



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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



1. For the quarterly period ended SEPTEMBER 30, 2007
2. Commission Identification Number: 12998
3. BIR Tax Identification Number: 000-064-134-000
4. Exact name of Registrant as specified in its charter: RFM CORPORATION
5. Philippines  
Province, country or other jurisdiction of  
incorporation or organization
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. RFM Corporate Center, Pioneer corner and Sheridan Streets, Mandaluyong City  
Address of Registrant's principal office
- 1550  
Postal Code
8. 0632-631-81-01  
Registrant's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Issued and Outstanding
Common shares, P1.00 par value	3,160,403,866

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

Yes [  ] No [  ]

12. Indicate by check mark whether the Registrant:

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

Yes [  ] No [  ]

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

Yes [  ] No [  ]

## **PART I – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

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

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

#### **Analysis of Results of Operations**

##### YTD September 2007 vs. YTD September 2006

RFM continues to enjoy a healthy income growth of 34% for the first nine months of 2007, with net income rising to ₱149 million this year from ₱111 million for same period last year.

Consolidated net sales reached ₱5.1 billion during the period, a 20% increase from last year's ₱4.3 billion. The Company attributed the upsurge to the continuing strong sales performance of its food and beverage segments, such as the branded food segment, which posted an impressive 36% growth to ₱2.3 billion, and the flour and bakery segment, with a 17% increase to ₱2.1 billion in September 2007. Revenues from the real estate segment, however, remained flat at ₱0.68 billion.

Higher sales volume and better selling prices in its food and beverage segment resulted to improved revenues, as well as sales contributed by new products introduced during the year. These improvements, however, were not sufficient to offset the rising costs of imported and domestic raw materials, freight and handling, utilities, and wages. Gross profit margins fell slightly from 25.2% in the third quarter of 2006 to 23.5% in 2007.

Consequently, operating expenses were tightly managed and kept within 19.0% of sales, lower than the 19.6% level during the previous year, to sustain a healthier income during the period.

##### Third quarter 2007 vs. Third quarter 2006

For the third calendar quarter of 2007, the Group posted a 20% increase in consolidated net revenues, achieving ₱1.6 billion sales as compared to ₱1.3 billion reported in the same quarter last year. All of its business units continue to perform better, with the help of higher export sales for branded foods this year.

However, costs of major raw materials, such as wheat and milk, were highest during this period, as well as freight and handling costs, utilities, and wages. This resulted to lower gross profit margin of 23% in the third quarter 2007 as compared to 24% in the same quarter 2006.

Operating expenses and interest costs were largely contained, and net income improved at ₱26 million this year compared to last year's ₱18 million.

The key financial performance indicators for the Company for the nine-month period ended September 30, 2007 as compared to the same period in 2006, as well as the third quarter of 2007 as compared with the third quarter of 2006, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	For the Quarters Ended September 30		For the Nine-Month Periods Ended September 30	
	2007	2006	2007	2006
Net Revenues	<b>₱1,608</b>	₱1,341	<b>₱5,145</b>	₱4,270
Net Operating Margin	<b>38</b>	52	<b>229</b>	240
Net Income	<b>26</b>	18	<b>149</b>	111
EBITDA	<b>126</b>	92	<b>479</b>	344
Current Ratio	<b>1.61</b>	1.63	<b>1.61</b>	1.63

\* Except current ratio

1. Net Revenues

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

2. Net Operating Margin

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

3. Net Income

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

4. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

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

5. Current Ratio

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

**Analysis of Financial Condition and Balance Sheet Accounts**

As of September 30, 2007, the Group's total stood at ₱9.8 billion, a 4% growth over December 31, 2006.

Receivables increased slightly by 8% from ₱1.0 billion to ₱1.1 billion due mainly to the additional working capital advances made to related parties and other receivables which remained unsettled as of end of the third calendar quarter. The decline in trade receivables by 4% was triggered by the continuous collection of accounts for both current and previous periods that resulted to the slight build up in the cash and cash equivalents by 3%.

Optimum controls in inventory management were being constantly implemented. The 13% climb in net inventories was due to inventory build-up for the projected increase in demand of the Company's products in the last quarter in anticipation for the coming Christmas season.

The drop in investment properties and property, plant, and equipment by 1% was largely accounted by the effects of monthly depreciation and amortization charges.

The Company was solvent to make loan principal and interest payments to its short-term and long-term bank obligations, which diminished in total by 18%.

