSLATION ADJUSTMENTS		
Balance at beginning of year	**324,706**	466,905
Adjustments	**(20,767)**	27,221
Balance at end of period	**303,939**	494,126
UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE INVESTMENTS (Note 9)		
Balance at beginning of year	**257,039**	694,965
Changes in fair value	**112,751**	(160,042)
Reclassification adjustment included in profit and loss arising from disposal of AFS investment	**(109)**	(25,361)
Balance at end of period	**369,681**	509,562
OTHER COMPREHENSIVE INCOME	**673,620**	1,003,688

(Forward)

	Three Months Ended December 31	
	2011	2010
TREASURY SHARES (Note 21)		
Balance at beginning of year	**₱(2,414,026)**	₱(2,091,912)
Acquisitions	**–**	(290,773)
Balance at end of period	**(2,414,026)**	(2,382,685)
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		
Balance at beginning of year	**1,265,376**	894,094
Adjustments	**143,517**	104,709
Balance at end of period	**1,408,893**	998,803
	₱44,480,324	₱42,734,204

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousand Pesos)

	Three Months Ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,597,644**	₱1,450,985
Adjustments for:		
Depreciation and amortization	**827,260**	827,219
Market valuation loss (gain) on financial instruments at fair value through profit and loss	**(340,545)**	520,594
Finance revenue	**(297,335)**	(331,517)
Finance cost	**265,999**	246,006
Net unrealized foreign exchange loss (gain)	**(155,252)**	15,907
Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks	**(10,703)**	149,806
Equity in net income of a joint venture	**(15,768)**	(8,991)
Loss (gain) on sale of AFS investments	**108**	(25,118)
Gain on sale of financial assets at FVPL	**(1,456)**	–
Gain on sale of property and equipment	**(5,628)**	(945)
Amortization of bond issue costs	**4,437**	5,559
Operating income before changes in working capital	**2,868,761**	2,849,505
Decrease (increase) in:		
Receivables	**(1,278,318)**	(1,874,702)
Inventories	**(396,643)**	(135,456)
Biological assets	**76,886**	18,271
Other current assets	**84,740**	134,128
Increase (decrease) in:		
Accounts payable and other accrued liabilities	**1,584,219**	1,626,124
Trust receipts and acceptances payable	**1,338,699**	–
Cash generated from operations	**4,278,344**	2,617,870
Interest received	**247,413**	247,322
Interest paid	**(25,920)**	(12,895)
Income taxes paid	**(19,683)**	(36,237)
Net cash provided by operating activities	**4,480,154**	2,816,060

(Forward)

	Three Months Ended December 31	
	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**₱(1,350,441)**	₱(833,487)
Acquisition of financial assets at FVPL	**(1,466)**	(784,255)
Proceeds from sale of AFS investments	**213,100**	207,138
Proceeds from sale of property, plant and equipment	**19,111**	945
Proceeds from sale of financial assets at FVPL	**1,456**	229,243
Decrease (increase) in:		
Other assets	**58,777**	(1,745)
Net pension asset	**–**	25,000
Increase in net pension liability	**29,799**	–
Net cash used in investing activities	**(1,029,664)**	(1,157,161)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (payments) of:		
Short-term borrowings	**1,069,273**	145,859
Long-term debt	**(25,705)**	(1,843)
Acquisition of company's shares	**–**	(290,773)
Net cash provided by (used in) financing activities	**1,043,568**	(146,757)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,494,058**	1,512,142
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,546,882**	4,459,255
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱9,040,940**	₱5,971,397

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(In Thousand Pesos, Except Per Share Amount)

1. **Corporate Information**

Universal Robina Corporation (hereinafter referred to as "the Parent Company" or "URC") is incorporated and domiciled in the Republic of the Philippines. The registered office address of the Parent Company is 110 E. Rodriguez Avenue, Bagumbayan, Quezon City, Philippines.

The Parent Company is a majority owned subsidiary of JG Summit Holdings, Inc. ("the ultimate parent" or "JGSHI").

The Parent Company and its subsidiaries (hereinafter referred to as "the Group") is one of the largest branded food products companies in the Philippines and has a growing presence in other markets in Asia. The Group is involved in a wide range of food-related businesses which are organized into three (3) business segments: (a) the branded consumer food segment which manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, noodles and tomato-based products; (b) the agro-industrial segment which engages in hog and poultry farming, production and distribution of animal health products and manufacture and distribution of animal feeds, glucose and soya bean products; and (c) the commodity food segment which engages in sugar milling and refining, flour milling and manufacture and marketing of pasta. The Parent Company also engages in consumer product-related packaging business through its packaging division which manufactures bi-axially oriented polypropylene (BOPP) film and through its subsidiary, CFC Clubhouse Property, Inc., which manufactures polyethylene terephthalate (PET) bottles and printed flexible packaging materials. The Parent Company's packaging division is included in the branded consumer food segment.

