29 May 2012

DISCLOSURE DEPARTMENT
The Philippine Stock Exchange, Inc.
4/F PSE Centre, Exchange Road,
Ortigas Center, Pasig City

Attention : **JANET A. ENCARNACION**
HEAD, Disclosure Department
Re : **Definitive SEC 20-IS**
2012 Annual Stockholders' Meeting

Dear **Ms. Encarnacion**,

In compliance with Section 20 of the Securities Regulation Code, please find attached the Corporation's Definitive Information Statement (SEC Form 20-IS) for the 2012 Annual Stockholders' Meeting of the Corporation, as approved by the Securities & Exchange Commission.

Thank you.

Very truly yours,



ROWEL S. BARBA
Corporate Information Officer
VP, Head - Corporate Legal
& Human Resources Divisions

COVER SHEET

1	2	9	9	8					

SEC Registration Number

RFM CORPORATION

(Company's Full Name)

RFM Corporate Centre, Corner Pioneer and Sheridan Streets Mandaluyong City

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

Ramon Lopez	**631-8101**
(Contact Person)	(Company Telephone Number)

1	2		3	1		**(D E F)**	2	0	-	I	S		0	6		2	7
Month			*Day*										*Month*			*Day*	
(Calendar Year)							(Form Type)						(Annual Meeting)				

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.	**Not Applicable**
	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

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Stockholders of RFM CORPORATION will be held at the RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong City 1550 on Wednesday, 27 June 2012 at 11:00 A.M. with the following AGENDA:

I. Call to Order

II. Certification of Notice and Quorum

III. Approval of the Minutes of the Annual Stockholders' Meeting held on 29 June 2011

IV. President's Report for 2011 and Audited Financial Statements ending December 31, 2011

V. Ratification of the acts of Management and the Directors of the Corporation

VI. Election of Directors

VII. Appointment of External Auditor

VIII. Other matters

IX. Adjournment

Stockholders of record as of 29 May 2012 shall be entitled to vote at this meeting. Stockholders are requested to bring this Notice and present valid identification cards with picture upon registration for verification purpose. If you cannot personally attend the meeting, you may appoint a proxy to represent you by accomplishing the Proxy form found in the CD and by returning the signed hard copy to the Corporate Secretary at the above address before the date of the meeting.

The stock and transfer books of the Corporation will not be closed.

15 May 2012, Mandaluyong City.

ATTY. ROWEL S. BARBA
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement Pursuant to Section 20 of the Securities Regulation Code



1. Check the appropriate box:

   _____ Preliminary Information Statement
   ___x___ Definitive Information Statement

2. Name of Registrant as specified in its charter:

   RFM CORPORATION

3. Province, country or other jurisdiction of incorporation or organization:

   Mandaluyong City, Philippines

4. SEC Identification Number: **12998**

5. BIR Tax Identification Number : **041-000-064-134**

6. Address of Principal Office: **RFM Corporate Center**
   Corner Pioneer and Sheridan Streets
   Mandaluyong City, Philippines 1550

7. Registrant's telephone number, including area code: **(632) 6318101**

8. Date, time and place of the meeting of security holders:

   27 June 2012
   11:00 A.M.
   RFM Corporate Center
   Corner Pioneer and Sheridan Streets
   Mandaluyong City

9. Approximate date on which the Information Statement is first to be sent or given to the security holders:

   05 June 2012

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code:

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common	**3,160,403,866** common shares

11. Are any or all of registrant's securities listed in a Stock Exchange?

    Philippine Stock Exchange, Inc. - Common Stock

WE ARE NOT ASKING FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

(a)	Date of Meeting:	27 June 2012
	Time of Meeting:	11:00 A.M.
	Place of Meeting:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City
	Mailing Address:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City, Philippines 1550
(b)	Approximate Date of Sending Information Statement to Security Holders:	05 June 2012

Item 2. Dissenters' Right of Appraisal

The appraisal right may be exercised by any stockholder who shall have voted against (1) an amendment to the Articles of Incorporation that changes or restricts the rights of any stockholder or class of shares, or authorizes preferences in any respect superior to the outstanding shares of any class, or extends or shortens the corporate existence; (2) a sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; or (3) a merger and consolidation; by making a written demand on the Corporation for payment of the fair value of his share(s). The written demand together with the share certificate/s of the withdrawing stockholder must be received by the Corporation within thirty (30) calendar days from the date on which the vote was taken. Failure to make the written demand and/or to surrender the share certificate/s within such period shall be deemed a waiver of the appraisal right.

If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the Corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the Corporation, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the Corporation within thirty (30) days after such award is made.

No payment shall be made to any withdrawing stockholder unless the Corporation has unrestricted retained earnings in its books to cover such payment.

Upon payment by the Corporation of the agreed or awarded price, the stockholders shall forthwith transfer his shares to the Corporation.

The appraisal right is also available to a dissenting stockholder in case the Corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose as provided in Section 42 of the Corporation Code.

Item 3. Interest of Certain Persons In or Opposition to Matters to be Acted Upon

Each of the incumbent Directors, Nominees for Directors or Officers of the Corporation since the beginning of the last fiscal year or any associate of said persons do not have any substantial interest, direct or indirect, by security holdings, or otherwise, in any matter to be acted upon other than election to the office.

There is no Director who has informed the Corporation, either verbally or in writing, of his intention to oppose any action to be taken by the Corporation at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

Stockholders of record of the Corporation as of 29 May 2012 shall be entitled to vote during the meeting. The outstanding capital stock of the Corporation as of 30 April 2012 is 3,160,403,866 common shares with a par value of Php1.00 per share, all of which are entitled to vote. For the purpose of voting the shares in the meeting, one common share is entitled to one vote.

Manner of Voting

Article 11 of the By-laws of the Corporation provides that the stockholders may vote in person or by proxy.

In accordance with Section 24 of the Corporation Code of the Philippines, each stockholder may vote in any one of the following manner:

1. He may vote such number of shares for as many persons as there are Directors to be elected;

2. He may cumulate said shares and give one candidate as many votes as the number of Directors to be elected multiplied by his shares;

3. He may distribute them on the same principle to as many candidates as he may see fit. In any of these instances, the total number of votes cast by the stockholder should not exceed the number of shares owned by him as shown in the books of the Corporation multiplied by the total number of Directors to be elected.

Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Security Ownership of Certain Record and Beneficial Owners as of 30 April 2012 of more than 5% of the Corporation's Voting Securities

(1) Title of Class	(2) Name & Address of Record Owner & Relationship to Issuer	(3) Name of Beneficial Owner & Relationship to Record Owner	(4) Citizenship	(5) No. of Shares	(6) Percentage (%)
Common	Horizons Realty, Inc. 11 Kawayan Road N. Forbes Park, Makati City Stockholder	Horizons Realty, Inc.	Filipino	655,360,738	20.736614
Common	Triple Eight Holdings, Inc. 507 Buendia Avebue, North Forbes Park, Makati City Stockholder	Triple Eight Holdings, Inc.	Filipino	552,670,472	17.487337
Common	PCD Nominee Corp. G/F MKSE Building Ayala Avenue, Makati Stockholder	PCD Participants	Filipino	500,581,344	15.839157

Common	BJS Dev. Corp. 1869 P. Domingo St. Makati City Stockholder	BJS Dev. Corp.	Filipino	311,210,184	9.847165
Common	Renaissance Property Management Corp. FEATI University Bldg. Carlos Palanca , Sta. Cruz Manila Stockholder	Renaissance Property	Filipino	201, 982,966	6.391049

Based on the records of the Corporation, Mr. Jose Ma. A. Concepcion III is given the voting power over the security ownership of Triple Eight Holdings, Inc. and Horizons Realty, Inc., while Mr. Ernest Fritz Server or Mr. Joseph D. Server Jr. is given the voting power over the security ownership of BJS Development Corporation. Mr. Francisco A. Segovia is given the voting power over the security ownership of Renaissance Property Management Corp.

PCD Nominee Corporation is a wholly-owned subsidiary of Philippine Central Depository, Inc. and is the registered owner of the shares in the books of the Corporation's transfer agent, Securities Transfer Services, Inc. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients. The Corporation is not aware that a participant holds more than 5% of outstanding common shares of the Corporation. PCD is a private corporation organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines.

(2) Security Ownership of Management

Security Ownership of Management as of 30 April 2012

(1) Title of Class	(2) Name of Beneficial Owner	(3) Nature of Beneficial Ownership	(4) Citizenship	(5) No. of Shares	(6) Percentage (%)
Common	Jose S. Concepcion, Jr. Kawayan St., N. Forbes Park Makati City	"r"	Filipino	1,917,568	0.060674
Common	Jose Ma. A. Concepcion III Buendia St., N. Forbes Park Makati City	"r"	Filipino	11,671,886	0.3693163
Common	John Marie A. Concepcion 9 Urdaneta Ave., Urdaneta Village, Makati City	"r"	Filipino	369,974	0.011707
Common	Ernest Fritz Server 319 Chico Drive, Ayala Alabang Village, Muntinlupa City	"r"	Filipino	564,834	0.017872
Common	Francisco A. Segovia 521 Acacia Ave., Ayala Alabang, Muntinlupa City	"r"	Filipino	10	0.000000
Common	Felicisimo M. Nacino, Jr. 11-G, Tower I, St. Francis Shangrila, Mandaluyong City	"r"	Filipino	309,406	0.009790
Common	Joseph D. Server, Jr. 312 Cadena de Amor cor. Ilang-Ilang St., Ayala Alabang Village, Muntinlupa	"r"	Filipino	135,376	0.004284

	City				
Common	Ma. Victoria Herminia C. Young Kawayan Road, N. Forbes Park, Makati City	"r"	Filipino	10	0.000000
Common	Raissa H. Posadas 11 Nakpil St., San Lorenzo Village, Makati City	"r"	Filipino	2,000	0.000063
Common	Romeo L. Bernardo 16/F Belvedere Tower San Miguel Ave., Ortigas Center, Pasig City	"r"	Filipino	247	0.000008
Common	Lilia R. Bautista 33 A Rita St., San Juan, Metro Manila	"r"	Filipino	2,000	0.000063
Common	Norman P. Uy (6 Molave St. Forbes Park, Makati City)	"r"	Filipino	920,208	0.029117
Common	Raymond B. Azcarate Washington Tower Condominium, Pacific Ave., Marina Subd., Paranaque City	"r"	Filipino	750	0.0000237
Common	Ramon M. Lopez 4 Crocus Drive, Del-Nacia Village IV, Sauyo, Q.C.	"r"	Filipino	1,298,282	0.041080
Common	Minerva C. Laforteza Blk. 9 Lot 17 Burbank St., North Fairview, Q.C.	"r"	Filipino	8,522	0.00027
Common	Philip V. Prieto 15 Melon St., Valle Verde 1, Pasig City	"r"	Filipino	122	0.000004
Common	Ariel A. De Guzman 8 Real Palico St., Imus Cavite	"r"	Filipino	9,500	0.000301

The total number of shares owned by the Directors and Executive Officers of the Corporation is 18,699,695 common shares.

(3) Voting Trust Holders of 5% or More

To the extent known to the Corporation, there are no persons holding more than 5% or more of the Corporation's stocks under a voting trust or similar agreement.

(4) Changes in Control

No change in control of the Corporation has occurred since the beginning of its last fiscal year.

Item 5. Directors and Executive Officers

1. Name and Information on the Directors and Executive Officers of the Corporation

(Please refer to the Management Report hereto attached for the names and information on the Directors and Executive Officers of the Corporation.)

The Nomination Committee of the Corporation pursuant to its Manual on Corporate Governance adopted the following criteria for the selection of an independent director:

Qualifications:

1. Holder of at least one (1) share of stock of the Corporation;
2. He shall be at least a college graduate or have sufficient experience in business management to substitute for such formal education;
3. He shall be at least twenty one (21) years old;
4. He shall have proven to possess integrity and probity;
5. He shall be diligent;
6. He shall have practical understanding of the business of the Corporation;
7. He shall have membership in good standing in relevant industry, business or professional organizations; and
8. He shall have previous business experience.

Permanent Disqualifications:

1. No person shall qualify or be eligible for nomination or election to the Board of Directors if he is engaged in any business or activity which competes with or is antagonistic to that of the Corporation or any of its subsidiaries and affiliates, which disqualification may be waived by a majority vote of the Board of Directors, upon the recommendation of the Nomination Committee.

2. Any person finally convicted judicially of an offense involving moral turpitude or fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or similar fraudulent acts or transgressions;

3. Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;

4. Any person judicially declared to be insolvent;

5. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and

6. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

Temporary Disqualifications:

Any of the following shall be a ground for the temporary disqualification of a director:

1. Refusal to fully disclose the extent of his business interest as required under the Securities Regulation Code and its Implementing Rules and Regulations. This disqualification shall be in effect as long as his refusal persists;

2. Absence or non-participation for whatever reason/s for more than fifty percent (50%) of all meetings, both regular and special, of the Board of directors during his incumbency, or any twelve (12) month period during said incumbency unless absence is due to illness, death in the immediate family or serious accident. This disqualification applies for purposes of the succeeding election. A director, however, shall not be considered absent if he participates in the meetings via teleconferences;

3. Dismissal/termination from directorship in another listed corporation the shares of which are listed on the Exchange, for cause. This disqualification shall be in effect until he has cleared himself of any involvement in the alleged irregularity;

4. Being under preventive suspension by the Corporation;

5. In the case of independent director,

   i. his beneficial equity ownership in the corporation or any of its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with;

   ii. In the case of independent directors, the additional grounds for temporary disqualification shall be those provided under Rule 38 of the Amended Implementing Rules and Regulations of the Securities Regulation Code.

6. Conviction that has not yet become final referred to in the grounds for the disqualification of directors.

A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the disqualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.

1. Any person finally convicted judicially of an offense involving moral turpitude or fraudulent act or transgressions;
2. Any person finally found by the Commission or a court or other administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of, any provision of the Securities Regulation Code, the Corporation Code, or any other law administered by the Commission or Bangko Sentral ng Pilipinas, or any rule, regulation or order of the Commission or Bangko Sentral ng Pilipinas;
3. Any person judicially declared to be insolvent;
4. Any person finally found guilty by a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct listed in the foregoing paragraphs; and
5. Conviction by final judgment of an offense punishable by imprisonment for a period exceeding six (6) years, or a violation of the Corporation Code, committed within five (5) years prior to the date of his election or appointment.

After the required pre-screening of the qualifications above-stated, the incumbent independent directors Mr. Romeo L. Bernardo and Ms. Lilia R. Bautista, are again nominated for the same positions. Mr. Bernardo was first nominated in 2002 by Triple Eight Holdings, Inc., Horizons Realty, Inc. and BJS Development Corporation and Renaissance Property Mgt. Corp., and Ms. Lilia R. Bautista was first nominated in September 2005 by Mr. Jose S. Concepcion, Jr. Mr. Bernardo is not in any way related to nor does he hold any position in the corporations that recommended him as independent director, although the said corporations belong to the top 20 stockholders of RFM Corporation. Neither is Ms. Bautista in any way related to Mr. Jose S. Concepcion, Jr.

2. Significant Employees

There are no persons other than the Executive Officers who are expected by the Corporation to make significant contribution to its business.

3. Family Relationships

Jose S. Concepcion, Jr. is the father of Jose Ma. A. Concepcion III, John Marie A. Concepcion and Ma. Victoria Herminia C. Young. Ernest Fritz Server and Joseph Server are brothers.

4. Involvement in Certain Legal Proceedings

To the best knowledge and information of the Corporation, the nominees for Directors, its present Board of Directors and its Executive Officers are not, presently or during the last five years, involved or have been involved in any legal proceeding involving themselves and/or their properties before any court of law or administrative body in and out of the country that are material to their ability and/or integrity. Likewise, said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or the laws of any other country.

5. Certain Relationships and Related Transactions

The Group, in the regular course of business, transact with related parties, which may consist but not limited to the following:

- Purchase of goods and services.
- Cash advances for working capital purposes.
- Lease of the Company's main office from a subsidiary company.
- The Parent Company provides management services to RFM Insurance Brokerage, Inc. and Interbake Commissary Corporation
- Distribution, sale and merchandising of RFM Group products.

For a detailed discussion on related party transactions, please refer to Item 12 of the SEC 17-A and Item 26 of the Notes to the 2011 Consolidated Financial Statements of the Corporation and Subsidiaries.

Item 6. Compensation of Directors and Executive Officers (in Million Pesos)

Name/Principal Position	Position	Year	Salary	Bonus & Others	Total Compensation
Jose Ma. A. Concepcion III	President & CEO				
Felicisimo M. Nacino, Jr.	EVP & COO				
John Marie A. Concepcion	Managing Director-Ice Cream				
Norman P. Uy	SVP & GM				
Raymond B. Azcarate	SVP & CFO				
		2012	33.6	2.8	36.4
		2011	33.0	2.8	35.8
		2010	31.1	2.6	33.7
		2009	30.7	2.6	33.3
All officers and directors as a group unnamed					
		2012	20.6	1.7	22.4
		2011	20.4	1.7	22.1
		2010	18.9	1.6	20.5
		2009	17.0	1.4	18.4

Compensation of Directors

The Board of Directors and members of the Compensation, Nomination and Audit Committees are entitled to a per diem of Php10,000.00 for every meeting except that the per diem of the Chairmen of the Compensation and Investment Committees is Php20,000.00. The Chairman of the Audit Committee is entitled to a remuneration of Php50,000.00 a month.

Stock Purchase Plan

No common shares were sold to the officers after the fourth issuance on 31 January 2007 of treasury common shares to the officers.

Employment Contracts

The Executive Officers are entitled to the following pecuniary benefits, bonus scheme, major benefits and retirement plan, as follows:

1. Pecuniary Benefits
   a) The Executive Officers have the option to purchase assigned vehicle after five (5) years at market value, or return the same to the Corporation for a replacement vehicle at such time.
   b) All expenses related to registration, comprehensive insurance, repairs and maintenance will be borne by the Corporation.
   c) Reimbursement of gasoline expenses up to a certain amount of liters per month.

2. Bonus Scheme

On the basis of performance and attainment of the business plan, in particular the specific objectives for the year, bonus will be in accordance with policy and the Performance Variable Pay Scheme starting 2009.

3. **Major Benefits**

a)	Hospitalization Plan	: A hospitalization plan in accordance with Company policy.
b)	Vacation Leave	: 15 days per year; accumulated up to 30 days but not encashable.
c)	Sick Leave	: 15 days per year, accumulated up to 45 days but not encashable.
d)	Executive Check-up	: Once every four (4) years; SPEC 24 KSAT blood test every two (2) years.

4. Retirement Plan

Availment of retirement benefit is provided after the employee has rendered at least five (5) years of service with the Corporation at 25% of basic pay per year of service. Value increases by 5% per additional year of service up to a maximum of 125%. The current plan is being reviewed to differentiate resignation and retirement benefits.

Item 7. Independent Public Accountants

Sycip Gorres Velayo & Co. is the external auditor of the Corporation. The firm or such other reputable auditing firm will be recommended for appointment at the meeting. The representatives of the firms to be nominated are expected to be present during the meeting and will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions. During the last five fiscal years, there have been no disagreements between the Corporation and its auditors on matters related to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

Pursuant to SRC Rule 68 (3) (b) (iv), the Corporation has changed its engagement partner, the former being Ms. Teresita M. Baes who was engaged for the period January 2002 until December 2006, while the present engagement partner is Mr. Martin Guantes.

Audit and Audit Related Fees

For the years 2011, 2010 and 2009, the Company engaged the professional services of SGV. The Group incurred an aggregate audit fee of P2.4 million for 2011, excluding out of pocket expenses. The engagement involves the examination of the Company's financial statements in accordance with generally accepted auditing standards. It includes on a test basis review and evaluation of system, documentation and procedures to ascertain that adequate internal controls are in placed. Also, they provide updates on latest regulatory or compliance requirement with government agencies such as Securities and Exchange Commission and other

government agencies.

The audit committee's approval policies and procedure for external auditors are:

1. Statutory audit of company's annual F/S

    a. The Audit Committee ensures that the services of the external auditor conform with the provision of the company's manual of corporate governance specifically articles 2.3.4.1; 2.3.4.3 and 2.3.4.4

    b. The Audit Committee makes an assessment of the quality of prior year audit work services, scope, and deliverables and makes a determination of the reasonableness of the audit fee based on the proposed audit plan for the current year.

    c. The Audit Committee approved the final audit plan and scope of audit presented by the external auditor before the conduct of audit. The final audit plan was already the output after the conclusion of the series of pre-audit planning with Management.

    d. The Audit Committee reports to the Board the approved audit plan.

2. For other services other than annual F/S audit:

    a. The Audit Committee evaluates the necessity of the proposed services presented by Management taking into consideration the following:

        i. The effectiveness of company's internal control and risk management arrangement, systems and procedures, and management degree of compliance.

        ii. The effect and impact of new tax and accounting regulations and standards.

        iii. Availability of in-house technical expertise.
        iv. Cost benefit of the proposed undertaking.

    b. The Audit Committee approves and ensures that other services provided by the external auditor shall not be in conflict with the functions of the external auditor for the annual audit of its financial statements.

Item 8. Compensation Plans

No action will be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed to the Corporations' officers and employees. Likewise, no action will be taken with regard to granting of extension of any option, warrant or right to purchase any securities.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Items 9-14. Issuance and Exchange of Securities, Modification or Exchange of Securities, Financial and Other Information, Mergers, Consolidations, Acquisitions and Similar Matter, Acquisition or Disposition of Property and Restatement of Accounts

No securities are to be issued in exchange for existing securities.

D. OTHER MATTERS

Item 11. Authorization of Issuance of Securities Otherwise than for Exchange

Since no securities are to be issued in exchange for existing securities, no authorization has been issued to this effect.

Item 15. Action with Respect to Reports

Approval of the Management Report for the fiscal year 2011 and Minutes of the previous Annual Stockholders' Meetings.

A. **Summary of the Annual Stockholders' Meeting held on 29 June 2011**

1. Approval of Previous Minutes

The minutes of the Annual Stockholders' Meeting held on 08 July 2010 and Special Stockholders' Meeting held on 27 January 2011 were approved and ordered filed.

2. Presentation of the Presidents' Annual Report and Audited Financial Statements

The 2010 Annual Report was noted and appended to the minutes while the 2010 Audited Financial Statements was likewise noted and approved.

3. Ratification of Acts of Management

The minutes of all meetings of the Board of Directors and the acts of the corporate officers for the period between the 2010 Annual Stockholders' Meeting until the 2011 Annual Stockholders' Meeting were ratified, approved and confirmed. Further, all resolutions adopted by the Board of Directors at said meetings were ratified and adopted and all acts and proceedings of all Corporate Officers and Directors since the Annual Meeting were also ratified, approved and confirmed by the stockholders.

4. Election of Directors

The following directors were elected:

Jose S. Concepcion Jr.
Jose Ma. A. Concepcion III
John Marie A. Concepcion
Ma. Herminia Victoria C. Young
Ernest Fritz Server
Joseph D. Server Jr.
Felicisimo M. Nacino, Jr.
Raissa H. Posadas
Francisco A. Segovia
Romeo L. Bernardo as Independent Director
Lilia R. Bautista as Independent Director

5. Appointment of External Auditor

Sycip Gorres Velayo & Co. was appointed as External Auditor of the Corporation.

Item 16. Matters Not Required to be Submitted

Approval and ratification of all acts of Management and the Board of Directors for the fiscal year 2011 which are considered purely administrative, such as but not limited to:

1. Renewal of credit facilities, foreign exchange lines, domestic bills line and omnibus line with banks.
2. Authority to purchase, sell, negotiate, trade and transact foreign exchange with CC currency.

3. Application and Acceptance of short term credit lines and finance accommodation with banks.
4. Amendment of authorized signatories for bank, Long Term Commercial Paper and treasury-related transactions.
5. Opening of peso/dollar CASA/ investment in short term Money Market and Temporary Placement instruments with banks.
6. Others.

Item 17. Amendment of Charter, By-laws or Other Documents

None.

Item 18. Voting Procedures

Pursuant to the By-laws of the Corporation, in all regular and special stockholders' meetings, the presence of shareholders who represent a majority of the outstanding capital stock entitled to vote shall constitute a quorum and all decisions made by the majority shall be final. However, the amendment of the Articles of Incorporation of the Corporation to be carried into effect requires the approval of two-thirds (2/3) of the outstanding common stock of the Corporation.

On the election of the member of the Board of Directors, the nominees receiving the highest number of votes shall be declared elected under Section 24 of the Corporation Code of the Philippines and as provided for in Item 4 hereof. Likewise, the nominee for external auditor with the highest number of votes shall be declared elected as such.

The method by which the votes of security holders will be counted is in accordance with the general provisions of the Corporation Code of the Philippines. The counting of votes will be done by the Corporate Secretary.

PART III

SIGNATURE PAGE

After reasonable inquiry to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on 28 May 2012.

RFM CORPORATION

By:



ATTY. ROWEL S. BARBA
Corporate Secretary

MANAGEMENT REPORT OF RFM CORPORATION

I. CONSOLIDATED AUDITED FINANCIAL STATEMENTS

The 2011 Audited Consolidated Financial Statements and the latest Interim Unaudited Financial Statement (Quarterly Report) for 2012 are incorporated herein by reference and are filed as part of this Management Report.

II. INFORMATION CONCERNING DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There is no event in the past five (5) years wherein the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The Company regularly adopts New Statement of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS) where applicable.

III. MANAGEMENT DISCUSSION AND ANALYSIS (MD &A) OR PLAN OF OPERATION

Introduction

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of RFM Corporation and its Subsidiaries for the period December 31, 2011. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2011. All necessary adjustments to present the Company's consolidated financial position as of December 31, 2011 and 2010 and the results of operations and cash flow for the years then ended have been made.

First Quarter 2012 vs. First Quarter 2011

Analysis of Results of Operations

Food and beverage company RFM Corporation reported a marked upswing in its first quarter 2012 income as it registered P130.3 Million profit, 30% higher than its first quarter 2011 income of P100.1 Million.

Income gathered momentum given the higher sales revenues and easing of commodity cost inputs such as milk and sugar that started in the second half of last year. Rationalization of production processes and focus on higher-margin products also helped improve the profit picture for the company.

Sales of P2.4 Billion, likewise, registered faster growth of 16% for the first quarter. Selecta, the ice cream joint venture with Unilever, posted spectacular sales growth of over 37% for the quarter. The latest ice cream craze Magnum - a Belgian chocolate enrobed ice cream on stick – was launched last March. Demand for this new product has been way beyond expectations with stocks running out, prompting the company to make arrangements to increase further supplies. More significantly, Selecta Cornetto ice cream products have maintained its acceleration, with organic growth ranging from 50-60%.

RFM's Fiesta pasta business has been performing extremely well, posting over 70% growth in the first quarter, thus expanding its market leadership position to over 30%, from 25% last year. The consistently firm pasta quality at affordable pricing levels made Fiesta more preferred nowadays than the traditional leading pasta brand. Moreover, its other White King brands of cake mixes and Arroz Caldo and Champorado have also sustained stronger sales momentum of 30% YTD growth.

Aside from Selecta ice cream and Fiesta pasta, sales of Selecta milk, Sunkist litro pack, Swift Mighty Meaty and Corned Beef Swak also performed very well. These came about as the company rationalized and focused its brand portfolio, supported by more exciting product repackaging, aggressive merchandising and trade-related programs.

The key financial performance indicators for the Company for the three-month period ended March 31, 2012 as compared to the same period in 2011, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**	
	March 31, 2012	March 31, 2011
Net Revenues	**₱2,393**	₱1,980
Net Operating Margin	**191**	162
Net Income (Loss)	**130**	100
EBITDA	**257**	206
Current Ratio	**1.31**	1.33

* *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 March 31, 2012, the Group's Total Assets grew 4% to P11.21 Billion compared to December 31, 2011 of P10.76 Billion. The increase was primarily from the Current Assets segment which grew by 11% to P5.40 Billion compared to P4.87 Billion reported last December 31, 2011.

Inventories have increased 33% to P2.13 Billion due to build-up of stocks for the summer season, particularly on ice cream and juices.

The reduction in noncurrent assets came primarily from depreciation charges for the quarter on the Group's property, plant and equipments.

Accounts payable and accrued liabilities have increased the total Current Liabilities by 12% to P4.12 Billion as of March 31, 2012, due mainly to higher trade payables to suppliers relative to the build-up of inventories.

The Group maintained a current ratio of 1.31 on March 31, 2012. The Group's Debt to Equity ratio is 1.11 on March 31, 2012; and 0.85 on December 31, 2011.

Notes to Financial Statements

The Company's financial statements for the second 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 March 31, 2012;

(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.

Year ended December 31, 2011 vs. 2010

Management Report on Operations

Food and beverage company RFM Corporation's full year net income of P508.3 million in 2011 surpassed market analysts' year-end estimate of P420-430 million.

Higher revenues and easing of commodity cost inputs such as milk and sugar in the second half, coupled with internal production improvements pushed-up profitability to P295 million in the second half, up 38.8% from first half income.

Topline sales registered a faster growth of 27.2% for the second semester, versus 7% growth in the first half of the year, ending the year with P10.3 Billion sales revenue, 13.6% higher compared to P9.1 Billion in 2010. The focus on core food and beverage business have built stronger brand equity and product innovations have influenced the shift in buying pattern and frequency in a number of categories.

Selecta Ice Cream, a joint venture with world giant Unilever, is increasing its leadership of the industry with market share going beyond 71%, coming from around 66% at the start of 2011. Remarkable growth was seen in Selecta-Hersheys, Supreme, Classic and Cornetto lines, with innovations backed by strong marketing campaigns. Flour-based businesses led by White King Fiesta spaghetti likewise continued to hit record sales levels, with growth close to 50%, hitting rated capacity starting September, and pushing up its recent market share in its biggest key account to 35% by year-end, from 28% in January last year. White King Champorado and Arroz-Caldo mixes, Sunkist litro pack and Swift Mighty Meaty and Corned Beef Swak also performed very well as the company rationalized and focused its brand portfolio, supported by more exciting product repackaging, aggressive merchandising and trade-related programs.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2011, the Group's total assets reached P10.8 billion from P10.6 billion last year.

Total current assets of the Group decreased by P546.4 million to P4.88 billion, mainly due to the distribution to RFM shareholders of its investment in Swift preferred shares, which were classified as AFS investments in the Balance Sheet.

The total non-current assets rose to P6.0 billion due mainly to the increase in plant, property and equipment by P742.7 million to P4.2 billion. The increase in group plant, property and equipment was due to new investments to boost plant capacity and to improve manufacturing efficiencies.

The total liabilities increased by P814.7 million to P5.7 billion. Total current liabilities increased by P622.1 million mainly due to maturing long-term debt and other obligations for the succeeding year 2012. Total non-current liabilities increased by P192.6 million to P2.0 billion mainly due to availment of additional long-term debts of P650 million. These loans are used to fund the Company's capital expenditures and additional working capital.

Year ended December 31, 2010 vs. 2009

Management Report on Operations

Diversified food and beverage firm RFM Corporation registered P625.7 million in net income, an increase by 71% from 2009.

The Company's revenues attained P9.1 billion. The improvement in the Philippine economy as it recovers from the effect of global economic slump provided a favorable environment for the revenue growth. The Company's ability to fulfill the increasing Filipino consumer demands for affordable quality food enabled it to grow its revenues by 9.7%.

The Company earned gross profit margins of P3.1 billion. This grew by 35% compared to previous year. The gross profit rate margin increased by 5.9% points compared to previous year. This is a reflection of the Company's overall improvements in its cost structure. It has inherent strengths in supply chain function as it sourced it commodity materials at opportune timing. The Company also reaped the benefits from its capital expenditure investments for plant efficiency improvements and manufacturing capacity increase.

The operating expenses increased by 31% to P2.4 billion as the Company invested in marketing and selling programs in order to communicate better with its target markets and for its products to be placed in locations which are convenient for its targeted consumers.

The Company's operating income increased by 34.7% to P708.9 million.

With record-breaking Fiesta volumes in the last quarter this year, Fiesta spaghetti sustained its market leadership in spaghetti category for the entire year. This was attained through value-for-money proposition of Tipid Pack, storefront billboards, merchandising and TV advertisement using an endorser.

The Fiesta brand is the company's second market leader. It follows the Selecta brand that has continued to dominate the Philippine ice cream market with over 50 percent market share.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2010, the Group's total assets reached P10.58 billion an increase by P1.66 billion or 18.6% from last year's P8.9 billion.

Total current assets of the Group increased by P555 million to P4.58 billion, mainly due to its inventory position which increased by P434 million. The increase in inventory position was in anticipation to the increase in prices of key commodity materials. Cash and cash equivalents increased by P153 million or 31% from previous year. Net receivables decreased by P135 million mainly due to additional provisions in allowance for doubtful accounts.

The total non-current assets rose to P1.1 billion due mainly to the increase in plant, property and equipment by P985 million to P3.52 billion. The increase in group plant, property and equipment was due to new investments to boost plant capacity and to improve manufacturing efficiencies. The Group also acquired investment properties.

