

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements are filed as part of this form 17-Q, pages 7 to 25 and are incorporated herein by reference to said quarterly report.

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

YTD September 2009 vs. YTD September 2008

Year to date 2009, diversified food and beverage firm RFM Corporation has registered P282.2 million in net income, an increase by 78% from 2008, rising strong as the economy continues to improve from the global economic slump.

The softening of major raw materials prices as well as improvement in plant efficiencies helped in improving the gross margin to 28% as compared to the 23% during the period last year.

With Sales, RFM has continued to beat expectations as it overtakes 2008's year to date sales of P5.4 billion by P380.1 million, 7% higher. This comes right off the heels of RFM's 22 percent surge in sales during the second half of the year.

Despite the reported weakness in the consumer market, the company is confident that it will continue to increase in market share and profitability for the remainder of the year as it leads the way in offering higher value-for-money food and beverage alternatives to the consumer.

Fiesta spaghetti has maintained its position as market leader based on retail audits because of its strong value proposition to Filipino consumers. The Fiesta brand is the company's second market leader, following the Selecta brand that has continued to dominate the Philippine ice cream market with over 50 percent market share.

There is also much optimism in the growth performance of Vitwater, or water with vitamins and benefits, which was recently launched as a first-mover in the vitamin-enriched water category, and endorsed by people's champ Manny Pacquiao. The company is also preparing to roll-out a slew of new products in different market categories that are expected to contribute significantly to overall company sales and improved margins.

Third quarter 2009 vs. Third quarter 2008

Diversified Food and beverage firm RFM Corporation posted P147.6 million in net income for the third quarter of 2009, an impressive 453% above the same period last year.

The improvement in results stems from the softening of major raw materials prices that reached peak levels late last year and early this year, thus improving the gross margin to 32% as compared to the 17% during the same quarter last year.

Although all business segments grew, the consolidated topline revenues of P1.9 billion for the third quarter of 2009 is lower than last year's revenues of P2.2 billion due to flour prices that started to rise during the third quarter of 2008. Flour prices, however, have softened during the second quarter of 2009.

| Key Financial Performance Indicators (Amounts in Millions)* | For the Quarter Ended | | For the Nine-Month Period Ended | |
|----------------------------------------------------------------|-----------------------|-----------------------------|---------------------------------|-----------------------------|
| | Sept 30, 2009 | Sept 30, 2008 (restated) | Sept 30, 2009 | Sept 30, 2008 (restated) |
| Net Revenues | ₱1,931 | ₱2,247 | ₱5,782 | ₱5,402 |
| Net Operating Margin | 191 | 62 | 391 | 363 |
| Net Income (Loss) | 148 | 27 | 282 | 159 |
| EBITDA | 218 | 117 | 476 | 415 |
| Current Ratio | 1.54 | 1.44 | 1.54 | 1.44 |

* 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, 2009, the Group's total assets stood at ₱8.8 billion dropping 5% from last year's ₱9.2 billion.

Cash and cash equivalents declined by 52% as payments for loans and other payables were made throughout the year.

Trade receivables also declined by 24% resulting from collections made during the period contributing to a 26% total decrease in net receivables.

The level of inventories rose 25% due to the increasing value of raw materials and other supplies used in the manufacturing process.

The 33% increase in other current assets was mainly due to the additional prepayments made and taxes withheld from customer collections during the period.

The decline in investments in associates was due to the issuance of Philtown shares as property dividends, which was approved by the board of directors in April 2009, thereby reducing RFM's ownership in Philtown to 19%.

Various machineries and equipments were also purchased to maintain efficiency in operations, increasing properties and equipments account by about 5%.

Deferred charges were also recognized increasing other assets account by 7%.

Bank loans and long term debts decreased by 22% due to the continuous principal and interest payments made.

Payments were also made to settle trade payables and other accruals decreasing the accounts payable and accrued liabilities account by 10%. Also, payments were made in settling dues from trust receipts and acceptances payable, decreasing the account by 1%.