The operations of certain subsidiaries are registered with the Board of Investments (BOI) as preferred pioneer and nonpioneer activities. Under the terms of the registrations and subject to certain requirements, the Parent Company and a certain subsidiary are entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four (4) years to six (6) years from respective start dates of commercial operations. The Group is also subject to certain regulations with respect to, among others, product composition, packaging, labeling, advertising and safety.

2. **Summary of Significant Accounting Policies**

<u>Basis of Preparation</u>

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments that have been measured at fair value, and biological assets and agricultural produce that have been measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine Peso. The functional and presentation currency of the Parent Company and its Philippine subsidiaries (as well certain consolidated foreign subsidiaries) is the Philippine Peso.

These interim consolidated financial statements followed the same accounting policies by which the most recent annual audited consolidated financial statements have been prepared.

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

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

Subsidiaries	Country of Incorporation	Effective Percentage of Ownership 2011	2010
CFC Clubhouse Property, Inc.	- do -	**100.00**	100.00
CFC Corporation	- do -	**100.00**	100.00
CFC Clubhouse, Incorporated	Philippines	–	100.00
URC Confectionary Corporation	- do -	–	100.00
South Luzon Greenland, Inc.	- do -	–	100.00
Bio-Resource Power Generation Corporation	- do -	**100.00**	100.00
Southern Negros Development Corporation (SONEDCO)	- do -	**94.00**	94.00
Nissin – URC	- do -	**65.00**	65.00
URC Philippines, Limited (URCPL)	British Virgin Islands	**100.00**	100.00
URC International Co. Ltd. (URCICL) and Subsidiaries*	- do -	**77.00**	77.00
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	**100.00**	100.00
URC China Commercial Co. Ltd.	- do -	**100.00**	100.00

** Subsidiaries are located in Thailand, Singapore, Malaysia, Vietnam, Indonesia, China and Hong Kong*

In February 2011, CFC Clubhouse, Incorporated, URC Confectionery Corporation, and South Luzon Greenland, Inc., have been merged to the Parent Company. The merger did not have an impact on the consolidated financial statements.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in the consolidation.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the consolidated statements of comprehensive income on the date of acquisition.

Non-controlling interests represent the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to September 30, 2011

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

- PAS 12, *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*
  The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

- PAS 1*, Presentation of Financial Statements - Presentation of Items in Other Comprehensive Income*
  The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no other impact on the Group's financial position and performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

- PFRS 10, *Consolidated Financial Statements* and PAS 27, *Separate Financial Statements*
  PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes issues raised in SIC 12, Consolidation for Special Purpose Entities.

  PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by the parent, compared with the requirements of PAS 2.

  The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements* and PAS 28, *Investments in Associates and Joint Ventures*
  PFSR 11 replaces PAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*.

PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using equity method.

The application of this new standard will not have an impact the financial position of the Group. This standard becomes effective for annual period beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interest in Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all fo the disclosures that were previously in PAS 31, and PAS 28. These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. PFRS 13 does not change when and entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 19, *Employee Benefits*
  The IASB has issued numerous amendments to PAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns from plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendments become effective for annual periods beginning on or after January 1, 2013.

- PAS 27, *Separete Financial Statements* (as revised in 2011)
  As a consequence of the new PFRS 10 and 12, what remains of PAS 27 is limited to accounting for subsidiaries, joinly-controlled entities and associates in separate financial statements. This will have an effect on the separate financial statements of the Parent Company. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the new PFRS 10 and 12 , PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Significant Accounting Policies

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

Rendering of services
Revenue derived from tolling activities, whereby raw sugar from traders and planters is converted into refined sugar, is recognized as revenue when the related services have been rendered.

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

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

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

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

<u>Recognition of Financial Instruments</u>
Date of recognition
Financial instruments within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value. Except for financial instruments fair value through profit or loss valued at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial position date.

Determination of fair value
The fair value for financial instruments traded in active markets at the financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, derivative instruments, or those designated upon initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statements of financial position at fair value. Changes in fair value are reflected in the consolidated statements of comprehensive income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

The Group's financial assets at FVPL consist of private bonds, government and equity securities (Note 8).

Derivatives recorded at FVPL
The Parent Company is counterparty to certain derivative contracts, such as currency forwards. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial

instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the consolidated statements of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of the Group's derivative instruments are based on quotes obtained from counterparties.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate (EIR) and transaction costs. Gains and losses are recognized in the profit or loss in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's trade and other receivables (Note 10).

