09 September 2013

**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**
**Amendment of Articles of Incorporation through Written Assent by the Stockholders**

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Dear **Ms. Encarnacion**,

In compliance with Section 20 of the Securities Regulation Code, please find attached the Definitive Information Statement (SEC Form 20-IS) of the Corporation for the amendment of its Articles of Incorporation through written assent by the stockholders as approved by the Securities and Exchange Commission.

Thank you.

Very truly yours,

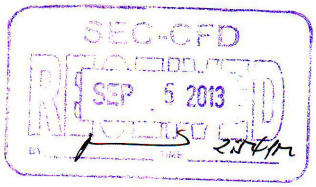


**ROWEL S. BARBA**
Corporate Information Officer
VP, Head - Corporate Legal
& Human Resources Divisions

**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:

   **Written Assent only**

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

   **20 September 2013**

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) In lieu of a special meeting and for the purpose of approving the amendment of the tenth article of the Articles of Incorporation of RFM Corporation, the written assent of the stockholders owning at least two-thirds (2/3) of the outstanding capital stock shall be solicited pursuant to Section 16 of the Corporation Code.

The stockholders are requested to signify their vote on the proposed amendment by returning the attached written assent form provided by mail to:

RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City, Philippines 1550

(b) Approximate Date of Sending Information Statement to Security Holders:

20 September 2013

### 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 the Matter to be Acted Upon**

Each of the incumbent 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 the matter to be acted upon.

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.

**B. CONTROL AND COMPENSATION INFORMATION**

**Item 4. Voting Securities and Principal Holders Thereof**

Stockholders of record of the Corporation as of 18 September 2013 shall be entitled to submit their written assent on the amendment of Article Tenth of the Articles of Incorporation. The outstanding capital stock of the Corporation as of 15 August 2013 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 which in this case is secured through written assent, one common share is entitled to one vote.

**Written Assent**

The required stockholders' approval for the amendment of the articles of incorporation will be secured through written assent. Section 16 of the Corporation Code allows the amendment of the articles of incorporation by a majority vote of the Board of Directors and written assent of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, thus:

> "SEC. 16. Amendment of articles of incorporation.- Unless otherwise prescribed by this Code or by special law, and for legitimate purposes, any provision or matter stated in the articles of incorporation may be amended by a majority vote of the board of directors or trustees and the vote or written assent of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock, without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Code, or the vote or written assent of at least two-thirds (2/3) of the members if it be a non-stock corporation.
>
> The original and amended articles together shall contain all provisions required by law to be set out in the articles of incorporation. Such articles, as amended, shall be indicated by underscoring the change or changes made, and a copy thereof duly certified under oath by the corporate secretary and a majority of the directors or trustees stating the fact that said amendment or amendments have been duly approved by the required vote of the stockholders or members, shall be submitted to the Securities and Exchange Commission.
>
> The amendments shall take effect upon the approval by the Securities and Exchange Commission or from the date of filing with said Commission if not acted upon within six (6) months from the date of filing for a cause not attributable to the corporation. "

**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 15 August 2013 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 | Triple Eight Holdings Inc.<br>507 Buendia Avebue, North Forbes Park, Makati City<br>Stockholder | Triple Eight Holdings, Inc. | Filipino | 658,561,450 | 20.837889 |
| Common | Horizons Realty, Inc.<br>11 Kawayan Road<br>N. Forbes Park,<br>Makati City<br>Stockholder | Horizons Realty, Inc. | Filipino | 635,269,804 | 20.100906 |
| Common | PCD Nominee Corp. (Foreign)<br>G/F MKSE Building<br>Ayala Avenue, Makati<br>Stockholder | PCD Participants | Filipino | 410,486,704 | 12.988426 |
| Common | PCD Nominee Corp. (Filipino)<br>G/F MKSE Building<br>Ayala Avenue, Makati<br>Stockholder | PCD Participants | Filipino | 338,972,538 | 10.725608 |
| Common | BJS Dev. Corp.<br>1869 P. Domingo St.<br>Makati City<br>Stockholder | BJS Dev. Corp. | Filipino | 311,210,184 | 9.847165 |
| Common | PCD Nominee Corp. (Foreign)<br>G/F MKSE Building<br>Ayala Avenue, Makati<br>Stockholder | PCD Participants | Filipino | 280,241,154 | 8.867258 |
| Common | RPMC Resources, Inc. (formerly Renaissance Property Management Corp.)<br>FEATI University Bldg.<br>Carlos Palanca , Sta. Cruz | RPMC Resources, Inc. | Filipino | 201, 982,966 | 6.391049 |

| | | | | | |
|---|---|---|---|---|---|
| | Manila<br>Stockholder | | | | |

List of person or persons acting together to direct the voting or disposition of the shares held by:

I. Horizons Realty, Inc.
   1. Jose Ma. A. Concepcion III
   2. Ma. Victoria Herminia C. Young
   3. Luis Bernardo A. Concepcion
   4. John Marie A. Concepcion
   5. Ma. Lourdes Celine C. Lebron
   6. Ma. Victoria Ana C. Monasterio
   7. Mary Elizabeth C.Santos
   8. Michelle C. Reyes

II. Triple Eight Holdings Inc.
   1. Jose Ma. A. Concepcion III
   2. Ma. Victoria Ana A. Concepcion
   3. Ma. Luisa O. Concepcion
   4. Margarita O. Concepcion
   5. Monica O. Concepcion
   6. Martha O. Uy

III. PCD Nominee Corporation – The PCD is the depository of RFM common shares which are traded in the Philippine Stock Exchange. It 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. PCD was organized by major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transactions in the Philippines. The beneficial owners of the shares are PCD's participants, who hold the shares on their behalf or in behalf of their clients. Where shareholders are called upon to vote on similar matter, the PCD Nominee Corporation only informs its participant brokers of such event. In turn, participant brokers get in touch with their clients who are the beneficial owners of shares lodged with the PCD. It is the beneficial owners who have the voting power. The Corporation is not aware that a participant holds more than 5% of outstanding common shares of the Corporation.

IV. BJS Development Corporation
   1. Gordon Joseph Server
   2. Ernest Fritz Server
   3. Joseph B. Server
   4. Josephine Marie Server
   5. James Server Banzhaf
   6. Anne Christine Banzhaf
   7. Ernest Fritz Server Jr.

V. RPMC Resources, Inc. (formerly Renaissance Property Management Corporation)

   1. Francisco Segovia
   2. Margaret Segovia
   3. Mary Ann C. Pernas
   4. Jose S. Concepcion Jr.
   5. Ma. Lina A. Santiago
   6. Cristina A. lopez

7. Rosario S. Lopez
8. Ma. Victoria A. Concepcion

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 RPMC Resources, Inc. (formerly Renaissance Property Management Corporation).