The Group still maintains a healthy balance sheet with a current ratio of 1.54 and debt-to-equity ratio of 0.75.

Notes to Financial Statements

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

The Company discloses the following:

- (a) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;
- (b) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;
- (c) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;
- (d) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;
- (e) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;
- (f) There are no dividends paid separately for ordinary shares and other shares;
- (g) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;
- (h) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;
- (i) There is no change in contingent liabilities since the most recent audited financial statements;
- (j) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of September 30, 2009;

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

PART II – OTHER INFORMATION

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

SIGNATURES

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

RFM CORPORATION

Registrant



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



RAYMOND B. AZCARATE
Senior Vice President/Chief Finance Officer

Date: November 6, 2009

RFM CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions)

| | Unaudited September 30, 2009 | Audited December 31, 2008 |
|-------------------------------------|---------------------------------|------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | ₱248 | ₱515 |
| Accounts receivable – net (Note 4) | 1,610 | 2,177 |
| Inventories – net (Note 5) | 1,711 | 1,373 |
| Other current assets – net (Note 6) | 268 | 202 |
| Total Current Assets | 3,837 | 4,267 |
| Noncurrent Assets | | |
| Property, plant and equipment – net | 2,453 | 2,339 |
| Investments in associates – net | 549 | 674 |
| Available-for-sale investments | 1,626 | 1,642 |
| Other noncurrent assets – net | 321 | 299 |
| Total Noncurrent Assets | 4,949 | 4,954 |
| TOTAL ASSETS | ₱8,786 | ₱9,221 |

LIABILITIES AND EQUITY

| | | |
|------------------------------------------|--------------|--------------|
| Current Liabilities | | |
| Bank loans | ₱60 | ₱239 |
| Accounts payable and accrued liabilities | 1,627 | 1,798 |
| Trust receipts and acceptances payable | 662 | 670 |
| Current portion of: | | |
| Long-term debt | 66 | 289 |
| Long-term obligations | – | 6 |
| Advances from related parties | 50 | 63 |
| Provisions | 17 | 15 |
| Total Current Liabilities | 2,482 | 3,080 |
| (Forward) | | |

| | Unaudited | Audited |
|----------------------------------------------------------------------|--------------------|-------------------|
| | September 30, 2009 | December 31, 2008 |
| Noncurrent Liabilities | | |
| Long-term debt – net of current portion | ₱1,012 | ₱937 |
| Long-term obligations – net of current portion | 40 | 41 |
| Deferred liabilities | 216 | 256 |
| Net pension obligations | 10 | 2 |
| Total Noncurrent Liabilities | 1,278 | 1,236 |
| Total Liabilities | 3,760 | 4,316 |
| Equity (Note 7) | | |
| Equity Attributable to Equity Holders of the Parent | | |
| Capital stock | 3,160 | 3,160 |
| Capital in excess of par value | 790 | 789 |
| Net unrealized gain on available-for-sale (AFS) financial assets | 17 | 17 |
| Revaluation increment on land – net of deferred income tax liability | 501 | 501 |
| Cumulative actuarial gains (losses) on defined benefit plan | 54 | 54 |
| Share-based compensation | 4 | 4 |
| Retained earnings | 497 | 381 |
| | 5,023 | 4,906 |
| Less cost of treasury stock | – | (4) |
| | 5,023 | 4,902 |
| Minority Interests | 3 | 3 |
| Total Equity | 5,026 | 4,905 |
| TOTAL LIABILITIES AND EQUITY | ₱8,786 | ₱9,221 |