The total liabilities increased by P1.03 billion to P4.86 billion. Total current liabilities increased by P92.5 million while total non-current liabilities increased by P938 million to P1.82 billion. Accounts payable and accruals increased by P429.5 million to P2 billion, which primarily funded the increase in inventory position as of year end. The combined current and non-current portion of long term debt increased by P488 million. Current portion of long term debts declined by P376 million to zero balance. This was in line with the retirement of the various bank loans with a total value of P1.31 billion (current and non-current portion) on October 27, 2010. Several banking institutions granted the Parent Company a peso-denominated floating rate note facility with an aggregate amount of P1.5 billion on October 25, 2010.

Year ended December 31, 2009 vs. 2008

Management Report on Operations

Diversified food and beverage firm RFM Corporation has registered P365.5 million in net income, an increase by 49.1% 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 28.5% as compared to the 21.6% last year.

With revenues, RFM has continued to beat expectations as it overtakes 2008's sales of P7.6 billion by P782.7 million, 10.4% higher.

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.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2009, the Group's total assets were P8.9 billion, a decline by 3.2% from last year's P9.2 billion.

Total current assets of the Group declined by P237.4 million to P4.03 billion mainly to pay off current liabilities; hence cash and cash equivalents have declined by 5.8%

Accounts receivable decreased by P92.9 million resulting from improvements in trade receivable management.

Inventories declined by 7.2% to P1.3 billion due to lower commodity price of major raw materials declined towards year end of 2009 and improvements in supply chain management.

Property, plant and equipment increased by P199.8 million as the Group manufacturing capacities were increased in order to meet the increasing demands for its products; and to improve plant efficiencies as part of cost reduction programs.

Available for Sale (AFS) investments have increased by P133.0 million to P2.5 billion. The increase was primarily due to conversion from Investment in associates of Philtown common shares to AFS investments valued at P145.0 Million.

The investment in associates declined by P424.0 million primarily due to reclassification of the investment in Philtown common shares to AFS investments and the derecognition of Philtown as associate due to the Parent Company's declaration of its Philtown common shares as property dividend on April 29, 2009.

Total liabilities was P3.8 billion, a decline by 11.3% at P488.1 million as most were paid off by current assets of the company.

Short term bank loans remain stable at P244.0 million. Long term loans declined by P214.8 million (18%) as these payments are made based on maturity dates falling due. Accounts payables declined by P151.0 million (9%) to P1.6 billion. Trust receipts declined by P135 million (20%) to P535.1 million.

The Group maintains a healthy balance sheet with a current ratio of 1.37 and a debt to equity ratio of 0.75.

Key Performance Indicators

For the full fiscal years 2011, 2010 & 2009 the Company's and majority-owned subsidiaries' top five (5) key performance indicators are as follows:

In Millions	**December 2011**	December 2010	December 2009
Revenues	**10,336**	9,098	8,334
Operating Margin	**791**	709	526
Net Income (Loss)	**508**	625	365
EBITDA	**1,042**	890	696
Current Ratio	**1.33**	1.78	1.37

(a) Revenue Growth

These indicate external performance of the Company and its subsidiaries in relation to the movement of consumer demand and the competitors' action to the market behavior. These also express market acceptability and room for development and innovations. These are being monitored and compared as a basis for further study and development.

(b) Operating Margin

This shows the result after operating expenses have been deducted. Operating expenses are examined, checked and traced for major expenses. These are being analyzed and compared to budget, and previous years, to ensure prudence and discipline in spending behind marketing and selling activities.

(c) Net Income

This represents the outcome or results of operations. This measures the over-all performance of the team, the consequence of all the contributory factors affecting supply, demand, utilization and decisions.

(d) EBITDA

This measures the Company's ability to generate cash from operation by adding back non-cash expenses (i.e. depreciation and amortization expense) to earnings before interest and tax.

(e) Current Ratio

This determines the company's ability to meet its maturing obligations using its current resources. It indicates the possible tolerable shrinkage in current resources without threat to the claims of current creditors.

Causes for Any Material Changes from Period to Period of FS, which shall include vertical and horizontal analyses of any material item

Please refer to the discussions under Results of Operations and Financial Position for the year ended December 31, 2011 vs. 2010, year ended December 31, 2010 vs. 2009 and year ended December 31, 2009 vs. 2008.

The Company is not aware of the following:

(i) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(ii) All material off-balance sheet transaction, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Seasonal Aspects that has Material Effect on the FS

There is no material effect with the seasonal aspect of certain raw materials specifically wheat on the financial statements.

Audit and Audit Related Fees

For the years 2011, 2010 and 2009, the Company engaged the professional services of SGV. The Group incurred an aggregate audit fee of P2.4 million for 2011, excluding out of pocket expenses. The engagement involves the examination of the Company's financial statements in accordance with generally accepted auditing standards. It includes on a test basis review and evaluation of system, documentation and procedures to ascertain that adequate internal controls are in placed. Also, they provide updates on latest regulatory or compliance requirement with government agencies such as Securities and Exchange Commission and other government agencies.

The audit committee's approval policies and procedure for external auditors are:

1. Statutory audit of company's annual F/S

    a. The Audit Committee ensures that the services of the external auditor conform with the provision of the company's manual of corporate governance specifically articles 2.3.4.1; 2.3.4.3 and 2.3.4.4

    b. The Audit Committee makes an assessment of the quality of prior year audit work services, scope, and deliverables and makes a determination of the reasonableness of the audit fee based on the proposed audit plan for the current year.

    c. The Audit Committee approved the final audit plan and scope of audit presented by the external auditor before the conduct of audit. The final audit plan was already the output after the conclusion of the series of pre-audit planning with Management.

    d. The Audit Committee reports to the Board the approved audit plan.

2. For other services other than annual F/S audit:

    a. The Audit Committee evaluates the necessity of the proposed services presented by Management taking into consideration the following:

        i. The effectiveness of company's internal control and risk management arrangement, systems and procedures, and management degree of compliance.

        ii. The effect and impact of new tax and accounting regulations and standards.

        iii. Availability of in-house technical expertise.
        iv. Cost benefit of the proposed undertaking.

    b. The Audit Committee approves and ensures that other services provided by the external auditor shall not be in conflict with the functions of the external auditor for the annual audit of its financial statements.

IV. BRIEF DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF THE BUSINESS

PART I – BUSINESS AND GENERAL INFORMATION

Item 1 - Business

The RFM Group

RFM Corporation (the "Company") is a major player in the food and beverage industry in the Philippines, specifically in the processing and manufacture of flour, flour-based products, milk and juice drinks, canned and processed meats, ice cream, and bottled mineral water.

The Company also operates non-food businesses, which include barging services (Rizal Lighterage Corporation) and insurance brokerage (RFM Insurance Brokers, Inc.), and leasing of commercial / office spaces (Invest Asia Corporation).

History and Business Development

RFM Corporation was incorporated on August 16, 1957 as Republic Flour Mills, Inc. to manufacture flour in the Philippines, a country which does not grow wheat, in order to contribute to the country's greater self-reliance in basic food. From its original business of flour milling, the Company diversified into poultry and livestock production and areas of food manufacturing that includes flour-based products, margarine, milk & juices, canned and processed meat, ice cream, and bottled mineral water.

After RFM established itself in the flour milling business, the Company, in 1963, commissioned new plant facilities to produce cooking oil and margarine. This was then followed by the establishment of a feed mill in 1965 to manufacture poultry and hog feeds, of which key raw materials - bran and pollard - were by-products of the flour operations.

In the early 1971, RFM integrated forward into hog and poultry breeding. It entered into a licensing agreement with Peterson Industries and H & N Layers to breed day-old chicks. The Company, though, divested from the hog operation in 1994, and in the poultry business in 2003 by way of property dividends to its shareholders.

In 1973, the Company signed an exclusive licensing agreement with Swift and Company of Illinois (now Armour Swift & Echrich of the ConAgra Group). This move initiated the entry of RFM into the business of chilled and canned meat processing using the "Swift" brand name. A continuous meat processing plant, the first in the country, was constructed in 1975. The "Swift" brand name was eventually purchased by RFM in 1987, allowing the Company the rights to its exclusive use in the Philippines.

From the 1970s to 1980s, RFM concentrated primarily on growing its established core businesses. It also introduced grocery items, such as cake mixes, hotcake mixes, and ingredient mixes during this period.

As RFM began to enter the 1990s, it envisioned itself to become a truly diversified Food Company catering to the Filipino taste. This goal was and continues to be implemented through two approaches: strategic acquisition of Filipino companies with strong local brands, and partnerships with internationally-renowned food institutions.

This vision was first manifested in the purchase of Cosmos Bottling Corporation (Cosmos), a Filipino softdrinks company, in 1989, from the Wong Family. Then in 1990, RFM acquired the "Selecta" trademark from the Arce Family. RFM invested in new machinery under a new company, Selecta Dairy Products, Inc. (Selecta), to mass produce the locally famous ice cream flavors within international health standards. And in 1993, the Company ventured into the production of ready-to-drink ultra-heat treated (UHT) milk and juices in tetra-packaged format using the brand names Selecta Moo and Sunkist, respectively.

In 1994, Swift, Selecta, and Cosmos conducted an initial public offering of its shares of stock through the Philippine Stock Exchange.

A year later, in 1995, the Company incorporated RFM Properties and Holdings, Inc. to consolidate its real estate assets as well as to break into the land and housing development business. The company was later renamed Philippine Townships, Inc. In 2008, the company was again renamed to Philtown Properties, Inc. Philtown Properties, Inc. (formerly Philippine Townships, Inc.), the property company, is presently owned 19% by RFM as

66% of the outstanding shares were declared as property dividends in 2008 and 15% in April 2009. The company remains committed in liquidating its landholdings through the development of middle income housing enclaves. It also builds condominium projects in saleable areas in Fort Bonifacio, Rockwell, and Taft.

RFM continued to expand its businesses as it ventured into noodle manufacturing, tuna processing, bakeshop business with the acquisition of the Rolling Pin trademark, food franchising with the use of Little Ceasar's Pizza brand of the USA, and thrift banking under Consumer Bank.

The Asian Financial Crisis of 1997, however, put a halt to the business expansion of RFM. The ensuing economic slowdown, more cutthroat market competition, and the dearth of capital financing weighed heavily on the financial operations of the Company. Furthermore, the US$83.7M bond, which it obtained in 1996, became due in 2001, and its payment forced RFM to sell many of its operating subsidiaries, including Consumer Bank which was sold to Philippine Bank of Communications, and Cosmos which was sold to San Miguel Corporation.

The remaining business, nevertheless, gives RFM the foundation to build on. Within the Parent Company, the original business of flour making continues; as well as branded food products such as Swift processed chilled and canned meats like hotdogs, vienna sausage, and corned beef, Sunkist Juices, Selecta Milk, Fiesta Pasta Noodles, White King Hot Cake, Butterfresh Margarine, among others.

On February 15, 1999, the company entered into a joint venture agreement with Unilever for the manufacture and sale of ice cream products.

The Group and the Products

Food Businesses

RFM Corporation (Parent Company)

RFM Corporation (the parent company) operates two major business segments:

- Institutional segment, which primarily manufactures and sells flour, pasta, bakery and other bakery products to institutional customers; and
- Consumer segment, that manufactures and sells ice cream, meat, milk and juices, pasta products, and flour and rice based mixes.

See table on sales.

Unilever-RFM Ice Cream Inc. (formerly Selecta Wall's Inc.)

Unilever-RFM Ice Cream Corporation is a joint venture enterprise owned 50%-50% by RFM Corporation and Unilever Philippines Inc. It is engaged in the business of manufacturing, marketing, distributing and selling, importing and exporting of ice cream and similar food products.

Interbake Commissary Corporation

Interbake Commissary Corporation was established in 1998, and operates a high-speed Bun Production Line. It's first, and continues to be the biggest customer, is McDonald's. Interbake supplies the bun requirements to McDonald's over 260 stores in Luzon. Through the years, Interbake has gained an outstanding reputation for delivering world-class quality buns, enabling it to further expand its customer base which now includes other quick service restaurants such as Wendy's and KFC. Since 2007, Interbake's bread sales volume had an average annual increase of 10%.

RFM Foods Philippines Corporation

Established in 1991 as RFM-Indofood Philippines Corporation, then a joint venture company between RFM Corporation and Indofood of the Salim Group of Indonesia, the company's main product lines were instant noodles of various flavors and packaging. The Company, however, ceased operations in October 2000 due to operating losses.

The company has been renamed RFM Foods Philippine Corporation, and remains dormant.

FWBC Holdings, Inc.

FWBC Holdings, Inc. is 83.38% owned by RFM Corporation, and organized in 2001 to hold and manage Filipinas Water Bottling Corporation (FWBC). FWBC is involved in the processing and distribution of bottled mountain spring water.

Non-Food Businesses

RFM Equities, Inc.

RFM Equities Inc. is a holding company that is 100% owned by RFM. It was organized in 1996 to hold and manage RFM Corporation's holdings in two small financial services subsidiaries – Conglomerate Securities and Financing Corporation (CSFC) and RFM Insurance Brokers, Inc. (RIBI). CSFC provides consumer-financing services mainly to the managers and employees of the RFM Group. RIBI meanwhile services the insurance needs mainly of the RFM Group, affiliates and business partners.

Rizal Lighterage Corporation

Rizal Lighterage Corporation (RLC) is a barging company that is 94% owned by RFM Corporation. It is primarily engaged in providing lighterage and cargo handling services.

WS Holdings, Inc.

WS Holdings, Inc. is 60% owned by RFM Corporation and 40% owned by Unilever Philippines, Inc. It was incorporated and registered with the Securities and Exchange Commission in 1999 to invest in, purchase and own shares of stocks, bonds and other securities of obligations including real estate and personal property of any foreign or domestic corporation, or partnership, or association.

Selecta Wall's Land Corporation

Selecta Wall's Land Corporation was incorporated in 1999 to acquire, own, use, develop and hold for investment all kinds of real estate. RFM Corporation owns 35% of this company.

Cabuyao Meat Processing Corporation

Formerly Bringmenow, Inc., the company was renamed into Cabuyao Meat Processing Corporation (CMPC) in 2005 upon the transfer of the meat manufacturing assets. This is 100% owned by RFM Corporation, and its primary possession is the processing plant in Cabuyao, Laguna, which produces hotdogs, corned beef, hams, and other meat products under the Swift brand.

Invest Asia Corporation

Invest Asia Corporation, which owns the RFM head office building and land where the building is located leases commercial and office spaces to its affiliates and third party tenants. RFM Corporation acquired 96% equity interest of Invest Asia and became a subsidiary of the Parent Company on August 2, 2010.

Contribution to Sales

The Group is primarily engaged in manufacturing, milling, and marketing of food and beverage products. The Group operates its business through the business units identified below. Information as to the relative contribution of the divisions and business to total sales are as follows:

Business Unit	Products	Brands	Contribution to Sales
Institutional Group	Flour Products	Republic Special, Cinderella, Hi-Pro Majestic, Pioneer, Señorita, Altar Bread, Milenyo	41.0%
	Hamburger buns, English muffins		
Consumer Group	Ready to Drink Juice, Ready to Drink Tea, Powdered Juice, Ready to Drink Milk, Flavored Water	Sunkist Orange Pulp, Sunkist Healthy Heart, Sunkist Iced Tea, Alo Youth, Alo Green Tea, Selecta Moo, Selecta Filled Milk, Selecta Fortified Milk, Vitwater	58.7%
	Processed Meat and Canned Meat	Swift Premium, Swift Mighty Meaty, Swift Sweet and Juicy, Swift All Meat (SAM), Swift Chicken Franks, Swift Delicious, Swift Rica, Swift Bacon, Swift Square Ham, Swift Christmas Ham, Swift Corned Beef, Swift Juicy Corned Beef, Swift Juicy Carne Norte, Swift Meaty Corned Beef, Swift Meaty Carne Norte, Swift Black Label, Swift Chicken Vienna, Swift Vienna Sausage, Swift Luncheon Meat and Swift Meat Loaf	
	Flour-based and rice-based products	Fiesta Spaghetti, Whiteking All–Purpose flour, White King Hotcake mixes, White King Native Mixes, White King Brownie Mixes, White King Champorado Mix	
	Tomato-based sauces	Fiesta Meaty Filipino Blends Spaghetti Sauce, Fiesta Sweet Blend Spaghetti Sauce, Fiesta Italian Blend Spaghetti Sauce	
Others			0.3%

Domestic and Export Sales

The amounts of revenue, profitability, and identifiable assets attributable to domestic and export operations for 2011, 2010 and 2009 in **Million Pesos** are as follows:

	2011	%	2010	%	2009	%
Sales						
Domestic	10,080	98	8,823	97	7,968	96
Foreign (Export)	256	2	276	3	366	4
	10,336		9,099		8,334	

	2011	2010	2009
Operating income(loss)			
Domestic	791	671	440
Foreign (Export)	24	38	86

	815	709	526
Total Assets (All Domestic)	10,835	10,583	8,927

Distribution Methods of the Products or Services

The company engages in different methods of distribution depending on the products/services to meet the needs of customers.

RFM Corporation sells its products through the following accounts: modern trade accounts, distributor accounts, secondary accounts, food service, institutional customers, wet market and Good Values company store. Modern trade and distributor accounts comprised of hypermarkets, supermarkets, groceries, convenience stores and wholesalers.

Status of any publicly-announced new product or services

The latest buzz for the Selecta Milk product roster is the unveiling of Selecta Moo Super Chocolate. It is the same Selecta Moo kids love but now made with more chocolate with a delicious creamy taste complemented with a playful new packaging design that catches the eye of every kid at heart.

First launched in 1996, Selecta Moo has then gone on to capture the hearts and the taste bud of Filipino kids everywhere with its rich chocolate taste in a handy tetra packaging. Selecta Moo has always been the key driver to Selecta milk business and 2011 marks another year of success as the brand sets new record in sales hitting +14% vs previous year and pushing a growth of +10% for total Selecta Milk business. The launch of Selecta Moo Super Chocolate is just the beginning of something bigger and better for Selecta Milk. It will pave the way in strengthening the association of RFM's milk business to its mother brand Selecta and further improving its market standing.

The re-launch of Vitamin power from vitaminized water to energy drink. The move hopes to enter into the ready-to-drink Energy drink segment dominated by Cobra and Sting. Vitpower still comes in 350ml bottles and is priced at P15.00 per bottle SRP. It has higher contents of Taurine, Inositol, Vitamin B and Ginseng that aids in the breakdown of fats and absorption of vitamins.

In the canned meat category, the Company launched the Swift Corned Chicken 150g can in regular and hot spicy variants at SRP27.00. This is a pioneer in canned corned chicken, combining convenience of being easy to prepare and health offerings such as low cholesterol, good source of protein and zero transfat.

With critical cross-functional support especially of its strong R&D team, 2011 saw RFM's flour-based businesses bring two new products to the market. The first is Fiesta Meaty Filipino Blend Spaghetti Sauce, the first spaghetti sauce with real meat in a pouch. It's an innovation that builds on FIESTA's promise of "sarap that's Sulit i-share", making meaty spaghetti accessible to more Filipinos through a 750-gram sauce pack at only Php 79.

From the non-pasta side of the White King business came the new White King All Purpose Flour, the first of its kind in a resealable stand-up pouch. Apart from the convenience that the packaging innovation offers consumers, it is also a milestone product that is a throwback to RFM's stature as one of the pioneer flour millers in the Asian region, and the first in the Philippines.

The launch of White King All Purpose Flour is indicative of increasingly more aggressive flour and flour mixes business that in 2011 grew at 23%. Other products that comprise the category include Hotcake Mixes, Native Mixes (Puto and Bibingka), and Brownie Mixes. White King Rice-Based Mixes also took center stage as it launched fresh and modern package designs that contributed to its 21% growth versus previous year.

Together, White King and White King Fiesta will continue to innovate, improve and expand to become truly great brands that Filipinos know, trust, and buy.

Competition

The Food and Beverage industry, to which RFM Corporation belongs to, is a highly saturated and competitive business. The marketplace is filled with many contending products produced by domestic and multinational companies. In addition, there are a number of imported products taking a slice of the market pie.

There are eleven flour millers in the country, and have grouped themselves into two trade associations – Philippine Association of Flour Millers (PAFMIL) and Chamber of Philippine Flour Millers Inc (Champflour). RFM Corporation is a member PAFMIL. The Company believes that it accounts for about 8% to 9% of total industry volume sales. The larger manufacturers are General Milling Corporation, Universal Robina Corporation, Pilmico Foods Corporation, and San Miguel Corporation.

2011 has been a very active year for the Ready-to-Drink (RTD) Milk industry. Spending in total is up despite a flat market. Nestle has been particularly aggressive as early as first quarter with a strong campaign for Chuckie. Starting with a packaging upgrade to a full tri-media campaign for their more chocolatey positioning. Chuckie showed a strong performance, due in part to their celebrating their 100th year in business here in the Philippines. Magnolia, under the banner of San Miguel, was quick to react with a packaging upgrade of their own for Chocolait, their brand of RTD Milk Chocolate. This was supported with some trade promotions and minor print and radio campaigns. They also launched additional variants for their Choco Magic line, which they supported with in store merchandising and online promotions. On the plain milk business, a lot of players this year went on a "promo war" offering discounts and premium items almost the entire year. Selecta Milk came out with its own price campaigns to support its value for money thrust supplemented with several trade offerings that helped push volumes, leading to an ending of +5% growth versus last year. During the second half of the year, some of the major players such as Nestle, Magnolia including Selecta milk implemented price increases as a result of rising raw material costs.

There were several competitive beverage products launched this year: Oishi's Fiber and Fruit (in apple and grape flavour), a fruit flavoured beverage drink with 5 grams of dietary fiber; Cobra Berry Blast, a new flavour variant of Cobra energy drink; and Zest-O Iced Teas' Iced Tea in Doy pack at P6.00 suggested retail price.

In processed meat category, Purefoods Hotdogs launched Smoked Turkey at P170.00 per 500g to add to their specialty franks line, Purefoods Stuffed Nuggets 200g at P63.40 and Purefoods Drummettes at P65.00 per 240g for their nuggets line, and Purefoods Chicken Burger at P68.00 for their burger line. CDO launched Sesame red footlong hotdogs at P76.00 for 500g pack. URC launched King Hotdog in July at P160.00 for regular 1kg pack. Argentina launched Century Tuna Hotdog in Feb at P173.00 per 1kg pack and Andale Hotdog during the third quarter at P153.00 per 1kg pack. Frabelle, new player in the market, launched hotdogs in wet market group at P154.00 per 1kg pack.

In the Canned Meat Category, CDO launched Highlands Corned Beef in the third quarter positioned in between economy and premium segments of the corned beef industry portfolio. They are available in 100g, 150g, and 260g can and supported with tri-media campaign with various endorsers led by Jake Cuenca, communicating "a new breed" of corned beef. CDO also launched line extensions such as CDO Vienna loaf in 100g can, the first loaf that has the consistency and smoky taste of Vienna sausage, as well as CDO Tuna Embotido, with Shalani Soledad as endorser and supported with print and bus ads.

2011 played out as another banner year for RFM's flour-based businesses, led by White King Fiesta Spaghetti, which hit record-breaking sales at almost twice its level in 2008. Furthermore, Fiesta is now the market leader for spaghetti, forging steadily to 27% volume share for full year 2011. More impressively, Fiesta has taken the lead on both volume and value in SVI, registering shares of 35% and 32%, respectively, and widening the gap to 12 percentage points ahead of its closest competition during the peak month of December. These feats were accomplished through focus and consistency especially in delivering quality and value for money to consumers.

A major highlight for the Fiesta brand was marked by the endorsement of top celebrity, Kris Aquino, who was confirmed by research and consumer feedback as having both power and pizzazz to deliver the message of Fiesta's positioning as "The Firm Spaghetti" that's truly "Sulit i-share." Consumer promotions complemented above-the-line efforts and helped solidify the Fiesta brand in consumers' minds. Winners include the value-driven Spaghettipid pack that offered Filipinos a complete family-size spaghetti-and-sauce bundle for only P69.00. There was also the occasion-driven Spartyghetti, a complete crowd-size bundle that included a pasta keeper for only P269.00.

All these efforts contributed to the growth of the White King Fiesta business to 28% versus previous year, boosted by triple-digit growth from Fiesta Macaroni and by Fiesta Spaghetti Sauce that registered 34% growth versus 2010.

Purchases of Raw Materials and Supplies

RFM Corporation sources raw materials and packaging materials both overseas and domestically.

The company imports from the US (wheat,), New Zealand (anhydrous milk fat), India and Australia (skimmed milk powder), Switzerland, Spain and other countries.

The payment forms vary for each supplier. It ranges from Letter of Credit, drawn against payment, down payment, and various credit terms offered by supplier

Customers

RFM Corporation has a wide range of products that cater to all socio-economic class and all age groups.

Its products are sold through hypermarkets, supermarkets, groceries, convenience stores, drug stores, wholesalers, distributors, institutional customers, food establishments, wet market and the company store.

RFM Corporation is not dependent on any single or few customers that might have any material adverse effect on its business, except for the processing and exclusive sale of hamburger buns by Interbake Commissary Corporation to Golden Arches (Mc Donalds). These hamburger buns account for about 48% of the total sales of Interbake Commissary Corporation in 2011 and 50% in 2010.

Related Party Transactions

The Group, in the regular course of business, transact with related parties, which may consist but not limited to the following:

- Purchase of goods and services.
- Cash advances for working capital purposes.
- Lease of the Company's main office from a subsidiary company.
- The Parent Company provides management services to RFM Insurance Brokerage, Inc. and Interbake Commissary Corporation
- Distribution, sale and merchandising of RFM Group products.

Trademark, Royalty and Patents

A Trademark License Agreement was entered into with Unilever-RFM Ice Cream, Inc. for the exclusive right to use the "Selecta" trademarks in its ice cream products and to manufacture, market, and sell Selecta trademarked products. The agreement shall be co-terminus with the Joint Venture Agreement between RFM Corporation and Unilever-RFM Ice Cream, Inc. The license is free from royalty fee and any similar kind of payment. On December 3, 2008, the Trademark License Agreement was extended for another ten (10) years, or from March 30, 2009 to March 29, 2019.

On 01 January 1995, RFM entered into a Trademark License Agreement with Sunkist Growers, Inc. (Sunkist). Under the said agreement, Sunkist grants RFM (a) exclusive right, without the right to sublicense, to use the Sunkist Trademark(s) and related Trade dress approved by Sunkist, in connection with the marketing, distribution and sale of licensed products in the Philippines; (b) exclusive right, without the right to sublicense, to use the Know-How within the Philippines for the production and sale of Licensed Products; (c) the right and privilege to receive technical assistance regarding the implementation of Know-How; and (d) to make available

Base Ingredients directly or through authorized Base Ingredients Suppliers to enable RFM to manufacture Licensed Products. For and in consideration of the rights granted above, RFM pays an annual royalty to Sunkist. The Amendment to the TLA was extended for another five (5) years or from 01 January 2005 to 31 December 2009. Another Amendment extending the TLA for another five years was signed by the Parties on 27 January 2010.

On 13 March 2009, Swift Foods, Inc. (SFI) re-assigned and returned to RFM all its rights and interests in the well-known Swift trademark. IPO registration of the mark has been transferred under RFM and a new Certificate of Registration has accordingly been issued to RFM.

Need for Any Government Approval of Principal Products and Compliance with Environmental Laws

The Group complies with environmental laws and secures government approval for all its products. The Company has existing permits from various government agencies that include the Bureau of Food and Drug (BFAD) and the City Environment and Natural Resources Office. The Company also complies with the requirements of Laguna Lake Development Authority (LLDA) for environmental sanitation purposes.

The Company believes that it has complied with all applicable environmental laws and regulations, and incurred about P360,000 and P340,000 during the years 2011 and 2010, respectively, for payment of annual permits and fees.

The Group has no knowledge of recent or impending legislation, the implementation of which can result in a material adverse effect on the business or financial condition.

Research and Development Activities

The Company conducts research and development activities to improve existing products and to create new product lines, as well as to improve production processes, quality control measures, and packaging to meet the continuing and changing demands of the consumers at the least possible cost. The Company spent about P15 million and P13 million in 2011 and 2010, respectively, for research and development.

Employees

As of December 31, 2011, the Company and its subsidiaries had approximately 622 employees, of which 17 are executives, 48 managers and 123 supervisory staff and 434 are non-supervisory staff. The Company does not anticipate any significant increase in the number of its employees in year 2011.

About 24% of the total employees of the Company and its subsidiaries are members of various labor unions. The Company and its subsidiaries have collective bargaining agreements with these unions.

The Company believes that its relationship with its employees is generally good. The Company has not recently experienced any material interruption of operations due to labor disagreements. Labor-Management Councils (LCMs) regularly meet to discuss and resolve work-place issues and production matters.

The employees are covered by retirement plans per division. The plans are trusteed, noncontributory defined benefit pension plan covering substantially all permanent employees of the Company. The Company has no stock option plan.

The Company and its subsidiaries do not expect any significant change in its existing workforce level within the ensuing twelve (12) months.

Working Capital

The Company funds its working capital requirements through internally-generated funds and from bank borrowings. The working capital finances the purchase of raw materials, inventory, salaries, administrative expenses, tax payments, and sales receivables until such sales receivables are comverted into cash.

Major Business Risks

Like any other business, risks are always considered in the ability or inability to achieve the business objectives and execute strategy effectively. RFM Corporation and its subsidiaries perceive the following business risks:

Financial Risk Management Objectives and Policies

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

Credit risk

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

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

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

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

Liquidity risk

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

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

Interest rate risk

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

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

To further reduce its interest rate risk exposure, the Group through the Parent Company entered into an interest rate swap agreement in 2009 (see Note 33). The Parent Company utilizes PHP interest rate swap with a receive variable leg based on the benchmark interest rate of three-month PDST-F and pay fixed leg that it is the receive leg that virtually matches the loan's critical terms. With this, the variability in cash flows of the interest rate swaps are expected to offset the variability in cash flows of the loan due to changes in the benchmark interest rate. Therefore, the Parent Company concluded that no or little ineffectiveness will result (absent a default by the counterparty).

As more of the floating-rate loans were paid on scheduled repayment dates and the hedging transaction effectively converted the floating rate to fixed rate, the percentage of floating-rate debt represents 62.44% of total outstanding long-term debts as of December 31, 2009.

There is no other impact on the Group's equity other than those affecting the profit or loss.

Foreign exchange risk

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2011 and 2010.

Equity price risk

Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stock. Management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of quoted common and golf club shares, which are classified as AFS financial assets (see Note 12).

Market risks

Market risks stems from new and/or existing re-launched products and/or new packaging at low prices being introduced in the market place by competitors. To address these competitive pressures, the Company continues to develop new products in innovative packaging formats to keep a hold on its consumers and increase market share. The strategy requires significant resources for market research, product development, and marketing and promotions. Attendant risks are inventory overstocks, spoilage, and warehousing cost if the new product launched in the market fails to take off. To manage these risks the Company has established a system where success indicators in the target market are closely being monitored and supported by effective supply chain management.

Technological changes

RFM Corporation has been in the flour manufacturing for several decades, and its operating mills are older than many of its competitors which have more modern equipment and, thus, better rated operating yields. To meet these challenges, the Company continues to provide sufficient repairs and maintenance on its equipment and continually upgrades sections of its facilities to remain at par with the modern machineries. Recent installations are a Buhler blending system which allowed for more efficiency in product mixing and customization; and a

Buhler carousel packing and weighing system provides very accurate weighing of flour in bags. In addition, the Company spends in research and development, particularly in the areas of process engineering and wheat mixtures to produce higher flour yields.

In 2008, the Company invested in a new Buhler C-line Pasta Machine to service its growing market in the spaghetti noodles, under the Fiesta brand. The machine incorporates the patented Polymatik Extrusion Technology, which is presently one of the most advanced in raw material mixing processes, and produces pasta that is firmer, brighter, and with excellent heat tolerance.

Improvements, upgrades, and regular maintenance and repairs of its Aseptic Production Line allow the Milk and Juice Division to produce good quality ready-to-drink milk and chocolate-flavored milk as well as fruit juices under the Selecta and Sunkist brands. In 2008 and 2009, investments were made in automated PET bottle injection, blowing, filling, and packing facilities to cater to a newly developing packaging format for juice and tea drinks.

The Meat Division specializes in the manufacture of processed and canned meat products for several years under Swift brand. It has maintained its brand integrity and product quality by meeting the challenges of competition via continuous upgrading of technology, its equipment and facilities to meet the demands of local and international market. Collaboration with technical experts in the field of food science and technology as well as manufacturing has been extended to foreign and local business partners to be updated in the latest food trends, equipment and raw materials sourcing. It has its sources of technology information via attendance to seminars, conferences, conventions, journal subscription and internet access to further enhance its research and development skills and manufacturing processes.

Labor Unrest

Like other firms in the food and beverage industry, RFM also partakes of the usual risk of labor unrest, and strikes.

In the second quarter of 2011, the Company and the unions have settled the deadlock of the negotiations for the renewal of the collective bargaining agreements in the Flour Division and Milk & Juice Division.