(2) Security Ownership of Management

**Security Ownership of Management as of 15 August 2013**

| (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.<br>Kawayan St., N. Forbes Park<br>Makati City | "r" | Filipino | 1,917,568 | 0.060674 |
| Common | Jose Ma. A. Concepcion III<br>Buendia St., N. Forbes Park<br>Makati City | "r" | Filipino | 11,671,886 | 0.3693163 |
| Common | John Marie A. Concepcion<br>9 Urdaneta Ave., Urdaneta Village, Makati City | "r" | Filipino | 369,974 | 0.011707 |
| Common | Ernest Fritz Server<br>319 Chico Drive, Ayala Alabang Village, Muntinlupa City | "r" | Filipino | 564,834 | 0.017872 |
| Common | Francisco A. Segovia<br>521 Acacia Ave., Ayala Alabang, Muntinlupa City | "r" | Filipino | 10 | 0.000000 |
| Common | Felicisimo M. Nacino, Jr.<br>11-G, Tower I, St. Francis Shangrila, Mandaluyong City | "r" | Filipino | 1,876,256 | 0.0593676 |
| Common | Joseph D. Server, Jr.<br>312 Cadena de Amor cor. Ilang-Ilang St., Ayala Alabang Village, Muntinlupa City | "r" | Filipino | 135,376 | 0.004284 |
| Common | Ma. Victoria Herminia C. Young<br>Kawayan Road, N. Forbes Park, Makati City | "r" | Filipino | 10 | 0.000000 |
| Common | Raissa H. Posadas<br>11 Nakpil St., San Lorenzo Village, Makati City | "r" | Filipino | 2,000 | 0.000063 |
| Common | Romeo L. Bernardo<br>16/F Belvedere Tower<br>San Miguel Ave., Ortigas | "r" | Filipino | 247 | 0.000008 |

| | | | | | |
|---|---|---|---|---|---|
| | Center, Pasig City | | | | |
| Common | Lilia R. Bautista<br>33 A Rita St., San Juan, Metro Manila | "r" | Filipino | 2,000 | 0.000063 |
| Common | Norman P. Uy<br>(6 Molave St. Forbes Park, Makati City) | "r" | Filipino | 920,208 | 0.029117 |
| Common | Ramon M. Lopez<br>3306 Pioneer Highlands, East Tower, Pioneer cor. Madison Sts., Mandaluyong City | "r" | Filipino | 1,098,282 | 0.0347513 |
| Common | Minerva C. Laforteza<br>Blk. 9 Lot 17<br>Burbank St., North Fairview, Q.C. | "r" | Filipino | 8,522 | 0.00027 |
| Common | Philip V. Prieto<br>15 Melon St., Valle Verde 1, Pasig City | "r" | Filipino | 122 | 0.000004 |
| Common | Ariel A. De Guzman<br>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 18,576,795 common shares.

The indirect shareholdings of directors/officers and principal stockholders as of 15 August 2013 are as follows:

| | % to total Outstanding Shares | Number of Shares | Total Direct Shares | Total Indirect Shares |
|---|---|---|---|---|
| **Directors:** | | | | |
| **Jose Concepcion, Jr.** | | | | |
| Direct | 0.0606748% | 1,917,568 | 1,917,568 | |
| Indirect ( thru Horizons Realty, Inc. ) | 0.0000015% | | | 48 |
| Indirect ( thru Concepcion Industries Inc) | 0.0000474% | | | 1,499 |
| Indirect (thru RPMC Resources Inc .) | 0.0000154% | | | 487 |
| Indirect (thru Republic Commodities) | 0.0000000% | | | 1 |
| **Ernest Fritz Server** | | | | |
| Direct | 0.0178722% | 564,834 | 564,834 | |
| Indirect ( thru BJS Development Corp ) | 0.0000537% | | | 1,697 |
| **Jose Ma. Concepcion III** | | | | |
| Direct | 0.3693163% | 11,671,886 | 11,671,886 | |
| Indirect ( thru Horizons Realty, Inc. ) | 0.0158229% | | | 500,069 |
| Indirect ( thru Triple Eight Holdings, Inc. ) | 8.8651644% | | | 280,175,000 |
| Indirect ( thru Concepcion Industries Inc) | 0.0000006% | | | 19 |
| **Ma. Herminia C. Young** | | | | |
| Direct | 0.0000003% | 10 | 10 | |
| Indirect (thru Horizons RealtyInc.) | 0.0158229% | | | 500,069 |
| Indirect (thru Young Concept, Inc.) | 0.0007594% | | | 24,000 |
| Indirect (thru RepublicCmmodities) | 0.0001487% | | | 4,699 |
| Indirect (thru Silang Forest Park, Inc.) | 0.0000127% | | | 400 |
| **Felicisimo Nacino, Jr.** | | | | |
| Direct | 0.0593676% | 1,876,256 | 1,876,256 | |
| **John Marie A. Concepcion** | | | | |
| Direct | 0.0117065% | 369,974 | 369,974 | |
| Indirect ( thru Horizons Realty, Inc. ) | 0.0158214% | | | 500,021 |

| | | | | |
|---|---|---|---|---|
| Indirect ( thru Select Two Corp. ) | 0.0102834% | | | 324,996 |
| Indirect ( thru Concepcion Industries Inc) | 0.0000000% | | | 1 |
| Indirect (thru Republic Commodities) | 0.0001487% | | | 4,699 |
| Indirect(thruVictoria L. AranetaProp.) | 0.0000891% | | | 2,817 |
| **Lilia R. Bautista** | | | | |
| Direct | 0.0000633% | 2,000 | 2,000 | |
| **Joseph Server, Jr.** | | | | |
| Direct | 0.0042835% | 135,376 | 135,376 | |
| Indirect ( thru BJS Development Corp ) | 0.0000000% | | | 1,681 |
| **Francisco A. Segovia** | | | | |
| Direct | 0.0000003% | 10 | 10 | |
| Indirect ( thru RPMC Resources Inc. ) | 0.0000076% | | | 239 |
| Indirect ( thru Feati University ) | 0.0013792% | | | 43,589 |
| Indirect ( thru Chilco Holdings, Inc. ) | 0.0148810% | | | 470,301 |
| Indirect ( thru S & A Industrial Corp. ) | 0.0000003% | | | 10 |
| Indirect ( thru Segovia & Co., Inc. ) | 0.0001893% | | | 5,984 |
| Indirect ( thru Victoria L. Araneta Prop. ) | 0.0000004% | | | 12 |
| **Raissa H. Posadas** | | | | |
| Direct | 0.0000633% | 2,000 | 2,000 | |
| Indirect ( thru Hyland Realty Corp. ) | 0.0045387% | | | 143,442 |
| Indirect ( thru Concepcion Industries Inc) | 0.0000006% | | | 19 |
| **Romeo L. Bernardo** | | | | |
| Direct | 0.0000078% | 247 | 247 | |
| **Officers:** | | | | |
| **Norman P. Uy** | | | | |
| Direct | 0.0291168% | 920,208 | 920,208 | |
| **Minerva C. Laforteza** | | | | |
| Direct | 0.0002696% | 8,522 | 8,522 | |
| **Ariel A. De Guzman** | | | | |
| Direct | 0.0003006% | 9,500 | 9,500 | |
| **Philip V. Prieto** | | | | |
| Direct | 0.0000039% | 122 | 122 | |
| **Ramon M. Lopez** | | | | |
| Direct | 0.0347513% | 1,098,282 | 1,098,282 | |

(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**

No action will be taken with respect to the election of directors.

**Item 6. Compensation of Directors and Executive Officers**

No action will be taken with regard to any bonus, profit sharing or other compensation plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the Corporation will participate; any pension or retirement plan in which any such person will participate; or the granting of extension to any such person of any option/s, warrant/s or rights/s to purchase any securities, other than warrants or rights issue to security holders as such, on a pro rata basis.

**Item 7. Independent Public Accountants**

No action will be taken on the election, approval or ratification of the Corporation's accountant.

**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 bonus, profit sharing, pension/retirement plan granting of extension of any option, warrant or right to purchase any securities.