See accompanying Notes to Consolidated Financial Statements

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

| | For the Quarter | | For the Nine-Month Period | |
|---------------------------------------------------|--------------------|---------------|---------------------------|---------------|
| | Ended September 30 | | Ended September 30 | |
| | 2009 | 2008 | 2009 | 2008 |
| NET REVENUES | ₱1,931 | ₱2,247 | ₱5,782 | ₱5,402 |
| DIRECT COSTS AND EXPENSES | 1,321 | 1,874 | 4,145 | 4,156 |
| GROSS PROFIT | 610 | 373 | 1,637 | 1,246 |
| SELLING AND MARKETING EXPENSES | (312) | (213) | (948) | (659) |
| GENERAL AND ADMINISTRATIVE EXPENSES | (98) | (104) | (276) | (241) |
| MISCELLANEOUS OPERATING INCOME | (9) | 6 | (22) | 17 |
| NET OPERATING INCOME | 191 | 62 | 391 | 363 |
| OTHER INCOME (CHARGES) – Net (Note 9) | (16) | (14) | (29) | (71) |
| INCOME BEFORE PROVISION FOR INCOME TAX | 175 | 48 | 362 | 292 |
| PROVISION FOR INCOME TAX | 27 | 22 | 80 | 74 |
| INCOME FROM CONTINUING OPERATIONS | 148 | 26 | 282 | 218 |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS | – | 1 | – | (59) |
| NET INCOME | ₱148 | ₱27 | ₱282 | ₱159 |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱147 | ₱27 | ₱282 | ₱160 |
| Minority interests (Note 2) | 1 | – | – | (1) |
| | ₱148 | ₱27 | ₱282 | ₱159 |
| Basic/Diluted Earnings Per Share (Note 9) | ₱0.047 | ₱0.008 | ₱0.089 | ₱0.050 |

See accompanying Notes to Unaudited Consolidated Financial Statements

RFM CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

| | For the Nine-Month Period Ended September 30 | |
|------------------------------------------------------------|-----------------------------------------------------|-------------|
| | 2009 | 2008 |
| NET INCOME | ₱282 | ₱159 |
| OTHER COMPREHENSIVE INCOME: | | |
| Revaluation Gains on land – net of deferred tax liability | 501 | 501 |
| Net unrealized gain on available-for-sale investments | 17 | 17 |
| Net actuarial gains (losses) on defined benefit plans | 54 | 54 |
| Other comprehensive income for the year, net of tax | 572 | 572 |
| Total comprehensive income for the year | ₱854 | ₱731 |

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

For the Nine Month Period Ended September 30

| | 2009 | 2008 |
|----------------------------------------------------------------------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | P362 | P233 |
| Adjustments for: | | |
| Interest expense and financing charges | 173 | 257 |
| Depreciation and amortization | 85 | 55 |
| Unrealized foreign exchange gains - net | (16) | (4) |
| Dividend income | (1) | (3) |
| Gain on sale of stocks | (3) | (6) |
| Equity in net losses (earnings) of associates | 7 | (1) |
| Interest and financing income | (51) | (126) |
| Operating income (loss) before working capital changes | 556 | 405 |
| Decrease (increase) in: | | |
| Accounts receivable and installment contracts receivables | 567 | (692) |
| Inventories | (338) | 2,621 |
| Other current assets | (66) | (39) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | (184) | (751) |
| Trust receipts and acceptances payable | (8) | 76 |
| Provisions | 3 | 25 |
| Provision for doubtful accounts | - | - |
| Cash generated from (used in) operations | 530 | 1,645 |
| Interest paid | (173) | (257) |
| Interest received | 51 | 126 |
| Net cash from (used in) operating activities | 408 | 1,514 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of investments and property and equipment | (238) | (435) |
| Dividends received | 1 | 3 |
| Proceeds from sale of investment property and property plant and equipment | - | 22 |
| Increase in other noncurrent assets | (21) | (1,613) |
| Net cash used in investing activities | (258) | (2,023) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net availments (repayments) of: | | |
| Long-term debt and obligations / bank loans | (327) | 131 |
| Dividends paid | (50) | (50) |
| Increase (decrease) in minority interests and other noncurrent liabilities | (40) | (8) |
| Net cash from financing activities | (417) | 73 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (267) | (436) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 515 | 686 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | P248 | P250 |