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

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statements of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under the Equity section of the consolidated statements of financial position, if any.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statements of comprehensive income. Interest earned on holding AFS investments are reported as interest income using the EIR. Where the Group holds more than one (1) investment in the same security these are deemed to be disposed of on a first-in, first-out basis. Dividends earned on holding AFS investments are recognized in the consolidated statements of comprehensive income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statements of comprehensive income.

AFS investments held by the Group consist of private bonds, government and equity securities (Note 9).

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable debt issuance costs. Debt issuance costs are amortized using the effective interest method and unamortized debt issuance costs are offset against the related carrying value of the loan in the consolidated statement of financial position.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

When a loan is paid, the related unamortized debt issuance costs at the date of repayments are charged against current operations. Gains and losses are recognized in the profit or loss in the consolidated statement of comprehensive income when the liabilities are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's short-term and long-term debt, accounts payable and other accrued liabilities and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities and income tax payable).

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Reclassification of Financial Assets

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the consolidated statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable. In 2008, the Group reclassified certain financial assets at FVPL to AFS investments (Note 9).

Impairment of Financial Assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e. receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statements of comprehensive income. The asset, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

AFS investments
The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, 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 under interest income in the profit or loss in the consolidated statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss in the consolidated statement of comprehensive income, the impairment loss is reversed through the profit or loss in the consolidated statement of comprehensive income.

For equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is significant and prolonged is subject to judgment. 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 investment previously recognized in the statement of comprehensive income - is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the profit or loss in the statement of comprehensive income. Increases in fair value after impairment are recognized directly as part of the other comprehensive income.

<u>Derecognition of Financial Instruments</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

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

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or 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 statements of comprehensive income.

<u>Financial Guarantee Contracts</u>
In the ordinary course of business, the Parent Company gives financial guarantees. Financial guarantees are initially recognized in the financial statements at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guaranty has become probable).

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statements of financial position.

<u>Inventories</u>
Inventories, including goods-in-process, are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs.

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

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

Materials in-transit
Cost is determined using the specific identification basis.

Spare parts and supplies
Cost is determined using the average method.

<u>Biological Assets</u>
The biological assets of the Group are divided into two (2) major categories with sub-categories as follows:

Swine livestock	-	Breeders (livestock bearer)
	-	Sucklings (breeders' offspring)

- Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)
- Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat)

Poultry livestock
- Breeders (livestock bearer)
- Chicks (breeders' offspring intended to be sold as breeders)

Biological assets are measured on initial recognition and at each statement of financial position date at its fair value less estimated costs to sell, except for a biological asset where fair value is not clearly determinable. Agricultural produce harvested from an entity's biological assets are measured at its fair value less estimated costs to sell at the time of harvest.

The Group is unable to measure fair values reliably for its poultry livestock breeders in the absence of: (a) available market determined prices or values; and (b) alternative estimates of fair values that are determined to be clearly reliable; thus, these biological assets are measured at cost less accumulated depreciation and any accumulated impairment losses. However, once the fair values become reliably measurable, the Group measures these biological assets at their fair values less estimated costs to sell.

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

Biological assets at cost
The cost of a biological asset comprises its purchase price and any costs attributable in bringing the biological asset to its location and conditions intended by management.

Depreciation is computed using the straight-line method over the EUL of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that considers market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of biological assets. The EUL of biological assets ranges from two to three years.

The carrying values of biological assets are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable (see further discussion under Impairment of Nonfinancial Assets).

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

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

Property, Plant and Equipment
Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The cost of an item of property, plant and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation relating to property, plant and equipment installed/constructed on leased properties, if any.

Land is stated at cost less any impairment in value.

Subsequent costs are capitalized as part of the Property, plant and equipment account, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against current operations and are no longer capitalized.

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

Construction in-progress are transferred to the related Property, Plant and Equipment account when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use are completed, and the property, plant and equipment are ready for service.

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

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

Land improvements	20 years
Buildings and improvements	10-30 years
Machinery and equipment	10 years
Transportation equipment	5 years
Furniture, fixtures and equipment	5 years

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

Major spare parts and stand-by equipment items that the Group expects to use over more than one (1) period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

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

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed and adjusted, if appropriate, at each financial year-end.

Investment Properties

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

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

The Group's investment properties are depreciated using the straight-line method over their EUL as follows:

Land improvements	10 years
Buildings and building improvements	10 to 30 years

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

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

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

Investments in a Joint Venture

The Group also has a 50% interest in Hunt-Universal Robina Corporation (HURC), a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

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

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

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the investee at the date of acquisition which is not identifiable to specific assets. Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the acquirer shall recognize immediately in the consolidated statements of comprehensive income any excess remaining after reassessment.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses, if any.