**C. ISSUANCE AND EXCHANGE OF SECURITIES**

**Items 9. Issuance and Exchange of Securities**

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

**Item 10. Modification or Exchange of Securities**

No action is to be taken with respect to the modification of any class of securities of the Corporation, or the issuance or authorization for issuance of one class of securities of the Corporation in exchange for outstanding securities of another class.

**Item 11. Financial and Other Information**

Since the authorization or issuance of common stock is other than in an exchange, merger, acquisition or similar transaction, the information under this item is not required .

Nonetheless, the Corporation's interim financial statements for the second quarter ending 30 June 2013 and the Management's Discussion and Analysis are hereto attached.

**Items 12-14. Mergers, Consolidations, Acquisitions and Similar Matters, Acquisition or Disposition of Property and Restatement of Accounts**

No actions are to be taken with respect to any mergers, acquisitions and similar matters; acquisition or disposition of any property nor restatement of any asset, capital or surplus account of the Corporation.

**D. OTHER MATTERS**

**Items 15-16. Action with Respect to Reports, Matters Not Required to be Submitted**

The minutes of the annual stockholders' meeting of the Corporation held on 26 June 2013 will be submitted to the stockholders for approval in the next annual stockholders' meeting in 2014. There are no matters not required to be submitted.

**Item 17. Amendment of Charter, By-laws or Other Documents and Other Proposed Action**

**Amendment of Articles of Incorporation**

The Tenth Article of the Articles of Incorporation will be amended by deleting its sub-paragraphs A and B, to wit:

A. Disposition of treasury shares for a legitimate corporate purpose or purposes
B. Issuance to an investor or group of investors of such number of shares equivalent to or representing at least fifteen (15%) percent of the outstanding capital stock of the corporation.

Thus, the revised Tenth Article will read,

*"TENTH: The stockholders shall have no pre-emptive rights to all issuances or dispositions of any class of shares of the Corporation, unless otherwise prescribed by the Board of Directors."*

**Reasons and General Effects of the Amendment**

The amendment will allow the Corporation flexibility in raising funds for its businesses as a publicly listed and widely held company. The amendment will likewise increase its public float by more than ten (10%) as encouraged by the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

**Item 18. Voting Procedures**

The vote of shareholders representing at least 2/3 of the outstanding capital stock shall be required for the approval of the amendment to the Articles of Incorporation. Stockholders on record as of 18 September 2013 shall be entitled to one (1) vote for each share of stock recorded in their names in the books of the Corporation.

In accordance with Section 16 of the Corporation Code, voting shall be made through written assent, as evidenced by the Written Assent Form attached to this Information Statement, accomplished in all parts and duly received by mail or facsimile at the address below:

RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City, Philippines 1550
Fax No. (632) 631-5094

The Written Assent form should be signed by the stockholder of record or by his authorized representative or proxy. If voting by proxy, the proxy form should be submitted along with the accomplished Written Assent form.

The votes shall be counted based on the filled-up Written Assent forms received from stockholders and as soon as the affirmative votes reach at least two thirds (2/3) of the outstanding capital stock of the Corporation, the amendment shall be approved. The counting of votes will be done by the Corporate Secretary.

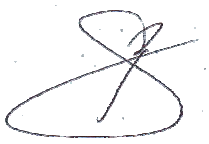
**PART III**

**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 4 September 2013.

**RFM CORPORATION**

By:



**ATTY. ROWEL S. BARBA**
Corporate Secretary

**MANAGEMENT REPORT OF RFM CORPORATION**

## I. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as well as the latest Interim Unaudited Financial Statements (Second Quarter Report) for 2013 are incorporated herein by reference and filed as part of this Management Report.

## II. MANAGEMENT DISCUSSION AND ANALYSIS (MD &A) OR PLAN OF OPERATION AND FINANCIAL CONDITION

**Analysis of Results of Operations**

YTD June 2013 vs. YTD June 2012

Food and beverage company RFM Corporation achieved net income growth of 28% for the first half of the year, climbing up to P387.1 million, from P302.1 million in the same period last year. This was on the back of around P4.77 billion sales revenue in the first six months, around 9% lower than last year's P5.27 billion, primarily due to its disposal of the meat business late last year.

The income growth is attributed to better margins in its core businesses as well as relatively higher sales of higher margin products in the second quarter. The lower commodity input costs this year, such as sugar and wheat, helped in bringing cost levels down, as well as our ability to pass on the gains to higher value-added products in Selecta ice cream and Fiesta pasta.

Stronger consumption spending was also felt in some categories, especially in the Sunkist beverage and Selecta milk that allowed us to have a better economies of scale in operations. The summer months were also strong for the Selecta ice cream and Fiesta pasta, which are products mostly consumed during graduation periods, fiestas and other celebrations. However, higher peaks are expected in the coming fourth quarter when consumer spending starts to go up until the Christmas season.

Second Quarter 2013 vs. Second Quarter 2012

Group revenues reached P2.5 billion during the second quarter, around 11% lower than P2.9 billion revenues for the same period last year. This was mainly due to the disposal of the meat business during the last quarter of 2012. However, the Group was able to sustain its gross margins and limit its operating costs, thereby obtaining a higher net income margin of 9% amounting to P233.2 million as compared to 6%, or P171.8 million for the same period last year.

The key financial performance indicators for the Company for the six-month period ended June 30, 2013 as compared to the same period in 2012, as well as the second quarter of 2012 as compared with the second quarter of 2012, are as follows:

| Key Financial Performance Indicators (Amounts in Millions)* | For the Quarter Ended | | For the Six-Month Period Ended | |
|---|---|---|---|---|
| | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Net Revenues | **₱2,546** | ₱2,870 | **₱4,767** | ₱5,265 |
| Net Operating Margin | **319** | 282 | **525** | 472 |
| Net Income (Loss) | **233** | 172 | **387** | 302 |
| EBITDA | **400** | 357 | **683** | 614 |
| Current Ratio | **1.38** | 1.29 | **1.38** | 1.29 |

* *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 June 30, 2013, the Group's Total Assets contracted 10.3% to P10.18 Billion compared to December 31, 2012 of P11.35 Billion. The decline was primarily from the Current Assets segment which reduced by 18.7% to P4.99 Billion compared to P6.13 Billion reported last December 31, 2012.

In January 28, 2013, through the concurrence of the lenders, the Parent Company made a partial prepayment of its floating rate notes facility amounting to P900 million and interest due thereon amounting to P10.78 million including the amortization due amounting to P93.75 million. The decline in Inventories of 30.1% to P1.25 billion was attributed to lower cost of major raw materials obtained by the Group.

Total liabilities have declined by 25.1% to P4.34 billion primarily due to the reduction in long-term debts as discussed above.

The Group maintained its current ratio of 1.44 as at June 20, 2013 (1.42 as at December 31, 2012). The Group's Debt to Equity ratio was 0.74 and 1.04 on June 30, 2013 and December 31, 2012, respectively.