Finally, the portion of the balance sheet which represents the equity stake currently held by the Company's equity investors spawned a 3% spread which was mainly due to continuous favorable outcomes of financial performance.

#### Notes to Financial Statements

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

The Company discloses the following:

- (a) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;
- (b) There is no material effect with the seasonal aspect of certain raw materials;
- (c) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;
- (d) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;
- (e) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;
- (f) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;
- (g) There are no dividends paid separately for ordinary shares and other shares;
- (h) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;
- (i) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;
- (j) There is no change in contingent liabilities since the most recent audited financial statements;
- (k) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of September 30, 2007.
- (l) There were no material off-balance sheet transactions, arrangements, obligations, and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

**PART II – OTHER INFORMATION**

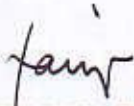
The Company has no other pertinent information to disclose in this quarterly report

**SIGNATURES**

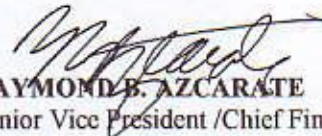
Pursuant to the requirements of the Securities Regulation Code, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**RFM CORPORATION**

Registrant



**FELICISIMO M. NACINO, JR.**  
Executive Vice President/Chief Operating Officer



**RAYMOND B. AZCARATE**  
Senior Vice President /Chief Finance Officer

Dated: November 14, 2007

**RFM CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in Millions)

	Unaudited September 30, 2007	Audited December 31, 2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P571	P555
Receivables – net (Notes 4 and 8)	1,069	987
Inventories – net (Notes 5 and 8)	4,217	3,739
Other current assets (Note 6)	1,015	957
Total Current Assets	6,872	6,238
<b>Noncurrent Assets</b>		
Available for sale investments – net	911	961
Investments	282	279
Property, plant, and equipment – net	1,124	1,145
Investment properties – net	250	249
Other noncurrent assets	380	572
Total Noncurrent Assets	2,947	3,206
<b>TOTAL ASSETS</b>	<b>P9,819</b>	<b>P9,444</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans	P575	P724
Accounts payable and accrued expenses	2,005	1,882
Trust receipts and acceptances payable	241	235
Current portions of long-term debt and obligations	177	381
Other current liabilities (Note 8)	1,283	831
Total Current Liabilities	4,281	4,053
<b>Noncurrent Liabilities</b>		
Long-term debt and obligations – net of current portions	840	829
Net pension obligations	78	79
Other noncurrent liabilities (Note 8)	1	12
Total Noncurrent Liabilities	919	920
<b>TOTAL LIABILITIES</b>	<b>5,200</b>	<b>4,973</b>
<b>EQUITY</b>		
Capital stock (Note 7)	3,928	3,928
Capital in excess of par value	1,020	1,019
Net unrealized gains on AFS investments	56	77
Cumulative actuarial gains on defined benefit plans	–	1
Retained earnings	596	445
Share-based compensation	–	3
	5,600	5,473
Cost of treasury stock (Note 7)	(995)	(1,006)
	4,605	4,467
<b>Minority interests</b> (Note 2)	<b>14</b>	<b>4</b>
<b>TOTAL EQUITY</b>	<b>4,619</b>	<b>4,471</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P9,819</b>	<b>P9,444</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**RFM CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Millions, Except for Earnings Per Share Data)

	For the Quarters		For the Nine-Month Periods	
	Ended September 30	2006	Ended September 30	2006
	2007		2007	2006
<b>NET REVENUES</b> (Note 8)	<b>₱1,608</b>	₱1,341	<b>₱5,145</b>	₱4,270
<b>DIRECT COSTS AND EXPENSES</b>	<b>(1,240)</b>	(1,014)	<b>(3,934)</b>	(3,194)
<b>GROSS PROFIT</b>	<b>368</b>	327	<b>1,211</b>	1,076
<b>OPERATING EXPENSES</b>	<b>(330)</b>	(275)	<b>(982)</b>	(836)
<b>INCOME FROM OPERATIONS</b>	<b>38</b>	52	<b>229</b>	240
<b>OTHER CHARGES – NET</b> (Note 8)	<b>(1)</b>	(29)	<b>(25)</b>	(80)
<b>INCOME BEFORE PROVISION FOR INCOME TAX</b>	<b>37</b>	23	<b>204</b>	160
<b>PROVISION FOR INCOME TAX</b>	<b>(11)</b>	(5)	<b>(55)</b>	(49)
<b>NET INCOME</b>	<b>₱26</b>	₱18	<b>₱149</b>	₱111
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>₱27</b>	₱20	<b>₱151</b>	₱115
Minority interests (Note 2)	<b>(1)</b>	(2)	<b>(2)</b>	(4)
	<b>₱26</b>	₱18	<b>₱149</b>	₱111
<b>Earnings Per Share</b> (Note 9)				
Basic	<b>₱0.009</b>	₱0.013	<b>₱0.048</b>	₱0.073
Diluted	<b>₱0.009</b>	₱0.013	<b>₱0.048</b>	₱0.073