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

The useful lives of intangible assets with finite life are assessed at the individual asset level. Intangible assets with finite life are amortized over their useful lives. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

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

The useful lives of intangible assets with a finite life are assessed at the individual asset level. Intangible assets with finite lives are amortized over the asset's EUL and assessed for impairment, whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

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

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

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

	Product Formulation	Trademarks	
Useful lives	Indefinite	Indefinite	Finite (4 years)
Amortization method used	No amortization	No amortization	Straight-line amortization
Internally generated or acquired	Acquired	Acquired	Acquired

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property, plant and equipment, investment properties, investment in a joint venture, intangible assets and biological assets at cost.

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

Impairment losses are recognized under Impairment losses account in the consolidated statements of comprehensive income.

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

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

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative fair values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses relating to goodwill cannot be reversed in future periods.

Biological assets at cost
The carrying values of biological assets are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable.

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

Investment in a joint venture
After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in a joint venture. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statements of comprehensive income.

<u>Treasury Shares</u>
Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. No gain or loss is recognized in the consolidated statements of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

<u>Provisions</u>
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate

can be made of the amount of the obligation. Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in the consolidated statements of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Contingencies

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

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

Pension Costs

Pension cost for defined contribution retirement plan is recognized when an employee has rendered services during the period as an expense and a liability, after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, the excess should be recognized as an asset when such prepayment will lead to a reduction in future payments or a cash refund.

Pension cost for defined retirement benefit plan is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses and the effect of any curtailments or settlements.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains or losses are recognized over the average remaining working lives of the employees participating in the plan.

The asset or liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation as of the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash inflows using risk-free interest rates that have terms to maturity approximating the terms of the related pension liability.

Past service costs, if any, are recognized immediately in the profit or loss in the consolidated statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, past service costs are amortized on a straight-line basis over the vesting period.

Asset ceiling test
The asset ceiling test requires a defined benefit asset to be measured at the lower of the amount of the prepaid retirement asset and the total of any cumulative unrecognized net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan as reductions in the future contributions to the plan.

Income Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the financial position date.

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

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

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of financial position date.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing Costs
Borrowing costs are generally expensed as incurred. Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities

to prepare the asset are in-progress and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate.

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

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

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

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

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

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

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

Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the lease term.

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

Group as a lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same

basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Translation/Transactions

The functional and presentation currency of the Parent Company and its Philippine subsidiaries (as well as certain consolidated foreign subsidiaries), is the Philippine Peso.

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are taken to the consolidated statements of comprehensive income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the consolidated statements of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Subsidiaries	Country of Incorporation	Functional Currency
URCL	Cayman Islands	Philippine Peso
URCPL	British Virgin Island	- do -
URC Asean Brands Co. Ltd.	- do -	US Dollar
Hong Kong China Foods Co. Ltd.	- do -	- do -
URCICL	- do -	- do -
Shanghai Peggy Foods Co., Ltd.	China	Chinese Yuan
URC China Commercial Co. Ltd.	- do -	- do -
Xiamen Tongan Pacific Food Co., Ltd.	- do -	- do -
Panyu Peggy Foods Co., Ltd.	- do -	- do -
Shantou SEZ Shanfu Foods Co., Ltd.	- do -	- do -
Jiangsu Acesfood Industrial Co., Ltd.	- do -	- do -
URC Hong Kong Company Limited	Hong Kong	HK Dollar
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC Snack Foods (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit
Ricellent Sdn. Bhd.	- do -	- do -
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
Acesfood Network Pte. Ltd.	- do -	- do -
Acesfood Holdings Pte. Ltd	- do -	- do -
Acesfood Distributors Pte. Ltd.	- do -	- do -
Advanson International Pte. Ltd.	- do -	- do -
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
Siam Pattanasin Co., Ltd.	- do -	- do -
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
URC Hanoi Company Limited	- do -	- do -

As of the statement of financial position date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the financial position date and their respective statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity except for URCPL and URCL which are considered integral part of the parent company. Exchange differences of these subsidiaries are recognized in the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of comprehensive income.

Common Stock

Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on Common Shares

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

Earnings Per Share (EPS)

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

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 5 to the consolidated financial statements.

Subsequent Events

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

3. **Significant Accounting Judgments and Estimates**

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

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

Judgments

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

Classification of financial instruments

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either 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 statements of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Determination of fair values of financial instruments

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting judgment and estimates. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable market data where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Classification of leases

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

The Group has entered into commercial property leases on its investment property portfolio. These leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Some of the Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the Group on a straight–line basis over the term of the right.