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 June 30, 2013;

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

**PART II – OTHER INFORMATION**

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

**RFM CORPORATION**
By:



**ATTY. ROWEL S. BARBA**
Corporate Secretary

| | | 1 | 2 | 9 | 9 | 8 | | |
|---|---|---|---|---|---|---|---|---|

SEC Registration Number

# COVER SHEET

| 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 | , | | P | i | o | n | e | e | r | | c | o | r | n | e | r |
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| 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)

| 631-8101 |
|---|

(Company Telephone Number)

| 1 | 2 | 3 | 1 |
|---|---|---|---|

Month Day
(Calendar Year)

| 1 | 7 | – | Q |
|---|---|---|---|

(Form Type)

| | | | |
|---|---|---|---|

Month Day
(Annual Meeting)

| Not Applicable |
|---|

(Secondary License Type, If Applicable)

| |
|---|

Dept. Requiring this Doc.

| Not Applicable |
|---|

Amended Articles Number/Section

Total Amount of Borrowings

| |
|---|

Total No. of Stockholders

| | |
|---|---|

Domestic Foreign

To be accomplished by SEC Personnel concerned

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|

File Number

LCU

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# SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632)726-0931to39Fax:(632)725-5293Email:mis@sec.gov.ph

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Company Representative

Doc Source

Company Information

| | |
|---|---|
| SEC Registration No. | 0000012998 |
| Company Name | RFM CORP. |
| Industry Classification | |
| Company Type | Stock Corporation |

**Document Information**

| | |
|---|---|
| Document ID | 108132013003379 |
| Document Type | 17-Q (FORM 11-Q:QUARTERLY REPORT/FS) |
| Document Code | 17-Q |
| Period Covered | June 30, 2013 |
| No. of Days Late | 0 |
| Department | CFD |
| Remarks | |

**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 **JUNE 30, 2013**

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 42 and are incorporated herein by reference to said quarterly report.

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

**Analysis of Results of Operations**

YTD June 2013 vs. YTD June 2012

Food and beverage company RFM Corporation achieved net income growth of 28% for the first half of the year, climbing up to P387.1 million, from P302.1 million in the same period last year. This was on the back of around P4.77 billion sales revenue in the first six months, around 9% lower than last year's P5.27 billion, primarily due to its disposal of the meat business late last year.

The income growth is attributed to better margins in its core businesses as well as relatively higher sales of higher margin products in the second quarter. The lower commodity input costs this year, such as sugar and wheat, helped in bringing cost levels down, as well as our ability to pass on the gains to higher value-added products in Selecta ice cream and Fiesta pasta.

Stronger consumption spending was also felt in some categories, especially in the Sunkist beverage and Selecta milk that allowed us to have a better economies of scale in operations. The summer months were also strong for the Selecta ice cream and Fiesta pasta, which are products mostly consumed during graduation periods, fiestas and other celebrations. However, higher peaks are expected in the coming fourth quarter when consumer spending starts to go up until the Christmas season.

Second Quarter 2013 vs. Second Quarter 2012

Group revenues reached P2.5 billion during the second quarter, around 11% lower than P2.9 billion revenues for the same period last year. This was mainly due to the disposal of the meat business during the last quarter of 2012. However, the Group was able to sustain its gross margins and limit its operating costs, thereby obtaining a higher net income margin of 9% amounting to P233.2 million as compared to 6%, or P171.8 million for the same period last year.

The key financial performance indicators for the Company for the six-month period ended June 30, 2013 as compared to the same period in 2012, as well as the second quarter of 2012 as compared with the second quarter of 2012, are as follows:

| **Key Financial Performance Indicators (Amounts in Millions)*** | **For the Quarter Ended** | | **For the Six-Month Period Ended** | |
|---|---|---|---|---|
| | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Net Revenues | **₱2,546** | ₱2,870 | **₱4,767** | ₱5,265 |
| Net Operating Margin | **319** | 282 | **525** | 472 |
| Net Income (Loss) | **233** | 172 | **387** | 302 |
| EBITDA | **400** | 357 | **683** | 614 |
| Current Ratio | **1.38** | 1.29 | **1.38** | 1.29 |

* *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 June 30, 2013, the Group's Total Assets contracted 10.3% to P10.18 Billion compared to December 31, 2012 of P11.35 Billion. The decline was primarily from the Current Assets segment which reduced by 18.7% to P4.99 Billion compared to P6.13 Billion reported last December 31, 2012.

In January 28, 2013, through the concurrence of the lenders, the Parent Company made a partial prepayment of its floating rate notes facility amounting to P900 million and interest due thereon amounting to P10.78 million including the amortization due amounting to P93.75 million. The decline in Inventories of 30.1% to P1.25 billion was attributed to lower cost of major raw materials obtained by the Group.

Total liabilities have declined by 25.1% to P4.34 billion primarily due to the reduction in long-term debts as discussed above.

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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:

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(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 June 30, 2013;

(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

**MINERVA C. LAFORTEZA**
VP – Finance and Controllership

Dated: **August 12, 2013**

## CERTIFICATION OF INDEPENDENT DIRECTORS

**I, LILIA R. BAUTISTA**, 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<br>Law School | 2012 - Present |
| St. Martin de Porres Aide Association (St. Martin Charity Hospital) | Trustee | 2012 - Present |
| Permanent Court of Arbitration | Member, National Group | 2012 - Present |
| Good Governance for Socio – Economic Enhancement (GGOSEE) | Trustee | 2010 - Present |
| Philippine Judicial Academy | Professorial Lecturer | 2010 - Present |
| Eisenhower Fellows Association of the Philippines | Member | 2010 - Present |
| PHILJA Development Center | Trustee | 2007 - Present |
| Transnational Diversified Group | Independent Director (not a listed company) | 2006 - Present |
| CIBI Foundation | Member | 2009 - Present |

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 02 SEP 2013 day of _____ 2013 at Mandaluyong City.

LILIA R. BAUTISTA
affiant

**SUBSCRIBED AND SWORN** to before me this 02 SEP 2013 day of ___ 2013, affiant identified by me through her Passport no. QQ607731 who avowed to me under penalty of law to the whole truth of the contents of the foregoing instrument.

Doc. No. 337;
Page No. 69;
Book No. I;
Series of 2013

**ANGELINE G. VILLAMOR-LIM**
*Notary Public for and in Mandaluyong City*
Notarial Commission No. 0237-13
Commission Expires on 31 December 2014
2/F, RFM Corporate Center
Pioneer cor. Sheridan Sts. Mandaluyong City
PTR No. 1625687, 1/8/2013, Mandaluyong City
IBP No. 922501, 1/7/2013, Leyte
Roll of Attorneys No. 36941

## 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:

| Company/Organization | Position/Relationship | Period of Service |
|---|---|---|
| Aboitiz Power Corporation | Independent Director | May 2008 |
| ALFM Dollar Bond Fund | Chairman | 2003 |
| ALFM Euro Bond Fund | Chairman | 2005 |
| ALFM Growth Fund | Chairman | |
| ALFM Money Market Fund | Chairman | |
| ALFM Peso Bond Fund | Chairman | 2003 |
| Ayala Plans, Inc. | Independent Director | April 26, 2006 |
| Bank of the Philippine Islands | Independent Director | August 21, 2002 |
| BPI Capital Corporation | Independent Director | October 23, 2012 |
| BPI Direct Savings Bank, Inc. | Independent Director | February 11, 2004 |
| BPI Family Savings Bank, Inc. | Independent Director | February 18, 2004 |
| BPI Forex Corporation | Independent Director | April 2006 |
| BPI Globe BanKo, Inc., A Savings Bank | Independent Director | May 30, 2008 |
| BPI Leasing Corporation | Independent Director | April 27, 2006 |
| BPI Rental Corporation | Independent Director | April 27, 2006 |
| BPI/MS Insurance Corporation | Independent Director | December 4, 2009 |
| BPI-Philam Life Assurance Corporation – A Subsidiary of Philamlife and an Affiliate of BPI | Independent Director | April 2006 |
| Financial Executives Institute of the Philippines (FINEX) Foundation | Board of Trustee | January 2012 |
| Foundation for Economic Freedom | Vice Chairman & Founding Fellow | 1997 |
| GlobalSource Partners | Advisor | July 2007 |
| Globe Telecom, Inc. | Independent Director | September 2001 |

| | | |
|---|---|---|
| Institute for Development & Econometric Analysis, Inc. (IDEA) | Board of Trustee | |
| Lazaro Bernardo Tiu & Associates, Inc. | Managing Director | October 1996 |
| Management Association of the Philippines | Board of Trustee | January 2013 |
| National Reinsurance Investment Corporation of the Philippines | Independent Director | June 2006 |
| Philippine Institute for Development Studies (PIDS) | Board of Trustee | October 2005 |
| Philippine Investment Management, Inc. (PHINMA) | Independent Director | August 2005 |
| Philippine Stock Index Fund, Inc. | Chairman | 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 3rd day of September 2013 at Mandaluyong City.