See accompanying Notes to Consolidated Financial Statements

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

| | Attributable to Equity Holders of the Parent (amounts in millions) | | | | | | | | | | |
|----------------------------------------------|--------------------------------------------------------------------|--------------------------------|-----------------------------------|--------------------------------------------------------------|-------------------------------------------------------------|--------------------------|-------------------|------------------------|---------------|--------------------|---------------|
| | Capital Stock | Capital In Excess of Par Value | Net Unrealized Gain on AFS Assets | Revaluation Increment – Net of Deferred Income Tax Liability | Cumulative Actuarial Gains (Losses) on Defined Benefit Plan | Share-Based Compensation | Retained Earnings | Cost of Treasury Stock | Total | Minority Interests | Total Equity |
| BALANCES AT SEPTEMBER 30, 2008 | ₱3,928 | ₱1,013 | ₱66 | ₱– | ₱4 | ₱3 | ₱80 | (₱995) | ₱4,828 | (₱6) | ₱4,822 |
| Net income (loss) for the period | – | – | – | – | – | – | 11 | – | 111 | 11 | 122 |
| Net unrealized loss on AFS investments | – | – | (31) | – | – | – | – | – | (31) | – | (31) |
| Sale of AFS Investment | – | – | (18) | – | – | – | – | – | (18) | – | (18) |
| Actuarial gain (loss) for the period | – | – | – | – | 50 | – | – | – | 50 | – | 50 |
| Revaluation increment on land | – | – | – | 501 | – | – | – | – | 501 | – | 501 |
| Total recognized income(loss) for the period | – | – | (49) | 501 | 50 | – | 11 | – | 613 | 11 | 624 |
| Share-based compensation | – | – | – | – | – | 1 | – | – | 1 | – | 1 |
| Retirement of treasury stock | (768) | (224) | – | – | – | – | – | – | (992) | – | (992) |
| Property dividend declaration | – | – | – | – | – | – | (489) | 991 | 502 | – | 502 |
| Cash dividend declaration | – | – | – | – | – | – | (50) | – | (50) | – | (50) |
| Dividends of minority interests | – | – | – | – | – | – | – | – | – | (2) | (2) |
| Net movements during the period | – | – | – | – | – | – | – | – | – | – | – |
| BALANCES AT DECEMBER 31, 2008 | ₱3,160 | ₱789 | ₱17 | ₱501 | ₱54 | ₱4 | ₱381 | (₱4) | ₱4,902 | ₱3 | ₱4,905 |
| Net income (loss) for the quarter | – | – | – | – | – | – | 282 | – | 282 | – | 282 |
| Net unrealized loss on AFS investments | – | – | – | – | – | – | – | – | – | – | – |
| Actuarial loss for the year | – | – | – | – | – | – | – | – | – | – | – |
| Total recognized income(loss) for the period | – | – | – | – | – | – | 282 | – | 282 | – | 282 |
| Dividends declared | – | – | – | – | – | – | (166) | – | (166) | (1) | (167) |
| Net movements during the period | – | 1 | – | – | – | – | – | 4 | 5 | 1 | 6 |
| BALANCES AT SEPTEMBER 30, 2009 | ₱3,160 | ₱790 | ₱17 | ₱501 | ₱54 | ₱4 | ₱497 | ₱– | ₱5,023 | ₱3 | ₱5,026 |

RFM CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

RFM Corporation (the Parent Company) is incorporated in the Philippines. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE). The Parent Company is mainly involved in the manufacturing, processing and selling of wheat, flour and flour products, pasta, meat, milk, juices, margarine, and other food and beverage products. The Parent Company and its Subsidiaries are collectively referred to as the Group.