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**RFM CORPORATION AND SUBSIDIARIES****UNAUDITED PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY**

(Amounts in Millions)

	For the Nine-Month Periods Ended September 30	
	2007	2006
<b>CAPITAL STOCK</b> (Note 7)		
Authorized:		
Preferred stock, 10% cumulative and convertible, ₱1 par value, 254,424,473 shares (2006 – 300,000,000 shares)		
Common stock, ₱1 par value, 4,745,575,527 shares (2006 – 2,350,000,000 shares at ₱2 par value)		
Issued and outstanding:		
Common stock, 3,160,403,866 shares (2006 – 1,570,933,950 shares)	<b>₱3,928</b>	<b>₱3,928</b>
<b>CAPITAL IN EXCESS OF PAR VALUE</b>	<b>1,020</b>	1,051
<b>NET UNREALIZED GAINS OF AFS INVESTMENTS</b>	<b>56</b>	33
<b>RETAINED EARNINGS</b>		
Beginning balance	445	190
Reissuance of treasury shares	–	(23)
Net income	151	115
Ending balance	596	282
<b>COST OF TREASURY STOCK</b> (Note 7)	<b>(995)</b>	(1,016)
	<b>4,605</b>	4,278
<b>MINORITY INTERESTS</b> (Note 2)	<b>14</b>	–
	<b>₱4,619</b>	<b>₱4,278</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**RFM CORPORATION AND SUBSIDIARIES**  
**UNAUDITED PARENT COMPANY STATEMENTS OF CASH FLOWS**  
(Amounts in Millions)

	<b>For the Nine-Month Periods Ended</b>	
	<b>September 30</b>	
	<b>2007</b>	2006
Income before provision for income tax	<b>₱204</b>	₱115
Adjustments for:		
Interest expense and financing charges	<b>182</b>	–
Depreciation and amortization	<b>93</b>	143
Interest and financing income	<b>(102)</b>	–
Equity in net earnings of associates	<b>(7)</b>	–
Dividend income	<b>(5)</b>	–
Gain on sale of investments and property and equipment	<b>(4)</b>	–
Operating income before working capital changes:	<b>361</b>	258
Decrease (increase) in:		
Receivables	<b>(82)</b>	121
Inventories	<b>(478)</b>	(573)
Other current assets	<b>(58)</b>	43
Increase (decrease) in:		
Accounts payable and accrued expenses	<b>67</b>	(129)
Trust receipts and acceptances payable	<b>6</b>	(49)
Other current liabilities	<b>452</b>	(30)
Cash generated from (used in) operations	<b>268</b>	(359)
Interest paid	<b>(94)</b>	–
Income tax paid	<b>(24)</b>	–
Interest received	<b>18</b>	–
Net cash provided by (used in) operating activities	<b>168</b>	(359)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to investments and property and equipment	<b>(5)</b>	(72)
Dividends received	<b>5</b>	–
Decrease (increase) in other noncurrent assets	<b>192</b>	(6)
Proceeds from sale of investments and property and equipment	<b>4</b>	–
Net cash provided by (used in) investing activities	<b>196</b>	(78)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Availments (repayments) of:		
Bank loans	<b>(149)</b>	277
Long-term debt	<b>(193)</b>	–
Reissuance of treasury shares	<b>–</b>	16
Increase (decrease) in minority interests and other noncurrent liabilities	<b>(6)</b>	3
Net cash provided by (used in) financing activities	<b>(348)</b>	296
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16</b>	(141)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<b>555</b>	593
<b>CASH AND CASH EQUIVALENTS, END</b>	<b>₱571</b>	₱452

*See accompanying Notes to Consolidated Financial Statements*

**RFM CORPORATION AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Corporate Information**

RFM Corporation (the Parent Company) is incorporated in the Philippines and is a public company under Section 17.2 of the Securities Regulation Code. Its shares of stock are listed in the Philippine Stock Exchange. It is primarily engaged in the manufacture and sale of all kinds of food and beverage, such as but not limited to flour, cake mixes, pasta, meat and other meat products, poultry and poultry products, agricultural products, ice cream, milk and other dairy products, non-alcoholic drinks, juices, tea and other beverages. A major subsidiary, Philippine Townships, Inc. (Philtown), is engaged in real estate development and leasing of real estate properties.