**ROMEO L. BERNARDO**
Affiant

**SUBSCRIBED AND SWORN** to before me this 03 day of 2013 2013, affiant identified by me through his Philippine passport number EB2294305 and Community Tax Certificate No. 13926314 issued at Quezon City on January 17, 2013 who avowed to me under penalty of law to the whole truth of the contents of the foregoing instrument.

Doc. No. 340;
Page No. 69;
Book No. 1;
Series of 2013

ANGELINE G. VILLAMOR-LIM
Notary Public for and in Mandaluyong City
Notarial Commission No. 0237-13
Commission Expires on 31 December 2014
2/F, RFM Corporate Center
Pioneer cor. Sheridan Sts. Mandaluyong City
PTR No. 1625687, 1/8/2013, Mandaluyong City
IBP No. 922501, 1/7/2013, Leyte
Roll of Attorneys No. 36941

## RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

**(Amounts in Millions)**

| | For the period ended | |
|---|---|---|
| | **June 30, 2013** | December 31, 2012 |
| **ASSETS** | | |
| Current Assets | | |
| Cash and cash equivalents | **₱917** | ₱1,475 |
| Accounts receivable (Note 5) | **2,469** | 2,677 |
| Inventories (Note 6) | **1,251** | 1,789 |
| Other current assets (Note 7) | **350** | 192 |
| **Total Current Assets** | **4,987** | 6,133 |
| **Noncurrent Assets** | | |
| Property, equipment and investment property (Note 8) | **4,361** | 4,354 |
| Investment (Note 9) | **477** | 469 |
| Other noncurrent Asset (Note 10) | **356** | 394 |
| Total Noncurrent Assets | **5,194** | 5,217 |
| TOTAL ASSETS | **₱10,181** | ₱11,350 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans | **₱750** | ₱ 889 |
| Accounts payable and accrued liabilities (Note 11) | **2,501** | 2,800 |
| Current portion of: | | |
| Long-term obligations | **9** | 7 |
| Long-term debts | **137** | 546 |
| Provisions | **60** | 68 |
| **Total Current Liabilities** | **3,457** | 4,310 |
| **Noncurrent Liabilities** | | |
| Long-term obligations - net of current portion | **-** | 2 |
| Long-term debts - net of current portion | **665** | 1,265 |
| Other noncurrent liabilities (Note 12) | **221** | 221 |
| **Total Noncurrent Liabilities** | **886** | 1,488 |
| **Total Liabilities** | **4,343** | 5,798 |
| **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) | **2** | 2 |
| Revaluation increment on land - net of deferred income tax effect | **569** | 569 |
| Retained earnings | **1,324** | 1,042 |
| | **5,837** | 5,555 |
| **Non-controlling interests** | **1** | (3) |
| **Total Equity** | **5,838** | 5,552 |
| **TOTAL LIABILITIES AND EQUITY** | **₱10,181** | ₱11,350 |

*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 June 30 | | For the Six-Month Period Ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **NET REVENUES** | **₱2,546** | ₱2,870 | **₱4,767** | ₱5,265 |
| **DIRECT COSTS AND EXPENSES** | **1,550** | 1,758 | **2,963** | 3,342 |
| **GROSS PROFIT** | **996** | 1,112 | **1,804** | 1,923 |
| **SELLING AND MARKETING EXPENSES** | **(494)** | (614) | **(949)** | (1,073) |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | **(183)** | (216) | **(330)** | (378) |
| **NET OPERATING INCOME** | **319** | 282 | **525** | 472 |
| **OTHER INCOME (CHARGES) –** Net (Note 17) | **(1)** | (23) | **(12)** | (36) |
| **INCOME BEFORE PROVISION FOR INCOME TAX** | **318** | 259 | **513** | 436 |
| **PROVISION FOR INCOME TAX** | **85** | 87 | **126** | 134 |
| **NET INCOME** | **₱233** | ₱172 | **₱387** | ₱302 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **₱233** | ₱173 | **₱ 387** | ₱ 303 |
| Minority interests (Note 2) | (-) | (1) | **(-)** | (1) |
| | **₱233** | ₱172 | **₱ 387** | ₱ 302 |
| **Basic/Diluted Earnings Per Share** (Note 9) | **₱0.074** | ₱0.028 | **₱ 0.123** | ₱ 0.095 |

*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 June 30 | | For the Six-Month Period Ended June 30 | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **NET INCOME** | **₱233** | ₱172 | **₱387** | ₱366 |
| **OTHER COMPREHENSIVE INCOME** | **–** | – | **–** | – |
| **Total comprehensive income for the period** | **₱233** | ₱172 | **₱ 387** | ₱ 366 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | **₱233** | ₱173 | **₱ 387** | ₱ 366 |
| Minority interests (Note 2) | (-) | (1) | **(-)** | (-) |
| | **₱233** | ₱172 | **₱ 387** | ₱ 366 |

*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, 2012** | **₱3,160** | **₱789** | **₱(7)** | **₱26** | **₱569** | **₱–** | **₱623** | **₱5,160** | **₱3** | **₱5,163** |
| Net income for the period | – | – | – | – | – | – | 302 | 302 | 1 | 302 |
| Cash dividend declaration | – | – | – | – | – | – | (76) | (76) | – | (76) |
| Property dividend declaration | – | – | – | – | – | – | (145) | (145) | – | (145) |
| **BALANCES AT JUNE 30, 2012** | **₱3,160** | **₱789** | **₱**(7) | **₱26** | **₱569** | **₱–** | **₱704** | **₱5,241** | **₱4** | **₱5,245** |
| Net income for the period | – | – | – | – | – | – | 384 | 384 | (4) | 380 |
| Actuarial losses on defined benefit plan – net of deferred income tax | – | – | – | – | – | – | 30 | 30 | – | 30 |
| Net changes in fair value of AFS financial assets | – | – | – | 2 | – | – | – | 2 | – | 2 |
| Valuation gains realized through profit and loss | – | – | – | (26) | – | – | – | (26) | – | (26) |
| Cash dividend declaration | – | – | – | – | – | – | (76) | (76) | (2) | (78) |
| Property dividend declaration | – | – | – | – | – | – | – | – | – | – |
| **BALANCES AT DECEMBER 31, 2012** | **₱3,160** | **₱789** | **₱(7)** | **₱2** | **₱569** | **₱–** | **₱1,042** | **₱5,555** | **₱(2)** | **₱5,553** |
| Net income for the period | – | – | – | – | – | – | 387 | 387 | 3 | 390 |
| Cash dividend declaration | – | – | – | – | – | – | (102) | (102) | – | (102) |
| Cumulative actuarial gain on defined benefit plan | – | – | – | – | – | – | (3) | (3) | – | (3) |
| **BALANCES AT JUNE 30, 2013** | **₱3,160** | **₱789** | **₱(7)** | **₱2** | **₱569** | **₱–** | **₱1,324** | **₱5,837** | **₱1** | **₱5,838** |

