05 June 2014

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 Information Statement (SEC Form 20-IS)**
2014 Annual Stockholders' Meeting

Dear **Ms. Encarnacion**,

In compliance with Section 20 of the Securities Regulation Code, please find attached the Corporation's Definitive Information Statement (SEC Form 20-IS) for the 2014 Annual Stockholders' Meeting of the Corporation.

Thank you.

Very truly yours,



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

COVER SHEET

1	2	9	9	8					

SEC Registration Number

R	F	M		C	O	R	P	O	R	A	T	I	O	N																	

(Company's Full Name)

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

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

Ramon Lopez

(Contact Person)

631-8101

(Company Telephone Number)

1	2

Month

3	1

Day

(Calendar Year)

D E F

2	0	-	I	S

(Form Type)

0	7

Month

0	2

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

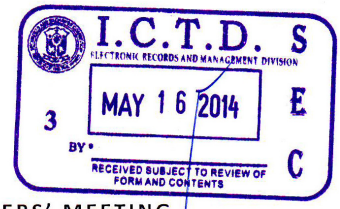
Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

RFM CORPORATION



NOTICE OF ANNUAL STOCKHOLDERS' MEETING

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Stockholders of RFM CORPORATION will be held at the RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong City 1550 on Wednesday, 2 July 2014 at 11:00 A.M. with the following AGENDA:

I. Call to Order

II. Certification of Notice and Quorum

III. Approval of the Minutes of the Annual Stockholders' Meeting held on 26 June 2013

IV. President's Report for 2013 and Audited Financial Statements ending 31 December 2013

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

VI. Election of Directors for 2014

VII. Appointment of External Auditor

VIII. Other Matters

a. Amendment of the Third Article of the Articles of Incorporation by changing the Principal Office from *Metro Manila, Philippines* to *RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City, Philippines, 1550*

IX. Adjournment

Stockholders of record as of 30 May 2014 shall be entitled to vote at this meeting. Stockholders are requested to bring this Notice and present valid identification cards with picture upon registration for verification purpose. If you cannot personally attend the meeting, you may appoint a proxy to represent you by accomplishing a Proxy form and by submitting the same with the Office of the Corporate Secretary at the above address before the date of the meeting.

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

16 May 2014, Mandaluyong City.

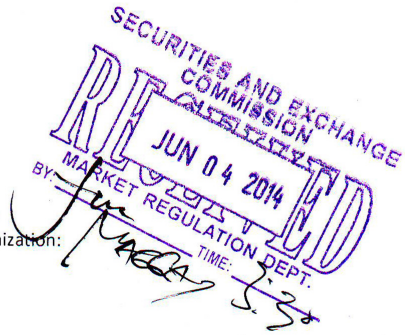
ATTY. ROWEL S. BARBA
Corporate Secretary

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

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 : **000-064-134-000**

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:

02 July 2014
11:00 A.M.
RFM Corporate Center
Corner Pioneer and Sheridan Streets
Mandaluyong City

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

10 June 2014

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	**3,500,403,866** 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

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAY 27 2014
MARKET REGULATION DEPT.
BY:
TIME: 5/29/14

A. GENERAL INFORMATION

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

(a)	Date of Meeting:	02 July 2014
	Time of Meeting:	11:00 A.M.
	Place of Meeting:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City
	Mailing Address:	RFM Corporate Center Corner Pioneer and Sheridan Streets Mandaluyong City, Philippines 1550
(b)	Approximate Date of Sending Information Statement to Security Holders:	10 June 2014

Item 2. Dissenters' Right of Appraisal

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

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

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

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

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

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

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

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

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

Stockholders of record of the Corporation as of 30 May 2014 shall be entitled to vote during the meeting. The outstanding capital stock of the Corporation as of 30 April 2014 is 3,500,403,866 common shares with a par value of Php1.00 per share, all of which are entitled to vote. For the purpose of voting the shares in the meeting, one common share is entitled to one vote.