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

**2. Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries and joint ventures (the Group) have been prepared using the historical cost basis, except for financial assets at fair value through profit and loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value. The financial statements are presented in Philippine Peso, which is the Parent Company's functional currency. All values are rounded to the nearest million pesos (₱000,000), except the number of shares or when otherwise indicated.

Statement of Compliance

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

Basis of Consolidation

The financial statements comprise the financial statements of the Group prepared for the same reporting period as the Parent Company, using consistent accounting policies.

The consolidated subsidiaries, which are all incorporated in the Philippines, are as follows:

	<b>Percentage of Ownership</b>
Cabuyao Meat Processing Corporation (CMPC)*	100.00
Interbake Commissary Corporation (Interbake)	100.00
Philippine Townships, Inc. (Philtown) and Subsidiaries and Joint Venture	100.00
RFM Realty Marketing Corporation**	100.00
Philtown Property Management, Inc.**	100.00
First Tanauan Realty Corporation (FTRC)**	100.00
McKinley Tower, Inc.**	100.00
First San Rafael Realty Corp.**	100.00
Metropolitan Tower Corp. **	100.00
Philtown Utilities Corporation	100.00
RFM Equities, Inc. and Subsidiaries (RFM Equities)	100.00
RFM Insurance Brokers, Inc. (RIBI)	100.00
Conglomerate Securities and Financing Corporation (CSFC)	88.68
<i>(Forward)</i>	
RFM Foods Philippines Corporation (RFM Foods)**	100.00
Southstar Bottled Water Company, Inc.**	100.00

Swift Tuna Corporation (Swift Tuna)**	100.00
FWBC Holdings, Inc. and Subsidiary	83.38
Filipinas Water Bottling Company, Inc. (FWBC)	58.37
Rizal Lighterage Corporation (RLC)	82.98
RFM Canning and Marketing, Inc. (RFM Canning)**	70.00
WS Holdings, Inc. (WHI)	60.00

\* *In preoperating stage.*

\*\* *Dormant.*

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of the subsidiary so as to benefit from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group. Minority interests represent the portion of income and expense and net assets in CSFC, FWBC, RLC, RFM Canning and WHI not held by the Group and are presented separately in the statements of income and within equity in the balance sheets, separately from the equity attributable to the Parent Company.

The interests in 50%-owned joint ventures, Unilever RFM Ice Cream, Inc. (URICI) and One McKinley Place, Inc. (OMP), are accounted for using the proportionate consolidation method, which involves consolidating a proportionate share of the joint ventures' assets, liabilities, income and expenses with similar items in the financial statements on a line-by-line basis.

#### New and Revised Accounting Standards and Interpretations Effective in 2007

##### *Accounting Changes*

The accounting policies adopted by the Group are consistent with those of the previous periods except for:

- PFRS 7, *Financial Instruments: Disclosures, and the complementary amendment to PAS 1, Presentation of Financial Statements: Capital Disclosures* (effective for annual periods beginning on or after January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1. The required additional disclosures are included in the financial statements when these standards and amendments are adopted.
- Philippine Interpretation IFRIC-7, "*Applying the Restatement Approach under PAS 29 "Financial Reporting in Hyperinflationary Economies"*" (effective for annual periods beginning on or after March 1, 2006). This Interpretation provides guidance on how to apply the requirements of PAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with PAS 29. This Interpretation is not applicable to the Group and has no impact on the financial statements.
- Philippine Interpretation IFRIC-8, *Scope of PFRS 2* (effective for annual periods beginning on or after May 1, 2006). This Interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. The Group has evaluated that the Interpretation has no impact on the financial position of the Group.

- Philippine Interpretation IFRIC-9, *Reassessment of Embedded Derivatives* (effective for financial years beginning on or after June 1, 2006). This Interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The adoption of this Interpretation will have no impact on the financial statements of the Group.
- Philippine Interpretation IFRIC-10, *Interim Financial Reporting and Impairment* (effective for financial years beginning on or after November 1, 2006). This Interpretation provides that the frequency of financial reporting does not affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This Interpretation has no significant impact on the financial statements of the Group.