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements of the Parent Company and its subsidiaries (the Group) have been prepared using the historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated 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 for 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:

| | Percentage of Ownership |
|----------------------------------------------------------|--------------------------------|
| Cabuyao Meat Processing Corporation (CMPC) | 100.00 |
| Interbake Commissary Corporation (Interbake) | 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 |
| 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 |

* *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. However, intra-group losses that indicate impairment are recognized in the consolidated financial statements.

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 consolidated statements of income and within equity in the consolidated balance sheets, separately from the equity attributable to equity holders of the Parent Company.

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective in 2009 and in Subsequent Years

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

Effective in 2009

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS. This Standard will not have a material impact on the consolidated financial statements.
- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*, clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. This Standard is not expected to have a significant impact on the consolidated financial statements.
- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Company will provide explanations and reconciliations of the differences. This Standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. The Group is assessing the impact of this Standard to its current manner of reporting segment information.
- Amendments to PAS 1, *Presentation of Financial Statements*, introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. These amendments also prescribe additional requirements in the presentation of the balance sheet and owner's

equity as well as additional disclosures to be included in the financial statements. The Group is still evaluating whether it will have one or two statements.

- PAS 23, *Borrowing Costs*, has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change.

Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed. The Group does not expect this revised Standard to have any impact on the consolidated financial statements.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, prescribe changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The Company expects significant changes in its accounting policies when it adopts the foregoing accounting changes effective January 1, 2009.
- Amendments to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, specifies, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument. The Group does not expect this Standard to have significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire. The Group does not expect this Interpretation to have any impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*, provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Group does not expect this Interpretation to have any impact on the consolidated financial statements.

Effective in 2010

- Revised PFRS 3, *Business Combinations*, and PAS 27, *Consolidated and Separate Financial Statements*, introduce a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as ‘minority interests’); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised FRS 3 must be applied prospectively and PAS 27 must be applied retrospectively with a few exceptions. This will affect future acquisitions and transactions with noncontrolling interests.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*, covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets and when to derecognize the asset and liability and the consequences of doing so.
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*, applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible hedged items*, addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

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) flour based products, (2) beverage and meat products, and (3) service and others.

The flour-based segment manufactures and sells flour, pasta, bakery and other bakery products. The beverage and meat segment manufactures and sells meat, fats and oil, and milk and juices. Others consist of insurance, financing, lighterage moving, cargo handling, ice cream manufacturing and other services. 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):

| For the Nine-Month Period Ended September 30, 2009 | | | | | |
|-----------------------------------------------------------|---------------|----------------------|-----------------------|--------------|---------------------|
| | Flour-Based | Beverage and Meat | Service and Others | Eliminations | Consolidated |
| Net sales | | | | | |
| External sales | ₱3,063 | ₱1,373 | ₱1,346 | ₱- | ₱5,782 |
| Intersegment sales | - | - | 26 | (26) | - |
| | ₱3,063 | ₱1,373 | ₱1,372 | (₱26) | ₱5,782 |
| Results | | | | | |
| Income (loss) from operations | ₱443 | (₱147) | ₱105 | (₱10) | ₱391 |
| Other income (charges) - net | | | | | (29) |
| Provision for income tax | | | | | 80 |
| Net income | | | | | 282 |
| Other information | | | | | |
| Segment assets | ₱5,562 | ₱3,576 | ₱4,479 | (₱8,154) | ₱5,463 |
| Investments | | | | | 2,175 |
| Consolidated Total Assets | | | | | ₱ 8,786 |
| Consolidated Total Liabilities | | | | | ₱ 3,760 |
| Depreciation and amortization | | | | | ₱ 86 |