The pending cases are those which are related to the retrenchment of 116 trade merchandisers in 2006. Affected employees initially held a picket although the operations of the Company were not disrupted. Eventually, separate groups of employees and individual filed separate complaints for illegal dismissal. There are two pending cases in the Supreme Court, one pending case in the Court of Appeals and two in the National Labor Relations Commission. All the said cases are currently being handled by external counsel specializing on labor matters on behalf of the Company.

Item 2 – Properties

RFM Corporation owns a flour milling plant with a daily rated capacity of 980 metric tons per day, and is located in Barangay Pineda, Pasig City. A pasta plant with a rated capacity of 3,000 kgs (Input) per hour is also located at RFM Pioneer Plant, Barangay Pineda, Pasig City. A milk and juice plant is located in Manggahan, Pasig City, and has a rated capacity of 9.7 million packs per month. The milk and juice Tetra plant currently has four (4) production lines, of which two (2) are owned and two (2) are under financing lease. Lines are running at 15 hours operation per line for 25 days. The 2 PET lines are completely owned by RFM, with combined production capacity of 12000 cases a day at 26 days operation per month is located in Cabuyao, Laguna. A meat processing facility, under 100%-owned Cabuyao Meat Processing Corporation, is located in Cabuyao, Laguna. It has a 1200 MT per month capacity to produce hotdogs, canned lines at 100,000 cases a month, patties and nuggets line at 150 MT per month, Ham and Bacon Line at 40 MT a month.

Wholly owned food subsidiary Interbake Commissary Corporation owns a margarine plant with a capacity of 23MT per day located in Pioneer, Pasig City.

Invest Asia Corporation, a 96% owned subsidiary, owns the RFM head office building and land the building is built on.

In accordance with various loan agreements, the Company and its subsidiaries are restricted from performing certain corporate acts without the prior approval of the creditors, the more significant of which relate to entering into a corporate merger or consolidation, acting as guarantor or surety of obligation and acquiring treasury stocks. The Company and its subsidiaries are also required to maintain certain financial ratios. As of December 31, 2011, the Company is in compliance with terms and conditions of these agreements.

A. Flour Division:

Description	LOCATION	CONDITION
Land – 28,951 sq. m.	Pineda, Pasig City	
Flour Mills Plant/Building/Silos/ Warehouse	Pineda, Pasig City	In good condition
Flour Mills-Furniture & Office Equipment	Pineda, Pasig City	In good condition
Flour Mills - Machinery and Equipment	Pineda, Pasig City	With a capacity of 980 metric tons per day

B. Pasta Contract Manufacturing Division

Description	LOCATION	CONDITION
Land - 2,356 sq. m.	Pineda, Pasig City	In good condition
Pasta Plant/Office/Conference Room/Die Washing Room	Pineda, Pasig City	In good condition
Pasta Plant – Furniture & Office Equipment	Pineda, Pasig City	In good condition
Pasta Plant - Machinery & Equipment	Pineda, Pasig City	With a capacity of 3,000 kgs per hour

C. Milk and Juice Division:

Owned Properties

Description	LOCATION	CONDITION
Land -20,002 SQ.M SDD Warehouse	Manggahan, Pasig City	
Milk & Juices Tetra Machines	Manggahan, Pasig City	In good condition
Pioneer Business Park Building	Fairlane, Pasig City	Two (2) storey Building
Pet Line Machines	Cabuyao, Laguna	With capacity of 4 million bottles per month

Leased Properties

Description	LOCATION	CONDITION	Expiration Date	TERMS OF RENEWAL
M& J Plant Warehouse (URICI)	Manggahan, Pasig City	Leased Property	Yearly	Automatic Renewal

D. Cabuyao Meat Processing Corporation

Description	LOCATION	CONDITION
Land & Improvements	Cabuyao Laguna	In good working condition
Building & Improvements	Cabuyao, Laguna	In good working condition
Machinery & Equipment	Cabuyao, Laguna	In good working condition

E. Interbake Commissary Corporation:

Description	LOCATION	CONDITION
Margarine Plant	Fairlane, Pasig City	With Capacity of 660 cases-per day

F. Invest Asia Corporation

RFM Building	Corner Pioneer & Sheridan Street, Mandaluyong City	Eight (8)-storey building with Penthouse

Item 3 – Legal Proceedings

Lawsuits and legal actions are in the ordinary course of the Company's business. However, the Company or any of its subsidiaries is not currently involved in any material pending litigation or legal proceeding that could be expected to have a material adverse effect on the Company's financial position or its result of operations.

Item 4 – Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of this calendar year covered by this report.

V. DIRECTORS AND EXECUTIVE OFFICERS

(a) The following nominees for the Directors are also the incumbent directors of the Corporation:

(1) List of Directors, Including Independent Directors, and Executive Officers

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Jose S. Concepcion Jr.	Chairman of the Board, Chairman, Nomination Com.	80	27
Ernest Fritz Server	Vice Chairman, Chairman, Investment Com., Member, Compensation Com.	68	21
Jose Ma. A. Concepcion III	Director/President & CEO	53	23
Joseph D. Server	Director, Member, Audit Com. & Investment Com.	71	30
Felicisimo M. Nacino Jr.	Director/EVP & COO, Member, Audit Com.	59	14
John Marie A. Concepcion	Director/Managing Director, Ice Cream, Member, Audit Com.	50	22
Ma.Victoria Herminia C. Young	Director/VP & GM, White King Division & ICC	52	3
Francisco A. Segovia	Director, Member, Investment Com.	58	23
Raissa H. Posadas	Director, Member, Compensation Com. & Nomination Com.	51	13
Romeo L. Bernardo	Independent Director, Chairman, Compensation Com., Member, Investment Com., Nomination Com. & Audit Com.	57	7
Lilia R. Bautista	Independent Director, Chairman, Audit Com., Member, Investment Com.	76	4
Raymond B. Azcarate	SVP & CFO	48	NA
Rowel S. Barba	Corporate Secretary/VP & Head, Corporate Legal & HR Division	47	NA
Norman P. Uy	SVP & GM, Flour Based Group	53	NA
Ramon M. Lopez	VP & Exec. Assistant to the President & CEO and concurrent Head, Corporate Planning	51	NA

Minerva C. Laforteza	VP & Head, Management Accounting	47	NA
Ariel A. de Guzman	VP, Internal Audit	48	NA
Philip V. Prieto	VP, Corporate Purchasing & General Services	53	NA
Eduardo M. Policarpio	VP & Head of Sales	50	NA
Melchor B. Bacsa	VP & Head of Operations	51	NA
Charmaine C. Bautista	VP & Marketing Manager, BFG	37	NA
Susan A. Atienza	AVP, Research & Development, Flour Based Group	54	NA
Alma A. Ocampo	AVP, Research & Development	53	NA

As provided in the Company's amended Articles of Incorporation, eleven (11) directors were elected to its Board of Directors during the last Annual Stockholders meeting. The officers, on the other hand, were elected during the Organizational Meeting following the Annual Stockholders' meeting, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been qualified and elected or appointed.

The Company's Board of Directors has committees for Audit, Compensation, Nomination, and Investment. There are two (2) independent directors, one of whom is the Chairman of the Audit Committee and the other heads the Compensation Committee.

The following sets forth certain information as to the directors and executive officers of the Company as of April 30, 2012:

Directors

Jose S. Concepcion, Jr.
80 years old
Filipino

Born on 29 December 1931, has an Associate's degree in Business Administration from De La Salle University and a Bachelor's degree in Agriculture from Araneta University. He is the Chairman of the Board of Directors of RFM Corporation and of Swift Foods, Inc. at the same time Chief Executive Officer. He also holds the Chairman position in the Asean-Business Advisory Council – Philippines, and East-Asia Business Council - Philippines. He is the Founding Chairman of the National Citizens Movement for Free Elections (NAMFREL), Special Resource Person of UCPB CIIF Finance Development. He is a member of the Board of Directors of Philtown Properties, Inc. (formerly Philippine Townships, Inc.), and Member of the Board of Trustees of CARITAS and RFM Foundation, Inc. He was previously the Secretary of the Department of Trade and Industry, Chairman of the Board of Investments, member of the Central Bank Monetary Board from 1986-1991, Co-Chairman of Bishops-Businessmen Conference from 1991-1998, and a delegate to the 1971 Constitutional Convention. He served as director of the Corporation from years 1970 to 1985 and was first elected on 3 April 1997 as Chairman of the Board. He is also the Chairman of the Nomination Committee of RFM Corporation.

Ernest Fritz Server
68 years old
Filipino

Born on 08 July 1943, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania. He is Chairman of Uniphil Computer Corporation, Unidata Corporation, Intercity Properties, Inc., and Millennium Mining and Management Corporation. He is the Vice Chairman of the Board of Directors of RFM Corporation and RFM Science Park of the Philippines, Inc. He is a member of the Board of Directors of Philtown Properties, Inc. (formerly Philippine Townships, Inc)., Philtown Property Management, Inc., One Mckinley Place, Inc., RFM Equities, Inc. BJS Development Corporation and Worldwide Paper Mills, Inc., He is also President of BJS Development Corporation, Sta. Mesa Machinery Corporation, Inc., Trans-Pacific

Properties, Inc., Geosands Resources Corporation, Eaglerock Mining Corporation and Philam Fund, Inc. He first became a director of the Corporation on 27 October 1988. He is also the Chairman of the Investment Committee and a member of the Compensation Committee of RFM Corporation.

Jose Ma. A. Concepcion III
53 years old
Filipino

Born on 23 June 1958, has a Bachelor's degree in Business Management from Dela Salle University. He is the President and Chief Executive Officer of the Corporation. He was appointed by the President of the Philippines as the Presidential Consultant for Entrepreneurship in the early part of 2005. He is the Chairman of the Board of Directors of Cabuyao Meat Processing Corporation, Interbake Commissary Corporation, RFM Equities, Inc., RFM Insurance Brokers, Inc., FWBC Holdings, Inc., Filipinas Water Bottling Company, Inc., Unilever RFM Ice Cream, Inc.(formerly Selecta Walls, Inc.), and Philstar Global Corporation. He is the Vice-Chairman of One Mckinley Place, Inc. He is a director of Concepcion Industries Inc., one of the largest appliance manufacturers in the country. He was an awardee of the Ten Outstanding Young Men of the Philippines (TOYM) in 1995 and Time Global 100 List of Young Leaders for the New Millennium in 1994. He is associated with major business and industry and various socio-civic associations that includes the Philippine Center for Entrepreneurship. He first became a director of the Corporation on 30 October 1986 and was elected President and Chief Executive Officer in 1989.

Joseph D. Server Jr.
71 years old
Filipino

Born on 08 October 1940, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania in the United States. He is Chairman of the Board of BJS Development Corporation. He first became a director of the Corporation on 30 August 1979. He is presently a member of the Audit and Investment Committees of RFM Corporation.

Felicisimo M. Nacino, Jr.
60 years old
Filipino

Born on 09 May, 1952, has a Bachelor of Arts degree in Economics and a Master's degree in Business Administration, both from the University of the Philippines. He is the Executive Vice-President & Chief Operating Officer of the Corporation and serves as Director of RFM Corporation, Philtown Properties, Inc.(formerly Philippine Townships, Inc.), RFM Insurance Brokers, Inc., Rizal Lighterage Corporation, Unilever RFM Ice Cream Inc., and other companies in the RFM Group. He first became a director of RFM Corporation on 30 March 1995. He is also a member of the Audit Committee of the Corporation.

John Marie A. Concepcion
50 years old
Filipino

Born on 13 January 1962, has a degree in Business Administration from Seattle University, Washington, U.S.A. He is the Chief Executive Officer & Managing Director of Unilever RFM - Ice Cream Inc. He is also a director and treasurer of Selecta Walls Land Corporation (SWLC).He became a director of the RFM Corporation on 29 October 1987. He is also a member of the Audit Committee of the Corporation.

Ma. Victoria Herminia C. Young
52 years old

Filipino

Born on 4 August 1959, has a Bachelor of Science Degree in Management and Marketing from Assumption College in 1981. She is currently the General Manager of Interbake Commissary Corporation and Vice President of White King Division, a division in the Branded Food Group of the Corporation. She is a Trustee and President of RFM Foundation, Inc., Trustee of Soul Mission Org., Ronald McDonald House of Charities and a Director of Interbake Commissary Commission.

Francisco A. Segovia
58 years old
Filipino

Born on 17 January 1954, has a Bachelor of Science degree in Business Management from the Ateneo De Manila University. He is President of Segovia & Corporation, Inc., Fritz International Philippines, Inc., Horseworld, Inc., Big A. Aviation Corporation, Intellicon, Inc., Regina Realty/Chilco Holdings, Araneta Institute of Agriculture, Republic Dynamics Corporation and Republic Consolidated Corporation. He is a director of, RFM Insurance Brokers, Inc., RFM Equities, Inc., and Philtown Properties, Inc. (formerly Philippine Townships, Inc.). He first became a director of the RFM Corporation on 30 October 1986. He is also a member of the Investment Committee of the Corporation.

Raissa Hechanova Posadas
51 years old
Filipino

Born on 16 April 1960, has a Master's degree in Business Administration from Imede (now IMD) Lausanne, Switzerland and a degree in Bachelor of Arts major in Applied Economics from De La Salle University. She joined the Corporation as director in April 1997, replacing her father, Mr. Rafael G. Hechanova, former Chairman of the Board of Directors of RFM Corporation. She is a member of the Compensation and Nomination Committees of the Corporation.

Romeo L. Bernardo
57 years old
Filipino

Born 5 September 1954, has a Bachelor of Science degree in Business Economics (magna cum laude) from the University of the Philippines (Diliman) in 1974 and a Masters degree in Development Economics (Valedictorian) from Williams College (Williamstown, Massachusetts, U.S.A.) in 1977. He is the President & Managing Director of Lazaro Bernardo Tiu and Associates, Inc., Chairman of Ayala Life Peso, Dollar and Euro Bond Funds and Philippine Stock index Fund and the UP School of Economics Alumni Association, Board Member of Ayala Plans, Inc., Ayala Life Assurance, Inc., Globe Telecom, Bank of the Philippine Islands, BPI Family Savings Bank, BPI Direct Savings Bank, BPI Capital Corporation, BPI Leasing Corporation, BPI Rental Corporation, Philippine National Re-insurance Corporation, Philippine Investment Management (PHINMA), Inc., Institute of Development and Econometric Analysis, Inc., Philippine Institute for Development Studies, PSi Technologies Holdings, Inc., East Asia Power Resources Corporation and Aboitiz Power Corporation. He is Vice Chairman and a Founding Fellow of the Foundation for Economic Freedom, Vice President of Financial Executives Institute of the Philippines and was formerly the President of the Philippine Economic Society and the Federation of ASEAN Economic Societies. He was formerly Alternate Director of the Asian Development Bank (1997-1998), Undersecretary for International Finance, Privatization, and Treasury Operations of the Department of Finance (1990-1996). He first became independent director of RFM Corporation on 25 September 2002. He is married to Amina Rasul Bernardo with three children. He is presently the Chairman of the Compensation Committee and a member of the Audit, Investment and Nomination Committees of RFM Corporation.

Lilia R. Bautista
76 years old
Filipino

Born on 15 August 1935, Filipino is an Independent Director of the Company since September 2006. She is also an independent director of Bank of the Philippine Islands, BPI Capital, Transnational Diversified Group and Thunderbird Poro Point Development Ventures. Recently, she was appointed as Dean of the College of Law of Jose Rizal University. She previously held several positions including as a Member of the Appellate Body of the World Trade Organization, with the rank of Deputy Director General, Chairman, Securities and Exchange Commission, Ex-Officio Member, Anti-Money Laundering Council, Senior Undersecretary and Special Trade Negotiator, DTI, Ambassador Extraordinary and Plenipotentiary, Chief of Mission, Class I and Permanent Representative to the United Nations Office, World Trade Organization, World Health Organization, International Labor Organization and other International Organizations in Geneva, Switzerland, Acting Secretary , DTI, Chairman Ex- Officio–Board of Investments, National Development Company, Garments and Textile Export Board, Philippine International Trading Corp., Export Processing Zone Authority, Center for International Trade Expositions and Missions, Inc., Small and Medium Development Council, Export and Investment Development Council, Ex-Officio Member- Monetary Board and various government corporations and inter-agency bodies, Undersecretary/Deputy Minister, DTI, Concurrently Governor, Board of Investments and Executive Director and Vice Chairman of the Technology Transfer Board, Asst. Secretary/ Asst. Minister, DTI, Legal Officer, Chief Legal Officer, Asst. Director , BOI, Hearing Officer of the Juvenile and Domestic Relations Court of Manila, Legal Officer of the Office of the President, Legal Editor, Corporation Trust Co, New York, Legal Editor of Prentice Hall, New Jersey and Ambassador to Belgium. She was a director at the Philippine Judicial Academy and Development Academy of the Philippines. She holds an L.L.B., University of the Philippines, LLM, University of Michigan (Dewitt Fellow), M.B.A., University of the Philippines, and attended special courses in corporate finance and reorganization, New York University and Investment negotiation course, Georgetown University. She is presently the Chairman of the Audit Committee and a member of the Investment Committee of RFM Corporation.

Executive Officers

Management is comprised of owner-managers and professional managers. Mr. Jose Maria A. Concepcion III is the President and Chief Executive officer of RFM Corporation, and is also a major shareholder. He joined the Company in 1980 as a route salesman, and occupied positions in sales and marketing before he became President and Chief Executive Officer in 1989.

Raymond B. Azcarate
48 years old
Filipino

Born on 02 October 1963, has a Bachelor of Science degree in Business Administration (cum laude) from the University of the Philippines. He is presently the Treasurer and Senior Vice-President and Chief Finance Officer of the Corporation, and is the Assistant Treasurer of Philippine Townships, Inc., Rizal Lighterage Corporation. He was elected Treasurer of RFM Insurance Brokers, Inc. in 2005. He joined the Corporation in 1994.

Norman P. Uy
53 years old
Filipino

Born on 23 December 1958, has a Bachelor of Arts Degree in Philosophy from the University of the Philippines and was awarded “Athlete of the Year” in 1980. Prior to joining RFM Corporation, he was Assistant to the Vice President of Marketing at CFC-URC, then held the position of Operations Manager for Robinsons Commercial Complex, and was Project Coordinator for ADMACOR based in Indonesia. He is currently Senior Vice President & General Manager, Flour Based Group. He joined RFM in 1989 as General Services Division Manager.

Ramon M. Lopez
51 years old
Filipino

Born on 26 October 1960, has a Bachelor of Arts degree major in Economics from U.P School of Economics and a Masters Degree in Economics at Williams College, Massachusetts, U.S.A. He is a member of

the Board of Directors of Phil. Chamber of Food Manufacturers. He is currently Vice President & Executive Assistant to the President and CEO, and concurrent Head, Corporate Planning. He joined the Corporate Planning Department of RFM Corporation in 1994.

Rowel S. Barba
47 years old
Filipino

Born on 13 May 1964, has a Bachelor of Arts degree major in Political Science and Bachelor of Laws degree, both from the University of the Philippines (Diliman). Prior to joining the Corporation, he was the Corporate Secretary, Director, Member of the Management Committee and Chief Legal Counsel and Head of the Legal Division of Jaka Investments Corporation. While with Jaka, he also served as the Corporate Secretary and director in various subsidiaries and affiliates, and the Operating Unit Head of the Transport Division. He was the former Governor for Southern Luzon of the Integrated Bar of the Philippines and Legal Counsel of the Philippine Practical Shooting Association. He is currently the Vice President and Head of Corporate Legal Division of the Corporation. He is also the Corporate Secretary of RFM Insurance Brokers, Inc. and Rizal Lighterage Corporation. He joined RFM Corporation in April 2007.

Minerva C. Laforteza
47 years old
Filipino

Born on 9 March 1965, has a Bachelor of Science degree in Business Administration and Accountancy and a Masters degree in Business Administration from the University of the Philippines. She joined RFM Corporation in 1989 as Accounting Supervisor. She is currently the Vice-President & Head, Management Accounting

Ariel A. de Guzman
48 years old
Filipino

Born on 5 March 1964, a CPA and a graduate of Bachelor of Science in Commerce major in Accounting from Imus Institute. He joined RFM Corporation in 1988 as a financial analyst and rose the ranks to become the Corporate Accounting Manager of the RFM Group of Companies. He later joined Philtown Properties Inc, then a subsidiary of RFM Corporation, as AVP Controller from 2006 to 2010. Then in August 2010, he rejoined RFM Corporation as Vice President of the Internal Audit department. He is also currently the director of Conglomerate Securities & Financing Company, as well as the RDC Holdings Inc.

Philip V. Prieto
53 years old
Filipino

Born on 20 August 1958, has a Bachelors of Arts degree from the University of San Francisco. He is the VP, Corporate Procurement and Materials Management. He joined the corporation in 1995 as the Purchasing Manager of Cosmos Bottling Corporation when this was still owned by RFM Corporation.

Susan A. Atienza
54 years old
Filipino

Born on 2 May 1957, has a Bachelor of Science Degree in Food Technology from the Philippine Women's University. She was the Plant Manager at Leslie Corporation from 1979 to 1987. She held the position of R&D Manager for Branded Snacks of San Miguel Mills, Inc. from 2003 to 2009. She initially joined RFM Corporation in 1987 until 2001 as R&D Manager of the Bakery Group and re-joined the company in December 2009 as Assistant Vice President - Research & Development of the Flour Based Group.

Eduardo M. Policarpio

50 years old
Filipino

Born on 25 September 1961, has a Bachelor of Science Degree in Medical Technology from the University of Santo Tomas. He was the District Manager of Merck Pharmaceuticals after passing the board in 1983. Prior to joining RFM Corporation, he was with Universal Robina Corporation from 1995 to 2010 and held the position of National Sales Director – Beverage Group for 2.5 years. He joined RFM in December 2010 as Vice President and Head of Sales.

Melchor B. Bacsa
51 years old
Filipino

Born on 6 January 1961, a Licensed Chemical Engineer, has a Bachelor of Science Degree in Chemical Engineering from the Adamson University. Prior to joining RFM Corporation, he was the Director for Operations, Branded Consumer Foods Division from 2008 to 2010 at Universal Robina Corporation, where he started his career in 1983. He also held top positions in professional organizations namely Production Management Association of the Philippines (PROMAP) and First Cavite Industrial Estate Association (FCIEA). He joined the company in January 2011 as Vice President and Head of Operations.

Alma M. Ocampo
53 years old
Filipino

Born on 10 September 1958, has a Bachelor of Science Degree in Food Technology from the University of the Philippines, Los Baños. She was the Assistant Vice President – Corporate Research & Development at CDO-Foodsphere, Inc. from 2009 to 2011. She started her own business, Flavor Dynamics Enterprise in 2007 up to 2009 after holding a position of President at Asia Pacific Food Technologies, Inc. from 2004 to 2007. She initially joined RFM Corporation in 1979 until 1994 where she held various positions in R&D and Sales. She rejoined the company in February 2011 as Assistant Vice President - Research & Development.

Charmaine C. Bautista
37 years old
Filipino

Born on 28 November 1974, has a Bachelor of Arts Degree in Mass Communication from the University of the Philippines. She was the Assistant Vice President – Group Brand Manager at San Miguel Corporation – Beer Division from 2008 to 2011. She also held the position of International Franchise Manager for Non-Alcoholic Beverages in the same company from 2005 to 2007. She was the Brand Manager at Ginebra San Miguel Inc. from 1995 to 2005. She joined RFM in March 2011 as Assistant Vice President – Marketing Manager and became Vice President in the same year.

VI. SECURITIES OF THE CORPORATION

(1) Market Information

RFM shares are traded at the Philippine Stock Exchange (PSE). As of April 30, 2012, the total number of issued and outstanding shares of the Company is 3,160,403,866 common shares.

The following are the high and low prices per common share for each quarter within the last three calendar years and the first quarter of 2012:

2012	High	Low
First Quarter	2.05	1.99

2011	High	Low
First Quarter	1.87	1.42
Second Quarter	1.57	1.13
Third Quarter	1.41	1.01
Fourth Quarter	1.27	1.08

2010	High	Low
First Quarter	0.65	0.50
Second Quarter	1.28	0.62
Third Quarter	2.0	1.10
Fourth Quarter	2.22	1.64

2009	High	Low
First Quarter	0.29	0.23
Second Quarter	0.39	0.28
Third Quarter	0.58	0.31
Fourth Quarter	0.65	0.47

There are no unregistered securities or shares approved for exemption. All shares of the Company are listed in the Philippines Stock Exchange.

The price of RFM shares as of last trading date – April 30, 2012 was P 2.83

(2) Holders

As of April 30, 2012, there are a total of 3,458 shareholders of RFM common stock. Filipinos owned 3,054,537,694 common shares or 96.65% while the foreigners owned 105,866,172 common shares or 3.34%.

Below are the top 20 stockholders of common shares as of April 30, 2012:

Name	**No. of shares held**	**% to Total**
1. Horizons Realty, Inc.	655,360,738	20.74
2. Triple Eight Holdings, Inc.	552,670,472	17.49
3. PCD Nominee Corporation (Filipino)	500,581,344	15.84
4. BJS Development Corporation	311,210,184	9.85
5. Renaissance Property Management Corp.	201,982,966	6.40
6. Feati University	112,011,350	3.54
7. Triple Eight Holdings, Inc.	105,890,978	3.35
8. PCD Nominee Corporation (Foreign)	105,559,620	3.34
9. Chilco Holdings Inc.	72,748,950	2.30
10. Concepcion Industries, Inc.	71,384,424	2.26
11. Sahara Management & Development Corp.	57,539,818	1.82
12. Select Two Incorporated	49,499,612	1.57
13. S&A Industrial Corporation	41,308,360	1.31
14. Republic Commodities Corporation	33,115,616	1.05

15. Sole Luna Inc.	23,926,208	0.76
16. Macric Incorporated	23,302,412	0.74
17. Young Concepts Inc.	23,278,814	0.74
18. Lace Express Inc.	23,278,716	0.74
19. Monaco Express Corporation	23,278,552	0.74
20. Foresight Realty & Dev't Corp	19,215,194	0.61

There are no securities to be issued in connection with an acquisition, business combination or other reorganization.

(3) Dividends

(a) Dividend per Share

On April 29, 2009, the BOD approved the declaration of ₱0.00791 cash dividend per share, or a total of ₱25.00 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 ₱3.49 per share. Stockholders as of record date owning 95 shares were entitled to one Philtown share. No fractional shares have been issued.

On August 26, 2009, the BOD approved the declaration of ₱0.00791 cash dividend per share, or a total of ₱25.00 million, payable to its stockholders of record as of September 25, 2009. The dividends were paid on October 14, 2009.

On April 28, 2010, the BOD approved the declaration of ₱0.01582 cash dividend per share, or a total of ₱50.00 million, payable to its stockholders of record as of May 14, 2010. The dividends were paid on June 9, 2010.

On January 26, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 69,622,985 shares to stockholders owning 46 shares or more as of March 16, 2011. On April 15, 2011, the SEC approved the distribution of 68,702,325 shares and was issued to the stockholders on April 29, 2011 at ₱6.01 per share, for a total cost amounting to ₱412.90 million.

On July 27, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 70,543,644 shares to stockholders owning 46 shares or more as of August 11, 2011. On September 15, 2011, the SEC approved the distribution of 70,229,846 shares and was issued to the stockholders on September 21, 2011 at ₱6.01 per share, for a total cost amounting to ₱422.08 million.

On March 2, 2011, the BOD approved the declaration of ₱0.02968 cash dividend per share or a total of ₱93.80 million to its stockholders as of May 14, 2010.

On July 27, 2011, the BOD approved the declaration of ₱0.02965 cash dividend per share or a total of ₱93.71 million representing the full declaration of 30% of recurring net income for 2010 to its stockholders as of August 11, 2011.

(b) Dividends Restriction

The Parent Company's retained earnings as of December 31, 2011 is restricted to the extent of the amount of the undistributed equity in net earnings of associates included in its retained earnings amounting to ₱7.26 million. These will only be available for declaration as dividends when these are actually received.

The long-term loan agreements entered into by RFM Corporation with its creditors allows the Company to declare and pay cash dividends upon compliance with the required current ratio and debt-to-equity ratio

VII. LEADING PRACTICES ON CORPORATE GOVERNANCE

(a) Evaluation System to Measure Compliance with Manual of Corporate Governance

There is no particular system presently being applied to measure the Corporation's compliance with the provisions of its Manual on Good Corporate Governance. Compliance with the Manual on good Corporate Governance is validated by the Corporation using the Corporate Scorecard For Publicly Listed Companies and recently implemented PSE Corporate Governance Guidelines: Disclosure Survey.

(b) Measure being Undertaken to Fully Comply with the Adopted Leading Practices on Good Corporate Governance

The following are some of the measures undertaken by the Company to ensure that full compliance with the leading practices on good governance are observed:

1. During the scheduled meetings of the Board of Directors, the attendance of each director is monitored and recorded;

2. The Compliance Officer has been designated to monitor compliance with the provisions and requirements of the Corporation's Manual on Corporate Governance;

3. The Corporation has designated an audit committee, compensation committee, nomination committee, and investment committee;

4. The Board has elected independent directors of at least two or 20% of the member of such Board, whichever is lesser;

5. The nomination committee pre-screens and shortlists all candidates nominated to become directors in accordance with the qualification and disqualification set up and established;

6. The directors and officers were given copies of the Manual of the Corporate Governance of the Corporation for their information, guidance and compliance.

7. On 24 March 2010, the Board approved a revised Manual of Corporate Governance incorporating the changes under SEC Memorandum Circular No. 6, Series of 2009.

8. On 3 March 2011, a refresher course on Corporate Governance was conducted by SyCip Gorres Velayo & Co. and Knowledge Institute to directors and key personnel.

(c) Deviation from the Corporation's Manual of Corporate Governance

Per records, no director failed to meet the fifty percent (50%) attendance requirement in all board meetings, whether regular or special, during his incumbency, or any twelve (12) month period during the said incumbency in accordance with the Revised Manual on Corporate Governance of the Company.

(d) Any plan to improve corporate governance of the company

The Company will continue monitoring compliance with its Revised Manual on Corporate Governance to ensure full compliance thereto. The Company will improve its Revised Corporate Governance Manual as needed and proper in its best judgment.

VIII. REGISTRANT'S MANAGEMENT REPORT

The Corporation shall undertake to provide without charge, a copy of the registrant's Management Report on SEC Form 17-A upon written request to:

Mr. Ramon M. Lopez
VP/Exec. Asst. to the Pres. & CEO
8/F RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City

RFM CORPORATION
By:



ATTY. ROWEL S. BARBA
Corporate Secretary

CERTIFICATION OF INDEPENDENT DIRECTOR

I, ROMEO L. BERNARDO, Filipino of Legal age and a resident of Unit 6, Forest Hills Townhomes, 20 Mariposa Street, Cubao Quezon City, after having been duly sworn to in accordance with the law do hereby declare that:

1. I am an Independent Director of RFM Corporation.
2. I am affiliated with the following companies or organizations:

NAME	POSITION	DATE ASSUMED
Aboitiz Power Corporation (AP)	Director	19 May 2008
ALFM Growth Fund	Chairman, Board of Directors	2009
ALFM Euro Bond Fund	Chairman, Board of Directors	2005
ALFM Peso Bond Fund	Chairman, Board of Directors	2003
ALFM Dollar Bond Fund	Chairman, Board of Directors	2003
Ayala Plans, Inc.	Director	April 2006
Bank of the Philippine Islands	Director	21 August 2002
BPI Capital Corporation	Director	23 October 2002
BPI Direct Savings Bank, Inc.	Director	11 February 2004
BPI Family Savings Bank, Inc.	Director	18 February 2004
BPI Forex Corporation	Director	April 2006
BPI Globe BanKo Inc., Savings Bank (formerly Pilipinas Savings Bank, Inc.)	Director	23 October 2009
BPI Leasing Corporation	Director	27 April 2006
BPI Philam Life Assurance Corporation (formerly Ayala Life Assurance Incorporated)	Director	April 26, 2006
BPI MS Insurance Corporation	Director	4 December 2009
BPI Rental Corporation	Director	27 April 2006
Financial Executives Institute of the Philippines (FINEX) Foundation	Vice-President	2012
Foundation for Economic Freedom	Vice-Chairman & Founding Fellow	1997
Global Source/Latin Source	Advisor	July 2007
Globe Telecom, Inc.	Director	September 2001
Institute for Development & Econometric Analysis, Inc.	Director	
Lazaro Bernardo Tiu & Associates, Inc.	Managing Director	October 1996
National Reinsurance Corporation of the Philippines	Director	June 2006
Philippine Institute for Development Studies	Director	October 2005
Philippine Investment Management Inc. (PHINMA)	Director	August 2005
Philippine Stock Index Fund, Inc.	Chairman, Board of Directors	2007

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of RFM Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director of RFM Corporation under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of RFM Corporation of my changes in the abovementioned information within five (5) days from its occurrence.

Done, this 7th day of May 2012 at Mandaluyong City.

ROMEO L. BERNARDO
Affiant

SUBSCRIBED AND SWORN to before me this ___ day of 08 MAY 2012 2012, affiant identified by me through his _____ and Community Tax Certificate No. /PP# EB 2294305 issued at DFA Manila on 27 April 2011 who avowed to me under penalty of law to the whole truth of the contents of the foregoing instrument.