*Revised accounting standards and Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) Interpretations that are not relevant to the Group:*

- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*
- Philippine Interpretation IFRIC-4, *Determining Whether an Arrangement Contains a Lease*
- Philippine Interpretation IFRIC-5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- Philippine Interpretation IFRIC-6, *Liabilities Arising from Participating in a Special Market – Waste Electrical and Electronic Equipment*

*Future Changes in Accounting Policies*

The Group has not adopted the following new and amended PFRS and Philippine Interpretations already issued but are not yet effective as of September 30, 2007:

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009). This PFRS adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will adopt PFRS 8 in 2009.
- Philippine Interpretation IFRIC-11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007). This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Group will adopt this Interpretation in 2008 and does not expect an impact on the financial statements.
- Philippine Interpretation IFRIC-12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008). This Interpretation covers contractual arrangements arising from private entities providing public services and is not relevant to the Group's current operations.

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### 3. Segment Information

The primary segment reporting format is determined to be the Group's operating business segments. The Group is organized into the following operating business segments, namely: (1) branded foods, (2) flour and bakery products, (3) real estate, and (4) others.

The branded foods segment manufactures and sells ice cream, meat, pasta, fats and oil and milk and juices. Flour and bakery products segment manufactures and sells flour, bakery and other bakery products. The real estate segment develops and sells real estate properties and leases office and other premises owned by the Group but which are surplus to the Group's requirements. Others consist of insurance, financing, lighterage moving, cargo handling and other services shown in aggregate as "other operations." The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

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

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

<b>September 30, 2007</b>						
	Branded Foods	Flour and Bakery Products	Real Estate	Other Operations	Eliminations	<b>Consolidated</b>
Net sales						
External sales	₱2,324	₱2,100	₱678	₱43	₱-	<b>₱5,145</b>
Intersegment sales	-	-	-	17	(17)	-
	<b>₱2,324</b>	<b>₱2,100</b>	<b>₱678</b>	<b>₱60</b>	<b>(₱17)</b>	<b>₱5,145</b>
<b>Results</b>						
Income (loss) from operations before provision for income tax and minority interests	(₱114)	₱331	₱11	₱82	(₱107)	<b>₱203</b>
Interest and other financial charges (income) – net	(90)	46	4	152	(136)	<b>(24)</b>
Equity in net earnings of associates	4	-	-	3	-	<b>7</b>
Provision for income tax	37	-	2	16	-	<b>55</b>
Net income (loss)	(₱150)	₱331	₱9	₱66	(₱107)	<b>₱149</b>
<b>Other information</b>						
Segment assets	₱3,664	₱2,945	₱5,063	₱7,345	(₱10,471)	<b>₱8,546</b>
Investments	-	5	216	4,151	(3,179)	<b>1,193</b>
Deferred income tax assets	34	6	-	41	-	<b>81</b>
Consolidated Total Assets	<b>₱3,698</b>	<b>₱2,956</b>	<b>₱5,279</b>	<b>₱11,537</b>	<b>(₱13,650)</b>	<b>₱9,820</b>
Consolidated Total Liabilities	<b>₱5,074</b>	<b>₱595</b>	<b>₱3,690</b>	<b>₱4,870</b>	<b>(₱9,028)</b>	<b>₱5,201</b>

**September 30, 2006**

	Branded Foods	Flour and Bakery Products	Real Estate	Other Operations	Eliminations	<b>Consolidated</b>
Net sales						
External sales	₱1,983	₱1,547	₱679	₱61	₱-	<b>₱4,270</b>
Intersegment sales	-	-	-	31	(31)	-
	<b>₱1,983</b>	<b>₱1,547</b>	<b>₱679</b>	<b>₱92</b>	<b>(₱31)</b>	<b>₱4,270</b>
<b>Results</b>						
Income (loss) from operations before provision for income tax and minority interests	₱7	₱256	₱41	(₱64)	₱1	<b>₱241</b>
Interest and other financial charges (income) – net	(113)	57	(15)	9	(1)	<b>(63)</b>
Equity in net earnings (losses) of associates	4	-	(17)	4	-	<b>(9)</b>
Provision for income tax	40	4	-	5	-	<b>49</b>
Net income (loss)	<b>(₱150)</b>	<b>₱308</b>	<b>₱10</b>	<b>(₱53)</b>	<b>₱-</b>	<b>₱115</b>
<b>Other information</b>						
Segment assets	₱1,815	₱2,163	₱4,677	₱904	(₱1,355)	<b>₱8,204</b>
Investments	-	5	28	3,641	(2,462)	<b>1,212</b>
Deferred income tax assets	-	3	46	17	5	<b>71</b>
Consolidated Total Assets	<b>₱1,815</b>	<b>₱2,171</b>	<b>₱4,751</b>	<b>₱4,562</b>	<b>(₱3,812)</b>	<b>₱9,487</b>
Consolidated Total Liabilities	<b>₱2,881</b>	<b>₱255</b>	<b>₱3,036</b>	<b>₱1,239</b>	<b>(₱2,215)</b>	<b>₱5,196</b>