| For the Nine-Month Period Ended September 30, 2008 | | | | | |
|-----------------------------------------------------------|---------------|----------------------|-----------------------|--------------|---------------------|
| | Flour-Based | Beverage and Meat | Service and Others | Eliminations | Consolidated |
| Net sales | | | | | |
| External sales | ₱3,250 | ₱1,070 | ₱1,082 | ₱- | ₱5,402 |
| Intersegment sales | - | - | 18 | (18) | - |
| | ₱3,250 | ₱1,070 | ₱1,100 | (₱18) | ₱5,402 |
| Results | | | | | |
| Income (loss) from operations | ₱414 | (₱84) | ₱33 | ₱- | ₱363 |
| Other income (charges) - net | | | | | (71) |
| Provision for income tax | | | | | 74 |
| Net income | | | | | 159 |
| Other information | | | | | |
| Segment assets | ₱2,945 | ₱3,364 | ₱12,408 | (₱10,471) | ₱8,546 |
| Investments | | | | | 1,193 |
| Consolidated Total Assets | | | | | ₱ 9,820 |
| Consolidated Total Liabilities | | | | | ₱ 5,201 |
| Depreciation and amortization | | | | | ₱ 52 |

For the Quarter Ended September 30, 2009

| | Flour-Based | Beverage and Meat | Service and Others | Eliminations | Consolidated |
|--------------------------------|---------------|----------------------|-----------------------|--------------|---------------------|
| Net sales | | | | | |
| External sales | ₱1,003 | ₱485 | ₱443 | ₱- | ₱1,931 |
| Intersegment sales | - | - | (27) | 27 | - |
| | ₱1,003 | ₱485 | ₱416 | ₱27 | ₱1,931 |
| Results | | | | | |
| Income (loss) from operations | ₱227 | (₱56) | ₱28 | (₱8) | ₱1,91 |
| Other income (charges) - net | | | | | (16) |
| Provision for income tax | | | | | 27 |
| Net income | | | | | 148 |
| Other information | | | | | |
| Segment assets | ₱5,562 | ₱3,576 | ₱4,479 | (₱8,154) | ₱5,463 |
| Investments | | | | | 2,175 |
| Consolidated Total Assets | | | | | ₱ 8,786 |
| Consolidated Total Liabilities | | | | | ₱ 3,760 |
| Depreciation and amortization | | | | | ₱27 |

For the Quarter Ended September 30, 2008

| | Flour-Based | Beverage and Meat | Service and Others | Eliminations | Consolidated |
|--------------------------------|---------------|----------------------|-----------------------|--------------|---------------------|
| Net sales | | | | | |
| External sales | ₱1,323 | ₱439 | ₱485 | ₱- | ₱2,247 |
| Intersegment sales | | | (157) | 157 | - |
| | ₱1,323 | ₱439 | ₱328 | ₱157 | ₱2,247 |
| Results | | | | | |
| Income (loss) from operations | ₱112 | (₱37) | (₱16) | ₱3 | ₱62 |
| Other income (charges) - net | | | | | (14) |
| Provision for income tax | | | | | 22 |
| Net income (loss) | | | | | 27 |
| Other information | | | | | |
| Segment assets | ₱2,945 | ₱3,364 | ₱12,408 | (₱10,471) | ₱8,546 |
| Investments | | | | | 1,193 |
| Consolidated Total Assets | | | | | ₱ 9,820 |
| Consolidated Total Liabilities | | | | | ₱ 5,201 |
| Depreciation and amortization | | | | | ₱55 |

4. Receivables

| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
|--------------------------------------|-------------------------------------------|--------------------------------|
| | (amounts in millions) | |
| Trade receivables | ₱1,485 | ₱1,951 |
| Advances to related parties | 560 | 561 |
| Other receivables | 158 | 245 |
| | 2,203 | 2,757 |
| Less allowance for doubtful accounts | 593 | 580 |
| | ₱1,610 | ₱2,177 |

5. Inventories

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

6. Other Current Assets

| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
|-------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------|
| | (amounts in millions) | |
| Deposits on purchases | ₱68 | ₱61 |
| Creditable withholding taxes | 93 | 70 |
| Current portion of receivable from Meralco – net of deferred interest income | 2 | 8 |
| Prepaid expenses and other current assets – net of allowance for probable losses | 105 | 63 |
| | ₱268 | ₱202 |