Doc. No. 90;
Page No. 19;
Book No. I;
Series of 2012

JOAN KAREN A. RIOLA
Notary Public for and in Mandaluyong City
Notarial Commission No. 0330-12
Commission Expires on 31 December 2013
BARBA LIM SIQUIAN PAREDES & RIOLA LAW OFFICES
2nd Floor, RFM Corporate Center
Pioneer corner Sheridan Sts. Mandaluyong City
PTR No. 1304083 .Jan. 03 2012. Mandaluyong City
IBP No. 877647 .Jan. 04 2012. Makati City
Roll of Attorneys No. 50280

CERTIFICATION OF INDEPENDENT DIRECTORS

I, LILIA R. BAUSTISTA, Filipino of Legal age and a resident of San Juan, Metro Manila, after having been duly sworn to in accordance with the law do hereby declare that:

1. I am an Independent director of RFM Corporation.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Services
Jose Rizal University	Dean Law School	2012
Philippine Judicial Academy	Professorial Lecturer	2010-2012
Transnational Diversified Group	Independent Director	2006-2012
St. Martin de Porres Aide Association (St. Martin Charity Hospital)	Trustee	2012
PHILJA Development Center	Trustee	2007-2012
Good Governance for Socio-Economic Enhancement (GGOSEE)	Trustee	2010-2012
Permanent Court of Arbitration	Member, National Group	2012
CIBI Foundation	Member	2009
The Eisenhower Fellows Association of the PHilippines	Trustee Member	2009 2010-2012

3. I possess all the qualifications and none of the disqualifications to serve as an independent director of RFM Corporation, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. I shall faithfully and diligently comply with my duties and responsibilities as independent director of RFM Corporation under the Securities Regulation Code.

5. I shall inform the Corporate Secretary of RFM Corporation of my changes in the abovementioned information within five (5) days from its occurrence.

Done, this ____ day of 08 MAY 2012 2012 at Mandaluyong City.

LILIA R. BAUTISTA
affiant

SUBSCRIBED AND SWORN to before me this ____day of 08 MAY 2012 2012, affiant identified by me through her Passport No. DP0006022 and Community Tax Certificate No. CC1201121659727 issued at the City of San Juan on April 13, 2012 who avowed to me under penalty of law to the whole truth of the contents of the foregoing instrument.

Doc. No. 89;
Page No. 19;
Book No. I;
Series of 2012

JOAN KAREN A. RIOLA
Notary Public for and in Mandaluyong City
Notarial Commission No. 0330-12
Commission Expires on 31 December 2013
BARBA LIM SIQUIAN PAREDES & RIOLA LAW OFFICES
2nd Floor, RFM Corporate Center
Pioneer corner Sheridan Sts. Mandaluyong City
PTR No. 1304963 Jan. 03 2012. Mandaluyong City
IBP No. 877647 Jan. 04 2012. Makati City
Roll of Attorneys No. 50288

RFM CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of RFM CORPORATION is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2011, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submits the same to the Stockholders or members.

SGV & Co., the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with the Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

José S. Concepcion Jr.
Chairman of the Board

Jose Maria Concepcion III
President & CEO

Raymond B Azcarate
Chief Financial Officer

Signed this 25th day of April, 2012

SUBSCRIBED AND SWORN to before me this 26 APR 2012 day of _____ 2012 affiant(s) exhibiting to me his/her Community Tax Certificates as follows:

Names	CTC Number	Date of Issue	Place of Issue
Jose S Concepcion Jr	06982105	05 Jan 2012	Makati City
Jose Maria Concepcion III.	09800329	03 Jan 2012	Mandaluyong City
Raymond B. Azcarate	09800334	03 Jan 2012	Mandaluyong City

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Book No. I
Series of 2012

JOAN KAREN A. RIOLA
Notary Public for and in Mandaluyong City
Notarial Commission No. 0330-12
Commission Expires on 31 December 2013
BARBA LIM SIQUIAN PAREDES & RIOLA LAW OFFICES
2nd Floor, RFM Corporate Center
Pioneer corner Sheridan Sts. Mandaluyong City
PTR No. 1304063 Jan. 03 2012 Mandaluyong City
IBP No. 877847 Jan. 04 2012 Makati City
Roll of Attorneys No. 30280

COVER SHEET

1	2	9	9	8					

SEC Registration Number

R	F	M		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S	

(Company's Full Name)

R	F	M		C	o	r	p	o	r	a	t	e		C	e	n	t	e	r	,												
C	o	r	n	e	r		P	i	o	n	e	e	r		a	n	d		S	h	e	r	i	d	a	n							
S	t	r	e	e	t	s	,		M	a	n	d	a	l	u	y	o	n	g		C	i	t	y									

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

Ramon M. Lopez

(Contact Person)

(02) 631-8101

(Company Telephone Number)

1	2

Month *Day*
(Calendar Year)

A	A	C	F	S

(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

3,482

Total No. of Stockholders

Total Amount of Borrowings

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number LCU

Document ID Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
RFM Corporation
RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City

We have audited the accompanying consolidated financial statements of RFM Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity, and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 financial statements of Unilever RFM Ice Cream, Inc. (URICI, a 50%-owned joint venture), Selecta Wall's Land Corporation (SWLC, a 35%-owned associate) and WS Holdings, Inc. (WHI, a 60%-owned subsidiary). The financial statements of URICI and WHI reflect total assets of 10.1% in 2009 and total revenues of 22.2% in 2009, of the related consolidated totals. The consolidated financial statements also reflect the investment in SWLC representing 1.7% in 2009 of the consolidated assets and the equity in net earnings of SWLC representing 3.4% of the consolidated net income for the year ended December 31, 2009. The financial statements of URICI, SWLC and WHI were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the 2009 consolidated financial statements, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits and the reports of the other auditors in 2009. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors in 2009 are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors in 2009, the consolidated financial statements present fairly, in all material respects, the financial position of RFM Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174599, January 2, 2012, Makati City

April 25, 2012



RFM CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱812,997**	₱638,472
Accounts receivable (Note 7)	**1,904,873**	1,673,030
Advances to related parties (Note 26)	**211,969**	276,960
Inventories (Note 8)	**1,605,219**	1,710,682
Available-for-sale (AFS) financial assets (Note 12)	**–**	836,799
Other current assets (Note 9)	**340,269**	285,766
Total Current Assets	**4,875,327**	5,421,709
Noncurrent Assets		
Property, plant and equipment (Note 10):		
At cost	**2,674,221**	1,931,716
At appraised value	**1,539,359**	1,539,194
Investment properties (Note 11)	**78,019**	53,141
AFS financial assets (Note 12)	**946,622**	947,043
Investments in associates (Note 12)	**233,410**	253,059
Deferred income tax assets - net (Note 29)	**65,512**	77,310
Other noncurrent assets (Note 14)	**351,295**	295,992
Total Noncurrent Assets	**5,888,438**	5,097,455
TOTAL ASSETS	**₱10,763,765**	₱10,519,164
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 15)	**₱879,995**	₱370,000
Accounts payable and accrued liabilities (Note 16)	**2,067,661**	2,015,036
Income tax payable	**62,202**	45,374
Trust receipts payable (Note 8)	**–**	417,189
Advances from related parties (Note 26)	**74,707**	152,841
Customers' deposits (Note 17)	**18,341**	25,900
Derivative liability (Note 33)	**1,732**	6,675
Current portion of:		
Long-term obligations (Note 18)	**6,574**	5,952
Long-term debts (Note 20)	**498,529**	–
Provisions (Note 19)	**52,157**	2,091
Total Current Liabilities	**3,661,898**	3,041,058
Noncurrent Liabilities		
Long-term obligations - net of current portion (Note 18)	**9,192**	15,766
Long-term debts - net of current portion (Note 20)	**1,651,471**	1,500,000
Deferred income tax liabilities - net (Note 29)	**171,940**	180,356
Net pension obligation (Note 27)	**103,836**	56,935
Security deposits	**2,453**	1,633
Total Noncurrent Liabilities	**1,938,892**	1,754,690
Total Liabilities	**5,600,790**	4,795,748

(Forward)

	December 31	
	2011	2010
Equity Attributable to Equity Holders of the Parent Company (Note 21)		
Capital stock	**₱3,160,404**	₱3,160,404
Capital in excess of par value	**788,643**	788,643
Equity reserve (Note 2)	**(7,075)**	–
Net valuation gains on AFS financial assets (Note 12)	**25,744**	28,051
Revaluation increment on land - net of deferred income tax effect (Note 10)	**568,942**	568,942
Share-based compensation (Note 28)	**180**	277
Retained earnings	**622,698**	1,172,385
	5,159,536	5,718,702
Non-controlling Interests	**3,439**	4,714
Total Equity	**5,162,975**	5,723,416
TOTAL LIABILITIES AND EQUITY	**₱10,763,765**	₱10,519,164

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Manufacturing	**₱10,310,477**	₱9,068,799	₱8,312,732
Services and others	**25,845**	30,104	20,865
	10,336,322	9,098,903	8,333,597
COST OF SALES AND SERVICES (Note 22)			
Manufacturing	**(7,018,624)**	(5,937,773)	(5,925,759)
Services and others	**(38,293)**	(32,244)	(33,223)
	(7,056,917)	(5,970,017)	(5,958,982)
GROSS PROFIT	**3,279,405**	3,128,886	2,374,615
OPERATING EXPENSES			
Selling and marketing (Note 23)	**(1,601,678)**	(1,533,998)	(1,167,252)
General and administrative (Note 24)	**(887,074)**	(885,968)	(681,032)
OTHER INCOME (CHARGES)			
Interest expense and financing charges (Notes 15, 18, 20 and 25)	**(128,772)**	(95,895)	(162,007)
Gain on sale of investment (Note 12)	**19,717**	–	–
Interest and financing income (Note 25)	**17,681**	16,390	24,995
Reversal of allowance for doubtful accounts (Note 32)	**12,843**	510	–
Dividend income (Note 12)	**552**	11,494	1,051
Reversal of allowance for impairment loss on property, plant and equipment (Note 10)	**–**	46,178	31,805
Reversal of provision for lawsuit accrual (Note 19)	**–**	14,608	–
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 5)	**–**	13,577	–
Realized deferred credits on prior year's sale of land (Note 26g)	**–**	–	40,862
Gain on sale of AFS financial assets (Note 12)	**–**	–	1,572
Other income - net (Note 25)	**2,180**	50,546	24,949
INCOME BEFORE INCOME TAX	**714,854**	766,328	489,558
PROVISION FOR INCOME TAX (Note 29)			
Current	**187,374**	189,727	143,201
Deferred	**19,175**	(48,493)	(19,100)
	206,549	141,234	124,101
NET INCOME	**₱508,305**	₱625,094	₱365,457
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱509,580**	₱624,710	₱364,445
Non-controlling interests	**(1,275)**	384	1,012
	₱508,305	₱625,094	₱365,457
Basic/Diluted Earnings Per Share (Note 31)	**₱0.161**	₱0.198	₱0.115

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
NET INCOME FOR THE YEAR	**₱508,305**	₱625,094	₱365,457
OTHER COMPREHENSIVE INCOME (LOSS)			
Actuarial losses on defined benefit plans - net of deferred income tax effect of ₱15,793 in 2011, ₱10,524 in 2010 and ₱4,579 in 2009 (Note 27)	**(36,851)**	(24,556)	(10,684)
Net changes in fair value of AFS financial assets (Note 12)	**(2,307)**	6,885	4,582
Revaluation increment on land - net of deferred income tax effect of ₱29,058 in 2010 (Note 10)	**–**	67,801	–
Net changes in fair value of cash flow hedge - net of deferred income tax effect of ₱360 in 2010 and 2009 (Note 33)	**–**	840	(840)
	(39,158)	50,970	(6,942)
TOTAL COMPREHENSIVE INCOME	**₱469,147**	₱676,064	₱358,515
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱470,422**	₱675,680	₱357,503
Non-controlling interests	**(1,275)**	384	1,012
	₱469,147	₱676,064	₱358,515

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock	Capital in Excess of Par Value	Equity Reserve	Net Valuation Gains on AFS Financial Assets	Revaluation Increment on Land	Cash Flow Hedge	Share-based Compensation	Retained Earnings	Treasury Stock	Subtotal	Non-controlling Interests	Total Equity
BALANCES AT DECEMBER 31, 2008	**₱3,160,404**	**₱788,643**	**₱–**	**₱16,584**	**₱501,141**	**₱–**	**₱4,037**	**₱434,687**	**(₱3,556)**	**₱4,901,940**	**₱3,318**	**₱4,905,258**
Net income for the year	–	–	–	–	–	–	–	364,445	–	364,445	1,012	365,457
Other comprehensive income (loss):												
Actuarial losses on defined benefit plans - net of deferred income tax effect (Note 27)	–	–	–	–	–	–	–	(10,684)	–	(10,684)	–	(10,684)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	4,582	–	–	–	–	–	4,582	–	4,582
Net changes in fair value of cash flow hedge - net of deferred income tax effect (Notes 29 and 33)	–	–	–	–	–	(840)	–	–	–	(840)	–	(840)
Total comprehensive income (loss) for the year	–	–	–	4,582	–	(840)	–	353,761	–	357,503	1,012	358,515
Property dividend (Note 21)	–	–	–	–	–	–	–	(116,221)	–	(116,221)	–	(116,221)
Cash dividends (Note 21)	–	–	–	–	–	–	–	(49,999)	–	(49,999)	–	(49,999)
Share-based compensation plan	–	–	–	–	–	–	(2,413)	–	–	(2,413)	–	(2,413)
Reissuance of treasury stock	–	–	–	–	–	–	–	–	3,556	3,556	–	3,556
BALANCES AT DECEMBER 31, 2009	**3,160,404**	**788,643**	**–**	**21,166**	**501,141**	**(840)**	**1,624**	**622,228**	**–**	**5,094,366**	**4,330**	**5,098,696**
Net income for the year	–	–	–	–	–	–	–	624,710	–	624,710	384	625,094
Other comprehensive income (loss):												
Actuarial losses on defined benefit plans - net of deferred income tax effect (Note 27)	–	–	–	–	–	–	–	(24,556)	–	(24,556)	–	(24,556)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	6,885	–	–	–	–	–	6,885	–	6,885
Net changes in fair value of cash flow hedge - net of deferred income tax effect (Notes 29 and 33)	–	–	–	–	–	840	–	–	–	840	–	840
Revaluation increment on land - net of deferred income tax effect (Notes 5, 10 and 29)	–	–	–	–	67,801	–	–	–	–	67,801	–	67,801
Total comprehensive income for the year	–	–	–	6,885	67,801	840	–	600,154	–	675,680	384	676,064
Cash dividends (Note 21)	–	–	–	–	–	–	–	(49,997)	–	(49,997)	–	(49,997)
Share-based compensation plan	–	–	–	–	–	–	(1,347)	–	–	(1,347)	–	(1,347)
BALANCES AT DECEMBER 31, 2010	**3,160,404**	**788,643**	**–**	**28,051**	**568,942**	**–**	**277**	**1,172,385**	**–**	**5,718,702**	**4,714**	**5,723,416**
Net income (loss) for the year	–	–	–	–	–	–	–	509,580		509,580	(1,275)	508,305
Other comprehensive income (loss):												
Actuarial losses on defined benefit plans - net of deferred income tax effect (Note 27)	–	–	–	–	–	–	–	(36,851)	–	(36,851)	–	(36,851)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	(2,307)	–	–	–	–	–	(2,307)	–	(2,307)
Total comprehensive income (loss) for the year	–	–	–	(2,307)	–	–	–	472,729	–	470,422	(1,275)	469,147
Property dividends (Note 21)	–	–	–	–	–	–	–	(834,913)	–	(834,913)	–	(834,913)
Cash dividends (Note 21)	–	–	–	–	–	–	–	(187,503)	–	(187,503)	–	(187,503)
Effect of acquisition of additional shares of stock of a subsidiary (Note 2)	–	–	(7,075)	–	–	–	–	–	–	(7,075)	–	(7,075)
Share-based compensation plan	–	–	–	–	–	–	(97)	–	–	(97)	–	(97)
BALANCES AT DECEMBER 31, 2011	**₱3,160,404**	**₱788,643**	**(₱7,075)**	**₱25,744**	**₱568,942**	**₱–**	**₱180**	**₱622,698**	**₱–**	**₱5,159,536**	**₱3,439**	**₱5,162,975**

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱714,85**	₱766,32	₱489,55
Adjustments for:			
Depreciation and amortization (Notes 10, 11 and 25)	**251,614**	181,984	169,871
Interest expense and financing charges (Notes 15, 18, 20 and 25)	**128,772**	95,895	162,007
Gain on sale of investment in shares of stocks (Note 12)	**(19,717)**	–	–
Interest and financing income (Note 25)	**(17,681)**	(16,390)	(24,995)
Equity in net losses (earnings) of associates (Note 25)	**(12,451)**	(11,904)	10,635
Mark-to-market loss (gain) on derivative liability (Note 25 and 33)	**(10,895)**	10,614	1,738
Movement on pension benefits liability (Note 27)	**(6,711)**	9,239	(5,807)
Unrealized foreign exchange loss (gain) - net	**(1,982)**	507	3,821
Gain on sale of property and equipment (Notes 10 and 25)	**(1,649)**	(965)	(777)
Loss on retirement of property and equipment	**866**	–	–
Dividend income (Note 12)	**(552)**	(11,494)	(1,051)
Share-based compensation (Note 28)	**(97)**	(1,347)	(2,413)
Reversal of allowance for impairment loss on property, plant and equipment (Note 10)	**–**	(46,178)	(31,805)
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 5)	**–**	(13,577)	–
Realized deferred credits on prior year's sale of land (Note 26g)	**–**	–	(40,862)
Gain on sale of AFS financial assets (Notes 12 and 25)	**–**	–	(1,572)
Gain on termination of installment purchase obligation (Note 18)	**–**	–	(360)
Operating income before working capital changes	**1,024,371**	962,712	727,988
Decrease (increase) in:			
Accounts receivable	**(169,977)**	141,365	91,178
Inventories	**105,463**	(436,753)	99,341
Other current assets	**(54,503)**	(98,734)	15,461
Increase (decrease) in:			
Accounts payable and accrued liabilities	**84,843**	53,354	(169,237)
Customers' deposits	**(7,559)**	(26,664)	15,432
Provisions	**50,066**	(13,886)	567
Security deposits	**820**	–	–
Cash generated from operations	**1,033,524**	581,394	780,730
Income tax paid	**(170,546)**	(188,544)	(106,794)
Interest paid	**(152,791)**	(87,708)	(167,375)
Interest received	**21,023**	13,568	25,250
Net cash from operating activities	**731,210**	318,710	531,811

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment and investment properties (Notes 10, 11 and 35)	**(₱1,016,050)**	(₱649,995)	(₱351,654)
Decrease (increase) in:			
Investments	**11,904**	6,871	152,224
Other noncurrent assets	**(55,303)**	(43,228)	(11,737)
Proceeds from disposal of:			
Property and equipment	**3,546**	2,178	954
Investment in equity securities (Note 12)	**36,000**	–	17,994
Acquisition of additional shares of stock of a subsidiary (Note 2)	**(8,659)**	–	–
Dividends received (Note 12)	**552**	1,494	1,051
Acquisition of a subsidiary, net of cash acquired (Note 5)	**–**	1,462	–
Net cash used in investing activities	**(1,028,010)**	(681,218)	(191,168)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availments of:			
Bank loans (Note 15)	**27,171,000**	9,047,250	7,062,000
Long-term debts (Note 20)	**650,000**	1,500,000	74,651
Payments of:			
Bank loans (Note 15)	**(26,661,005)**	(8,621,250)	(7,057,000)
Trust receipts payable (Note 8)	**(417,189)**	(117,884)	(135,230)
Long-term debts and obligations (Note 18)	**(5,952)**	(1,317,198)	(295,639)
Dividends paid (Note 21)	**(187,503)**	(49,997)	(49,999)
Advances from (payments to) related parties (Note 26)	**(79,864)**	74,597	27,384
Proceeds from reissuance of treasury stock	–	–	3,556
Net cash from (used in) financing activities	**469,487**	515,518	(370,277)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,**	(	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**174,5**	152,8	(29,7
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**638,472**	485,613	515,331
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱812,9**	₱638,47	₱485,61

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

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

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

Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the Board of Directors (BOD) on April 25, 2012.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations which were adopted as of January 1, 2011. Adoption of these changes in PFRS did not have any significant impact on the Group's financial statements:

- PAS 24, *Related Party Disclosures (Amendment)*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation (Amendment)*, alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed number in any currency.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at their fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvement to PFRS
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations (Revised)*, clarifies that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised 2008).

- PFRS 7, *Financial Instruments: Disclosures (Amendment)*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements (Amendments)*, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements (Amendments)*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Summary of Significant Accounting Policies

Basis of Consolidation
Basis of consolidation starting January 1, 2010

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

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

	Percentage of Ownership	
	2011	2010
Cabuyao Meat Processing Corporation (CMPC)	**100**	100
Interbake Commissary Corporation (ICC)	**100**	100
RFM Equities, Inc. (REI)	**100**	100
RFM Insurance Brokers, Inc. (RIBI)	**100**	100
Conglomerate Securities and Financing Corporation (CSFC)	**88**	88
RFM Foods Philippines Corporation*	**100**	100
Southstar Bottled Water Company, Inc. (Southstar)*	**100**	100
Swift Tuna Corporation*	**100**	100
Invest Asia Corporation (Invest Asia)	**96**	96
Rizal Lighterage Corporation (RLC)	**93**	82
FWBC Holdings, Inc.	**83**	83
Filipinas Water Bottling Company, Inc. (FWBC)	**58**	58
RFM Canning and Marketing, Inc. (RFM Canning)*	**70**	70
WS Holdings, Inc. (WHI)	**60**	60

** Dormant*

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

On August 2, 2010, the Parent Company acquired 96% ownership interest in Invest Asia, an entity under common shareholders' group, and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders. The cash consideration amounting to ₱0.03 million was based on the book value of the shares of stock as of December 31, 2009. Accordingly, Invest Asia became a subsidiary of the Parent Company as of that date (see Note 5).

Subsidiaries

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company or the Group obtains control, directly or through the holding companies, and continue to be consolidated until the date that such control ceases. Control is achieved when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Group also reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Profit or loss and each component of other comprehensive income (loss) are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Transactions with non-controlling interest are accounted for as an equity transaction.

Basis of consolidation prior to January 1, 2010

The requirements of the two preceding paragraphs are applied on a prospective basis. The difference, however, is carried forward in certain instances from the previous basis of consolidation. Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the non-controlling interest had a binding obligation to cover these.

Losses prior to January 1, 2010 were not reallocated between non-controlling interests and the equity holders of the Parent Company.

Business Combination and Goodwill

Business combinations starting January 1, 2010

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent

consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

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

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

Business combinations prior to January 1, 2010
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different on the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity. If the revaluation relates directly to an identifiable fixed asset, the revaluation will be transferred directly to retained earnings when the asset is derecognized in whole through disposal or as the asset concerned is depreciated or amortized.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition and classification of financial instruments

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

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

As of December 31, 2011 and 2010, the Group has no financial assets at FVPL and HTM investments. Financial liabilities at FVPL of the Group include derivative liability as of December 31, 2011 and 2010.

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.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in

active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

Day 1 difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of income unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of 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 difference amount.

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 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of December 31, 2011 and 2010, the Group's loans and receivables include cash in banks and cash equivalents, accounts receivable, advances to related parties and other current assets.

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

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

As of December 31, 2011 and 2010, the Group's AFS financial assets include investments in unquoted redeemable preferred and common shares, and quoted common and golf club shares.

Other financial liabilities

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

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

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

As of December 31, 2011 and 2010, the Group's other financial liabilities include bank loans, accounts payable and accrued liabilities, trust receipts payable, customers' deposits, long-term debts and obligations, including current maturities, and advances from related parties.

Derivatives and Hedging

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

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

For the purpose of hedge accounting, hedges are classified as:

a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or

b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

c. hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are recognized in the consolidated statement of income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the consolidated statement of income over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the consolidated statement of income. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated statement of income. The changes in the fair value of the hedging instrument are also recognized in the consolidated statement of income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the consolidated statement of income. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

As of December 31, 2011 and 2010, the Group does not have designated fair value hedge.

Cash flow hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to the consolidated statement of comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects the consolidated statement of income, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to the consolidated statement of comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in the consolidated statement of comprehensive income are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in the consolidated statement of comprehensive income remain in the consolidated statement of comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to consolidated statement of income.

The Company has no cash flow hedge in 2011 and 2010. In 2009, an interest rate swap was used as hedge for the exposure change in the cash flows of its ₱380.00 million fixed rate loan.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the

definition of a derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An entity determines whether a modification to the 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 flows on the contract.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

As of December 31, 2011 and 2010, the Group does not have contracts identified as having embedded derivatives.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether 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 or more events that have 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 contracted parties or a group of contracted parties are/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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

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

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for

impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivable is reduced either directly or through the use of an allowance account. Impaired financial assets carried at amortized cost are derecognized when they are assessed as uncollectible either at a direct reduction of the carrying amount or through use of an allowance account when impairment has been previously recognized in the said amount.

AFS financial assets

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

Property, Plant and Equipment

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

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

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets.

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

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

	Number of Years

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

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

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

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income.

Borrowing Costs

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

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

Investments in Associates

Investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. Following are the associates whose investments are accounted for under the equity method:

	Percentage of Ownership	
	2011	2010
Selecta Wall's Land Corporation (SWLC)	**35.00**	35.00
Philstar Global Corporation (Philstar)	**–**	30.00

In 2011, the Parent Company sold its interest in Philstar with a carrying value of ₱16.28 million. Total cash consideration for the sale amounted to ₱36.00 million resulting to a gain of ₱19.72 million (see Note 12).

Under the equity method, such investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, and discloses this when applicable, in the details of the changes in equity. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's investment in the associates. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Interest in Joint Ventures

The interest in 50%-owned joint venture, Unilever RFM Ice Cream, Inc. (URICI), is 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 consolidated financial statements on a line-by-line basis. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealized gains and losses on transactions between the Group and its jointly controlled entity to the extent of its share in interest in joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of the current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Impairment of Noncurrent Non-financial Assets

The carrying values of property, plant and equipment, and investments in joint ventures and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset or CGU is written down to their recoverable amount. The recoverable amount of the noncurrent non-financial asset is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Related Party Relationships and Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in

making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Capital Stock

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

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

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

Equity Reserve

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

Share-based Compensation Plan

URICI operates an equity-settled, share-based compensation plan. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted as determined on the grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

Dividends on Common Shares

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

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

Revenue Recognition

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

Sale of goods (Manufacturing)

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

Sale of services (Service)

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

Rent

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

Interest

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

Dividend income

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

Cost and Expense Recognition

Cost of sales and services

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

Selling and marketing, and general and administrative expenses

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

Other Comprehensive Income (Loss)

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

Pension Benefits

The Group has defined benefit pension plans covering all permanent, regular, full-time employees administered by trustee banks. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses arising from experience adjustment and change in actuarial assumptions are reported in retained earnings in the period they are recognized as other comprehensive income

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested, immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs.
The net pension obligation is the aggregate of the present value of the defined benefit obligation less past service cost not yet recognized and the fair value of plan assets out of which the obligation is to be settled directly.

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

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

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

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

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

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

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

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

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

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

Earnings Per Share

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

The Group does not have potentially dilutive common shares.

Segment Reporting

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

Foreign Currency-Denominated Transactions and Translations

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

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

Provisions and Contingencies

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

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

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements.

Events after the balance sheet date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2011. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements:

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements,* requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income,* changes 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 therefore no impact on the Group's financial position or performance.

- PAS 12, *Income Taxes - Recovery of Underlying Assets,* clarifies 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 amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective in 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities,* requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

  This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a. The gross amounts of those recognized financial assets and recognized financial liabilities;
  b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  c. The net amounts presented in the balance sheet;
  d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and,
ii. Amounts related to financial collateral (including cash collateral); and,

e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - 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 a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, and SIC-13, *Interests in Joint Ventures Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the impact of this standard.

- PFRS 12, *Disclosure of Interest in Other Entities*, includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an 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.

- PAS 19, *Employee Benefits (Amendment)*, removes the corridor approach mechanism on the recognition of actuarial gains and losses and the concept of expected returns on plan assets to simple clarifications and re-wording.

- PAS 27, *Separate Financial Statements (as revised in 2011).* As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 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.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of

the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement,* reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Deferred Effectivity

- 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.

  On July 28, 2011, in consideration of the Position Paper submitted for various real estate industry associations with respect to the application of Philippine Interpretation IFRIC 15 and the on-going deliberation over the revenue standard project by the IASB, the Philippine SEC decided to further defer implementation of the said interpretation until the final Revenue Standard is issued by the IASB and after an evaluation on the requirements and guidance in the said Standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed.

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

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

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

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 in the amounts recognized in the consolidated financial statements.

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet. Classification of financial instruments is reviewed at each balance sheet date.

The classifications of financial assets and liabilities are presented in Note 33.

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for the quoted equity securities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of December 31, 2011 and 2010, AFS financial assets in equity securities amounted to ₱946.62 million and ₱1,783.84 million, respectively (see Note 12a).

No impairment loss was recognized on AFS financial assets for the years ended December 31, 2011, 2010 and 2009.

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

Provisions amounted to ₱52.16 million and ₱2.09 million as of December 31, 2011 and 2010, respectively (see Notes 19 and 30c).

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

Obligations under finance lease and aggregate minimum lease payments are disclosed under Note 18.

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

Determination of fair value of financial instruments
Financial assets and financial 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. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Group or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Group uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of income or comprehensive income.

The carrying values and the fair values of financial assets and financial liabilities as of December 31, 2011 and 2010 are disclosed in Note 33.

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

As of December 31, 2011 and 2010, the carrying value of accounts receivable amounted to ₱1,904.87 million and ₱1,673.03 million, respectively (see Note 7). As of December 31, 2011 and 2010, advances to related parties amounted to ₱211.97 million and ₱276.96 million, respectively (see Note 26). The related allowance for doubtful accounts for both accounts amounted to ₱1,590.37 million and ₱1,613.07 million as of December 31, 2011 and 2010, respectively (see Notes 7 and 26). Noncurrent advances to related parties amounting to ₱688.91 million and ₱718.91 million as of December 31, 2011 and 2010, respectively, were fully provided with allowance (see Note 26).

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

Allowance for inventory obsolescence amounted to ₱159.35 million and ₱161.86 million as of December 31, 2011 and 2010, respectively. As of December 31, 2011 and 2010, the carrying value of inventories at cost, amounted to ₱1,425.51 million and ₱1,509.78 million, respectively (see Note 8).

Determination of NRV of inventories

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. The Group's inventories stated at NRV amounted to ₱179.71 million and ₱200.90 million as of December 31, 2011 and 2010, respectively (see Note 8).

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

The allowance for probable losses pertaining to prepaid expenses amounted to ₱33.65 million as of December 31, 2011 and 2010 (see Note 9).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives of depreciable property, plant and equipment and investment properties based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa. The estimated useful lives of property, plant and equipment and investment properties are discussed in Note 2 to the consolidated financial statements. There had been no changes in the estimated useful lives of property, plant and equipment and investment properties in 2011 and 2010.

The carrying values of these property, plant and equipment valued at cost amounted to ₱2,674.22 million and ₱1,931.72 million as of December 31, 2011 and 2010, respectively (see Note 10). The carrying values of investment properties amounted to ₱78.02 million and ₱53.14 million as of December 31, 2011 and 2010 (see Note 11).

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

The valuation of land based on the appraisal report amounting to ₱568.94 million as of December 31, 2011 and 2010 is presented as "Revaluation increment on land" account, net of deferred income tax effect, in the equity section of the consolidated balance sheets (see Notes 5 and 10).

Impairment of property, plant and equipment, investment properties and investments in associates

The Group assesses whether there are indications of impairment on its property, plant and equipment, investment properties and investments in associates, at least on an annual basis. If there are, impairment testing is performed. This requires an estimation of the value-in-use of the CGUs to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No further impairment losses were recognized in 2011, 2010 and 2009 in view of the significantly improved profitability of the Group. The carrying value of property, plant and equipment valued at cost amounted to ₱2,674.22 million and ₱1,931.72 million as of December 31, 2011 and 2010, respectively (see Note 10). Accumulated impairment loss on property, plant and equipment amounted to ₱20.36 million as of December 31, 2011 and 2010. The carrying value of investment properties amounted to ₱78.02 million as of December 31, 2011 and ₱53.14 million as of December 31, 2010 (see Note 11).

As of December 31, 2011 and 2010, the carrying value of investments in associates amounted to ₱233.41 million and ₱253.06 million, respectively, net of accumulated impairment loss amounting to nil and ₱43.21 million as of December 31, 2011 and 2010, respectively (see Note 12b).

Impairment of goodwill
The Group reviews the carrying value of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which goodwill relates. Assessments require the use of estimates and assumptions such as discount rates, future capital requirements and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the years ended December 31, 2011 and 2010. The carrying value of goodwill as of December 31, 2011 and 2010 amounted to ₱190.56 million (see Note 14).