**4. Receivables**

	<b>September 30, 2007</b>	December 31, 2006
	<b>(Unaudited)</b>	(Audited)
	(amounts in millions)	
Trade receivables	<b>₱1,216</b>	₱1,265
Advances to related parties and others	<b>482</b>	351
	<b>1,698</b>	1,616
Allowance for doubtful accounts	<b>(629)</b>	(629)
	<b>₱1,069</b>	₱987

**5. Inventories**

This include finished goods and goods in process, raw materials, condominium and residential units for sale, land held for sale and development; and spare parts and supplies.

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## 6. Other Current Assets

	September 30, 2007 (Unaudited)	December 31, 2006 (Audited)
	(amounts in millions)	
Financial assets at FVPL	₱22	₱26
Deposits on purchases	60	55
Creditable withholding taxes	4	32
Current portion of receivable from Meralco – net of deferred interest income of ₱2.92 million in 2007 (2006 - ₱3.46 million)	4	6
Current portion of installment contracts receivable	737	762
Prepaid expenses and other current assets – net of allowance for losses of ₱33.65 million	188	76
	<b>₱1,015</b>	<b>₱957</b>

Financial assets at FVPL represent investment in the bond fund of a local insurance company stated at fair value.

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## 7. Equity

In June 2007, the Parent Company's stockholders and the Board of Directors approved the change in par value of common shares from ₱2 to ₱1 per share and the reclassification of 45,575,527 redeemable preferred shares into common shares.

As of September 30, 2007 and 2006, the Parent Company has 767,310,502 and 392,923,753 shares, respectively held in treasury.

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## 8. Related Party Transactions

Significant related party transactions are as follows:

### Transactions with the Group

- a. Sales and purchases of products and services to/from subsidiaries.
- b. Availments/extensions of both interest-bearing and noninterest-bearing cash advances mainly for working capital purposes and investment activities from/to subsidiaries and other related parties with no fixed repayment terms.
- c. Distributorship services provided by the Parent Company to URICI, a joint venture entity, for the export of frozen dairy dessert/mellorine. URICI pays service fees equivalent to 7% of the total net sales value of goods distributed.
- d. The Parent Company and Swift entered into a Memorandum of Agreement (MOA) in 2003 for the Parent Company to purchase of Swift's meat manufacturing plant (Plant) in Cabuyao, Laguna. In 2004, CMPC acquired the plant after the Parent Company assigned its right to acquire the Plant to CMPC.
- e. Management services of the Parent Company to RIBI, a majority-owned subsidiary wherein RIBI pays the Parent Company a yearly management fee of ₱500,000.
- f. Lease of certain and office spaces by the Parent Company and other subsidiaries from Philtown with automatic renewal every year unless terminated by the lessee.
- g. Noninterest-bearing cash advances received by OMP from Philtown and the Parent Company.

Material intercompany transactions and outstanding balances of the Group were eliminated in the financial statements.

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

	<b>For the Nine-Month Periods Ended September 30</b>	
	<b>2007</b>	2006
a. Net income attributable to equity holders of the Parent Company (Amounts in Millions)	<b>₱151</b>	₱115
b. Common shares outstanding	<b>3,160,403,866</b>	1,570,933,950
c. Weighted average common shares outstanding	<b>3,160,403,866</b>	1,570,933,950
d. Basic earnings per share (a/b)	<b>₱0.048</b>	₱0.073
e. Diluted earnings per share (a/c)	<b>₱0.048</b>	₱0.073

**RFM CORPORATION AND SUBSIDIARIES**  
**Aging Analysis of Trade Receivables**  
**As of September 30, 2007**  
**(Amounts in Millions)**

	<b>Amount</b>	<b>%</b>
Under Six (6) Months	₱646	53%
Six (6) Months to One (1) Year	105	9%
Over One (1) Year	465	38%
	<b>₱1,216</b>	<b>100%</b>