7. Equity

Capital Stock

The details of the Parent Company's capital stock follows:

| | Number of Shares | |
|---------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------|
| | September 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
| Preferred stock, 10% cumulative and convertible to common stock in the ratio 1:1- ₱1 par value | | |
| Authorized | | |
| Beginning of period | – | 254,424,473 |
| Conversion to common stock | – | (254,434,473) |
| End of period | – | – |
| Common stock - ₱1 par value | | |
| Authorized | | |
| Beginning of period | 3,978,265,025 | 4,745,575,527 |
| Retirement of treasury stock | – | (767,310,502) |
| Conversion to common stock | – | – |
| End of period | 3,978,265,025 | 3,978,265,025 |
| Issued and outstanding | 3,160,403,866 | 3,160,403,866 |

Issued and outstanding common shares are held by 3,648 stockholders as of September 30, 2009 and December 31, 2008.

As of December 31, 2007, the Company has 767,310,502 common shares, held in treasury. On June 25, 2008, the BOD approved the retirement of all the shares held in treasury.

On June 28, 2007, the Stockholders and the BOD approved the change in the par value of the common shares of the Company from P2 to P1 and the conversion of 45,575,527 preferred shares to common shares resulting to an increase in the authorized number of common shares from 2.35 billion to 4.74 billion shares. The SEC approved the change in par value of the common shares and the conversion of preferred shares to common shares on September 11, 2007.

On June 25, 2008, the Stockholders and the BOD approved the decrease of authorized capital stock by 1,021,734,975 shares of stock as a result of the retirement of 767,310,502 treasury common shares and 254,424,473 redeemed preferred shares. The SEC approved the retirement of treasury common shares and the redeemable preferred shares on July 29, 2008.

Retained Earnings

On June 21, 2008, the BOD approved the declaration of cash dividends amounting to P50 million to its stockholders as of July 9, 2008, and the issuance of property dividends consisting of 143,652,752 common shares of Philtown at P3.494 per share. The issuance was confirmed and ratified by the BOD and Stockholders of the Company during the annual stockholders meeting and BOD meeting held on June 25, 2008. The SEC approved the issuance of the property dividends on July 9, 2008.

On April 29, 2009, the BOD likewise approved the declaration of cash dividends amounting to 25 million to its stockholders as of May 14, 2009, and the issuance of property dividends consisting of 33,265,912 common shares of Philtown at P3.494 per share. Also, on August 26, 2009, the BOD approved the declaration of cash dividends amounting to 25 million to its stockholders on record as of September 25, 2009.

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. Management services of the Parent Company to RIBI, a majority-owned subsidiary wherein RIBI pays the Parent Company a yearly management fee equivalent to 5% of income before tax or a fixed amount based on the level of net sales, whichever is higher.
- e. Lease of certain warehouse and office spaces by the Parent Company and other subsidiaries from Invest Asia with automatic renewal every year unless terminated by the lessee.

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

9. Financial Instruments

Accounting Policies

Loans and receivables

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

This category primarily includes the Group's cash in bank and cash equivalents, trade accounts receivables, installment contracts receivables, advances to related parties, advances to officers and employees and other receivables as of September 30, 2009 and December 31, 2008.

AFS investments

AFS investments are nonderivatives that are either designated in this category or not classified in any of the other categories. AFS investments are carried at fair value in the consolidated balance sheet, with the unrealized gains or losses on changes in their fair value being recognized directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as "Dividends income" when the right of payment has been established.

These financial assets are classified as noncurrent assets unless there is intention to dispose of such assets within twelve months of the balance sheet date.

As of September 30, 2009, the Group's AFS investments consist of investment in preferred shares and quoted common shares.

Other financial liabilities

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

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

The Group's other financial liabilities include accounts payable and accrued liabilities, trust receipts and acceptances payables, bank loans, long-term debt and other long-term liabilities and advances from related parties as of September 30, 2009 and December 31, 2008.