Distinction between investment properties and owner-occupied properties
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

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

Determination of functional currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the parent and performing the functions of the parent - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the parent company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the parent; while in the latter case, the functional currency of the entity would be assessed separately.

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

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

Impairment of AFS investments
Debt investments
The Group classifies certain financial assets as AFS investments and recognizes movements in the fair value in equity. When the fair value declines, management makes assumptions about the

decline in value to determine whether such can be considered as an impairment loss that should be recognized in the profit or loss in the consolidated statement of comprehensive income.

Equity investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. The Group treats ‘significant’ generally as 20% or more and ‘prolonged’ as 12 months or longer for quoted equity securities. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation of allowance for impairment losses on trade and other receivables
The Group maintains allowances for impairment losses on its trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of relationship with the customer, the customer’s payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for trade and other receivables that it deems uncollectible.

The Group reviews its finance receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss in the consolidated statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on trade and other receivables would increase recorded operating expenses and decrease current assets.

Determination of NRV of inventories
The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally provided 100% for nonmoving items for more than one (1) year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories.

The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

EUL of property, plant and equipment and investment properties
The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The EUL of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the EUL of property, plant and equipment and investment properties would increase depreciation expense and decrease noncurrent assets.

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

Impairment of nonfinancial assets
The Group assesses the impairment of its nonfinancial assets (i.e., property, plant and equipment, investment properties, investment in a joint venture, biological assets at costs, goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant or prolonged decline in the fair vale of the asset;
- market interest rates or other market rates of return on investments have increased during period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount has been determined based on value in use calculations. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

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

The Group also estimates other employee benefits obligation and expense, including the cost of paid leaves based on historical leave availments of employees, subject to the Group's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using the interest rate of Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date.

Recognition of deferred tax assets
The Group reviews the carrying amounts of deferred taxes at each financial position date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

4. Financial Risk Management Objective and Policies

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

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

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

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

Each BOD has created the board-level AC to spearhead the managing and monitoring of risks.

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

The AC also aims to ensure that:

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

Enterprise Risk Management Group (ERMG)
The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

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

Compliance with the principles of good corporate governance is also one (1) of the primary objectives of the BOD. To assist the BOD in achieving this purpose, the BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance with the provisions and requirements of the Corporate Governance Manual and other requirements on good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties on such infringements for further review and approval of the BOD, among others.

Day-to-day risk management functions
At the business unit or company level, the day-to-day risk management functions are handled by four difference groups, namely:

1. Risk-taking personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk control and compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.

3. Support. This group includes back office personnel who support the line personnel.
4. Risk management. This group pertains to the business unit's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

Risk Management Policies

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

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Credit and Collection Department of the Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments. The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

Liquidity risk

The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

Market risk

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

Foreign currency risk

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

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. The Group does not have any foreign currency hedging arrangements.

Equity price risk

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

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

5. Fair Value Measurement

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

Cash and cash equivalents, receivables (except amounts due from and due to related parties), accounts payable and other accrued liabilities, short-term debt, and trust receipts and acceptances payable
Carrying amounts approximate their fair values due to the relatively short-term maturity of these instruments.

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

Financial assets at FVPL and AFS investments
Fair values of debt securities are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Fair values of quoted equity securities are based on quoted prices published in markets.

Derivative financial instruments
The fair values of currency forwards and currency options are based on quotes obtained from counterparties.

Long-term debt
The fair value is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans.

Fair Value Hierarchy
The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

6. **Business Segment Information**

The industry segments where the Group operates are as follows:

a. The branded consumer food products segment - manufactures and distributes a diverse mix of snack foods, instant coffee products, instant noodles, chocolates, soft and hard candies, biscuits, tomato-based products and ready-to-drink beverages. This segment also includes the packaging division which manufactures BOPP films primarily used in packaging. In 2006, the Group, through its wholly owned subsidiary, CFC Clubhouse Property, Inc. began operations of its PET bottle manufacturing and flexible packaging plants to supply the packaging requirement of PET bottle products and various branded food products. Its revenues are in their peak during the opening of classes in June and Christmas season.

b. The agro-industrial products segment engages in hog and poultry farming, manufactures and distributes animal and fish feeds and soya products, and manufactures and distributes animal health products. Its peak season is during summer and before Christmas season.

c. The commodity food products segment engages in sugar milling and refining, and flour milling and pasta manufacturing and marketing. The peak season for sugar is during its crop season, which normally starts in November and ends in April while flour and pasta's peak season is before and during Christmas season.

d. The corporate business segment engages in bonds and securities investment and fund sourcing activities.