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

| | For the Period Ended June 30 | |
|---|---|---|
| | **2013** | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱387** | ₱302 |
| Adjustments for: | | |
| Depreciation and amortization | **157** | 142 |
| Operating income (loss) before working capital changes | **544** | 444 |
| Decrease (increase) in: | | |
| Accounts receivable | **225** | 21 |
| Inventories | **538** | (681) |
| Other current assets | **(332)** | (276) |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | **(298)** | 509 |
| Other current liabilities | **(7)** | 103 |
| Net cash from (used in) operating activities | **670** | 120 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of investments and property and equipment | **(14)** | 32 |
| Decrease (Increase) in other noncurrent assets | **37** | (10) |
| Net cash used in investing activities | **23** | 22 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Availments of Long-term and obligations / bank loans | **370** | 500 |
| Repayments of Long-term debt and obligation / bank loans | **(1,519)** | (960) |
| Dividends paid | **(102)** | (76) |
| | | - |
| Increase (decrease) in minority interests and other noncurrent liabilities | **-** | 19 |
| Net cash from financing activities | **(1,251)** | (517) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(558)** | (375) |
| **CASH AND CASH EQUIVALENTS, JANUARY 1** | **1,475** | 813 |
| **CASH AND CASH EQUIVALENTS, MARCH 31** | **₱917** | ₱438 |

*See accompanying Notes to Consolidated Financial Statements*

## 1. Corporate Information

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

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

## 2. Summary of Significant Accounting and Financial Reporting Practices

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

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with 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 and Philippine Accounting Standards (PAS) which were adopted as of January 1, 2013. Except as otherwise indicated, the adoption of these changes in PFRS did not have any significant impact on the Group's financial statements:

- 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 amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have 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 Standards Interpretations Committee (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.

  A reassessment of control was performed by the Parent Company on all its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Parent Company determined that it has control on all of its subsidiaries currently being consolidated to its consolidated financial statements. Such, the Parent Company will continue to include those subsidiaries in its consolidated financial statements.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

  The Parent Company has an existing joint venture arrangement with a domestic entity that falls within the scope of this standard. Currently, proportionate consolidation is applied for this joint venture.

  On November 22, 2012, the Parent Company was granted by the Philippine SEC an exemptive relief on the adoption of this standard given the peculiarities of its arrangement with the other joint venturer. Such, the Parent Company will continue to consolidate proportionately the said joint venture in 2013 when this PFRS becomes effective.

- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- 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. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*, changes the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits (Revised)*, ranges from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

  The Parent Company reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Parent Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

| Increase (decrease) in: | | |
|---|---|---|
| Statement of Comprehensive Income | 2012 | 2011 |
| Net pension benefit cost | ₱9,645 | ₱4,541 |
| Net income for the year | (9,645) | (4,541) |
| Other comprehensive income | 9,645 | 4,541 |

- PAS 27, *Separate Financial Statements (as revised in 2011)*, limits its contents to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements as a consequence of the new PFRS 10 and PFRS 12. This amendment has no impact on the Group's financial position or performance.

- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, renames PAS 28 as PAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new PFRS 11 and PFRS 12. It describes the application of the equity method to investments in joint ventures in addition to associates. The Group is already applying the equity method in accounting its investment in an associate.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

The following standard is not applicable for adoption by the Group:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Government Loans (Amendments)*, allows first-time adopters to apply the amendments prospectively relating to the treatment of government loans as defined in PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. The Group has no existing government loans or grants.

**Summary of Significant Accounting Policies**

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

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

| | Percentage of Ownership | |
|---|---|---|
| | **June 30, 2013** | December 31, 2012 |
| 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) | **86.14** | 86.14 |
| RFM Foods Philippines Corporation* | **100.00** | 100.00 |
| Southstar Bottled Water Company, Inc. (Southstar)* | **100.00** | 100.00 |
| Swift Tuna Corporation* | **100.00** | 100.00 |
| Invest Asia Corporation (Invest Asia) | **96.00** | 96.00 |
| Rizal Lighterage Corporation (RLC) | **93.60** | 93.51 |
| 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 2012, the Parent Company acquired additional shares in RLC, a subsidiary, at a total cash consideration of ₱0.08 million and accordingly executed corresponding deeds of absolute sale of shares of stock with the former shareholders.

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

*Subsidiaries*
Subsidiaries are entities 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.

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

*Date of recognition*

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

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

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

As of June 30, 2013 and December 31, 2012, the Group has no financial assets at FVPL and HTM investments. Financial liabilities at FVPL of the Group have no derivative liability as of June 30, 2012 and as of December 31, 2012.

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

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

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

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

As of June 30, 2013 and December 31, 2012, the Group's other financial liabilities include bank loans, accounts payable and accrued liabilities, customers' deposits, long-term debts and obligations, including current maturities, and advances from related parties.

Derivatives

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.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

*Loans and receivables*

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

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

*AFS financial assets*

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

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

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

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

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. As of June 30. 2013 and December 31, 2012, the Group has a 35% interest in Selecta Walls Land Corporation (SWLC) accounted for under the equity method.

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.

Capital Stock

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

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

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

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

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

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

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

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

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 in accordance with the substance of the relevant agreements.

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

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

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

Cost and Expense Recognition
*Cost of Sales and Services*
Cost of sales is recognized when goods are delivered to and accepted by the buyer. Cost of services is recognized when the related services are performed.

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

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

Pension Benefits
The 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 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 Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations to have significant impact on its financial statements:

*Effective in 2014*

- PAS 32*, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*, clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. 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*, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement,* and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. 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 the classification and measurement of financial liabilities. The Group is in the process of determining the impact of this standard on its financial position or performance.

*Deferred by SEC*

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

*Annual Improvements to PFRS* (2009-2011 cycle)
The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarifies the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a

complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory, if otherwise.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to the December 31, 2012 financial statements. Additional disclosures required by these amendments will be included in the financial statements when these amendments are adopted.

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

*Impairment of AFS financial assets*

The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for the quoted equity securities. Impairment may be appropriate when there is evidence of deterioration in the

financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

In 2012, in light of the changing business model of Philtown, the Group performed an impairment testing of its AFS financial assets in Philtown using the "Adjusted Net Asset Method". In using this method, the fair values of the assets and liabilities of Philtown were determined as of impairment testing date, December 31, 2012. The computed fair values of the total assets of Philtown were applied against the computed fair values of its total liabilities according to priority and the residual assets were applied against the amount of the preferred and common shares held by the Group. The Group determined that its AFS financial assets are impaired.

Impairment loss was recognized on its AFS financial assets amounting to ₱545.86 million in 2012. No impairment loss was recognized in 2013.

*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.

*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 2013 and 2012.

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

The appraisal increase on the valuation of land based on the appraisal report amounting to ₱568.94 million as of June 30, 2013 and December 31, 2012 is presented as "Revaluation increment on land" account, net of deferred income tax effect of ₱243.83 million, in the equity section of the consolidated balance sheets.

*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.