Determination of fair value of financial instruments

Financial assets and liabilities, on initial recognition, are accounted for at fair value. The fair values of financial assets and financial liabilities, on initial recognition are normally the transaction price. In the case of those financial assets that have no active markets, fair values are determined using an appropriate valuation technique.

Financial Risk Management Objectives and Policies

The Group's principal financial instruments include nonderivative instruments such as cash in banks and cash equivalents, AFS investments, installment contracts receivables, financial assets at FVPL, other receivables, bank loans, short-term and long-term debt and obligations, loans, and advances from and payable to related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as trade receivables, trade and trust receipts payables, customers' and tenants' deposits which arise directly from its operations. The main risk arising from the use of financial instruments are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit risk

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

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

Liquidity risk

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

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; although long-term and short-term loans obtained from financial institutions, through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary.

Presently, the Group has existing long-term loans that fund capital expenditures. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

Interest rate risk

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

Management is tasked to minimize interest rate risk through interest rate swaps and options, and having a mix of variable and fixed interest rates on its loans. To manage this mix in a cost-efficient manner, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount.

After taking into account the effect of currency and interest rate swaps, 36% of the Group's long-term borrowings as of September 30, 2009 are at a fixed rate of interest. As of September 30, 2008 and December 31, 2008, the Group's short-term and long-term bank loans are market-determined, with the long-term loan interest rates based on PSDT-F-1 plus a certain mark-up.

Foreign exchange risk

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Philippine peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2009 and 2008.

Fair Value of Financial Instruments

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.

Due to the short-term nature of the transactions, the carrying amounts of cash and cash equivalents, accounts receivable, bank loans, accounts payable and accrued liabilities and trust receipts payable approximate their fair market values.

The fair market value of AFS investments has been determined by reference to quoted market prices at the close of business on December 31, 2008. Investments in unquoted equity securities are carried at historical cost, net of impairment.

The fair value of advances to/from related parties, receivable from Meralco and long-term obligations are based on the discounted value of future cash flows using the applicable rates for similar types of loans.

Management's use of estimates in the determination of fair value

The fair value of financial instruments traded in active markets at the balance sheet date is based on the 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 asking prices are not available, the price of the most recent transaction provides evidence of current fair value as long as there has not been a significant change in economic circumstances since the time of transaction.

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

10. Other Income (Charges)

| | For the Quarter Ended September 30 | | For the Nine Month Period September 30 | |
|-------------------|------------------------------------|------------------|-------------------------------------------|------------------|
| | 2009 (Unaudited) | 2008 (Unaudited) | 2009 (Unaudited) | 2008 (Unaudited) |
| Interest expense | (P54) | (P70) | (P173) | (P207) |
| Interest income | 17 | 42 | 51 | 125 |
| Other income, net | 21 | 14 | 93 | 11 |
| | (P16) | (P14) | (P29) | (P71) |

11. Earnings per Share (EPS)

| | For the Nine Month Period Ended September 30 | |
|------------------------------------------------------------------------------------------|----------------------------------------------|------------------|
| | 2009 (Unaudited) | 2008 (Unaudited) |
| a. Net income attributable to equity holders of the Parent Company (Amounts in Millions) | P282 | P160 |
| b. Common shares outstanding | 3,160,403,866 | 3,160,403,866 |
| c. Weighted average common shares outstanding | 3,160,403,866 | 3,160,403,866 |
| d. Basic earnings per share (a/b) | P0.089 | P0.050 |
| e. Diluted earnings per share (a/c) | P0.089 | P0.050 |

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of September 30, 2009
(Amounts in Millions)

| | Amount | % |
|--------------------------------|---------------|-------------|
| Under Six (6) Months | ₱1,120 | 75% |
| Six (6) Months to One (1) Year | 188 | 13% |
| Over One (1) Year | 177 | 12% |
| | ₱1,485 | 100% |