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

Deferred income tax assets recognized amounted to ₱158.69 million and ₱162.08 million as of December 31, 2011 and 2010, respectively (see Note 29).

Deferred income tax assets on certain deductible temporary differences, carryforward benefits of NOLCO and excess MCIT amounting to ₱1,865.41 million and ₱1,889.57 million as of December 31, 2011 and 2010, respectively, were not recognized because the Group believes that it is not probable that it will have sufficient future taxable profits against which these items can be utilized (see Note 29).

Estimation of pension benefits obligations and costs
The determination of the Group's obligation and costs of pension benefits depends on the selection by management of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 27 and include, among others the discount rate, expected rate of return and rate of salary increase. The Group recognizes all actuarial gains and losses in the consolidated statement of comprehensive income, and therefore generally affects the recorded obligation. While management believes that the Group's assumptions are reasonable and

appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's pension obligation.

Net pension obligation amounted to ₱103.84 million and ₱56.94 million as of December 31, 2011 and 2010, respectively. Pension benefits costs amounted to ₱18.04 million in 2011, ₱24.23 million in 2010 and ₱7.62 million in 2009 (see Note 27).

Use of effective interest rate
The Group made reference to the prevailing market interest rates for instruments of the same tenor in choosing the discount rates used to determine the net present value of long-term, non-interest-bearing receivable from Manila Electric Company (Meralco), advances to and from associates and other long-term financial assets and obligations.

Receivable from Meralco, included under "Other current assets" account in the 2011 and 2010 consolidated balance sheets, amounted to ₱3.04 million and ₱0.50 million, respectively (see Note 9).

4. Segment Information

Prior to 2011, the Group was organized into beverage and meat group, flour-based group, and other groups. In 2011, the management of the Group decided to report its operating business segments into the following: (a) institutional business, (b) consumer business, and (c) other operations. The change in the Group's segment reporting was effected retroactively.

The institutional business segment primarily manufactures and sells flour, pasta, bakery and other bakery products to institutional customers. The consumer business segment manufactures and sells ice cream, meat, milk and juices, pasta products, and flour and rice-based mixes. Other segments consist of insurance, financing, lighterage, moving, cargo handling, office space leasing and other services shown in aggregate as "Other operations".

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

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

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

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

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

Information with regard to the Group's significant business segments follows:

	2011						
	Consumer Business	**Institutional Business**	**Other Operations**	**Unallocated Corporate Balances**	**Total**	**Eliminations**	**Consolidated**
Net Sales							
External sales	**₱6,233,238**	**₱4,076,155**	**₱26,929**	**₱–**	**₱10,336,322**	**₱–**	**₱10,336,322**
Intersegment sales	**62,177**	**484,677**	**47,092**	**–**	**593,946**	**(593,946)**	**–**
	₱6,295,415	**₱4,560,832**	**₱74,021**	**₱–**	**₱10,930,268**	**(₱593,946)**	**₱10,336,322**
Results							
Interest and other financial charges - net	**(₱65,863)**	**(₱1,251)**	**₱9,341**	**(₱53,318)**	**(₱111,091)**	**₱–**	**(₱111,091)**
Equity in net earnings of associates	**₱–**	**₱–**	**₱12,451**	**₱–**	**₱12,451**	**₱–**	**₱12,451**
Income (loss) before provision for income tax and non-controlling interest	**₱77,130**	**₱836,404**	**(₱1,374)**	**₱2,034,382**	**₱2,946,542**	**(₱2,231,688)**	**₱714,854**
Provision for income tax	**(138,203)**	**(23,524)**	**(2,533)**	**(42,289)**	**(206,549)**	**–**	**(206,549)**
Net income (loss)	**(₱61,073)**	**₱812,880**	**(₱3,907)**	**₱1,992,093**	**₱2,739,993**	**(₱2,231,688)**	**₱508,305**

	2011						
	Consumer Business	**Institutional Business**	**Other Operations**	**Unallocated Corporate Balances**	**Total**	**Eliminations**	**Consolidated**
Other Information							
Segment assets	**₱7,700,232**	**₱5,597,088**	**₱615,251**	**₱2,298,500**	**₱16,211,071**	**(₱6,692,849)**	**₱9,518,222**
Investments	**313,996**	**-**	**61,838**	**2,108,267**	**2,484,101**	**(1,304,069)**	**1,180,032**
Deferred income tax assets	**59,392**	**4,214**	**1,905**	**–**	**65,511**	**–**	**65,511**
Consolidated Total Assets	**₱8,073,620**	**₱5,601,302**	**₱678,994**	**₱4,406,767**	**₱18,760,683**	**(₱7,996,918)**	**₱10,763,765**
Consolidated Total Liabilities	**₱7,731,275**	**₱1,514,658**	**₱635,829**	**₱3,031,887**	**₱12,913,649**	**(₱7,312,859)**	**₱5,600,790**
Capital expenditures	**₱578,069**	**₱394,638**	**₱47,473**	**₱1,581**	**₱1,021,761**	**₱–**	**₱1,021,761**
Depreciation and amortization	**161,877**	**58,426**	**25,591**	**5,720**	**251,614**	**–**	**251,614**
Noncash expenses other than depreciation and amortization	**36,588**	**10,857**	**17,139**	**3,948**	**68,532**	**–**	**68,532**

	2010						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱5,580,239	₱3,490,536	₱28,128	₱–	₱9,098,903	₱–	₱9,098,903
Intersegment sales	209,104	285,562	33,198	–	527,864	(527,864)	–
	₱5,789,343	₱3,776,098	₱61,326	₱–	₱9,626,767	(₱527,864)	₱9,098,903
Results							
Interest and other financial income (charges) - net	(₱219,685)	₱25,652	₱8,079	₱117,399	(₱68,555)	(₱10,950)	(₱79,505)
Equity in net earnings of associates	₱–	₱–	₱11,904	₱–	₱11,904	₱–	₱11,904
Income (loss) before provision for income tax and non-controlling interest	(₱143,282)	₱954,757	₱11,537	₱91,712	₱914,724	(₱148,396)	₱766,328
Provision for income tax	(103,103)	(18,157)	(2,738)	55,200	(68,798)	(72,436)	(141,234)
Net income (loss)	(₱246,385)	₱936,600	₱8,799	₱146,912	₱845,926	(₱220,832)	₱625,094
Other Information							
Segment assets	₱6,382,772	₱6,194,841	₱1,043,183	₱5,500,060	₱19,120,856	(₱10,715,903)	₱8,404,953
Investments	155,071	–	61,839	2,603,290	2,820,200	(783,299)	2,036,901
Deferred income tax assets	71,391	4,470	1,660	–	77,521	(211)	77,310
Consolidated Total Assets	₱6,609,234	₱6,199,311	₱1,106,682	₱8,103,350	₱22,018,577	(₱11,499,413)	₱10,519,164
Consolidated Total Liabilities	₱8,712,717	₱1,124,737	₱1,726,414	₱4,444,208	₱16,008,076	(₱11,212,328)	₱4,795,748
Capital expenditures	₱393,736	₱70,035	₱10,225	₱176,942	₱650,938	₱–	₱650,938
Depreciation and amortization	117,011	42,068	18,136	4,416	181,631	353	181,984
Noncash expenses other than depreciation and amortization	34,047	17,983	1,279	10,950	64,259	–	64,259

	2009						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱2,808,169	₱3,648,536	₱1,876,892	₱–	₱8,333,597	₱–	₱8,333,597
Intersegment sales	26,785	365,606	38,305	–	430,696	(430,696)	–
	₱2,834,954	₱4,014,142	₱1,915,197	₱–	₱8,764,293	(₱430,696)	₱8,333,597
Results							
Interest and other financial income (charges) - net	(₱223,084)	₱26,838	₱10,005	₱29,692	(₱156,549)	₱19,537	(₱137,012)
Equity in net losses of associates	₱–	₱–	(₱10,635)	₱–	(₱10,635)	₱–	(₱10,635)
Income (loss) before provision for income tax and non-controlling interest	(₱182,521)	₱752,839	₱16,039	₱71,356	₱657,713	(₱168,155)	₱489,558
Provision for income tax	(65,682)	(18,603)	(4,744)	–	(89,029)	(35,072)	(124,101)
Net income (loss)	(₱248,203)	₱734,236	₱11,295	₱71,356	₱568,684	(₱203,227)	₱365,457
Other Information							
Segment assets	₱5,637,136	₱5,493,710	₱651,255	₱3,863,863	₱15,645,964	(₱8,825,205)	₱6,820,759
Investments	133,267	–	59,736	2,594,457	2,787,460	(762,477)	2,024,983
Deferred income tax assets	58,871	1,413	572	–	60,856	4,881	65,737
Consolidated Total Assets	₱5,829,274	₱5,495,123	₱711,563	₱6,458,320	₱18,494,280	(₱9,582,801)	₱8,911,479

Consolidated Total Liabilities	₱7,639,174	₱1,310,688	₱1,302,217	₱2,923,369	₱13,169,556	(₱9,356,773)	₱3,812,783
Capital expenditures	₱322,298	₱17,183	₱9,231	₱2,942	₱351,654	₱–	₱351,654
Depreciation and amortization	104,370	49,361	13,398	2,742	169,871	–	169,871
Noncash expenses other than depreciation and amortization	9,196	498	1,906	3,203	14,803	–	14,803

5. Business Combination - Acquisition of Invest Asia

On August 2, 2010, the Parent Company acquired 96% ownership interest in Invest Asia, an entity under common shareholders' group, and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders. The cash consideration amounting to ₱0.03 million was based on the book value of the shares of stock as of December 31, 2009. Accordingly, Invest Asia became a subsidiary of the Parent Company.

The fair values of the identifiable net assets of Invest Asia, purchase consideration transferred and the resulting negative goodwill as of the date of acquisition are as follows:

Assets:	
Cash	₱1,494
Accounts receivable	14,016
Land	263,196
Building	92,116
Input VAT	26,552
	397,374
Liabilities:	
Accounts payable and accrued liabilities	(33,929)
Deferred income tax liability	(31,445)
	(65,374)
Total identifiable net assets at fair value	332,000
Less share of non-controlling interest in the net assets	(566)
Fair value of identifiable net assets acquired	331,434
Less purchase consideration transferred	317,857
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination ("negative goodwill")	₱13,577

The purchase consideration transferred amounting to ₱317.86 million consists of the cash consideration of ₱ 0.03 million and RFM's advances to Invest Asia of ₱317.83 million, which was considered extinguished under PFRS 3.

6. Cash and Cash Equivalents

	2011	2010
Cash on hand and in banks	**₱404,399**	₱405,800
Short-term investments	**408,598**	232,672
	₱812,997	₱638,472

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to ₱8.23 million in 2011, ₱9.03 million in 2010 and ₱23.18 million in 2009 (see Note 25).

7. Accounts Receivable

	2011	2010

Trade receivables:		
Third parties	**₱2,085,771**	₱1,868,535
Related parties (Note 26)	**386,859**	384,439
Nontrade receivables	**149,759**	179,669
Advances to officers and employees	**47,261**	52,111
Current portion of loan receivable	**5,569**	2,351
Other receivables	**108,769**	45,788
	2,783,988	2,532,893
Less allowance for doubtful accounts (Note 32)	**879,115**	859,863
	₱1,904,873	₱1,673,030

Trade receivables are non-interest-bearing and are generally on 30 to 60 days term.

Nontrade receivables are amounts collectible from third parties other than the Group's normal customers for transactions and events not directly related to sales of inventories.

Advances to officers and employees include car loans and cash advances which are deductible against the employees' monthly salary.

Other receivables include receivables from insurance companies, dividend receivables and interest receivables.

8. Inventories

	2011	2010
At NRV:		
Finished goods	**₱98,249**	₱102,186
Raw materials	**76,138**	95,133
Spare parts and supplies	**5,321**	3,584
	179,708	200,903
At Cost:		
Finished goods	**322,751**	249,256
Goods in process	**564**	2,710
Raw materials	**589,806**	697,315
Spare parts and supplies	**86,347**	99,576
Raw materials in transit	**426,043**	460,922
	1,425,511	1,509,779
	₱1,605,219	₱1,710,682

Finished goods, raw materials, and spare parts and supplies amounting to ₱159.35 million and ₱161.86 million as of December 31, 2011 and 2010, respectively, have been fully provided with allowance for inventory obsolescence.

The movements in allowance for inventory obsolescence follow:

	2011	2010
At January 1	**₱161,864**	₱163,858
Additions	**–**	3,389
Write-offs	**(1,726)**	(2,644)
Reversals	**(791)**	(2,739)
At December 31	**₱159,347**	₱161,864

Cost of inventories charged to cost of sales amounted to ₱5,677.68 million in 2011, ₱4,702.68 million in 2010 and ₱4,767.78 million in 2009. Inventories which were directly written off and charged to cost of sales amounted to ₱9.43 million, ₱13.59 million and ₱13.44 million in 2011, 2010 and 2009, respectively (see Note 22).

Under the terms of the agreements covering trust receipts payable, certain raw materials, spare parts and supplies with carrying values of ₱417.19 million as of December 31, 2010 have been released to the Group in trust for the banks. The Group is accountable to the banks for the value of the trusteed items or their sales proceeds. No trust agreement was entered in 2011.

Interest expense on the trust receipts payable recognized in the consolidated statement of income amounted to ₱4.31 million in 2011, ₱9.10 million in 2010 and ₱35.38 million in 2009 (see Note 25). Interest rates for trust receipts payable ranged from 3.25% to 4.10% in 2011, 2010 and 2009.

9. Other Current Assets

	2011	2010
Prepaid expenses - net of allowance for probable losses of ₱33,649 in both years	**₱157,679**	₱80,265
Deposits on purchases	**53,568**	75,032
Input VAT	**47,697**	24,343
Creditable withholding taxes	**73,737**	67,264
Receivable from Meralco	**3,037**	498
Other current assets	**4,551**	38,364
	₱340,269	₱285,766

Interest income earned from the receivable from Meralco amounted to nil, ₱0.65 million and ₱1.71 million in 2011, 2010 and 2009, respectively (see Note 25).

10. Property, Plant and Equipment

As of December 31, 2011:

	Land Improvements	**Silos, Buildings and Improvements**	**Machinery and Equipment**	**Transportation and Delivery Equipment**	**Office Furniture and Fixtures**	**Construction in Progress**	**Total**
At Cost							
Cost:							
At January 1	**₱31,137**	**₱639,123**	**₱2,685,744**	**₱189,027**	**₱119,817**	**₱179,837**	**₱3,844,685**
Additions	**144**	**83,065**	**379,035**	**17,503**	**7,154**	**506,975**	**993,876**
Write-off/disposal	**–**	**(724)**	**(39,125)**	**(17,458)**	**(5,801)**	**–**	**(63,108)**
Reclassification	**132**	**67,331**	**435,380**	**8,359**	**4,055**	**(515,257)**	**–**
At December 31	**31,413**	**788,795**	**3,461,034**	**197,431**	**125,225**	**171,555**	**4,775,453**

(Forward)

	Land Improvements	**Silos, Buildings and Improvements**	**Machinery and Equipment**	**Transportation and Delivery Equipment**	**Office Furniture and Fixtures**	**Construction in Progress**	**Total**
Accumulated depreciation and amortization:							
At January 1	**₱10,295**	**₱249,681**	**₱1,374,569**	**₱157,825**	**₱100,243**	**₱–**	**₱1,892,613**
Depreciation and amortization (Note 25)	**531**	**29,160**	**192,639**	**17,470**	**8,807**	**–**	**248,607**
Write-off/disposal	**–**	**(724)**	**(37,436)**	**(16,410)**	**(5,774)**	**–**	**(60,344)**
Reclassification	**–**	**37**	**(19)**	**13**	**(31)**	**–**	**–**
At December 31	**10,826**	**278,154**	**1,529,753**	**158,898**	**103,245**	**–**	**2,080,876**
Accumulated impairment loss:							
At January 1 and December 31	**–**	**–**	**20,356**	**–**	**–**	**–**	**20,356**
Net Book Values at December 31	**₱20,587**	**₱510,641**	**₱1,910,925**	**₱38,533**	**₱21,980**	**₱171,555**	**₱2,674,221**
At Appraised Value - Land							
At January 1, 2011							**₱1,539,194**
Additions							**165**
At December 31, 2011							**₱1,539,359**

As of December 31, 2010:

	Land Improvements	Silos, Buildings and Improvements	Machinery and Equipment	Transportation and Delivery Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost							
Cost:							
At January 1	₱29,314	₱524,061	₱2,464,735	₱172,355	₱120,623	₱109,575	₱3,420,663

	Additions	2,144	51,898	123,593	14,373	4,746	312,153	508,907
	Acquisitions through business combination (Note 5)	–	57,303	–	–	–	–	57,303
	Write-off/disposal	(531)	(13,001)	(121,167)	(6,913)	(576)	–	(142,188)
	Reclassification	210	18,862	218,583	9,212	(4,976)	(241,891)	–
	At December 31	31,137	639,123	2,685,744	189,027	119,817	179,837	3,844,685
Accumulated depreciation and amortization:								
	At January 1	10,424	239,531	1,316,275	140,835	99,450	–	1,806,515
	Depreciation and amortization (Note 25)	402	22,509	133,903	17,836	6,126	–	180,776
	Write-off/disposal	(531)	(12,359)	(76,262)	(5,760)	(305)	–	(95,217)
	Reclassification	–	–	114	4,914	(5,028)	–	–
	Others	–	–	539	–	–	–	539
	At December 31	10,295	249,681	1,374,569	157,825	100,243	–	1,892,613
Accumulated impairment loss:								
	At January 1	–	–	112,292	–	–	–	112,292
	Reversal of allowance for impairment loss	–	–	(91,936)	–	–	–	(91,936)
	At December 31	–	–	20,356	–	–	–	20,356
Net Book Values at December 31		₱20,842	₱389,442	₱1,290,819	₱31,202	₱19,574	₱179,837	₱1,931,716
At Appraised Value - Land								
At January 1, 2010								₱1,037,108
Additions								142,031
Acquisitions through business combination (Note 5)								263,196
Appraisal increase								96,859
At December 31, 2010								₱1,539,194

In 2008, the Group's parcels of land were stated at their revalued amounts based on independent appraisal reports of Cuervo Appraisers, Inc. as of December 4, 2008. The appraisal increase in the valuation of these assets amounting to ₱501.14 million is presented under the "Revaluation increment on land" account, net of deferred income tax effect of ₱214.78 million, in the consolidated statements of changes in equity. The cost of these parcels of land amounted to ₱326.21 million as of December 31, 2011 and 2010.

In 2009, property, plant and equipment previously presented at appraised value amounting to ₱5.02 million were reclassified to property, plant and equipment at cost.

In March 2010, the Group acquired a parcel of land and the Pioneer Business Park building located thereon. On December 31, 2010, the parcel of land was revalued based on an independent appraisal report. The appraisal increase of the land amounting to ₱67.80 million is presented under "Revaluation increment on land" account, net of deferred income tax effect of ₱29.05 million, in the equity section of the 2011 and 2010 consolidated balance sheets. The cost of this land amounted to ₱142.03 million as of December 31, 2011 and 2010.

Property, plant and equipment include machinery and equipment under finance lease with net carrying amount of ₱23.75 million and ₱27.05 million as of December 31, 2011 and 2010, respectively (see Note 18).

The "Equipment Sale Agreement" between the Parent Company and Tetra Pak Philippines, Inc. was cancelled and terminated effective October 31, 2009 (see Note 18). The carrying value of the related machinery and equipment amounted to ₱13.64 million and ₱15.16 million as of October 31, 2009 and December 31, 2008, respectively.

As of December 31, 2011 and 2010, no property, plant and equipment was used as a collateral for the Group's obligations while as of December 31, 2009, property, plant and equipment with carrying values of ₱1,419.32 million were used as collateral for the Group's various obligations.

In October 2010, property, plant and equipment of the Parent Company's Flour Division with a carrying value of ₱46.18 million (net of accumulated depreciation had there been no impairment loss recognized) have been restored, with the corresponding reversal of the allowance for impairment loss reflected in the 2010 consolidated statement of income, in view of the increasing production volume requirements of the Pasta Division.

11. **Investment Properties**

As of December 31, 2011:

	Land	Buildings and Improvements	Total
Cost			
At January 1	**₱–**	**₱54,349**	**₱54,349**
Additions	**27,780**	**105**	**27,885**
At December 31	**27,780**	**54,454**	**82,234**
Accumulated Depreciation and Amortization			
At January 1	**–**	**1,208**	**1,208**
Depreciation and amortization (Note 25)	**–**	**3,007**	**3,007**
At December 31	**–**	**4,215**	**4,215**
Net Book Values at December 31	**₱27,780**	**₱50,239**	**₱78,019**

As of December 31, 2010:

	Land	Buildings and Improvements	Total
Cost			
At January 1	₱–	₱–	₱–
Additions	–	54,349	54,349
At December 31	–	54,349	54,349
Accumulated Depreciation and Amortization			
At January 1	–	–	–
Depreciation and amortization (Note 25)	–	1,208	1,208
At December 31	–	1,208	1,208
Net Book Values at December 31	₱–	₱53,141	₱53,141

As of December 31, 2011 and 2010, investment properties include the portion of the RFM Corporate Center building being leased out to other parties. The fair value of the said investment property, which was based on the 2010 appraisal report of an independent appraiser amounted to ₱92.12 million. Rental income from the investment property amounted to ₱12.54 million and ₱4.40 million in 2011 and 2010, respectively, while the related direct cost which consists of depreciation expense, real property taxes and other direct costs amounted to ₱23.97 million and ₱5.94 million for the years ended December 31, 2011 and 2010, respectively.

In 2011, the Group acquired a parcel of land located in Batangas. The cost of this land amounted to ₱ 27.78 million as of December 31, 2011.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

12. **Investments**

a. AFS Financial Assets

Rollforward of AFS financial assets follows:

	Unquoted			Golf Club and Quoted	
	Redeemable Preferred Shares		Common	Common	
	Swift	Philtown	Shares	Shares	Total
Balance, January 1, 2010	₱836,799	₱762,850	₱149,752	₱25,638	₱1,775,039
Add: Purchase of additional common shares	–	–	–	1,918	1,918

	Unquoted			Golf Club and Quoted	
	Redeemable Preferred Shares		Common	Common	
	Swift	Philtown	Shares	Shares	Total
Adjustments to AFS financial assets due to valuation increase	–	–	–	6,885	6,885
	836,799	762,850	149,752	34,441	1,783,842
Less: Current portion	(83	–	–	–	(83
Balance, December 31, 2010	–	762,850	149,752	34,441	947,043
Add: Adjustments to AFS financial assets due to valuation decrease	–	–	–	(2,307)	(2,307)
Reclassification	1,886	–	–	–	1,886
Balance, December 31, 2011	**₱1,886**	**₱762,850**	**₱149,752**	**₱32,134**	**₱946,622**

The preferred shares of Swift Foods, Inc. (Swift) have no voting rights and are convertible to common shares anytime at the ratio of 10 common shares for every preferred share held and are redeemable at the option of Swift.

On April 15, 2011 and September 12, 2011, the SEC approved the Parent Company's property dividend declaration consisting a total of 138,932,171 convertible preferred shares of Swift at ₱6.01 per share. Stockholders of the Parent Company owning at least 46 and 45 of the Parent Company's shares as of March 16, 2011 and August 11, 2011, respectively, are entitled to one Swift preferred share (see Note 21). The remaining 313,798 shares with a cost of ₱1.89 million, which were not approved by the SEC for declaration as property dividend were reclassified from current to noncurrent AFS financial asset.

The AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reasonable valuation as of balance sheet date.

The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments. Management has determined that the potential effect of using reasonably possible alternatives as inputs to the valuation model would reduce the fair value using less favorable assumptions and increase the fair value by using more favorable assumptions.

AFS financial assets that are quoted are carried at fair value with cumulative changes in fair values presented as part of "Net valuation gains on AFS financial assets" account in the equity section of the consolidated balance sheets.

The changes in value of quoted AFS financial assets amounted to a decrease of ₱2.31 million and increase of ₱6.89 million in 2011 and 2010, respectively. These changes in fair values have been recognized and shown as "Net changes in fair value of AFS financial assets" in the consolidated statement of comprehensive income. The cost of these quoted AFS financial assets amounted to ₱4.47 million as of December 31, 2011 and 2010.

In 2010, the Parent Company purchased additional common shares of Petro Energy Resources Corporation and Bank of the Philippine Islands amounting to ₱1.92 million.

Dividend income earned from AFS financial assets amounted to ₱0.55 million, ₱11.49 million and ₱1.05 million in 2011, 2010 and 2009, respectively.

Rollforward of net valuation gains on AFS financial assets follows:

	2011	2010
Beginning of year	**₱28,051**	₱21,166
Unrealized gain (loss)	**(2,307)**	6,885

End of year	**₱25,744**	₱28,051

b. Investments in Associates – at equity

	2011	2010
Cost		
Beginning of year	**₱185,514**	₱185,514
Disposals	**(59,491)**	–
End of year	**126,023**	185,514
Accumulated Impairment Loss		
Beginning of year	**43,208**	43,208
Disposals	**(43,208)**	–
End of year	**–**	43,208
	126,023	142,306
Accumulated Equity in Net Earnings		
Beginning of year	**110,753**	107,638
Equity in net earnings for the year (Note 25)	**12,451**	11,904
Dividends received	**(15,817)**	(8,789)
End of year	**107,387**	110,753
	₱233,410	₱253,059

Summarized financial information of the associates as of December 31, 2011 and 2010 follow:

	2011	2010
SWLC:		
Current assets	**₱29,723**	₱29,810
Noncurrent assets	**224,416**	224,416
Current liabilities	**1,712**	1,796
Total equity	**252,427**	252,430
Revenue	**27,149**	27,180
Cost and expenses	**1,660**	1,685
Net income	**20,751**	17,976
Philstar:		
Current assets	**–**	35,051
Noncurrent assets	**–**	23,048
Current liabilities	**–**	867
Total equity	**–**	57,232
Revenue	**–**	27,364
Cost and expenses	**–**	25,349
Net income	**–**	1,411

In 2011, the Parent Company sold its interest in Philstar with a carrying value of ₱16.28 million, net of impairment loss amounting to ₱43.21 million. Total cash consideration for the sale amounted to ₱36.00 million resulting to a gain of ₱19.72 million.

13. **Interests in Joint Venture**

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (ULP), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and ULP, the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱2,160.23 million and ₱1,926.75 million as of December 31, 2011 and 2010, respectively.

Summarized financial information of URICI showing the Group's 50% share follow:

	2011	2010

Current assets	**₱929,176**	₱832,617
Noncurrent assets	**1,067,071**	649,282
Current liabilities	**1,742,416**	1,138,478
Noncurrent liabilities	**14,000**	10,622
Revenue	**3,085,945**	2,746,652
Cost and expenses	**2,616,632**	2,365,522
Net income	**321,620**	265,758

Condensed statements of cash flows of URICI showing the Group's 50% share follow:

	2011	2010
Operating activities	**₱348,036**	₱315,466
Investing activities	**(461,349)**	(279,613)
Financing activities	**66,642**	49,661
Effect of exchange rate changes	**1,843**	(325)
Net increase (decrease)	**(44,828)**	85,189
Cash and cash equivalents at beginning of year	**189,364**	104,175
Cash and cash equivalents at end of year	**₱144,536**	₱189,364

The joint venture has no contingent liabilities or capital commitments as of December 31, 2011 and 2010.

14. Other Noncurrent Assets

	2011	2010
Goodwill	**₱190,562**	₱190,562
Other noncurrent assets	**160,733**	105,430
	₱351,295	₱295,992

Other noncurrent assets include car loans, multi-purpose loans to employees of the Parent Company and its subsidiaries, and to OFW's referred by the agencies accredited by the Group.

Interest income from said loans amounted to ₱9.46 million in 2011, ₱6.72 million in 2010 and ₱0.11 million in 2009 (see Note 25).

15. Bank Loans

This account represents the Group's proportionate share in the unsecured short-term loans of URICI from local banks and lending investors bearing effective annual interest rates within the range of 3.38% to 5.18% in 2011, 2.75% to 4.70% in 2010 and 4.0% to 9.0% in 2009. Bank loans amounted to ₱880.00 million and ₱370.00 million as of December 31, 2011 and 2010, respectively.

Interest expense amounted to ₱26.75 million in 2011, ₱8.68 million in 2010 and ₱11.39 million in 2009 (see Note 25). Interest payable as of December 31, 2011 and 2010 amounted to ₱0.78 million and ₱0.70 million, respectively.

16. Accounts Payable and Accrued Liabilities

	2011	2010
Trade payables:		
Third parties	**₱889,411**	₱931,916
Related parties (Note 26)	**1,672**	1,730

(Forward)

	2011	2010
Accrued liabilities:		
Advertisements and promotions	**₱309,388**	₱221,411
Freight and handling	**85,813**	33,832
Profit bonus	**61,308**	90,065
Importation	**29,129**	45,695
Payroll	**22,095**	38,947
Interest (Notes 15, 18 and 20)	**16,483**	40,502
Other accrued liabilities	**393,326**	377,375
Cash bond – distributors	**41,530**	26,575
Dividends payable	**6,178**	6,178
Subscriptions payable	**2,258**	2,258
Other payables	**209,070**	198,552
	₱2,067,661	₱2,015,036

Other accrued liabilities consist of accruals made for merchandising charges, utilities, manpower services, rental and others.

Cash bond pertains to cash received from the distributors as security to retain their credit line.

Other payables include advances from officers and employees, withholding taxes and other liabilities to third parties.

17. Customers' Deposits

As of December 31, 2011 and 2010, customers' deposits pertain to the advances from the Parent Company's customers for future purchases amounting to ₱18.34 million and ₱25.90 million, respectively.

18. Long-term Obligations

This account consists of obligations under finance leases as follows:

	2011	2010
Total	**₱15,766**	₱21,718
Less current portion	**6,574**	5,952
Noncurrent portion	**₱9,192**	₱15,766

Interest expense incurred from long-term obligations amounted to ₱1.90 million, ₱2.46 million and ₱4.40 million in 2011, 2010 and 2009, respectively (see Note 25).

a. Details of machinery and equipment under capital lease arrangements, shown as part of "Property, plant and equipment" account in the consolidated balance sheets, follow:

	2011	2010
Cost	**₱49,557**	₱49,557
Less accumulated depreciation	**25,812**	22,512
	₱23,745	₱27,045

The aggregate future minimum payments under finance leases follow:

	2011	2010
Within one year	**₱7,852**	₱7,852
Over one year up to 2014	**9,816**	17,668
Total minimum lease obligations	**17,668**	25,520

Less amounts representing interest	**1,902**	3,802
Present value of minimum lease payments	**15,766**	21,718
Less current portion	**6,574**	5,952
Noncurrent portion	**₱9,192**	₱15,766

b. On November 27, 2009, the Parent Company and Tetra Pak Philippines, Inc. have agreed that effective October 31, 2009, the "Equipment Sale Agreement" entered into between the companies will be cancelled and terminated. The cancellation of the contract for the aforementioned machines extinguished the original agreement. Any claims prior to the effectivity of the cancellation such as the monthly installments shall remain in force until fully paid. The carrying value as of October 31, 2009 of the machinery and equipment related to the terminated agreement amounted to ₱13.64 million. Gain on termination of installment purchase obligation recognized under "Other income" account amounted to ₱0.36 million.

19. Provisions

Movements of the provisions for the years ended December 31, 2011 and 2010 follow:

	2011	2010
At January 1	**₱2,091**	₱15,977
Additions (Notes 25 and 30)	**50,361**	1,616
Payments	**(295)**	(894)
Reversal (Note 30)	**–**	(14,608)
At December 31	**₱52,157**	₱2,091

Provisions were recognized for expected claims against the Group arising from the ordinary course of business.

In 2011, the Parent Company recognized additional provisions for certain legal and regulatory matters amounting to ₱50.00 million (see Notes 25 and 30). For the years ended December 31, 2011 and 2010, URICI has recognized restructuring provisions amounting to ₱0.36 million and ₱1.62 million, respectively (see Note 30c).

In 2010, the Group reversed certain outstanding provisions amounting to ₱14.61 million as a result of the issuance of resolution by the Court of Appeals (CA) in favor of the Group denying the plaintiff's motion for reconsideration (see Note 30b).

20. Long-term Debts

The details of the long-term debts of the Parent Company and ICC, which consist of peso-denominated promissory notes obtained from local banks, follow:

	2011	2010
Floating rate note facility from local banks, with interest rate of 6.12%, and principal payments payable in sixteen equal quarterly installments of ₱93,750 each starting January 27, 2012	**₱1,500,000**	₱1,500,000
Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.65%; payable in seventeen equal quarterly installments of ₱29,412 each starting May 12, 2012	**500,000**	–
Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.75%; payable in seventeen equal quarterly installments	**150,000**	–

of ₱8,824 each starting March 15, 2012		
Total	**2,150,000**	1,500,000
Less current portion	**498,529**	–
Noncurrent portion	**₱1,651,471**	₱1,500,000

In accordance with the loan agreements, the Parent Company is restricted from performing certain corporate acts without the prior consent or approval of the creditors, the more significant of which relate to entering into merger or consolidation, entering into guaranty or surety of obligation and acquiring treasury stock. The Parent Company is also required to maintain certain financial ratios based on the consolidated financial statements. As of December 31, 2011 and 2010, the Parent Company is in compliance with the terms and conditions of the loan agreements with the banks.