Manner of Voting

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

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

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

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

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

Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Security Ownership of Certain Record and Beneficial Owners as of 30 April 2014 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	PCD Nominee Corp. G/F MKSE Building Ayala Avenue, Makati Stockholder	PCD Participants	Foreign	808,168,442	23.087863
Common	Triple Eight Holdings Inc. 507 Buendia Avebue, North Forbes Park, Makati City Stockholder	Triple Eight Holdings, Inc.	Filipino	658,561,450	18.81387
Common	PCD Nominee Corp. G/F MKSE Building Ayala Avenue, Makati Stockholder	PCD Participants	Filipino	539,049,436	15.399635
Common	Horizons Realty, Inc. 11 Kawayan Road N. Forbes Park,	Horizons Realty, Inc.	Filipino	505,565,550	14.451634

	Makati City Stockholder				
Common	BJS Dev. Corp. 1869 P. Domingo St. Makati City Stockholder	BJS Dev. Corp.	Filipino	260,210,184	7.433719

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.

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.

(2) Security Ownership of Management

Security Ownership of Management as of 30 April 2014

(1) Title of Class	(2) Name of Beneficial Owner	(3) Nature of Beneficial Ownership	(4) Citizenship	(5) No. of Shares	(6) Percentage (%)
Common	Jose S. Concepcion, Jr. Kawayan St., N. Forbes Park Makati City	"r"	Filipino	1,917,568	0.0547813
Common	Jose Ma. A. Concepcion III Buendia St., N. Forbes Park Makati City	"r"	Filipino	11,671,886	0.3334445
Common	John Marie A. Concepcion 9 Urdaneta Ave., Urdaneta Village, Makati City	"r"	Filipino	369,974	0.0200687
Common	Ernest Fritz Server 319 Chico Drive, Ayala Alabang Village, Muntinlupa City	"r"	Filipino	564,834	0.0161363
Common	Francisco A. Segovia 521 Acacia Ave., Ayala Alabang, Muntinlupa City	"r"	Filipino	10	0.000000
Common	Felicisimo M. Nacino, Jr. 11-G, Tower I, St. Francis Shangrila, Mandaluyong City	"r"	Filipino	1,738,256	0.0496587
Common	Joseph D. Server, Jr. 312 Cadena de Amor cor. Ilang-Ilang St., Ayala Alabang Village, Muntinlupa City	"r"	Filipino	135,376	0.0038674
Common	Ma. Victoria Herminia C. Young Kawayan Road, N. Forbes Park, Makati City	"r"	Filipino	10	0.000000
Common	Raissa H. Posadas 11 Nakpil St., San Lorenzo Village, Makati City	"r"	Filipino	2,000	0.0041550
Common	Romeo L. Bernardo 16/F Belvedere Tower San Miguel Ave., Ortigas Center, Pasig City	"r"	Filipino	247	0.0000000
Common	Lilia R. Bautista 33 A Rita St., San Juan, Metro Manila	"r"	Filipino	2,000	0.0000571
Common	Norman P. Uy (6 Molave St. Forbes Park, Makati City)	"r"	Filipino	920,208	0.0262886
Common	Ramon M. Lopez 3306 Pioneer Highlands, East Tower, Pioneer cor. Madison Sts., Mandaluyong City	"r"	Filipino	1,098,282	0.0313759
Common	Minerva C. Laforteza Blk. 9 Lot 17 Burbank St., North Fairview, Q.C.	"r"	Filipino	8,522	0.0002435

Common	Philip V. Prieto 15 Melon St., Valle Verde 1, Pasig City	"r"	Filipino	122	0.0000035
Common	Ariel A. De Guzman 8 Real Palico St., Imus Cavite	"r"	Filipino	9,500	0.0002714

The total number of common shares owned by the Directors and Executive Officers of the Corporation is 18,576,795 shares.

The indirect shareholdings of directors/officers and principal stockholders as of March 31, 2014 are as follows:

	% to total Outstanding Shares	Number of Shares	Total Direct Shares	Total Indirect Shares
Directors:				
Jose Concepcion, Jr.				
Direct	0.0547813%	1,917,568	1,917,568	
Indirect (thru Horizons Realty, Inc.)	0.0000000%			48
Indirect (thru Concepcion Industries Inc)	0.0000428%			1,499
Indirect (thru RPMC Resources Inc .)	0.0000139%			487
Indirect (thru Republic Commodities)	0.0000000%			1
Ernest Fritz Server				
Direct	0.0161363%	564,834	564,834	
Indirect (thru BJS Development Corp)	0.0000485%			1,697
Jose Ma. Concepcion III				
Direct	0.3334440%	11,671,886	11,671,886	
Indirect (thru Horizons Realty, Inc.)	0.0142860%			500,069
Indirect (thru Triple Eight Holdings, Inc.)	8.0040764%			280,175,000
Indirect (thru Concepcion Industries Inc)	0.0000005%			19
Ma. Herminia C. Young				
Direct	0.0000003%	10	10	
Indirect (thru Horizons RealtyInc.)	0.0142860%			500,069
Indirect (thru Young Concept, Inc.)	0.0006856%			24,000
Indirect (thru RepublicCmmodities)	0.0001342%			4,699
Indirect (thru Silang Forest Park, Inc.)	0.0000114%			400
Felicisimo Nacino, Jr.				
Direct	0.0496587%	1,738,256	1,738, 256	
John Marie A. Concepcion				
Direct	0.0105695%	369,974	369,974	
Indirect (thru Horizons Realty, Inc.)	0.0142847%			500,021
Indirect (thru Select Two Corp.)	0.0092845%			324,996
Indirect (thru Concepcion Industries Inc)	0.0000000%			1
Indirect (thru Republic Commodities)	0.0001342%			4,699
Indirect(thruVictoria L. AranetaProp.)	0.0000805%			2,817
Lilia R. Bautista				
Direct	0.0000571%	2,000	2,000	
Joseph Server, Jr.				
Direct	0.0038674%	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.)	0.0000068%			239
Indirect (thru Feati University)	0.0012453%			43,589
Indirect (thru Chilco Holdings, Inc.)	0.0134356%			470,301
Indirect (thru S & A Industrial Corp.)	0.0000003%			10
Indirect (thru Segovia & Co., Inc.)	0.0001710%			5,984
Indirect (thru Victoria L. Araneta Prop.)	0.0000003%			12
Raissa H. Posadas				
Direct	0.0000571%	2,000	2,000	

Indirect (thru Hyland Realty Corp.)	0.0040979%			143,442
Indirect (thru Concepcion Industries Inc)	0.0000000%			19
Romeo L. Bernardo				
Direct	0.0000071%	247	247	
Officers:				
Norman P. Uy				
Direct	0.0262886%	920,208	920,208	
Minerva C. Laforteza				
Direct	0.0002435%	8,522	8,522	
Ariel A. De Guzman				
Direct	0.0002714%	9,500	9,500	
Philip V. Prieto				
Direct	0.0000035%	122	122	
Ramon M. Lopez				
Direct	0.0313759%	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

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

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

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

Qualifications:

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

Permanent Disqualifications:

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

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

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

4. Any person judicially declared to be insolvent;

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

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

Temporary Disqualifications:

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

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

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

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

4. Being under preventive suspension by the Corporation;

5. In the case of independent director,

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

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

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

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

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

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

2. Significant Employees

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

3. Family Relationships

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

4. Involvement in Certain Legal Proceedings

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

5. Certain Relationships and Related Transactions

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

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

For a detailed discussion on related party transactions, please refer to Item 12 of the Annual Report (SEC 17-A) and Item 26 of the Notes to the 2012 Consolidated Financial Statements of the Corporation and Subsidiaries.

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

(In Million Pesos)

Name	Position	Year	Total Compensation	Compensation	Bonus & Others
Jose Ma. A. Concepcion III Felicisimo M. Nacino Jr. John Marie Concepcion Norman P. Uy Ma.Victoria Herminia C. Young	President & CEO EVP & COO Managing Director – Ice Cream SVP & GM SVP & GM	2014	P 47.2	P 36.3	P 10.9
All officers and directors as a group unnamed		2014	P 18.9	P 16.6	P 2.3

(In Million Pesos)

Name	Position	Year	Total Compensation	Compensation	Bonus & Others
Jose Ma. A. Concepcion III Felicisimo M. Nacino Jr. John Marie Concepcion Norman P. Uy Ma.Victoria Herminia C. Young	President & CEO EVP & COO Managing Director – Ice Cream SVP & GM SVP & GM	2013	P 46.8	P 35.9	P 10.9
All officers and directors as a group unnamed		2013	P 21.2	P 18.7	P 2.5