*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. In 2012, the Parent Company performed an impairment test with respect to its goodwill resulting from its acquisition of URICI amounting to ₱190.56 million as of March 31, 2013 and December 31, 2012. The Parent Company used a discount rate of 4.11% and a growth rate on sales of URICI by 15% to 17% for the succeeding five years. No impairment losses were recognized for the years ended December 31, 2012 and 2011.

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

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

*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 related parties and other long-term financial assets and obligations.

## 4. Segment Information

The Group's management reports its operating business segments into the following: (a) institutional business, (b) consumer business, and (c) other operations. The institutional business segment primarily manufactures and sells flour, 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 is as follows (amounts in millions):

**For the Quarter Ended June 30, 2013**

| | Institutional Business | Consumer Business | Other Businesses | Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| External sales | ₱956 | ₱1,584 | ₱6 | ₱– | **₱2,546** |
| Intersegment sales | – | – | 8 | (8) | **–** |
| | ₱956 | ₱1,584 | ₱14 | ₱(8) | **₱2,546** |
| **Results** | | | | | |
| Income (loss) from operations | ₱174 | ₱223 | ₱(78) | ₱- | **₱319** |
| Other income (charges) - net | | | | | **(1)** |
| Provision for income tax | | | | | **(85)** |
| Net income | | | | | **233** |
| **Other information** | | | | | |
| Segment assets | ₱8,196 | ₱7,318 | ₱3,662 | ₱(9,472) | **₱9,704** |
| Investments | – | 315 | 1,427 | (1,265) | **477** |
| Consolidated Total Assets | ₱8,196 | ₱7,633 | ₱5,089 | ₱(10,737) | **₱10,181** |
| Consolidated Total Liabilities | | | | | **₱4,343** |
| Depreciation and amortization | | | | | **₱80** |

**For the Six-Month Period Ended June 30, 2013**

| | Institutional Business | Consumer Business | Other Businesses | Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| External sales | ₱1,895 | ₱2,846 | ₱26 | ₱– | **₱4,767** |
| Intersegment sales | – | – | 17 | (17) | **–** |
| | ₱1,895 | ₱2,846 | ₱43 | (₱17) | **₱4,767** |
| **Results** | | | | | |
| Income (loss) from operations | ₱402 | ₱253 | ₱(130) | ₱– | **₱525** |

| | | | | | |
|---|---|---|---|---|---|
| Other income (charges) - net | | | | | **(12)** |
| Provision for income tax | | | | | **(126)** |
| Net income | | | | | **387** |
| **Other information** | | | | | |
| Segment assets | ₱8,196 | ₱7,318 | ₱3,662 | ₱(9,472) | **₱9,704** |
| Investments | – | 315 | 1,427 | (1,265) | **477** |
| Consolidated Total Assets | ₱8,196 | ₱7,633 | ₱5,089 | ₱(10,737) | **₱10,181** |
| Consolidated Total Liabilities | | | | | **₱4,343** |
| Depreciation and amortization | | | | | **₱157** |

**For the Quarter Ended June 30, 2012**

| | Institutional Business | Consumer Business | Other Businesses | Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| External sales | ₱915 | ₱1,940 | ₱15 | ₱– | **₱2,870** |
| Intersegment sales | – | – | 3 | (3) | **–** |
| | ₱915 | ₱1,940 | ₱18 | (₱3) | **₱2,870** |
| **Results** | | | | | |
| Income (loss) from operations | ₱227 | ₱178 | ₱(123) | ₱– | **₱282** |
| Other income (charges) - net | | | | | **(23)** |
| Provision for income tax | | | | | **(87)** |
| Net income | | | | | **172** |
| **Other information** | | | | | |
| Segment assets | ₱6,876 | ₱5,784 | ₱4,849 | ₱(7,350) | **₱10,159** |
| Investments | – | 313 | 1,994 | (1,304) | **1,003** |
| Consolidated Total Assets | ₱6,876 | ₱6,097 | ₱6,843 | ₱(8,654) | **₱11,162** |
| Consolidated Total Liabilities | | | | | **₱5,917** |
| Depreciation and amortization | | | | | **₱74** |

**For the Six-Month Period Ended June 30, 2012**

| | Institutional Business | Consumer Business | Other Businesses | Eliminations | **Consolidated** |
|---|---|---|---|---|---|
| **Net sales** | | | | | |
| External sales | ₱1,841 | ₱3,393 | ₱31 | ₱– | **₱5,265** |

| | | | | | |
|---|---|---|---|---|---|
| Intersegment sales | – | – | 14 | (14) | **–** |
| | ₱1,841 | ₱3,393 | ₱45 | ₱(14) | **₱5,265** |
| **Results** | | | | | |
| Income (loss) from operations | ₱445 | ₱246 | ₱(219) | ₱– | **₱472** |
| Other income (charges) - net | | | | | **(36)** |
| Provision for income tax | | | | | **(134)** |
| Net income | | | | | **302** |
| **Other information** | | | | | |
| Segment assets | ₱6,876 | ₱5,784 | ₱4,849 | ₱(7,350) | **₱10,159** |
| Investments | – | 313 | 1,994 | (1,304) | **1,003** |
| Consolidated Total Assets | ₱6,876 | ₱6,097 | ₱6,843 | ₱(8,654) | **₱11,162** |
| Consolidated Total Liabilities | | ₱ | | ₱– | **₱5,917** |
| Depreciation and amortization | | | | | **₱142** |

5. **Accounts Receivable**

| | **June 30, 2013 (Unaudited)** | |
|---|---|---|
| | (amounts in millions) | |
| Trade receivables | **₱2,594** | ₱2,550 |
| Advances to related parties | **314** | 389 |
| Other receivables | **268** | 445 |
| | **3,176** | 3,384 |
| Less allowance for doubtful accounts | **707** | 707 |

| | | |
|---|---|---|
| | **₱2,469** | ₱2,677 |

6. **Inventories**

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

7. **Other Current Assets**

| | **June 30, 2013 (Unaudited)** | |
|---|---|---|
| | (amounts in millions) | |
| Deposits on purchases | **₱171** | ₱34 |
| Creditable withholding taxes | **79** | 60 |
| Input VAT | **51** | 50 |
| Prepaid expenses and other current assets – net of allowance for probable losses | **49** | 48 |
| | **₱350** | ₱192 |

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

| | **June 30, 2013 (Unaudited)** | December 31, 2012 (Audited) |
|---|---|---|
| | (amounts in millions) | |
| Property, plant and equipment | | |
| At cost | **₱2,765** | ₱2,758 |
| At appraised value | **1,539** | 1,539 |
| Investment property | **57** | 57 |

| | | |
|---|---|---|
| | **₱4,361** | ₱4,354 |

9. **Investment**

| | **June 30, 2013 (Unaudited)** | December 31, 2012 (Audited) |
|---|---|---|
| | (amounts in millions) | |
| AFS financial assets (Note 11) | **₱338** | ₱330 |
| Investments in associates (Note 11) | **139** | 139 |
| | **₱477** | ₱469 |

10. **Other Noncurrent Asset**

| | **June 30, 2013 (Unaudited)** | December 31, 2012 (Audited) |
|---|---|---|
| | (amounts in millions) | |
| Deferred income tax assets - net | **₱59** | ₱88 |
| Goodwill | **191** | 191 |
| Other noncurrent assets | **106** | 115 |
| | **₱356** | ₱394 |

11. **Accounts Payable and Accrued Liabilities**

| | **June 30, 2013 (Unaudited)** | December 31, 2012 (Audited) |
|---|---|---|
| | (amounts in millions) | |
| Accounts payable and accrued liabilities | **₱2,317** | ₱2,615 |
| Income tax payable | **25** | 36 |
| Advances to related parties | **105** | 70 |
| Customers' deposits | **54** | 79 |
| | **₱2,501** | ₱2,800 |

12. **Other Noncurrent Liabilities**

| | **June 30, 2013 (Unaudited)** | December 31, 2012 (Audited) |
|---|---|---|
| | (amounts in millions) | |
| Deferred income tax liabilities | **192** | 192 |
| Net pension obligation | **28** | 28 |
| Security deposits | **1** | 1 |
| | **221** | 221 |

13. **Equity**

*Capital Stock*
As of June 30, 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 3,391 stockholders as of June 30, 2013 and December 31, 2012.