On October 26, 2010, several bank institutions granted the Parent Company a Peso-denominated floating rate notes facility in the aggregate principal amount of ₱1.50 billion, which has been fully drawn on the same date. The principal amount of the note facility shall be paid within five years and one day from and after the issue date with interest rate of 6.12%. The payments are to be made in sixteen (16) equal quarterly installments of ₱93.75 million each to commence at the end of the fifteenth month from the issue date.

On October 27, 2010, the Parent Company settled all its outstanding long-term debts with the local banks amounting to ₱1.31 billion.

On May 13, 2011, the Parent Company availed of an additional loan from a local bank amounting to ₱500.00 million. The principal amount of the loan shall be paid within five years from initial drawdown date with interest rate of 3.68%. The payments are to be made in seventeen (17) equal quarterly installments of ₱29.41 million each to commence at the end of the fourth quarter following the date of borrowing.

On March 15, 2011, ICC obtained a ₱150.00 million unsecured and interest-bearing long-term debt from a local bank payable in seventeen (17) equal quarterly installments of ₱8.82 million each starting March 15, 2012. The interest rate will be based on 3-month PDST-F + 1.75% per annum subject to repricing every quarter. Interest rates for the period March 15 to December 31, 2011 ranged from 4.96% to 5.26%. The proceeds of the debt were used by ICC to finance the acquisitions of new machinery and equipment, and construction of a warehouse building extension to house the newly acquired assets. The loan agreement provides certain financial ratios that ICC is required to maintain. As of December 31, 2011, ICC is in compliance with the terms and conditions of the loan agreement with the bank.

Interest expense incurred from the long-term debts amounted to ₱92.19 million, ₱74.64 million and ₱110.84 million in 2011, 2010 and 2009, respectively (see Note 25). Actual interest rates for the long-term debts ranged from 3.20% to 6.43% in 2011, 6.48% to 7.89% in 2010 and 2.5% to 11.67% in 2009.

21. **Equity**

Capital stock

As of December 31, 2011 and 2010, the Parent Company has 3,978,265,025 authorized common stock with ₱1 par value. Issued and outstanding common shares of 3,160,403,866 are held by 3,482 and 3,536 stockholders as of December 31, 2011 and 2010, respectively.

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

Year	Date of Transaction	Common Stock Transactions
1993		185,800,35(

1994	August 3, 1994	93,304,66
1995	April 7, 1995	1,116,420,07
1997	February 25, 1997	5,950,65
1998		20,042,39
1999		1,804,97
2000	July 21, 2000	229,582,17
2000	December 14, 2000	45,252,98
2001		21,950,50
2002		195,891,16
2006	March 17, 2006	47,857,24
2008	January 9, 2008	1,963,857,18
2008	July 29, 2008	(767,310,50
		3,160,403,866

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

Retained earnings
On July 27, 2011, the BOD approved the declaration of ₱0.02965 cash dividend per share or a total of ₱93.71 million representing the full declaration of 30% of recurring net income for 2010 to its stockholders of record as of August 11, 2011. The dividends were paid on September 8, 2011.

On July 27, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 70,543,644 shares to stockholders owning 45 shares or more as of August 11, 2011. On September 12, 2011, the SEC approved the distribution of 70,229,846 shares and was issued to the stockholders on September 21, 2011 at ₱6.01 per share, for a total cost amounting to ₱422.04 million.

On March 2, 2011, the BOD approved the declaration of ₱0.02968 cash dividend per share, or a total of ₱93.80 million, payable to its stockholders of record as of March 16, 2011. The dividends were paid on April 11, 2011.

On January 26, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 69,622,985 shares to stockholders owning 46 shares or more as of March 16, 2011. On April 15, 2011, the SEC approved the distribution of 68,702,325 shares and was issued to the stockholders on April 29, 2011 at ₱6.01 per share, for a total cost amounting to ₱412.87 million.

On April 28, 2010, the BOD approved the declaration of ₱0.01582 cash dividend per share, or a total of ₱50.00 million, payable to its stockholders of record as of May 14, 2010. The dividends were paid on June 9, 2010.

On April 29, 2009, the BOD approved the declaration of ₱0.00791 cash dividend per share, or a total of ₱25.00 million, payable to its stockholders of record as of May 14, 2009, and the issuance of property dividends consisting of 33,265,912 common shares of Philtown at ₱3.49 per share. Stockholders as of record date owning 95 shares were entitled to one Philtown share. No fractional shares have been issued.

On August 26, 2009, the BOD approved the declaration of ₱0.00791 cash dividend per share, or a total of ₱25.00 million, payable to its stockholders of record as of September 25, 2009. The dividends were paid on October 14, 2009.

The Parent Company's retained earnings as of December 31, 2011 is restricted to the extent of the amount of the undistributed equity in net earnings of associates included in its retained earnings amounting to ₱107.39 million. These will only be available for declaration as dividends when these are actually received.

Retained earnings include mark-to-market gain of ₱4.9 million in 2011 and cumulative actuarial gains on defined benefits plan of ₱118.37 million as of December 31, 2010 which are not available for dividend declaration.

22. Cost of Sales and Services

		2011	2010	2009
Manufacturing:				
Raw materials used and changes in inventories		**₱5,677,678**	₱4,702,680	₱4,767,776
Utilities		**308,751**	283,256	215,855
Outside services		**247,510**	234,744	223,657
Personnel costs	(Notes 25, 27 and 28)	**167,945**	160,037	166,446

(Forward)

	2011	2010	2009
Depreciation and amortization (Note 25)	**₱177,111**	₱98,603	₱114,665
Direct labor	**67,532**	75,710	98,034
Rental	**27,524**	46,507	10,282
Other expenses (Note 8)	**344,573**	336,236	329,044
	7,018,624	5,937,773	5,925,759
Services and others:			
Outside services	**21,584**	18,394	16,574
Depreciation and amortization (Note 25)	**7,035**	7,297	4,948
Other expenses	**9,674**	6,553	11,701
	38,293	32,244	33,223
	₱7,056,917	₱5,970,017	₱5,958,982

Other manufacturing expenses include repairs and maintenance, fuel and oil, office supplies, inventories written off and other miscellaneous expenses.

23. Selling and Marketing Expenses

	2011	2010	2009
Advertisements	**₱800,930**	₱893,206	₱648,989
Freight and handling	**399,725**	331,352	244,546
Outside services	**130,739**	98,042	92,872
Personnel costs (Notes 25, 27 and 28)	**106,848**	97,290	98,711

Provision for doubtful accounts (Note 32)	**49,069**	33,741	7,301
Rental	**13,895**	13,941	16,201
Transportation and travel	**8,565**	13,917	24,278
Depreciation and amortization (Note 25)	**7,692**	5,955	5,353
Other expenses (Note 30)	**84,215**	46,554	29,001
	₱1,601,678	₱1,533,998	₱1,167,252

Other expenses include utilities, royalty, repairs and maintenance and other miscellaneous expenses.

24. General and Administrative Expenses

	2011	2010	2009
Personnel costs (Notes 25, 27 and 28)	**₱302,058**	₱273,849	₱283,052
Outside services	**233,386**	199,569	111,206
Royalty and service fees	**80,943**	68,030	55,441
Depreciation and amortization (Note 25)	**59,776**	70,129	44,905
Taxes and licenses	**36,954**	25,190	24,921
Utilities	**24,450**	25,332	16,230
Transportation and travel	**17,819**	15,723	14,730
Director's fees	**15,536**	46,526	33,439
Other expenses (Note 30)	**116,152**	161,620	97,108
	₱887,074	₱885,968	₱681,032

Other expenses include utilities, rental, repairs and maintenance, royalty and service fees, office supplies, provision for restructuring costs and other miscellaneous expenses.

25. Additional Information on Income and Expense Accounts

Personnel Costs

	2011	2010	2009
Salaries and wages	**₱453,067**	₱475,472	₱296,804
Pension benefits costs (Note 27)	**18,036**	24,226	7,624
Other employee benefits (Note 28)	**105,748**	31,478	243,781
	₱576,851	₱531,176	₱548,209

The distribution of the above amounts follows:

	2011	2010	2009
Cost of sales and services (Note 22)	**₱167,945**	₱160,037	₱166,446
Selling and marketing expenses (Note 23)	**106,848**	97,290	98,711
General and administrative expenses (Note 24)	**302,058**	273,849	283,052
	₱576,851	₱531,176	₱548,209

Depreciation and Amortization of Property, Plant and Equipment and Investment Properties

	2011	2010	2009
Cost of sales and services (Note 22)	**₱184,146**	₱105,900	₱119,613
Selling and marketing expenses (Note 23)	**7,692**	5,955	5,353
General and administrative expenses (Note 24)	**59,776**	70,129	44,905
	₱251,614	₱181,984	₱169,871

Interest and Financing Income

	2011	2010	2009
Interest income on loan receivables (Note 14)	**₱9,455**	₱6,719	₱106
Interest income on cash and cash equivalents	**8,226**	9,026	23,181

(Note 6)			
Interest income on Meralco refund (Note 9)	–	645	1,708
	₱17,681	₱16,390	₱24,995

Interest Expense and Financing Charges

	2011	2010	2009
Interest expense on long-term debts (Note 20)	**₱92,194**	₱74,643	₱110,841
Interest expense on bank loans (Note 15)	**26,748**	8,683	11,391
Interest expense on trust receipts payable (Note 8)	**4,310**	9,099	35,378
Interest expense on long-term obligations (Note 18)	**1,900**	2,463	4,397
Others	**3,620**	1,007	–
	₱128,772	₱95,895	₱162,007

Other Income (Charges)

	2011	2010	2009
Other income:			
Equity in net earnings (losses) of associates (Note 12)	**₱12,451**	₱11,904	₱–
Realized mark-to-market gain	**5,952**	3,227	1,738
Unrealized mark-to-market gain (Note 33)	**4,943**	7,387	–
Gain on sale of property and equipment	**1,649**	965	777
Income from toll processing	**451**	14,449	21,607
Foreign exchange gain - net	–	–	14,682
Others - net	**26,862**	15,528	–
	52,308	53,460	38,804
Other charges:			
Provision for probable losses (Notes 19 and 30)	**(50,000)**	–	–
Foreign exchange loss - net	**(128)**	(2,914)	–
Equity in net earnings (losses) of associates (Note 12)	–	–	(10,635)
Others - net	–	–	(3,220)
	(50,128)	(2,914)	(13,855)
	₱2,180	₱50,546	₱24,949

26. Related Party Transactions

The transactions from related parties are made under normal commercial terms and conditions. Outstanding balances as at December 31, 2011 and 2010 are unsecured and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. Advances to/from related parties are noninterest-bearing and collectible/payable on demand.

Significant related party transactions follow:

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

	Sales and Services			Purchases		
	2011	2010	2009	**2011**	2010	2009
Parent Company	**₱163,334**	₱136,449	₱130,914	**₱353,410**	₱313,877	₱272,995
ICC	**321,343**	285,561	234,691	**163,334**	136,449	130,914
RLC	**32,067**	28,316	38,304	**–**	–	–

b. The Parent Company entered into a management agreement with ICC under which the Parent Company shall receive from ICC a monthly fee of ₱0.30 million from January 1, 2009. On October 1, 2009, the monthly fee was increased from ₱0.30 million to ₱1.00 million. On January 1, 2011, the monthly fee was increased from ₱1.00 million to ₱2.50 million. Total service income amounted to ₱30.00 million and ₱12.00 million in 2011 and 2010, respectively.

   In addition, ICC leases production facility and warehouse from the Parent Company for its manufacturing operations and warehousing of its raw materials and finished goods. Rental income amounted to ₱28.00 million, ₱12.44 million and ₱11.90 million in 2011, 2010 and 2009, respectively. Net receivable from ICC amounted to ₱26.04 million and ₱39.30 million as of December 31, 2011 and 2010, respectively.

c. The Parent Company utilizes RLC for its lighterage requirements. Service fee to RLC amounted to ₱32.07 million in 2011, ₱28.32 million in 2010 and ₱38.30 million in 2009. Accounts payable amounted to ₱1.23 million and ₱4.47 million as of December 31, 2011 and 2010, respectively.

d. 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. Advances to a subsidiary are subject to annual interest of 9% on the monthly outstanding balance. Total interest earned by the Parent Company amounted to ₱82.12 million in 2011, ₱57.10 million in 2010 and ₱40.20 million in 2009.

e. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine - URICI pays service fees equivalent to 7% of the total net sales value of goods distributed. Service fees amounted to ₱5.63 million, ₱10.29 million and ₱9.85 million for the years ended December 31, 2011, 2010 and 2009, respectively.

f. Management services of the Parent Company to RIBI wherein RIBI pays the Parent Company a yearly management fee equivalent to 5% of income before income tax or a fixed amount based on the level of net sales, whichever is higher. Management fee for the years ended December 31, 2011, 2010 and 2009 amounted to ₱0.50 million each year.

g. Sale of land to Philtown in 2002 resulting in a deferred gain amounting to ₱119.45 million was included under "Deferred Credits" account in the consolidated balance sheets. In 2008, the Parent Company realized ₱78.58 million of the deferred credits and included it under the "Realized deferred credits on prior year's sale of land" account, resulting from the declaration of its 65.79% ownership in Philtown as property dividends to its stockholders. This resulted in the loss of control over Philtown but resulted in significant influence. In 2009, the Group further reduced its ownership in Philtown to 18.97% through declaration of part of that investment as property dividends to its stockholders, which resulted in the loss of significant influence in Philtown and full realization of the deferred credits amounting to ₱40.86 million in 2009.

h. The Parent Company has a lease agreement for office space with Invest Asia, a subsidiary. The lease covers a one-year period, renewable every two years at the option of the Parent Company. Lease expense amounted to ₱2.88 million in 2011 and 2010.

i. Advances to associates and other related parties

   The Group has the following current advances to related parties:

	2011	2010
Philtown	**₱192,503**	₱234,375
Others	**41,803**	76,881

	234,306	311,256
Less allowance for doubtful accounts (Note 32)	**22,337**	34,296
	₱211,969	₱276,960

Noncurrent advances to other related parties under common shareholders' group which had all been fully provided with allowance for doubtful accounts as of December 31, 2011 and 2010 follow:

	2011	2010
Asia Food Franchising Corporation	**₱502,066**	₱532,066
Rolling Pin	**135,724**	135,724
Roman Pizza	**31,403**	31,403
RFM Development US	**9,674**	9,674
Others	**10,046**	10,046
	688,913	718,913
Less allowance for doubtful accounts (Note 32)	**688,913**	718,913
	₱–	₱–

j. The following are the outstanding trade receivables from related parties:

	2011	2010
Invest Asia shareholders	**₱373,900**	₱373,900
Food Cart Concepts	**4,483**	4,943
Republic Consolidated	**1,518**	1,598
Others	**6,958**	3,998
	386,859	384,439
Less allowance for doubtful accounts (Note 32)	**373,961**	373,957
	₱12,898	₱10,482

k. Advances from related parties follow:

	2011	2010
Philtown	**₱26,404**	₱29,237
Proportionate share in URICI's advances from related parties	**23,630**	71,131
PT Aqua	**16,410**	16,410
Others	**8,263**	36,063
	₱74,707	₱152,841

l. The following are the outstanding trade payables from related parties:

	2011	2010
BEVCO	**₱1,669**	₱1,713
Philtown	**3**	2
Others	**–**	15
	₱1,672	₱1,730

Compensation of key management personnel of the Group by benefit type follows:

	2011	2010	2009
Salaries and other short-term benefits	**₱72,020**	₱71,707	₱113,338
Proportionate share in share-based compensation of URICI	**883**	481	3,557
Pension benefits costs	**5,813**	4,531	6,785
	₱78,716	₱76,719	₱123,680

27. **Pension Benefits**

The Parent Company, joint venture and certain subsidiaries have funded, noncontributory defined benefits pension plans (the Plans) covering substantially all their permanent employees.

a. Pension Benefits Costs

The components of pension benefits costs recognized in the consolidated statements of income for the years ended December 31 follow:

	2011	2010	2009
Current service cost	**₱18,542**	₱14,842	₱4,865
Interest cost on benefits obligation	**24,972**	22,906	14,445
Expected return on plan assets	**(25,478)**	(13,522)	(11,686)
Pension benefits costs	**₱18,036**	₱24,226	₱7,624
Actual return on plan assets	**₱10,931**	₱27,848	₱49,295

b. Net Pension Obligation

The details of the net pension obligation and the amounts recognized in the consolidated balance sheets as of December 31, 2011 and 2010 follow:

	2011	2010
Defined benefits obligation	**₱395,269**	₱316,783
Fair value of plan assets	**(291,433)**	(259,848)
Net pension obligation	**₱103,836**	₱56,935

Changes in the present value of the defined benefits obligation follow:

	2011	2010
Defined benefits obligation, January 1	**₱316,783**	₱238,287
Current service cost	**18,542**	14,842
Interest cost on benefit obligation	**24,972**	22,906
Actuarial loss	**38,100**	54,174
Benefits paid	**(965)**	(13,426)
Transfers	**(2,163)**	–
Defined benefits obligation, December 31	**₱395,269**	₱316,783

Changes in the fair value of plan assets follow:

	2011	2010
Fair value of plan assets, January 1	**₱259,848**	₱230,439
Expected return on plan assets	**25,478**	13,522
Contributions	**23,782**	14,987
Benefits paid	**(965)**	(13,426)
Actuarial gain (loss)	**(14,547)**	14,326
Transfers	**(2,163)**	–
Fair value of plan assets, December 31	**₱291,433**	₱259,848

Transfers pertain to the plan asset share of certain employees of URICI transferred to Unilever Philippines, Inc.

Categories of plan assets as a percentage of the fair value of total plan assets follow:

	2011	2010
Investments in financial instruments	**32.66%**	43.73%
Investments in bonds	**42.43%**	32.46%
Investment in real estate	**7.55%**	17.80%
Cash and cash equivalents	**15.63%**	5.17%

Loans and other receivables	**1.91%**	0.84%
Payable to trustee	**(0.18%)**	–
	100.00%	100.00%

The overall expected return on the plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled. As of December 31, 2011, 2010 and 2009, the principal assumptions used in determining pension benefits costs and liability for the Group's plan follow:

	December 31		
	2011	2010	2009
Discount rate per annum	**6% to 8%**	7% to 8%	9% to 11%
Expected annual rate of return on plan assets	**6% to 10%**	8% to 10%	5% to 10%
Future annual increase in salary rate	**6% to 7%**	7% to 8%	5% to 8%

The latest actuarial valuation of the Group is as of December 31, 2011. Annual contribution to the retirement plan consists of a payment to cover the current service cost for the year plus payment toward funding the actuarial accrued liability. The Group's expected contribution to the fund assets in 2012 amounted to ₱20.71 million.

The amounts for the current and previous periods of the fair value of the plan assets, the present value of the defined benefits obligations and the experience adjustments, follow:

	2011	2010	2009	2008	2007
Fair value of plan assets	**₱291,433**	₱259,848	₱230,439	₱172,882	₱168,213
Defined benefits obligation	**(395,269)**	(316,783)	(238,287)	(71,129)	(243,942)
Surplus (deficit)	**(103,836)**	(56,935)	(7,848)	101,753	(75,729)
Experience adjustments on the defined benefit obligation	**(38,100)**	(54,174)	(153,017)	(203,413)	69
Experience adjustments on plan assets	**(14,547)**	14,326	37,609	(28,857)	(2,397)

Actuarial losses in 2011 and 2010 on defined benefit plan, net of deferred income tax, recognized in other comprehensive income amounted to ₱38.08 million and ₱24.56 million, respectively. Cumulative actuarial loss and cumulative actuarial gain on defined benefits plan recognized in retained earnings amounted to ₱19.71 million and ₱18.37 million as of December 31, 2011 and 2010, respectively.

28. Share-based Compensation Plan

Share-based compensation plan recognized in equity consist of Executive Option Plan (EOP) amounting to ₱0.36 million and ₱0.55 million as of December 31, 2011 and 2010, respectively.

URICI has the following share-based compensation plan, wherein key management of URICI are participating in the following stock options and purchase plans of Unilever N.V. (NV) and Unilever PLC (PLC).

Global Performance Share Plan (GPSP)

The GPSP was introduced in 2005. Under this plan, managers can be awarded conditional shares which will vest three years later at a level between 0% and 150% (for middle management) or 200% (for higher executives) depending on the achievement of set targets for underlying sales growth and free cash flow over the three-year performance period. The amount to be paid by participants to obtain the shares at vesting is zero. Each reward of performance shares is conditional and vests subject to performance conditions three years after the date of the award.

No new awards will subsequently be made under this plan as a new plan was approved by the stockholders in 2008. The new plan is called the Global Share Incentive Plan (GSIP) which

integrates and replaces the GPSP, making ULP's long-term arrangements simpler, easier to understand and supportive of the Group's strategic remuneration principles for its executives.

EOP
The plan was introduced in 2005 to reward key employees of URICI of NV shares for their contribution to the enhancement of URICI's longer term future and their commitment to URICI over a sustained period. Under this plan, options are granted to employees of the group on a discretionary basis. The grant is dependent on the performance of URICI and the individual employee. The share options under this plan become exercisable after a three-year period from the date of grant and have a maximum term of ten (10) years.

The economic fair value of the share options awarded is calculated using an option pricing model (adjusted Black-Scholes model) and the resulting cost is recognized as employee benefit cost over the vesting period of the grant.

Since the introduction of the GPSP in 2005, it is ULP's intention to make no future grants under this plan.

GSIP
Under the GSIP, annual awards of shares in NV and PLC are granted to executive directors along with other senior employees. The actual number of shares received at vesting after three years depends on the satisfaction of performance conditions linked to improvements in URICI's performance.

The vesting share will be conditional on the achievement of three distinct performance conditions over the performance period. The performance period is a thee-year calendar period. These are: (a) vesting of 40% of the shares in the award is based on a condition measuring URICI's relative total shareholder return; (b) vesting of a further 30% of the shares in the award is conditional on average underlying sales growth performance over the three-year period; and (c) the vesting of the final 30% of the shares in the award is conditional on cumulative ungeared free cash flow performance which is the basic driver of returns URICI is able to generate to its stockholders.

Share Matching Plan (SMP)
The SMP enhances the alignment with stockholders' interests and supports the retention of key executives. In addition, the necessity to hold the shares for a minimum period of three years supports the shareholding requirements.

The executive directors receive 25% of their annual incentive in the form of NV and PLC shares. These are matched with an equivalent number of matching shares. The matching shares will vest three years provided that the underlying shares have been retained during this period and the executive director has not resigned or been dismissed at the end of the period.

There is no further performance conditions on the vesting of the matching shares because the shares are directly linked to the annual incentive (which is itself subject to certain performance conditions). In addition, during the three-year vesting period, the share price of NV and PLC will be influenced by the performance of URICI. This, in turn, will affect the ultimate value of the matching shares on vesting.

There have been no further grants of match shares under this plan since 2009. The Share Match program has been replaced by the Management Co-Investment Plan (MCIP) in 2011.

Management Co-Investment Plan (MCIP)
The Management Co-Investment Plan further enhances alignment with shareholder's interest. Under the MCIP, key executives can elect to invest up to 60% of their annual bonus in Unilever

NV and PLC shares (Investment Shares). These are then matched with an equivalent number of shares.

The matching shares will vest in 3 years at 0% to 200% depending on Unilever's achievement of the vesting conditions. The vesting conditions are: (1) Underlying Sales Growth, (2) Average Underlying Operating Margin and (3) Cumulative Operating Cash Flow.

During the vesting period, the match shares can earn dividend equivalents. These dividend shares are re-invested as additional MCIP target shares.

Share-based compensation expense relating to key executives that transferred employment within the Unilever Group entities (including URICI) are recognized in the entity where the services have been rendered. Share-based compensation expense in relation to these key executives are recognized within personnel costs in the consolidated statement of comprehensive income.

In 2011 and 2010, NV and PLC charged URICI an amount equal to the fair value at grant date of the share options provided by URICI under GPSP, GSIP and SMP share-based plans. As a result, the related amounts of share options under share-based compensation reserve in the consolidated statement of changes in equity were transferred to due to related parties in the consolidated balance sheet.

For the year ended December 31, 2011, total recharge from NV and PLC based on the foregoing discussions amounted to ₱2.80 million and ₱1.70 million in 2011 and 2010, respectively. Out of this amount, ₱0.20 million in 2011 and ₱1.40 million in 2010 were credited to share-based compensation reserve in the consolidated statement of changes in equity and ₱2.80 million in 2011 and ₱0.30 million in 2010 were charged to personnel costs in the consolidated statement of comprehensive income.

As at December 31, 2011 and 2010, the exercise price is generally equal to the market price at the date of grant.

The summary of the status and changes on the GPSP, EOP, GSIP and MCIP as of and for the years ended December 31 is as follows:

GPSP

	2011		2010	
	Unilever NV Shares		Unilever NV Shares	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	**–**	**₱–**	790	₱19.06
Vested	**–**	**–**	(790)	(19.06)
Lapsed	**–**		–	–
Outstanding at December 31	**–**	**₱–**	–	₱–

EOP

	2011				2010			
	Unilever NV Shares		**Unilever PLC Shares**		Unilever NV Shares		Unilever PLC Shares	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at January 1	**825**	**€18.03**	**810**	**£11.54**	4,950	€18.20	4,860	£12.27
Exercised	**(825)**	**(18.03)**	**(810)**	**(11.54)**	–	–	–	–
Lapsed	–	–	–	–	(4,125)	18.23	(4,050)	12.24
Outstanding at December 31	–	–	–	–	825	€18.03	810	£11.54
						€		£
						1		1
						8		1
					8	.		.
					2	0		5
Exercisable at December 31	**–**	**–**	–	**–**	5	3	810	4

The exercise prices and remaining life of the EOP as of December 31, 2011 follow:

Unilever NV Shares

As of December 31, 2011:

Options Outstanding			Options Exercisable	
Number of Shares Options Outstanding	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Share Options Exercisable**	**Weighted Average Exercise Price**
–	–	**€–**	–	**€–**

As of December 31, 2010:

Options Outstanding			Options Exercisable	
Number of Shares Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Share Options Exercisable	Weighted Average Exercise Price
825	4 years	€18.03	825	€18.03

Unilever PLC Shares

As of December 31, 2011:

Options Outstanding			Options Exercisable	
Number of Shares Options Outstanding	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Share Options Exercisable**	**Weighted Average Exercise Price**
–	–	**£–**	–	**£–**

As of December 31, 2010:

Options Outstanding			Options Exercisable	
Number of Shares Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Share Options Exercisable	Weighted Average Exercise Price
810	4 years	£11.54	810	£1

GSIP

	2011		2010	
	Unilever NV Shares		Unilever NV Shares	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	**1,936**	**₱17.31**	1,300	₱15.27
Grant	**522**	**22.84**	636	21.49
Lapsed	**(14)**	**(19.11)**	–	–
Released	**(466)**	**(19.11)**	–	–
Outstanding at December 31	**1,978**	**₱18.34**	1,936	₱17.31
Fair value per share award during the year in Euro/Pound [(a) (b)]	**£22.9**		£21.49	–
Fair value per share award during the year in Peso	**₱1,409**		₱1,345	

[(a)] *Weighted average of share awards granted during the year.*
[(b)] *Estimated based on par achievement target.*

SMP

As at and for the years ended December 31, 2011 and 2010, there were no outstanding additional grant and exercised SMP share options.

MCIP

	2011		2010	
	Unilever NV Shares		Unilever NV Shares	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	–	£–	–	₱–
Grant	765	22.91	–	–
Outstanding at December 31	765	£22.91	–	₱–
Fair value per share award during the year in Euro/Pound [(a)]	£22.9	–	£–	–
Fair value per share award during the year in Peso	₱1,409	–	₱–	–

[(a)] *Weighted average of share awards granted during the year.*

29. Income Taxes

a. The details of the Group's net deferred income taxes per company follows:

	December 31, 2011		December 31, 2010	
	Net deferred income tax assets	Net deferred income tax liabilities	Net deferred income tax assets	Net deferred income tax liabilities
Parent Company	₱–	(₱152,754)	₱–	(₱161,170)
CMPC	–	(19,186)	–	(19,186)
URICI	59,393	–	71,390	–
ICC	4,214	–	4,470	–
Others	1,905	–	1,450	–
	₱65,512	(₱171,940)	₱77,310	(₱180,356)

b. The components of the Group's net deferred income tax assets (liabilities) follow:

	2011	2010
Deferred income tax assets on:		
Doubtful accounts and probable losses	₱41,617	₱46,591
Accrual of advertising and promotions	36,400	53,889
Cumulative actuarial loss on defined benefit plan	27,123	11,330
Accrual of employee benefits	21,230	24,654
Provision for probable losses	15,000	–
Inventory losses and obsolescence	9,108	9,863
Net pension obligation	6,869	5,793
Others	1,347	9,956
Total deferred income tax assets	158,694	162,076
Deferred income tax liabilities on:		
Revaluation increment on land	(243,832)	(243,832)
Cumulative actuarial gain on defined benefit plan	(21,290)	(21,290)
Total deferred income tax liabilities	(265,122)	(265,122)
Net deferred income tax assets (liabilities)	(₱106,428)	(₱103,046)

c. Deferred income tax assets have not been recognized by the individual subsidiaries in the Group to which these deductible temporary differences, carryforward benefits of NOLCO and excess of MCIT over RCIT relate because they do not expect availability of taxable income to realize the benefits:

	2011	2010

Allowances for:		
Doubtful accounts	**₱1,451,642**	₱1,597,542
Inventory obsolescence	**128,987**	128,987
Losses on prepayments	**33,649**	33,649
Impairment losses on property, plant and equipment	**20,356**	20,356
Unamortized past service cost	**55,970**	49,326

	2011	2010
NOLCO	**₱30,408**	₱17,235
Net pension obligation	**80,939**	37,625
Excess MCIT	**224**	3,981
Unrealized foreign exchange loss	**399**	868

NOLCO:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2008	₱483	₱483	₱–	2011
2010	16,752	–	16,752	2013
2011	13,656	–	13,656	2014
	₱30,891	₱483	₱30,408	

Excess MCIT:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2008	₱3,884	₱3,884	₱–	2011
2010	97	–	97	2013
2011	127	–	127	2014
	₱4,108	₱3,884	₱224	

d. A reconciliation of income tax computed at the statutory income tax rate to the provision for income tax follows:

	2011	2010	2009
Provision for income tax at the statutory income tax rate	**₱214,456**	₱229,898	₱146,867
Additions to (reductions in) income tax resulting from:			
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized in the previous years but applied and utilized in the current year	**(15,674)**	(85,042)	(11,483)
Equity in net losses (earnings) of associates	**(3,735)**	(3,571)	3,190
Interest income subjected to final tax	**(2,468)**	(2,708)	(6,954)
Nondeductible portion of interest expense	**748**	894	2,295
Nontaxable excess of acquirer's interest in fair value of identifiable net assets acquired over the cost of business combination	**–**	(4,243)	–
Nontaxable realization of deferred credits	**–**	–	(12,259)
Recognition of deferred income tax asset from deductible temporary difference	**–**	–	(4,881)
Others	**13,222**	6,006	7,326
Provision for income tax	**₱206,549**	₱141,234	₱124,101

30. **Commitments and Contingencies**

a. As discussed in Note 18, the Group entered into finance leases covering various machineries and equipment with a third party supplier.

b. The Parent Company entered into a Trademark License Agreement with Sunkist Growers, Inc. (Sunkist) whereby the latter granted the Parent Company exclusive right to use certain of Sunkist's trademark and trade dress in connection with the manufacture, marketing, distribution and sale of non-carbonated beverages. The Parent Company agreed to pay a fixed amount of royalty, as stipulated in the Agreement, every year. The Agreement will cease upon mutual consent of the Parent Company and Sunkist. Unpaid royalty recorded under "Other accrued liabilities" account amounted to ₱2.45 million and ₱0.67 million as of December 31, 2011 and 2010, respectively. Royalty expense under "Other expenses" account in selling and marketing expenses amounted to ₱7.06 million, ₱7.33 million and ₱10.25 million in 2011, 2010 and 2009, respectively.

   The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel believe the said cases will be resolved in favor of the Group and in the event that any of those cases will have an adverse ruling against the Group, it will not have a material effect on its consolidated financial statements. Certain outstanding provision as of December 31, 2009 was reversed in 2010 as a result of the favorable resolution by the CA. The CA denied the motion for reconsideration for the litigation claims against the Group. The Group reversed the provision made in prior years and credited the reversal amounting to ₱14.61 million to the 2010 consolidated statement of income (see Note 19).

c. Provisions for restructuring costs are recognized by URICI for employee redundancy who have accepted the redundancy programs and financial package offered by URICI to its employees. The restructuring programs are generally completed a year from date of implementation and settled within 12 months from balance sheet date.