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

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

The Group's business segment information follows:

	Sale of Goods and Services		Segment Result	
	December 31			
	2011	2010	**2011**	2010
BCFG	**₱14,389,424**	₱12,485,106	**₱1,458,296**	₱1,411,695
AIG	**1,916,219**	1,620,844	**54,406**	(60,456)
CFG	**1,892,557**	2,633,664	**648,606**	807,186
Corporate Businesses	**–**	–	**(203,462)**	(191,557)
	₱18,198,200	₱16,739,614	**₱1,957,846**	₱1,966,868

	Total Assets		Total Liabilities	
	December 31			
	2011	2010	**2011**	2010
BCFG	**₱35,716,462**	₱32,238,109	**₱10,572,900**	₱9,352,909
AIG	**5,440,138**	4,454,946	**2,962,830**	770,972
CFG	**8,641,493**	8,241,954	**3,583,908**	1,753,105
Corporate Businesses	**25,465,752**	23,376,386	**13,663,883**	13,700,205
	₱75,263,845	₱68,311,395	**₱30,783,521**	₱25,577,191

7. Cash and Cash Equivalents

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Cash on hand	**₱53,163**	₱47,792
Cash in banks	**743,994**	616,981
Short-term investments	**8,243,783**	3,882,109
	₱9,040,940	₱4,546,882

Cash in banks earns interest at the respective bank deposit rates. Short-term investments represent money market placements that are made for varying periods depending on the immediate cash requirements of the Group, and earn interest ranging from 1.6% to 3.9% and 1.4% to 3.8%, in December 31, 2011 and September 30, 2011, respectively.

8. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Investments held-for-trading	**₱11,011,625**	₱10,642,910
Derivative assets	**3,607**	9,162
	₱11,015,232	₱10,652,072

Investments that are held-for-trading consist of:

	Unaudited December 31, 2011	Audited September 30, 2011
Private bonds	**₱7,585,125**	₱7,374,657
Equity securities	**3,288,393**	3,132,619
Government securities	**138,107**	135,634
	₱11,011,625	₱10,642,910

The above investments consist of quoted debt and equity securities issued by certain domestic and foreign entities.

The Group reported net market valuation gain on financial assets at FVPL of ₱340.5 million for the three months of fiscal 2012 and net market valuation loss of ₱520.6 million for the three months of fiscal 2011.

9. Available-for-Sale Investments

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Debt securities:		
Private bonds	**₱2,270,182**	₱2,451,989
Government securities	**2,219,301**	2,165,355
	4,489,483	4,617,344
Equity securities:		
Quoted	**922,084**	894,207
	₱5,411,567	₱5,511,551

As of December 31, 2011 and September 30, 2011, AFS investments include net unrealized gain on market valuation of ₱369.7 million and ₱257.0 million, respectively, which are presented as components of other comprehensive income.

10. Receivables

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Trade receivables	**₱5,571,704**	₱4,764,096
Due from related parties	**1,679,091**	1,602,667
Advances to officers, employees and suppliers	**760,056**	526,095
Interest receivable	**272,212**	222,290
Others	**897,357**	710,455
	9,180,420	7,825,603
Less allowance for impairment loss	**398,866**	405,778
	₱8,781,554	₱7,419,825

The aging analysis of the Group's receivables follows:

	Neither past due nor impaired	Past due but not impaired		Past due and impaired	**Unaudited December 31, 2011**
		Less than 90 days	Over 90 days		
Trade receivables	₱4,253,820	₱667,488	₱446,959	₱203,437	**₱5,571,704**
Due from related parties	1,679,091	–	–	–	**1,679,091**
Advances to suppliers and others	662,934	40,423	37,052	19,647	**760,056**
Interest receivable	272,212	–	–	–	**272,212**
Others	613,750	89,402	18,423	175,782	**897,357**
	₱7,481,807	₱797,313	₱502,434	₱398,866	**₱9,180,420**

	Neither past due nor impaired	Past due but not impaired		Past due and impaired	**Audited September 30, 2011**
		Less than 90 days	Over 90 days		
Trade receivables	₱3,600,837	₱570,737	₱382,173	₱210,349	**₱4,764,096**
Due from related parties	1,602,667	–	–	–	**1,602,667**
Advances to suppliers and others,	452,821	27,980	25,647	19,647	**526,095**
Interest receivable	222,290	–	–	–	**222,290**
Others	449,305	70,781	14,586	175,783	**710,455**
	₱6,327,920	₱669,498	₱422,406	₱405,779	**₱7,825,603**

11. **Inventories**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
At cost:		
Raw materials	**₱4,960,825**	₱4,915,009
Finished goods	**2,035,880**	2,090,752
	6,996,705	7,005,761
At NRV:		
Goods in-process	**495,881**	451,673
Containers and packaging materials	**1,128,496**	1,114,231
Spare parts and supplies	**1,500,346**	1,153,120
	3,124,723	2,719,024
	₱10,121,428	₱9,724,785

Under the terms of the agreements covering liabilities under trust receipts totaling ₱2.8 billion and ₱1.4 billion as of December 31, 2011 and September 30, 2011, respectively, certain inventories have been released to the Group in trust for the banks. The Parent Company is accountable to these banks for the trusteed merchandise or their sales proceeds.