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

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

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

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 partial 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, 2012 is restricted to the extent of the amount of the undistributed equity in net earnings of an associate included in its retained earnings amounting to ₱105.05 million. These will only be available for declaration as dividends when these are actually received.

Retained earnings include cumulative actuarial gains on defined benefits plan of ₱3.02 million as of December 31, 2012 which are not available for dividend declaration.

## 14. 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 June 30, 2013 and December 31, 2012 are unsecured and settlement occurs in cash, unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables. Advances to/from related parties are noninterest-bearing and collectible/payable on demand.

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

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

| | Sales and Services | | Purchases | |
|---|---|---|---|---|
| | For the period ended June 30 | | For the period ended June 30 | |
| | **2013** | 2012 | **2013** | 2012 |
| Parent Company | **74,445** | 52,687 | **64,679** | 109,717 |
| ICC | **47, 639** | 57,564 | **74,445** | 52,687 |
| RLC | **17,041** | 22,153 | **–** | – |

b. The Parent Company entered into a management agreement with ICC under which the Parent Company shall receive from ICC a monthly fee of ₱1.00 million.

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

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

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

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

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, 2012, and 2011 amounted to ₱0.50 million each year.

g. 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.

## 15. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2012 and 2011.

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

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

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

## 16. 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, 2012 and 2011. 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).

There had been no transfers between Level 1, Level 2, and Level 3 of the fair value hierarchy in 2012 and 2011.

Derivative Instruments

The related fair values of the Group's outstanding derivative liability arising from the interest rate swap amounted to nil as of June 30, 2013 and December 31, 2012.

*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, 2012.

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, 2012 and 2011, the fair value of the derivative liabilityamounted to nil and ₱1.73 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. The interest rate swap agreement ended in October 2012.

*Fair Value Changes on Derivatives*

The net changes in the fair values of all derivative instruments for the year ended December 31, 2012 follow:

| | |
|---|---|
| Balance at December 31, 2011 | ₱1,732 |
| Fair value changes of derivative taken to profit or loss | (1,732) |
| Derivative liability at December 31, 2012 | ₱- |

*Forward Contracts*

For the period ended March 31, 2013 and December 31, 2012, 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, 2013 and December 31, 2012, 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.

17. **Other Income (Charges)**

| | For the Period Ended June 30 | |
|---|---|---|
| | **2013 (Unaudited)** | |
| | (amounts in millions) | |
| Interest expense | **(₱35)** | **(₱32)** |
| Interest income | 6 | 4 |
| Other income, net | 17 | 5 |
| | **(₱12)** | **(₱23)** |

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

| | | For the Period Ended June 30 | |
|---|---|---|---|
| | | **2013 (Unaudited)** | 2012 (Unaudited) |
| a. | Net income attributable to equity of the Parent Company (Amounts in Millions) | **₱387** | **₱302** |
| b. | Common shares outstanding | **3,160,403,866** | **3,160,403,866** |
| c. | Weighted average common share outstanding | **3,160,403,866** | **3,160,403,866** |
| d. | Basic earnings per share (a/b) | **₱0.123** | **₱0.096** |
| e. | Diluted earnings per share (a/c) | **₱0.123** | **₱0.096** |

**RFM CORPORATION AND SUBSIDIARIES**
**Aging Analysis of Trade Receivables**
**As of June 30, 2013**
**(Amounts in Millions)**

| | **Amount** | **%** |
|---|---|---|
| Under Six (6) Months | ₱1,557 | 60% |
| Six (6) Months to One (1) Year | 519 | 20% |
| Over One (1) Year | 518 | 10% |
| | **₱2,594** | **100%** |

20 September 2013

Dear **Stockholder,**

In a meeting held on 28 August 2013, the Board of Directors of RFM Corporation (the "Corporation"), representing a majority, resolved to approve by affirmative vote, the amendment of the Tenth Article of the Articles of Incorporation of the Corporation, to wit,

> *TENTH: The stockholders shall have no pre-emptive rights to all issuances or dispositions of any class of shares of the Corporation, unless otherwise prescribed by the Board of Directors*.

The article was amended in order to give your Corporation flexibility in raising funds for its businesses as a publicly listed and widely held company. Pursuant to Section 16 of the Corporation Code of the Philippines, we are now submitting the abovementioned amendment for your approval through written assent, as a stockholder of record as of 11 September 2013. Enclosed is a form on which you may indicate your vote on the proposed amendment.

Please accomplish the form and return the same to us.

Thank you.

Best regards,



**ATTY. ROWEL S. BARBA**
Corporate Secretary

RFM CORPORATION
RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City 1550, Metro Manila, Philippines
Telephone: (63-2) 631-8101 Facsimile: (63-2) 632-0839 Website: www.rfmfoods.com

# WRITTEN ASSENT FORM

**AMENDMENT OF THE TENTH ARTICLE**
**OF THE ARTICLES OF INCORPORATION OF**
**RFM CORPORATION**

The undersigned being a stockholder of record of RFM CORPORATION, and in relation to the proposed amendment of the tenth article of the Articles of Incorporation from:

> *TENTH: The stockholders shall have no pre-emptive right to the following issuance or disposition of any class of shares of the corporation.*
>
> *A. Disposition of treasury shares for a legitimate corporate purpose or purposes;*
>
> *B. Issuance to an investor or group of investors of such number of shares equivalent to or representing at least fifteen (15%) percent of the outstanding capital stock of the corporation,*

to:

> *TENTH: The stockholders shall have no pre-emptive rights to all issuances or dispositions of any class of shares of the Corporation, unless otherwise prescribed by the Board of Directors.*

hereby:

( ___ ) gives his/her written assent to the proposed amendment
( ___ ) gives his/her objection to the proposed amendment

_____ _____
No. of Shares Stockholder
(*signature over printed name)*

_____
Date and Place Signed

The written assent should be prepared and completed in all parts and signed by the stockholder of record or by his/her authorized representative or proxy. You may use the enclosed reply envelope for this purpose. If voting by proxy, the proxy form should be submitted along with the written assent. The amendment of the Articles of Incorporation shall be deemed approved as soon as the affirmative vote reach at least 2/3 of the outstanding capital stock of the Corporation.

# PROXY FORM

I/WE hereby appoint _____ or in his/her absence, the Chairman of the Board of Directors, as my proxy. Said proxy is authorized to fill in the written assent on my behalf.

_____ _____

No. of Shares Stockholder

(*signature over printed name)*

_____

Date and Place Signed

*WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT REQUESTED TO SEND A PROXY. However, you are entitled to appoint a proxy, in which case, this Proxy form should be submitted along with the Written Assent form. Proxies may be revoked by the stockholder through an instrument in writing duly presented and recorded with the Corporate Secretary.*