   The Group's provision for restructuring costs amounted to ₱1.64 million and ₱1.57 million as of December 31, 2011 and 2010, respectively (see Note 19). Further, in 2011, the Group recognized additional provision for certain legal and regulatory matters amounting to ₱50.00 million.

   The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

31. Basic/Diluted Earnings Per Share

	2011	2010	2009
a. Net income attributable to equity holders of the Parent Company	**₱509,580**	₱624,710	₱364,445
b. Weighted average number of common shares outstanding	**3,160,403,866**	3,160,403,866	3,160,403,866
c. Basic/diluted earnings per share	**₱0.161**	₱0.198	₱0.115

The Group does not have potentially dilutive common shares as of December 31, 2011, 2010 and 2009. Therefore, the basic/dilutive earnings per share are the same as of those dates.

32. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, AFS financial assets, accounts receivable, bank loans, accounts payable and

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

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

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

The maximum exposures to credit risk as of December 31, 2011 and 2010 for the components of the consolidated balance sheets before the effect of mitigation through the use of master netting and collateral agreements follow:

	2011	2010
Loans and receivables:		
Cash in banks and cash equivalents	**₱694,676**	₱588,410
Trade receivables:		
Manufacturing	**1,690,952**	1,455,315
Services and others	**21,188**	59,422
Advances to related parties	**211,969**	276,960
Other current receivables	**148,944**	158,293
Other current assets	**36,966**	9,024
	₱2,804,695	₱2,547,424

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The credit quality of financial assets is managed by the Group using internal credit ratings. The credit quality by class, of neither past due nor impaired financial assets as of December 31, 2011 and 2010, based on the Group's credit rating system follows:

As of December 31, 2011:

	Neither past due nor impaired		**Past due but not impaired**	**Past due and Individually Impaired**	**Total**
	Excellent	**Good**			
Loans and receivables:					
Cash in banks and cash equivalents	**₱694,676**	**₱–**	**₱–**	**₱–**	**₱694,676**
Trade receivables:					
Manufacturing	**502,203**	**250,557**	**938,191**	**369,086**	**2,060,037**
Services and others	**–**	**21,188**	**–**	**391,405**	**412,593**
Advances to related parties	**–**	**211,969**	**–**	**711,250**	**923,219**
Other current receivables	**–**	**148,944**	**–**	**118,624**	**267,568**
Other current assets	**36,966**	**–**	**–**	**–**	**36,966**
	₱1,233,845	**₱632,658**	**₱938,191**	**₱1,590,365**	**₱4,395,059**

As of December 31, 2010:

	Neither past due nor impaired		Past due but not impaired	Past due and individually impaired	Total
	Excellent	Good			
Loans and receivables:					
Cash in banks and cash equivalents	₱588,410	₱–	₱–	₱–	₱588,410
Trade receivables:	–	–	–	–	
Manufacturing	363,689	212,718	878,908	347,078	1,802,393
Services and others	–	59,422	–	391,159	450,581
Advances to related parties	–	276,960	–	753,209	1,030,169
Other current receivables	–	158,293	–	121,626	279,919
Other current assets	9,024	–	–	–	9,024
	₱961,123	₱707,393	₱878,908	₱1,613,072	₱4,160,496

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

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

The aging analysis of past due but not impaired financial assets as of December 31, 2011 and 2010 follows:

As of December 31, 2011:

	Past due but not impaired					
	Less than 30 ‹	**31 ‹ 60 ‹**	**61 ‹ 90 ‹**	**91 ‹ 365 ‹**	**More than 365 ‹**	**Total**
Loans and receivables:						
Trade receivables	**₱486,069**	**₱206,640**	**₱53,710**	**₱86,507**	**₱70,229**	**₱903,155**

As of December 31, 2011:

	Past due but not impaired					
	Less than 30 ‹	31 ‹ 60 ‹	61 ‹ 90 ‹	91 ‹ 365 ‹	More than 365 ‹	Total
Loans and receivables:						
Trade receivables	₱449,523	₱193,642	₱46,028	₱103,016	₱86,699	₱878,908

Reconciliation of the allowance for doubtful accounts for loans and receivables by class follows:

As of December 31, 2011:

	January 1, 2011	**Charges for the year**	**Write-offs**	**Reclassification**	**Reversals**	**Additions due to acquisition**	**December 31, 2011**
Trade receivables :							
Manufacturing	**₱347,078**	**₱51,821**	**(₱28,970)**	**₱–**	**(₱843)**	**₱–**	**₱369,086**
Services and others	**391,159**	**246**	**–**	**–**	**–**	**–**	**391,405**
Advances to related parties	**753,209**	**41**	**(30,000)**	**–**	**(12,000)**	**–**	**711,250**
Other current receivables	**121,626**	**176**	**(3,178)**	**–**	**–**	**–**	**118,624**
	₱1,613,072	**₱52,284**	**(₱62,148)**	**₱–**	**(₱12,843)**	**₱–**	**₱1,590,365**
Individual impairment	**₱1,570,901**	**₱28,979**	**(₱30,000)**	**₱–**	**₱–**	**₱–**	**₱1,569,880**
Collective impairment	**42,171**	**23,305**	**(32,148)**	**–**	**(12,843)**	**–**	**20,485**
	₱1,613,072	**₱52,284**	**(₱62,148)**	**₱–**	**(₱12,843)**	**₱–**	**₱1,590,365**

As of December 31, 2010:

	January 1, 2010	Charges for the year	Write-offs	Reclassification	Reversals	Additions due to acquisition	December 31, 2010
Trade receivables :							
Manufacturing	₱409,352	₱47,395	(₱109,159)	₱–	(₱510)	₱–	₱347,078
Services and others	333	1,659	(2,539)	17,806	–	373,900	391,159
Advances to related parties	741,209	12,000	–	–	–	–	753,209
Other current receivables	135,571	4,033	(172)	(17,806)	–	–	121,626
	₱1,286,465	₱65,087	(₱111,870)	₱–	(₱510)	₱373,900	₱1,613,072

Individual impairment	₱1,057,835	₱25,939	₱–	₱113,227	₱–	₱373,900	₱1,570,901
Collective impairment	228,630	39,148	(111,870)	(113,227)	(510)	–	42,171
	₱1,286,465	₱65,087	(₱111,870)	₱–	(₱510)	₱373,900	₱1,613,072

Liquidity risk

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

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

The following tables show the maturity profile of the Group's undiscounted cash flows from financial assets used for liquidity purposes and other financial liabilities as of December 31, 2011 and 2010.

As of December 31, 2011:

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to than 5 years**	**More than 5 years**	**Total**
Financial Assets							
Cash in banks and cash equivalents	**₱694,676**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱694,676**
Trade receivables:							
Manufacturing	**752,760**	**938,191**	**–**	**–**	**–**	**–**	**1,690,951**
Service	**21,188**	**–**	**–**	**–**	**–**	**–**	**21,188**
Advances to related parties	**211,969**	**–**	**–**	**–**	**–**	**–**	**211,969**
Other current receivables	**148,944**	**–**	**–**	**–**	**–**	**–**	**148,944**
Other current assets	**–**	**–**	**–**	**–**	**–**	**36,966**	**36,966**
	₱1,829,537	**₱938,191**	**₱–**	**₱–**	**₱–**	**₱36,966**	**₱2,804,694**

	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to than 5 years**	**More than 5 years**	**Total**
Financial Liabilities							
Bank loans*	**₱879,995**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱879,995**
Accounts payable and accrued liabilities	**2,029,969**	**–**	**–**	**–**	**–**	**–**	**2,029,969**
Advances from related parties	**74,707**	**–**	**–**	**–**	**–**	**–**	**74,707**
Customers' deposits	**18,341**	**–**	**–**	**–**	**–**	**–**	**18,341**
Long-term debts and obligations, including current maturities*	**320,323**	**343,677**	**331,781**	**322,710**	**342,172**	**–**	**1,660,663**
	₱3,323,335	**₱343,677**	**₱331,781**	**₱322,710**	**₱342,172**	**₱–**	**₱4,663,675**

**Inclusive of interest expense until maturity*

As of December 31, 2010:

	Less than 1 year	1 to 2	2 to 3	3 to less than 4 years	4 to less than 5 years	More than 5 years	Total
Financial Assets							
Cash in banks and cash equivalents	₱588,410	₱–	₱–	₱–	₱–	₱–	₱588,410
Trade receivables:							
Manufacturing	618,143	837,172	–	–	–	–	1,455,315
Service	59,422	–	–	–	–	–	59,422
Advances to related parties	276,960	–	–	–	–	–	276,960
Other current receivables	158,293	–	–	–	–	–	158,293
Other current assets	–	–	–	–	–	9,024	9,024
	₱1,701,228	₱837,172	₱–	₱–	₱–	₱9,024	₱2,547,424
Financial Liabilities							
Bank loans*	₱370,701	₱–	₱–	₱–	₱–	₱–	₱370,701
Accounts payable and accrued liabilities	1,930,515	–	–	–	–	–	1,930,515
Trust receipts payable*	417,705	–	–	–	–	–	417,705
Advances from related parties	152,841	–	–	–	–	–	152,841

Customers' deposits	25,900	–	–	–	–	–	25,900
Long-term debts and obligations, including current maturities*	116,434	537,817	638,229	614,864	596,438	768,855	3,272,637
	₱3,014,096	₱537,817	₱638,229	₱614,864	₱596,438	₱768,855	₱6,170,299

**Inclusive of interest expense until maturity*

Refer to Notes 15, 18 and 20 for the interest rate profile of bank loans, long-term debts and obligations.

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

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

To further reduce its interest rate risk exposure, the Group through the Parent Company entered into an interest rate swap agreement in 2009 (see Note 33). The Parent Company utilizes PHP interest rate swap with a receive variable leg based on the benchmark interest rate of three-month PDST-F and pay fixed leg that it is the receive leg that virtually matches the loan's critical terms. With this, the variability in cash flows of the interest rate swaps are expected to offset the variability in cash flows of the loan due to changes in the benchmark interest rate. Therefore, the Parent Company concluded that no or little ineffectiveness will result (absent a default by the counterparty).

As more of the floating-rate loans were paid on scheduled repayment dates and the hedging transaction effectively converted the floating rate to fixed rate, the percentage of floating-rate debt represents 62.44% of total outstanding long-term debts as of December 31, 2009.

The sensitivity to a reasonably possible change in interest rates on the Group's short-term and long-term debts and obligations, with all other variables held constant of the Group's income before income tax for the years ended December 31, 2011 and 2010 follows:

December 31, 2011:

	Change in interest rates (in basis points*)			
	121bp rise	**164bp rise**	**121bp fall**	**164bp fall**
Effect on income before income tax	**(₱20,094)**	**(₱27,235)**	**₱20,094**	**₱27,235**

**1 basis point is equivalent to 0.01%*

December 31, 2010:

	Change in interest rates (in basis points*)			
	133bp rise	115bp rise	133bp fall	115bp fall
Effect on income before income tax	(₱49,082)	(₱42,439)	₱49,082	₱42,439

**1 basis point is equivalent to 0.01%*

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

There is no other impact on the Group's equity other than those affecting the profit or loss.

Foreign exchange risk

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2011 and 2010.

A reasonably possible change of –/+2.12% in 2011 and –/+ 0.9% in 2010 in United States dollar (US$) exchange rate at December 31, 2011 and 2010 would lead to the following income before income tax movements in the Group's consolidated statements of income:

December 31, 2011:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	**US dollar weakened by 2.12% against Philippine peso**	**US dollar strengthe Philippine peso**
Cash and cash equivalents	**₱41,870**	**(₱887)**	**₱887**
Trade receivables	**34,000**	**(721)**	**721**
Advances to related parties	**8,418**	**(178)**	**178**
Other assets	**2,861**	**(61)**	**61**
Accounts payable	**(22,303)**	**473**	**(473)**
Advances from related parties	**(327)**	**7**	**(7)**
	₱64,519	**(₱1,367)**	**₱1,367**

December 31, 2010:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	US dollar weakened by 0.9% against Philippine peso	US dollar strengthe Philippine peso
Cash and cash equivalents	₱42,598	(₱384)	₱384
Trade receivables	37,898	(341)	341
Advances to related parties	51,379	(462)	462
Other assets	2,843	(26)	26
Accounts payable	(93,200)	839	(839)
Advances from related parties	(3,992)	36	(36)
	₱37,526	(₱338)	₱338

The exchange rate of the Peso to the US Dollar is ₱43.84 in both years.

There is no other impact on the Group's equity other than those affecting the profit or loss.

Equity price risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stock. Management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of quoted common and golf club shares, which are classified as AFS financial assets (see Note 12). These investments, totaling ₱32.13 million and ₱34.44 million as of December 31, 2011 and 2010, respectively, represent 0.30% and 0.33% of the total assets of the Group.

The effects on equity, as a result of a reasonably possible change in the fair value of the Group's equity instruments held as AFS financial assets as of December 31, 2011 and 2010, which could be brought by changes in quoted prices with all other variables held constant, follow:

Change in quoted prices of investments carried at fair value	**2011**	2010
Increase by 10%	**₱3,213**	₱3,444
Increase by 5%	**1,607**	1,722
Decrease by 10%	**(3,213)**	(3,444)
Decrease by 5%	**(1,607)**	(1,722)

There is no other impact on the Group's equity other than those affecting the profit or loss.

33. Financial Assets and Financial Liabilities

The following summarizes the carrying values and fair values of the Group's financial assets and financial liabilities as of December 31:

	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	**Carrying Value**	**Fair Value**
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱812,997	₱812,997	**₱638,472**	**₱638,472**
Trade receivables:				
Manufacturing	1,690,952	1,690,952	**1,455,315**	**1,455,315**
Services and others	21,188	21,188	**59,422**	**59,422**

(Forward)

	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	**Carrying Value**	**Fair Value**
Advances to related parties	₱211,969	₱211,969	**₱276,960**	**₱276,960**
Other current receivables	148,944	148,944	**158,293**	**158,293**
Other current assets	36,966	36,966	**9,024**	**9,024**
	2,923,016	2,923,016	**2,597,486**	**2,597,486**
AFS financial assets:				
Unquoted:				
Redeemable preferred shares	764,736	764,736	**1,599,649**	**1,599,649**
Common shares	149,752	149,752	**149,752**	**149,752**
Quoted common and golf shares	32,134	32,134	**34,441**	**34,441**
	946,622	946,622	**1,783,842**	**1,783,842**
	₱3,869,638	₱3,869,638	**₱4,381,328**	**₱4,381,328**
Financial Liabilities				
Financial liabilities at FVPL	₱1,732	₱1,732	**₱6,675**	**₱6,675**
Other financial liabilities:				
Bank loans	879,995	879,995	**370,000**	**370,000**
Accounts payable and accrued liabilities	2,029,969	2,029,969	**1,930,515**	**1,930,515**
Trust receipts payable	–	–	**417,189**	**417,189**
Advances from related parties	74,707	74,707	**152,841**	**152,841**
Customers' deposits	18,341	18,341	**25,900**	**25,900**
Long-term debts and obligations, including current maturities	1,660,663	1,660,663	**1,515,766**	**1,515,766**
	4,663,675	4,663,675	**4,412,211**	**4,412,211**
	₱4,665,407	₱4,665,407	**₱4,418,886**	**₱4,418,886**

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 customers' deposits approximate their fair values.

The fair value of quoted AFS financial assets and trust receipts payable has been determined by reference to quoted market prices at the close of business on December 31, 2011 and 2010. Investments in unquoted equity securities are carried at historical cost, net of impairment, as their fair value cannot be reliably measured.

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

The Group's investments in quoted AFS financial assets comprised of shares of stocks and golf club shares amounted to ₱32.13 million in 2011 and ₱34.44 million in 2010. Fair value measurements of these financial assets were determined directly by reference to published prices quoted in an active market (Level 1 of the fair value hierarchy).

There had been no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy in 2011 and 2010.

Derivative Instruments

The related fair values of the Group's outstanding derivative liability arising from the interest rate swap amounted to ₱1.73 million and ₱6.68 million as of December 31, 2011 and 2010, respectively.

Derivatives Accounted for Under Cash Flow Hedge Accounting

On August 27, 2009, the Parent Company entered into an interest rate swap transaction with Hongkong and Shanghai Banking Corporation (HSBC) to hedge the cash flow variability on the BDO loan due to movements in interest rates. Details of the interest rate swap follow:

Trade Date	Maturity Date	Notional Amount*	Receive Floating	Pay Fixed
August 27, 2009	October 3, 2012	₱380.00 million	PDST-F + 250 basis points	7.92% per annum

**Amortizing based on a given schedule*

Under the interest rate swap, the Parent Company will receive quarterly interest at a rate of 3-months PDST-F plus 2.50% per annum spread on the outstanding peso balance starting October 5, 2009 until October 3, 2012, and pay quarterly interest at fixed rate of 7.92% per annum on the outstanding peso balance starting October 5, 2009 until October 3, 2012. The outstanding notional amount of the swap amounted to nil as of December 31, 2011 and 2010.

On October 2010, the Parent Company terminated its local bank loan, which is the underlying of the interest rate swap agreement. In line with the termination of the loan, the interest rate swap is accounted for as freestanding derivative from the day the loan was terminated. Hence, unrealized loss in equity amounting to ₱0.84 million was recognized in full in the 2010 parent company statement of income. As of December 31, 2011 and 2010, the fair value of the derivative liability amounted to ₱1.73 million and ₱6.68 million, respectively. The Parent Company recognized in the statements of income mark-to-market gain amounting to ₱4.94 million in 2011 and mark-to-market loss of ₱5.48 million in 2010.

Hedge Effectiveness of Cash Flow Hedge

Movements of the Parent Company's cumulative translation adjustments on cash flow hedge for the year ended December 31, 2009 follow:

Balance at beginning of year	₱–

Fair value changes of derivative	2,938
Fair value changes on derivative taken to profit or loss	(1,738)
Derivative liability at end of year	1,200
Less tax effect	360
Cash flow hedge at end of year	₱840

No ineffectiveness was recognized in the 2009 consolidated statement of income.

Fair Value Changes on Derivatives

The net changes in the fair values of all derivative instruments for the years ended December 31, 2011 and 2010 follow:

	2011	2010
Balance at beginning of year	**(₱6,675)**	(₱1,200)
Net changes in fair values of derivatives designated as accounting hedge*	**–**	(2,248)
	(6,675)	(3,448)
Fair value changes of derivative taken to profit or loss	**4,943**	(3,227)
Derivative liability at end of year	**(₱1,732)**	(₱6,675)

**Until October 27, 2010*

Forward Contracts

For the year ended December 31, 2011 and 2010, URICI, through the Central Treasury Department, entered into forward foreign exchange contracts as a hedge against foreign currency denominated liabilities and commitments. These forward foreign exchange contracts are expected to be settled within one month from the balance sheet date.

URICI's forward foreign exchange contracts outstanding as of December 31, 2011 and 2010 follow:

	2011	2010
Aggregate notional amount of forward exchange contracts in US$	**$1,020**	$182
Average contracted forward rate in US dollar at balance sheet date	**₱42.43**	₱45.57
Fair value of forward exchange contracts in Philippine Peso	**₱43,279**	₱8,294

As of December 31, 2011 and 2010, the outstanding forward exchange contracts have aggregate equivalent notional amounts of ₱87.57 million and ₱15.93 million, respectively.

As at and for the years ended December 31, 2011 and 2010, the difference between the fair market values and aggregate notional amount of the forward contract, at net settled amount, is not considered significant.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at balance sheet date and any difference between the fair market values and aggregate notional amounts of these forward foreign exchange contracts is recognized immediately in the consolidated statement of income.

34. Capital Management

It is the objective of the Group to maintain a capital base that adequately services the needs of its present and future operations while keeping within the capital level required by creditors. The capital base is also sufficient to address present and future uncertainties and risks inherent in the business and changes in the economic conditions. Payment of dividends, return of capital, or issuance of shares to increase capital shall be made accordingly and as may be necessary. No changes were made in the objectives, policies and processes as of December 31, 2011 and 2010.

The table below summarizes the total capital considered by the Group:

	2011	2010
Capital stock	**₱3,160,404**	₱3,160,404
Capital in excess of par value	**788,643**	788,643
Retained earnings	**622,698**	1,172,385
	₱4,571,745	₱5,121,432

35. Notes to Consolidated Statements of Cash Flows

Noncash Investing Activities

a. The Group's noncash investing activity in 2011 pertains to acquisitions of property and equipment amounting to ₱5.71 million which were not paid as of December 31, 2011. These amounts are included as part of the "Accounts payable and accrued liabilities" account in the 2011 consolidated balance sheet.

b. The Group's noncash investing activity in 2010 pertains to the reversal of allowance for impairment loss on property, plant and equipment amounting to ₱46.18 million, dividend receivable from Philtown amounting to ₱10.00 million, and acquisitions of property and equipment amounting to ₱0.94 million which were not paid as of December 31, 2010. The related receivables and payables are included as part of "Other receivables" and "Accounts payable and accrued liabilities" accounts in the 2010 consolidated balance sheet.

c. In 2009, the Group's noncash investing activities pertain to the reversal of allowance for impairment loss on property, plant and equipment amounting to ₱31.80 million and the cancellation of installment purchase obligation on machinery and equipment with a net book value of ₱13.64 million.

Noncash Financing Activities

a. The Group's noncash financing activity in 2010 pertains to the interest rate swap that was used as hedge amounting to ₱6.68 million for the exposure to change in the fair value of the Group's ₱380.00 million fixed-rate loan.

b. The Group's noncash financing activities in 2009 pertain to (i) the Company's declaration of 25.56% of the Group's investment in Philtown's common shares as property dividends to the Parent Company's stockholders amounting to ₱116.22 million; and (ii) the interest rate swap that was used as hedge for the exposure to change in the fair value of the Group's ₱380.00 million fixed-rate loan amounting to ₱1.2 million.

36. Event After the Balance Sheet Date

On February 29, 2012, the BOD of the Parent Company approved the cash dividend declaration amounting to ₱75.57 million at ₱0.02391 per share, payable to its stockholders of record as of March 14, 2012. Payment was made on April 12, 2012.

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Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
RFM Corporation
RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of RFM Corporation and its subsidiaries as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A and have issued our report thereon dated April 25, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174599, January 2, 2012, Makati City

April 25, 2012

A member firm of Ernst & Young Global Limited

RFM CORPORATION AND SUBSIDIARIES
Schedule A. Financial Assets
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Balance Sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Bank of the Philippine Islands (formerly Citytrust)	559,518	31	Yes	0
Republic Dynamics Corporation	1,630,935	4	Not listed	0
PSI Technologies, Inc., (formerly PACSEM)	2,253	1	Not listed	0
Makati Sports Club, Inc.	1	0	Not listed	0
Philippine Long Distance Telephone Company, Inc.	18,900	0	Yes	0
Asia Finance Corporation, Ltd.	100,000	0	Not listed	0
Club Filipino, Inc.	1	0	Not listed	0
Philippine Exporters Trading Corporation	1	0	Not listed	0
Philtown Inc. Common	41,431,346	145	Not listed	0
Universal Rightfield	500,000	0	Not listed	0
Petroenergy	137,600	1	Yes	0
Wellex Industries	280,000	0	Yes	0
Philtown Inc. Preferred	218,349,995	763	Not listed	0
Swift Foods Inc. Preferred	313,798	2	Not listed	0
Total		947		0

RFM CORPORATION AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period	If collections was other than in cash, explain	If for write off, give reasons
Concepcion, Jose Jr.	0				0		0		
Concepcion, John Marie	0				0		0		
Concepcion, Jose Maria III	23	14	(24)		13		13		
Nacino, Felicisimo Jr.	1	0	(0)		1		1		
Monasterio, Vina	1				1		1		
Others	1				1		1		
	27	**14**	**(24)**	**-**	**17**	**-**	**17**		

RFM CORPORATION AND SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Balance at the end of period	If collections was other than in cash, explain	If for write off, give reasons
Cabuyao Meat Processing Corporation	469	529	treated as equity investment	
Interbake Commissary Corporation	39	26		
RFM Foods Philippines Corporation	185	182		
RFM Tuna Corporation	141	141		
Filipinas Water Bottling Company, Inc.	15	21		
RFM Canning & Marketing, Inc.	35	35		
Investment Asia Corporation	319	-	treated as equity investment	
Total	**1,204**	**934**		

RFM CORPORATION AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period	If collections was other than in cash, explain	If for write off, give reasons
Goodwill	191					191	191		

RFM CORPORATION AND SUBSIDIARIES
Schedule E. LONG TERM DEBT
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Title of Issue and type of obligation	Amount authorized by Indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
Floating rate note facility from local banks, with interest rate of 6.12%	1,500.00	498.53	1,001.47
Loan from local bank with interest rate based on 3-month PDST-F plus spread of 1.65%	500.00	-	500.00
Loan from local bank with interest rate based on 3-month PDST-F plus spread of 1.75%	150.00	-	150.00
Total	**2,150.00**	**498.53**	**1,651.47**

RFM CORPORATION AND SUBSIDIARIES
Schedule F. INDEBTEDNESS TO RELATED PARTIES
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Balance at the end of period
RFM Equities, Inc.	(57)	(37)
RFM Insurance Brokerage, Inc.	(11)	(11)
Conglomerate Securities & Financing Corp	(6)	(6)
Unilever-RFM Ice Cream, Inc.	(28)	(18)
Total	**(103)**	**(72)**

RFM CORPORATION AND SUBSIDIARIES
Schedule H. CAPITAL STOCK
For the year Ended December 31, 2011
(Amounts in Million Pesos unless otherwise stated)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding*	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shared Held By		
				Affiliates	Directors, Officers and Employees	Others
Common stock – P1 par value	3,978,265,025	3,160,403,866	-	-	21,622,695	3,138,781,171
	3,978,265,025	3,160,403,866	-	-	21,622,695	3,138,781,171

RFM CORPORATION AND SUBSIDIARIES
Schedule I. List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2011

PFRSs	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Adopted
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Adopted
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Adopted
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Adopted
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Adopted
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in*	Not applicable

PFRSs	Adopted/Not adopted/Not applicable
Hyperinflationary Economies	
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Adopted
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Adopted
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Adopted
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Adopted
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Adopted
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Adopted
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Adopted
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Adopted
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Adopted

Important: *If an entity has early adopted any of the following pronouncements, please take note of the: (1) additional disclosures the entity has to make for the early adoption of the said pronouncements and (2) the existing PFRSs that the entity may have to mark as "**Not applicable**":*

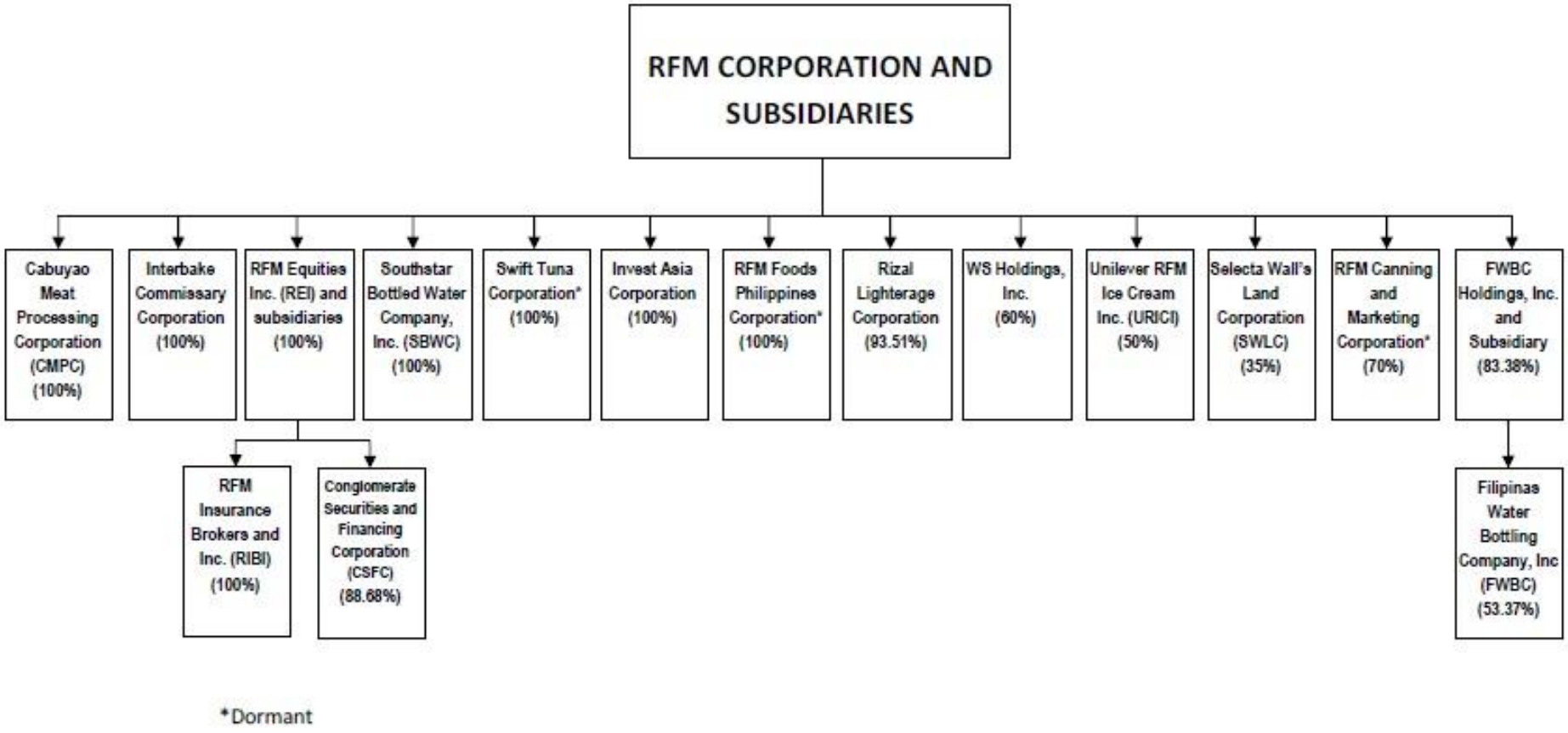
PFRSs	Adopted/Not adopted/Not applicable
New and Amended Standards and Interpretations	
PAS 24 (Amended), *Related Party Disclosures*	Adopted
PAS 32, *Financial Instruments: Presentation* (Amendment) – Classification of Rights Issues	Adopted
Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*	Not Applicable
PFRS 1, *First-time Adoption of IFRS* – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	Not Applicable
Improvements to PFRS	
PFRS 1, *First-time Adoption of IFRS:* • Accounting policy changes in the year of	Not Applicable

PFRSs	Adopted/Not adopted/Not applicable
adoption • Revaluation basis as 'deemed cost' • Use of 'deemed cost' for operations subject to rate regulation	
PFRS 3, *Business Combinations:* • Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS. • Measurement of non-controlling interests • Un-replaced and voluntarily replaced share-based payment rewards	Adopted
PFRS 7, *Financial Instruments: Disclosures* – Clarification of disclosures	Adopted
PAS 1, *Presentation of Financial Statements* – Clarification of statement of changes in equity	Adopted
PAS 27, *Consolidated and Separate Financial Statements* – Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements	Adopted
PAS 34, *Interim Financial Reporting* – Significant events and transactions	Adopted
Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* – Fair value of award credits	Not Applicable
Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*	Adopted

RFM CORPORATION AND SUBSIDIARIES
Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
For the year Ended December 31, 2011
(Amounts in Thousand Pesos unless otherwise stated)

Unappropriated Retained Earnings, 1 January 2011	**1,064,632**
Add: Net Income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	684,236
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain	-
Unrealized actuarial loss (gain)	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Unrealized mark-to-market gain on derivative liability	(4,943)
Provision for income tax deferred	8,356
Sub-total	3,413
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP-loss	-
Loss on fair value adjustment of investment property (after tax)	-
	-
Net income actually earned during the period	**687,649**
Add (Less):	
Dividend declarations during the period	(1,022,416)
Appropriations of RE during the period	-
Reversals of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
	(1,022,416)
TOTAL RETAINED EARNINGS AS OF 31 DECEMBER 2011 AVAILABLE FOR DIVIDEND	**729,865**

RFM CORPORATION AND SUBSIDIARIES
Schedule K. Conglomerate Mapping



RFM CORPORATION AND SUBSIDIARIES
Schedule L. Financial Soundness Indicators

		Years ended December 31	
		2011	2010
1	Current Ratio	**1.33**	1.78
2	Debt-to-Equity Ratio	**1.08**	0.84
3	Asset to Equity Ratio	**2.08**	1.84
4	Interest Rate Coverage Ratio	**8.09**	9.29
5	Gross Profit Rate	**31.73%**	34.39%
6	Net income Rate	**4.92%**	6.87%

COVER SHEET

		1	2	9	9	8		

SEC Registration Number

| | | | | |

COVER SHEET

		1	**2**	**9**	**9**	**8**		

SEC Registration Number

	December 31	
	2009	2008
Equity (Note 19)		



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 **MARCH 31, 2012**

2. Commission Identification Number: **12998** 3. BIR Tax Identification Number: **~~000-064-134-000~~**

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

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

6. _____ (SEC Use Only)
Industry Classification Code

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Issued and Outstanding
Common Stock, ₱1.00 par value	**3,160,403,866**

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 43 and are incorporated herein by reference to said quarterly report.