12. **Other Current Assets**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Input value-added tax	**₱415,239**	₱490,944
Prepaid expenses	**151,377**	160,412
	₱566,616	₱651,356

Prepaid expenses include prepaid insurance amounting to ₱63.5 million and ₱69.4 million as of December 31, 2011 and September 30, 2011, respectively, and prepaid advertising amounting to ₱ 39.3 million and ₱38.6 million as of December 31, 2011 and September 30, 2011, respectively,

13. **Property, Plant and Equipment**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Acquisition Costs		
Land Improvements	**₱1,239,031**	₱1,137,423
Building and Improvements	**10,330,909**	10,189,107
Machinery and Equipment	**37,901,519**	37,350,139
Transportation Equipment	**2,070,551**	2,037,009
Furniture, Fixtures and Equipment	**1,779,998**	1,753,185
	53,322,008	52,466,863
Accumulated Depreciation	**30,138,829**	29,447,617
Net Book Value	**23,183,179**	23,019,246
Land	**1,860,487**	1,861,512
Equipment In-transit	**468,584**	102,359
Construction In-progress	**1,524,395**	1,440,104
	₱27,036,645	₱26,423,221

14. **Intangible Assets**

Movements in this account follow:

	Unaudited December 31, 2011	Audited September 30, 2011
Cost		
Balance at beginning of year	**₱1,723,292**	₱1,835,554
Acquisition (disposal) of investment	**–**	(112,262)
Balance at end of year	**1,723,292**	1,723,292
Accumulated Amortization		
Balance at beginning of year	**259,441**	194,326
Amortization	**–**	1,615
Impairment losses during the period	**–**	63,500
Balance at end of year	**259,441**	259,441
Net Book Value	**₱1,463,851**	₱1,463,851

Intangible assets consist of goodwill, trademark and product formulation.

15. **Investment in a Joint Venture**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Acquisition Cost		
Balance at beginning and end of year	**₱1,250**	₱1,250
Accumulated Equity in Net Earnings		
Balance at beginning of year	**88,717**	88,247
Equity in net income during the year	**15,768**	25,470
Dividends received	**–**	(25,000)
Balance at end of year	**104,485**	88,717
Net Book Value at End of Year	**₱105,735**	₱89,967

The Parent Company has an equity interest in Hunt-Universal Robina Corporation (HURC), a domestic joint venture. HURC manufactures and distributes food products under the “Hunt’s” brand name, which is under exclusive license to HURC in the Philippines.

16. **Investment Properties**

Movements in this account follow:

	Unaudited December 31, 2011	Audited September 30, 2011
Cost		
Balance at beginning and end of year	**₱107,947**	₱107,947
Accumulated Depreciation		
Balance at beginning of year	**39,798**	36,140
Depreciation	**914**	3,658
Balance at end of year	**40,712**	39,798
Net Book Value	**₱67,235**	₱68,149

The investment properties consist of buildings which are made available for lease to certain related parties.

17. **Other Noncurrent Assets**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Input value-added tax	**₱115,307**	₱126,105
Miscellaneous deposits	**138,340**	151,494
Others	**40,774**	75,599
	₱294,421	₱353,198

18. **Short-term Debt**

This account consists of loans in foreign currencies with interest rates ranging from 0.45% to 1.55% per annum in 2012 and 0.49% to 1.01% per annum in 2011. Interest is based on prevailing market rates.

19. **Accounts Payable and Other Accrued Liabilities**

This account consists of:

	Unaudited December 31, 2011	Audited September 30, 2011
Trade payables	**₱5,938,900**	₱4,753,740
Accrued expenses	**2,110,777**	1,544,765
Due to related parties	**319,072**	335,280
Customers' deposits	**206,673**	244,869
Advances from stockholders	**224,094**	223,218
Derivative liabilities	**14,315**	24,387
Others	**296,787**	144,559
	₱9,110,618	₱7,270,818

Others include dividends payable amounting to ₱123.0 million and nil as of December 31, 2011 and September 30, 2011, respectively, and withholding taxes payable amounting to ₱98.9 million and ₱86.7 million as of December 31, 2011 and September 30, 2011, respectively.