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

Analysis of Results of Operations

First Quarter 2012 vs. First Quarter 2011

Food and beverage company RFM Corporation reported a marked upswing in its first quarter 2012 income as it registered P130.3 Million profit, 30% higher than its first quarter 2011 income of P100.1 Million.

Income gathered momentum given the higher sales revenues and easing of commodity cost inputs such as milk and sugar that started in the second half of last year. Rationalization of production processes and focus on higher-margin products also helped improve the profit picture for the company.

Sales of P2.4 Billion, likewise, registered faster growth of 16% for the first quarter. Selecta, the ice cream joint venture with Unilever, posted spectacular sales growth of over 37% for the quarter. The latest ice cream craze Magnum - a Belgian chocolate enrobed ice cream on stick – was launched last March. Demand for this new product has been way beyond expectations with stocks running out, prompting the company to make arrangements to increase further supplies. More significantly, Selecta Cornetto ice cream products have maintained its acceleration, with organic growth ranging from 50-60%.

RFM's Fiesta pasta business has been performing extremely well, posting over 70% growth in the first quarter, thus expanding its market leadership position to over 30%, from 25% last year. The consistently firm pasta quality at affordable pricing levels made Fiesta more preferred nowadays than the traditional leading pasta brand. Moreover, its other White King brands of cake mixes and Arroz Caldo and Champorado have also sustained stronger sales momentum of 30% YTD growth.

Aside from Selecta ice cream and Fiesta pasta, sales of Selecta milk, Sunkist litro pack, Swift Mighty Meaty and Corned Beef Swak also performed very well. These came about as the company rationalized and focused its brand portfolio, supported by more exciting product repackaging, aggressive merchandising and trade-related programs.

The key financial performance indicators for the Company for the three-month period ended March 31, 2012 as compared to the same period in 2011, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**	
	March 31, 2012	March 31, 2011
Net Revenues	**₱2,393**	₱1,980
Net Operating Margin	**191**	162
Net Income (Loss)	**130**	100
EBITDA	**257**	206

Current Ratio	**1.31**	1.33

** Except current ratio*

6. 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.

7. **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.

8. **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.

9. **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.

10. **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 March 31, 2012, the Group's Total Assets grew 4% to P11.21 Billion compared to December 31, 2011 of P10.76 Billion. The increase was primarily from the Current Assets segment which grew by 11% to
P5.40 Billion compared to P4.87 Billion reported last December 31, 2011.

Inventories have increased 33% to P2.13 Billion due to build-up of stocks for the summer season, particularly on ice cream and juices.

The reduction in noncurrent assets came primarily from depreciation charges for the quarter on the Group's property, plant and equipments.

Accounts payable and accrued liabilities have increased the total Current Liabilities by 12% to P4.12 Billion as of March 31, 2012, due mainly to higher trade payables to suppliers relative to the build-up of inventories.

The Group maintained a current ratio of 1.31 on March 31, 2012. The Group's Debt to Equity ratio is 1.11 on March 31, 2012; and 0.85 on December 31, 2011.

Notes to Financial Statements

The Company's financial statements for the second 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:

(l) 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;.

(m) 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;

(n) 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;

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

(p) 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;

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

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

(s) 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;

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

(u) 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 March 31, 2012;

(v) 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: **May 14, 2012**

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

	For the period ended	
	March 31, 2012	December 31, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	**₱535**	₱813
Accounts receivable (Note 5)	**2,093**	2,118
Inventories (Note 6)	**2,128**	1,605
Other current assets (Note 7)	**651**	340
Total Current Assets	**5,407**	4,876
Noncurrent Assets		
Property, equipment and investment property (Note 8)	**4,230**	4,291
Investment (Note 9)	**1,171**	1,180
Other noncurrent Asset (Note 10)	**403**	417
Total Noncurrent Assets	**5,804**	5,888
TOTAL ASSETS	**₱11,211**	₱10,764
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**₱876**	₱880
Accounts payable and accrued liabilities (Note 11)	**2,686**	2,225
Current portion of:		
Long-term obligations	**5**	7
Long-term debts	**463**	499
Provisions	**92**	52
Total Current Liabilities	**4,122**	3,663
Noncurrent Liabilities		
Long-term obligations - net of current portion	**9**	9
Long-term debts - net of current portion	**1,585**	1,651
Other noncurrent liabilities (Note 12)	**279**	278
Total Noncurrent Liabilities	**1,873**	1,938
Total Liabilities	**5,995**	5,601
Equity attributable to equity holders of the Parent Company (Note 13)		
Capital stock	**3,160**	3,160
Capital in excess of par value	**789**	789
Equity reserve	**(7)**	(7)
Net valuation gains on AFS financial assets (Note 16)	**23**	26
Revaluation increment on land - net of deferred income tax effect	**569**	569
Retained earnings	**678**	623
	5,212	5,160
Non-controlling interests	**4**	3
Total Equity	**5,216**	5,163
TOTAL LIABILITIES AND EQUITY	**₱11,211**	₱10,764

See accompanying Notes to Unaudited Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

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

	For the Quarter Ended March 31	
	2012	2011
NET REVENUES	**₱2,393**	₱1,980
DIRECT COSTS AND EXPENSES	**1,584**	1,353
GROSS PROFIT	**809**	627
SELLING AND MARKETING EXPENSES	**(459)**	(362)
GENERAL AND ADMINISTRATIVE EXPENSES	**(160)**	(113)
MISCELLANEOUS OPERATING INCOME	**–**	10
NET OPERATING INCOME	**190**	162
OTHER INCOME (CHARGES) – Net (Note 17)	**(13)**	(25)
INCOME BEFORE PROVISION FOR INCOME TAX	**177**	137
PROVISION FOR INCOME TAX	**(47)**	(37)
NET INCOME	**₱130**	₱100
Attributable to:		
Equity holders of the Parent Company	**₱131**	₱101
Minority interests (Note 2)	**(1)**	(1)
	₱130	₱100
Basic/Diluted Earnings Per Share (Note 18)	**₱0.041**	₱0.032

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	For the Quarter Ended March 31	
	2012	2011
NET INCOME	**₱130**	₱100
OTHER COMPREHENSIVE INCOME	**–**	–
Total comprehensive income for the period	**₱130**	₱100
Attributable to:		
Equity holders of the Parent Company	**₱130**	₱101
Minority interests (Note 2)	**–**	(1)
	₱130	₱100

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	Attributable to Equity Holders of the Parent									
	Capital Stock	Capital In Excess of Par Value	Equity Reserve	Net Unrealized Gain on AFS Financial Assets	Revaluation Increment	Cash Flow Hedge	Retained Earnings	Total	Minority Interests	Total Equity
BALANCES AT JANUARY 1, 2011	**₱3,160**	**₱789**	**₱–**	**₱28**	**₱569**	**₱–**	**₱1,172**	**₱5,718**	**₱5**	**₱5,723**
Net income for the period	–	–	–	–	–	–	100	100	(2)	98
Cash dividend declaration	–	–	–	–	–	–	(94)	(94)	–	(94)
Property dividend declaration	–	–	–	–	–	–	(418)	(418)	–	(418)
BALANCES AT MARCH 31, 2011	**₱3,160**	**₱789**	**₱–**	**₱28**	**₱569**	**₱–**	**₱760**	**₱5,306**	**₱3**	**₱5,309**
Net income for the period	–	–	–	–	–	–	411	411	–	411
Actuarial losses on defined benefit plan – net of deferred income tax	–	–	–	–	–	–	(37)	(37)	–	(37)
Net changes in fair value of AFS financial assets	–	–	–	(2)	–	–	–	(2)	–	(2)
Effect of acquisition of additional shares of stock	–	–	(7)	–	–	–	–	(7)	–	(7)
Cash dividend declaration	–	–	–	–	–	–	(94)	(94)	–	(94)
Property dividend declaration	–	–	–	–	–	–	(417)	(417)	–	(417)
BALANCES AT DECEMBER 31, 2011	**₱3,160**	**₱789**	**₱(7)**	**₱26**	**₱569**	**₱–**	**₱623**	**₱5,160**	**₱3**	**₱5,163**
Net income for the period	–	–	–	–	–	–	130	130	1	130
Cash dividend declaration	–	–	–	–	–	–	(75)	(75)	–	(75)
Net changes in fair value of AFS financial assets	–	–	–	(3)	–	–	–	(3)	–	(3)
BALANCES AT MARCH 31, 2012	**₱3,160**	**₱789**	**₱(7)**	**₱23**	**₱569**	**₱–**	**₱678**	**₱5,212**	**₱4**	**₱5,216**

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

	For the Period Ended March 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱130**	₱137
Adjustments for:		
Interest expense and financing charges	**67**	35
Depreciation and amortization	**30**	43
Equity in net losses (earnings) of associates	**(12)**	(39)
Interest and financing income	**(5)**	(4)
Operating income (loss) before working capital changes	**210**	172
Decrease (increase) in:		
Accounts receivable	**23**	867
Inventories	**(523)**	(283)
Other current assets	**(310)**	(333)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**385**	(926)
Other current liabilities	**39**	42
Cash generated from (used in) operations	**(176)**	(461)
Interest paid	**(29)**	(35)
Interest received	**5**	4
Net cash from (used in) operating activities	**(200)**	(492)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments and property and equipment	**14**	(348)
Decrease (Increase) in other noncurrent assets	**14**	226
Net cash used in investing activities	**28**	(122)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (repayments) of:		
Long-term debt and obligations / bank loans	**(108)**	227
Dividends paid	**-**	(94)
Increase (decrease) in minority interests and other noncurrent liabilities	**2**	37
Net cash from financing activities	**(106)**	170
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(278)**	(444)
CASH AND CASH EQUIVALENTS, JANUARY 1	**813**	638
CASH AND CASH EQUIVALENTS, MARCH 31	**₱535**	₱194

See accompanying Notes to Consolidated Financial Statements

37. Corporate Information

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

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

38. Summary of Significant Accounting and Financial Reporting Practices

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

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations which were adopted as of January 1, 2011. Adoption of these changes in PFRS did not have any significant impact on the Group's financial statements:

- PAS 24, *Related Party Disclosures (Amendment)*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

- PAS 32, *Financial Instruments: Presentation (Amendment)*, alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed number in any currency.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, removes an unintended consequence when an entity is subject to minimum funding requirements and makes

an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at their fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvement to PFRS
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments did not have any impact on the financial position or performance of the Group.

- PFRS 3, *Business Combinations (Revised)*, clarifies that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised 2008).

- PFRS 7, *Financial Instruments: Disclosures (Amendment)*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- PAS 1, *Presentation of Financial Statements (Amendments)*, clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements (Amendments)*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates*, and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Summary of Significant Accounting Policies

Basis of Consolidation
Basis of consolidation starting January 1, 2010
The consolidated financial statements comprise the financial statements of the Group prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

	Percentage of Ownership	
	2011	2011
Cabuyao Meat Processing Corporation (CMPC)	**100.00**	100.00
Interbake Commissary Corporation (ICC)	**100.00**	100.00
RFM Equities, Inc. (REI)	**100.00**	100.00
RFM Insurance Brokers, Inc. (RIBI)	**100.00**	100.00
Conglomerate Securities and Financing Corporation (CSFC)	**88.68**	88.68
RFM Foods Philippines Corporation*	**100.00**	100.00
Southstar Bottled Water Company, Inc.	**100.00**	100.00
Swift Tuna Corporation*	**100.00**	100.00
Invest Asia	**96.00**	96.00
Rizal Lighterage Corporation (RLC)	**93.51**	93.51
FWBC Holdings, Inc.	**83.38**	83.38
Filipinas Water Bottling Company, Inc. (FWBC)	**58.37**	58.37
RFM Canning and Marketing, Inc. (RFM Canning)*	**70.00**	70.00
WS Holdings, Inc. (WHI)	**60.00**	60.00

* *Dormant*

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

On August 2, 2010, the Parent Company acquired 96% of ownership interest in Invest Asia, an entity under common shareholders' group, and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders. The cash consideration amounting to ₱0.03 million was based on the book value of the shares of stock as of December 31, 2009. Accordingly, Invest Asia became a subsidiary of the Parent Company.

Subsidiaries
Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company or the Group obtains control, directly or through the holding companies, and continue to be consolidated until the date that such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Group also reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Profit or loss and each component of other comprehensive income (loss) are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Transactions with non-controlling interest are accounted for as an equity transaction.

Basis of consolidation prior to January 1, 2010
The requirements of the two preceding paragraphs are applied on a prospective basis. The difference, however, is carried forward in certain instances from the previous basis of consolidation. Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the non-controlling interest had a binding obligation to cover these.

Losses prior to January 1, 2010 were not reallocated between non-controlling interests and the equity holders of the Parent Company.

Business Combination and Goodwill

Business combinations starting January 1, 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

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

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

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

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

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

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

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

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

Business combinations prior to January 1, 2010
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different on the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity. If the revaluation relates directly to an identifiable fixed asset, the revaluation will be transferred directly to retained earnings when the asset is derecognized in whole through disposal or as the asset concerned is depreciated or amortized.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition.

Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

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

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

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

financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each balance sheet date.

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

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.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

Day 1 difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of income unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of 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 difference amount.

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 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

AFS financial assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as "Net changes in fair value of AFS financial assets". When the financial asset is disposed of, the cumulative gain or loss previously recorded in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on financial assets are recognized in the consolidated statement of income as "Dividend income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual

disposal of the investments. The major factor of this decision is whether or not the Group will experience inevitable further losses on investments. These financial assets are classified as noncurrent unless there is intention to dispose of such assets within 12 months of the balance sheet date.

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

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

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

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

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

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

For the purpose of hedge accounting, hedges are classified as:

d. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or

e. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

f. hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are recognized in the consolidated statement of income.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the consolidated statement of income over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the consolidated statement of income. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated statement of income. The changes in the fair value of the hedging instrument are also recognized in the consolidated statement of income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the consolidated statement of income. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to the consolidated statement of comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects the consolidated statement of income, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to the consolidated statement of comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in the consolidated statement of comprehensive income are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in the consolidated statement of comprehensive income remain in the consolidated statement of comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to consolidated statement of income.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

An entity determines whether a modification to the 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 flows on the contract.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets at FVPL. Changes in fair values are included in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether 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 or more events that have 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 contracted parties or a group of contracted parties are/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 measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

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

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

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

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

AFS financial assets

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

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

Financial liability

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Inventories

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

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

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

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

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

Investment Properties

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

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

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

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

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

Property, Plant and Equipment

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

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

Revaluation of land is made so that the carrying amount does not differ materially from that which would be determined using the fair value at the balance sheet date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets.

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

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

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

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

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

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

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the consolidated statement of income. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income.

Borrowing Costs

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

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

Investments in Associates

Investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group. Following are the associates whose investments are accounted for under the equity method:

	Percentage of Ownership
Selecta Wall's Land Corporation (SWLC)	35.00

Under the equity method, such investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share in the net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, and discloses this when applicable, in the details of the changes in equity. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's investment in the associates. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Interest in Joint Ventures

The interest in 50%-owned joint venture, Unilever RFM Ice Cream, Inc. (URICI), is 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 consolidated financial statements on a line-by-line basis. The financial statements of the joint venture are prepared for the same reporting period as the Parent Company.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealized gains and losses on transactions between the Group and its jointly controlled entity to the extent of its share in interest in joint venture. Losses on transactions are recognized immediately if the loss provides evidence of a reduction in the net realizable value of the current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Impairment of Noncurrent Non-financial Assets

The carrying values of property, plant and equipment, and investments in joint ventures and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset or cash-generating units (CGU) is written down to their recoverable amount. The recoverable amount of the noncurrent non-financial asset is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

Related Party Relationships and Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible

related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

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

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

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

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

Share-based Compensation Plan
URICI operates an equity-settled, share-based compensation plan. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted as determined on the grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

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

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

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

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

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

in all of its revenue arrangements, except for RIBI, an insurance broker, which acts as an agent. The following specific recognition criteria must also be met before revenue is recognized.

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

Sale of services (Service)
Revenue is recognized upon performance of services.

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

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

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

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

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

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

Pension Benefits
The Group has defined benefit pension plans covering all permanent, regular, full-time employees administered by trustee banks. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses arising from experience adjustment and change in actuarial assumptions are reported in retained earnings in the period they are recognized as other comprehensive income.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested, immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs.

The net pension obligation is the aggregate of the present value of the defined benefit obligation less past service cost not yet recognized and the fair value of plan assets out of which the obligation is to be settled directly.

Leases
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and

reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statement of income.

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

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

Income Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

Earnings Per Share

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

The Group does not have potentially dilutive common shares.

Segment Reporting

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

Foreign Currency-Denominated Transactions and Translations

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

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

Provisions and Contingencies

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

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed unless the 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.

Events After the Balance Sheet Date

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

Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2011. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its consolidated financial statements:

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements,* requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income,* changes 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 therefore no impact on the Group's financial position or performance.

- PAS 12, *Income Taxes - Recovery of Underlying Assets,* clarifies 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 amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 always be measured on a sale basis of the asset.

Effective in 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

  This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a. The gross amounts of those recognized financial assets and recognized financial liabilities;
  b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
  c. The net amounts presented in the balance sheet;
  d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and,
     ii. Amounts related to financial collateral (including cash collateral); and,
  e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

  The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - 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 a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, and SIC-13, *Interests in Joint Ventures Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the impact of this standard.

- PFRS 12, *Disclosure of Interest in Other Entities*, includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an 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.

- PAS 19, *Employee Benefits (Amendment)*, removes the corridor approach mechanism on the recognition of actuarial gains and losses and the concept of expected returns on plan assets to simple clarifications and re-

wording.

- PAS 27, *Separate Financial Statements (as revised in 2011).* As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011).* As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 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.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Deferred Effectivity

- 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.

  On July 28, 2011, in consideration of the Position Paper submitted for various real estate industry associations with respect to the application of Philippine Interpretation IFRIC 15 and the on-going deliberation over the revenue standard project by the IASB, the Philippine SEC decided to further defer implementation of the said interpretation until the final Revenue Standard is issued by the IASB and after an evaluation on the requirements and guidance in the said Standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed.

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

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

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

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 in the amounts recognized in the consolidated financial statements.

Classification of financial instruments

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

Impairment of AFS financial assets

The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for the quoted equity securities. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Provisions

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

Determination of the classification of leases

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

Accounting Estimates and Assumptions

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

Determination of fair value of financial instruments
Financial assets and financial 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. Valuation techniques are used particularly for financial assets and financial liabilities (including derivatives) that are not quoted in an active market. Where valuation techniques are used to determine fair values (discounted cash flow, option models), they are periodically reviewed by qualified personnel who are independent of the trading function. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data as valuation inputs. However, other inputs such as credit risk (whether that of the Group or the counterparties), forward prices, volatilities and correlations, require management to develop estimates or make adjustments to observable data of comparable instruments. The amount of changes in fair values would differ if the Group uses different valuation assumptions or other acceptable methodologies. Any change in fair value of these financial instruments (including derivatives) would affect either the consolidated statement of income or comprehensive income.

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

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

Determnination of NRV of inventories
The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

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

Estimation of useful lives of property, plant and equipment and investment property
The Group estimates the useful life of depreciable property, plant and equipment and investment property based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The

estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment property would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa. The estimated useful lives of property, plant and equipment and investment property are discussed in Note 2 to the consolidated financial statements. There had been no changes in the estimated useful lives of property, plant and equipment and investment property in 2012 and 2011.

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

Impairment of property, plant and equipment, investment properties and investments in associates
The Group assesses whether there are indications of impairment on its property, plant and equipment, investment properties and investments in associates, at least on an annual basis. If there are, impairment testing is performed. This requires an estimation of the value-in-use of the CGUs to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No further impairment losses were recognized in 2012, 2011 and 2010 in view of the significantly improved profitability of the Group.

Impairment of goodwill
The Group reviews the carrying value of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs impairment test of goodwill annually every December 31. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which goodwill relates. Assessments require the use of estimates and assumptions such as discount rates, future capital requirements and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized for the periods ended March 31, 2012 and December 31, 2011.

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

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

Use of effective interest rate
The Group made reference to the prevailing market interest rates for instruments of the same tenor in choosing the discount rates used to determine the net present value of long-term, noninterest-bearing receivable from Meralco, advances to and from associates and other related parties and other long-term financial assets and obligations.

40. Segment Information

The segment reporting format is determined to be the Group's operating business segments. The Group is organized into the following operating business segments: (a) institutional business, (b) consumer business, and (c) others.

The institutional business segment primarily manufactures and sells flour, pasta, bakery and other bakery products to institutional customers. The consumer business segment manufactures and sells ice cream, meat, milk and juices, pasta products, and flour and rice based mixes. Others consist of insurance, financing, lighterage moving, cargo handling, office space leasing 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 Quarter Ended March 31, 2012				
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱926	₱1,453	₱15	₱–	**₱2,393**
Intersegment sales	–	–	11	(11)	–
	₱926	₱1,453	₱26	₱(11)	**₱2,393**
Results					
Income (loss) from operations	₱218	₱68	₱(96)	₱-	**₱190**
Other income (charges) - net					**(13)**
Provision for income tax					**(47)**
Net income					**130**
Other information					
Segment assets	₱6,168	₱5,201	₱4,982	₱(6,388)	**₱9,963**
Investments	–	155	2,162	(1,069)	**1,248**
Consolidated Total Assets	₱6,168	₱5,356	₱7,144	₱(7,457)	**₱11,211**
Consolidated Total Liabilities					**₱5,919**
Depreciation and amortization					**₱67**

For the Quarter Ended March 31,2011					
	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱ 810	₱1, 1	₱11	₱	**₱1,980**
Intersegment sales	–		9	(9)	–
	₱ 810	₱1,159	₱20	₱(9)	**₱1,980**
Results					
Income (loss) from operations	₱124	₱28	₱5	₱5	**₱ 162**
Other income (charges) - net					**(25)**
Provision for income tax					**(37)**
Net income					**100**
Other information					
Segment assets	₱6, 653	₱4,839	₱6,109	₱(10,091)	**₱7,510**
Investments			2,665	(629)	**2,036**
Consolidated Total Assets	₱6, 653	₱4,839	₱8,774	₱(10,720)	**₱9,546**
Consolidated Total Liabilities					**₱4,237**
Depreciation and amortization					**₱43**

41. **Accounts Receivable**

	March 31, 2012 (Unaudited)	
	(amounts in millions)	
Trade receivables	**₱1,846**	₱2,086
Advances to related parties	**879**	599
Other receivables	**258**	312

	2,983	2,997
Less allowance for doubtful accounts	**890**	879
	₱2,093	₱2,118

42. **Inventories**

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

43. **Other Current Assets**

	March 31, 2012 (Unaudited)	
	(amounts in millions)	
Deposits on purchases	**₱216**	₱53
Creditable withholding taxes	**93**	74
Input VAT	**131**	48
Prepaid expenses and other current assets – net of allowance for probable losses	**211**	165
	₱651	₱340

44. Property , Equipment and Investment Property

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(amounts in millions)	
Property, plant and equipment		
At cost	**₱2,613**	₱2,674
At appraised value	**1,539**	1,539
Investment property	**78**	78
	₱4,230	₱4,291

45. Investment

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(amounts in millions)	
AFS financial assets (Note 11)	**₱938**	₱947
Investments in associates (Note 11)	**233**	233
	₱1,171	₱1,180

46. Other Noncurrent Asset

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(amounts in millions)	
Deferred income tax assets - net	**₱60**	₱66
Other noncurrent assets	**343**	351
	₱403	₱417

47. Accounts Payable and Accrued Liabilities

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
	(amounts in millions)	
Accounts payable and accrued liabilities	**₱2,344**	₱2,068
Income tax payable	**88**	62
Advances to related parties	**216**	75
Customers' deposits	**36**	18
Derivative liability	**2**	2
	₱2,686	₱2,225

48. **Other Noncurrent Liabilities**

	March 31	December 31, 2011 (Audited)
	(amounts in millions)	
Deferred income tax liabilities	**153**	172
Net pension obligation	**124**	104
Security deposits	**2**	2
	279	278

49. **Equity**

Capital Stock

As of March 31, 2012 and December 31, 2011, the Parent Company has 3,978,265,015 authorized common stock with ₱1 par value. Issued and outstanding common shares of 3,160,403,866 are held by 3,482 stockholders as of March 31, 2012 and December 31, 2011.

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

Year	Date of Transaction	Common Stock Transactions	
1993		185,800,356	
1994	August 3, 1994	93,304,663	(a)
1995	April 7, 1995	1,116,420,076	(b)
1997	February 25, 1997	5,950,650	(c)
1998		20,042,392	(c)
1999		1,804,979	(c)
2000	July 21, 2000	229,582,173	(d)
2000	December 14, 2000	45,252,983	(d)
2001		21,950,505	(c)
2002		195,891,163	(c)
2006	March 17, 2006	47,857,244	(d)
2008	January 9, 2008	1,963,857,184	(e)
2008	July 29, 2008	(767,310,502)	(f)
		3,160,403,866	

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

Retained Earnings

On February 29, 2012, the BOD approved the declaration of ₱0.02391 cash dividend per share, or a total of ₱74.07 million, payable to its stockholders of record as of March 14, 2012. The dividends were paid on April 12, 2012.

On July 27, 2011, the BOD approved the declaration of ₱0.02965 cash dividend per share or a total of ₱93.71 million representing the full declaration of 30% of recurring net income for 2010 to its stockholders of record as of August 11, 2011. The dividends were paid on September 8, 2011.

On July 27, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 70,543,644 shares to stockholders owning 45 shares or more as of August 11, 2011. On September 12, 2011, the SEC approved the distribution of 70,229,846 shares and was issued to the stockholders on September 21, 2011 at ₱6.01 per share, for a total cost amounting to ₱422.04 million.

On March 2, 2011, the BOD approved the declaration of ₱0.02968 cash dividend per share, or a total of ₱93.80 million, payable to its stockholders of record as of March 16, 2011. The dividends were paid on April 11, 2011.

On January 26, 2011, the BOD approved the declaration of property dividends consisting of its convertible preferred shares of stock in Swift up to 69,622,985 shares to stockholders owning 46 shares or more as of March 16, 2011. On April 15, 2011, the SEC approved the distribution of 68,702,325 shares and was issued to the stockholders on April 29, 2011 at ₱6.01 per share, for a total cost amounting to ₱412.87 million.

The Parent Company's retained earnings as of December 31, 2011 is restricted to the extent of the amount of the undistributed equity in net earnings of associates included in its retained earnings amounting to ₱107.39 million. These will only be available for declaration as dividends when these are actually received.

Retained earnings include mark-to-market gain of ₱4.9 million in 2011 and cumulative actuarial gains on defined benefits plan of ₱118.37 million as of December 31, 2010 which are not available for dividend declaration.

50. Related Party Transactions

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

The transactions from related parties are made under normal commercial terms and conditions. Outstanding balances as at March 31, 2012 and December 31, 2011 are unsecured and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. Advances to/from related parties are noninterest-bearing and collectible/payable on demand.

Significant related party transactions follow:

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

n. The Parent Company entered into a management agreement with ICC under which the Parent Company shall receive from ICC a monthly fee of ₱0.30 million from January 1, 2009. On October 1, 2009, the monthly fee was increased from ₱0.30 million to ₱1.00 million. On January 1, 2011, the monthly fee was increased from ₱1.00 million to ₱2.50 million.

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

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

p. 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. Advances to a subsidiary are subject to annual interest of 9% on the monthly outstanding balance.

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

r. Management services of the Parent Company to RIBI wherein RIBI pays the Parent Company a yearly management fee equivalent to 5% of income before income tax or a fixed amount based on the level of net sales, whichever is higher.

s. The Parent Company has a lease agreement for office space with Invest Asia, a subsidiary. The lease covers a one-year period, renewable every two years at the option of the Parent Company. .

51. Financial Risk Management Objectives and Policies

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

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

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

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

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

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

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

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

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts

obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary.

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

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

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

To further reduce its interest rate risk exposure, the Group through the Parent Company entered into an interest rate swap agreement in 2009 (see Note 19). The Parent Company utilizes PHP interest rate swap with a receive variable leg based on the benchmark interest rate of three-month PDST-F and pay fixed leg that it is the receive leg that virtually matches the loan's critical terms. With this, the variability in cash flows of the interest rate swaps are expected to offset the variability in cash flows of the loan due to changes in the benchmark interest rate. Therefore, the Parent Company concluded that no or little ineffectiveness will result (absent a default by the counterparty). In 2010, mark-to-market adjustments on the interest rate swap are directly recognized in consolidated statement of income.

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

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

With regard to the Parent Company's hedging transaction, the following table demonstrates the sensitivity of fair value changes due to movements in interest rates with all other variables held constant. Management expects that interest rates will move by -/+50 basis points within the next reporting period.

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2011 and 2010.

Equity price risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stock. Management strictly monitors the movement of the share prices pertaining to its investments. The Group is exposed to equity securities price risk because of quoted common and golf club shares, which are classified as AFS financial assets.

There is no other impact on the Group's equity other than those affecting the profit or loss.

52. Financial Assets and Financial Liabilities

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 customers' deposits approximate their fair values.

The fair value of quoted AFS financial assets and trust receipts payable has been determined by reference to quoted market prices at the close of business on December 31, 2010 and 2009. Investments in unquoted equity securities are carried at historical cost, net of impairment, as their fair value cannot be reliably measured.

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

Fair Value Hierarchy
The Group uses the following hierarchy for disclosing the fair values of financial instruments by valuation source of input:

- 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 date (unobservable inputs) (Level 3).

Derivative Instruments
The related fair values of the Group's outstanding derivative liability arising from the interest rate swap amounted to ₱1.73 million and ₱6.68 million as of December 31, 2011 and 2010, respectively.

Derivatives Accounted for Under Cash Flow Hedge Accounting
On August 27, 2009, the Parent Company entered into an interest rate swap transaction with Hongkong and Shanghai Banking Corporation (HSBC) to hedge the cash flow variability on the BDO loan due to movements in interest rates. Details of the interest rate swap follow:

Trade Date	Maturity Date	Notional Amount*	Receive Floating	Pay Fixed
August 27, 2009	October 3, 2012	₱380.00 million	PDST-F + 250 basis points	7.92% per annum

**Amortizing based on a given schedule*

Under the interest rate swap, the Parent Company will receive quarterly interest at a rate of 3-months PDST-F plus 2.50% per annum spread on the outstanding peso balance starting October 5, 2009 until October 3, 2012, and pay quarterly interest at fixed rate of 7.92% per annum on the outstanding peso balance starting October 5, 2009 until October 3, 2012. The outstanding notional amount of the swap amounted to nil as of December 31, 2011 and 2010.

On October 2010, the Parent Company terminated its local bank loan, which is the underlying of the interest rate swap agreement. In line with the termination of the loan, the interest rate swap is accounted for as freestanding derivative from the day the loan was terminated. Hence, unrealized loss in equity amounting to ₱0.84 million was recognized in full in the 2010 parent company statement of income. As of December 31, 2011 and 2010, the fair value of the derivative liability amounted to ₱1.73 million and ₱6.68 million, respectively. The Parent Company recognized in the statements of income mark-to-market gain amounting to ₱4.94 million in 2011 and mark-to-market loss of ₱5.48 million in 2010.

Hedge Effectiveness of Cash Flow Hedge
No ineffectiveness was recognized in the Parent Company statement of income.

Forward Contracts

For the period ended March 31, 2012 and December 31, 2011, URICI, through the Central Treasury Department, entered into forward foreign exchange contracts as a hedge against foreign currency denominated liabilities and commitments. These forward foreign exchange contracts are expected to be settled within one month from the balance sheet date.

As at and for the period ended March 31, 2012 and December 31, 2011, the difference between the fair market values and aggregate notional amount of the forward contract, at net settled amount, is not considered significant.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at balance sheet date and any difference between the fair market values and aggregate notional amounts of these forward foreign exchange contracts is recognized immediately in the consolidated statement of income.

53. **Other Income (Charges)**

	For the Period Ended March 31	
	2012 (Unaudited)	
	(amounts in millions)	
Interest expense	**(₱29)**	(₱35)
Interest income	**5**	**4**
Other income, net	**12**	**5**
	(₱12)	(₱25)

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

		For the Period Ended March 31	
		2012 (Unaudited)	2011 (Unaudited)
a.	Net income attributable to eq holders of the Parent Company (Amounts in Milli	**₱130**	₱100
b.	Common shares outstanding	**3,160,403,866**	**3,160,403,866**
c.	Weighted average common s outstanding	**3,160,403,866**	**3,160,403,866**
d.	Basic earnings per share (a/t	**₱0.041**	₱0.032
e.	Diluted earnings per share (a	**₱0.041**	₱0.032

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of March 31, 2012
(Amounts in Millions)

	Amount	%
Under Six (6) Months	₱1,176	64%
Six (6) Months to One (1) Year	486	26%
Over One (1) Year	184	10%
	₱1,846	**100%**