The Accrued expenses account includes accruals for:

	Unaudited December 31, 2011	Audited September 30, 2011
Advertising and promotions	**₱959,398**	₱831,936
Interest payable	**385,993**	145,915
Contracted services	**334,781**	304,028
Freight and handling costs	**199,237**	160,410
Others	**231,368**	102,476
	₱2,110,777	₱1,544,765

As of December 31, 2011 and September 30, 2011, others include accrued utilities amounting to ₱ 74.9 million and ₱76.5 million, respectively.

20. **Long-term Debt**

This consists of:

	Maturities	Interest Rates	**Unaudited December 31, 2011**	Audited September 30, 2011
Parent Company:				
Philippine Peso				
₱3.0 billion loan facility	2014	8.75%	**₱2,986,105**	₱2,984,699
Subsidiaries:				
Foreign currencies				
URCPL US$200 million guaranteed notes	2012	8.25%	**8,223,366**	8,197,807
Philippine Peso				
Philippine Sugar Corp. restructured loan	2013	7.50%	**–**	25,705
			8,223,366	8,223,512
			11,209,471	11,208,211
Less current portion			**8,223,366**	8,205,764
			₱2,986,105	₱3,002,447

Long-term debt is shown net of unamortized debt issuance costs totaling ₱14.6 million and ₱19.0 million as of December 31, 2011 and September 30, 2011, respectively.

Repayments of the long-term debt follow:

	Unaudited December 31, 2011	Audited September 30, 2011
Due within:		
1 year	**₱8,224,033**	₱8,209,479
2 years	**–**	8,553
3 years	**3,000,000**	3,009,195
	₱11,224,033	₱11,227,227

The exchange rates used to restate the foreign currency borrowings were ₱43.84 to US$1.00 and ₱ 43.72 to US$1.00 as of December 31, 2011 and September 30, 2011, respectively.

In December 2011, SONEDCO fully settled the Philippine Sugar Corporation restructured loan with a total payment of ₱27.6 million, including interest.

21. **Equity**

The details of the Parent Company's common stock follow:

	December 31, 2011	September 30, 2011
Authorized shares	**2,998,000,000**	2,998,000,000
Par value per share	**₱1.00**	₱1.00
Issued:		
Balance at beginning of year	**2,227,638,933**	2,227,638,933
Issuance of common shares of stock during the year	**–**	–
		2,227,638,933
Balance at end of year	**2,227,638,933**	
Less treasury shares	**166,137,000**	166,137,000
Outstanding Shares	**2,061,501,933**	2,061,501,933

Cumulative Redeemable Preferred Shares

The Group's authorized preferred shares of stock are 12% cumulative, nonparticipating, and nonvoting. In case of dissolution and liquidation of the Parent Company, the holders of the preferred shares shall be entitled to be paid an amount equal to the par value of the shares or ratably insofar as the assets of the Parent Company may warrant, plus accrued and unpaid dividends thereon, if any, before the holders of the common shares of stock can be paid their liquidating dividends. The authorized preferred stock is 2,000,000 shares at par value of ₱1.0 per share. There have been no issuances of preferred stock as of December 31, 2011 and September 30, 2011.

Retained Earnings

A portion of the unappropriated retained earnings representing the undistributed earnings of the investee companies is not available for dividend declaration until received in the form of dividends and is restricted to the extent of the cost of treasury shares.

Treasury Shares

On November 13, 2007, the Group's BOD approved the creation and implementation of a share buy-back program alloting up to ₱2.5 billion to reacquire a portion of the Company's issued and outstanding common shares, representing approximately 7.63% of current market capitalization.

On January 12, 2011, the Group's BOD approved the extension of the Group's buy-back program, allotting up to another ₱2.5 billion to reacquire portion of the Parent Company's issued and outstanding common shares. The extension of the share buy-back program shall have the same terms and conditions as the share buy-back program approved by the BOD on November 13, 2007.

22. **Earnings Per Share**

The following reflects the income and share data used in the basic/dilutive EPS computations:

	Three Months Ended December 31	
	2011	2010
Net income attributable to equity holders of the parent	**₱2,218,421**	₱1,240,209
Weighted average number of common shares	**2,061,502**	2,063,727
Basic/dilutive EPS	**₱1.08**	₱0.60

There were no potential dilutive shares for the three months of fiscal 2012 and 2011. As of December 31, 2011, the Company's outstanding common stock is 2,061,501,933 shares.

23. **Commitments and Contingencies**

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts, under arbitration or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.