(In Million Pesos)

Name	Position	Year	Total Compensation	Compensation	Bonus & Others
Jose Ma. A. Concepcion III Felicisimo M. Nacino Jr. John Marie Concepcion Norman P. Uy Raymond B.Azcarate*	President & CEO EVP & COO Managing Director – Ice Cream SVP & GM SVP & CFO	2012	P 37.1	P 34.2	P 2.9
All officers and directors as a group unnamed		2012	P 22.4	P 20.7	P 1.7

*Raymond B. Azcarate retired from the company effective 31 March 2013.

Compensation of Directors

(a) Standard Arrangement.

The Board of Directors and members of the Compensation, Nomination and Audit Committees are entitled to a per diem of P10,000 for every meeting, except that the Chairman of the Compensation Committee receives a per diem of P20,000 and the Chairman of the Audit Committee is entitled to a remuneration of P50,000 a month.

(b) Other Arrangement

There is no director providing any service or other arrangements for a fee, to the Company, other than those disclosed herein.

Stock Purchase Plan

The Corporation has no existing stock purchase plan.

Employment Contracts

The registrant's executive officers are entitled to transportation and other benefits, bonus scheme, and retirement plan.

1. Transportation Benefits
   a. An executive officer is assigned a vehicle which he may purchase, at market value, after six (6) years, or return the same to the Corporation in exchange for a replacement vehicle.
   b. All expenses related to the registration, comprehensive insurance, repairs and maintenance of the assigned vehicle are paid by the Corporation.
   c. Reimbursement of gasoline expenses up to a certain amount of liters per month.

2. Bonus Scheme
   Based on individual performance and attainment of the specific objectives of the Company's business plan, bonus is given in accordance with company policy.

3. Retirement Plan
   Availment of the retirement benefit is provided after the individual has rendered at least five (5) years of service with the Company at 25% of basic pay per year of service. The value increases by 5% per additional year of service up to a maximum of 125%.

4. Other Benefits
   a. Hospitalization Plan: A hospitalization plan is provided for the executive officers and his immediate dependents in accordance with company policy.
   b. Vacation Leave: 15 days per year, accumulated up to 30 days but not encashable.
   c. Sick Leave: 15 days per year, accumulated up to 45 days but not encashable.
   d. Executive Check-up: Once every four (4) years; SPEC 24 KSAT blood test every two (2) years.

Warrants and Options Outstanding: Repricing

There are no outstanding warrants or stock options held by the directors or executive officers. As such, there are no price or stock warrants or options that are adjusted or amended. There were no material transactions during the past three (3) years between the Corporation and its executive officers other than the regular employment agreements.

Item 7. Independent Public Accountants

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

Pursuant to SRC Rule 68 (3) (b) (iv), the Corporation has changed its engagement partner, the former being Mr. Martin Guantes who was engaged for the period January 2007 until December 2012, while the present engagement partner is Ms. Ana Lea C. Bergado.

Audit and Audit Related Fees

For the years 2013, 2012 and 2011, the Company engaged the professional services of SGV. The Group incurred an aggregate audit fee of P2.2 million for 2013, excluding out of pocket expenses. The engagement involves the examination of the Company's financial statements in accordance with generally accepted auditing

standards. It includes on a test basis review and evaluation of system, documentation and procedures to ascertain that adequate internal controls are in placed. Also, they provide updates on latest regulatory or compliance requirement with government agencies such as Securities and Exchange Commission and other government agencies.

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

1. Statutory audit of company's annual financial statements

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

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

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

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

2. For other services other than annual financial statements audit:

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

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

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

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

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

Item 8. Compensation Plans

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

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

No action will likewise be taken on these matters.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

Approval of the Management Report for the fiscal year 2013 and Minutes of the previous Annual Stockholders' Meetings.

A. **Summary of the Annual Stockholders' Meeting held on 26 June 2013**

1. Approval of Previous Minutes

The minutes of the Annual Stockholders' Meeting held on 27 June 2012 was approved and ordered filed.

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

The 2012 Annual Report was noted and appended to the minutes while the 2012 Audited Financial Statements was likewise noted and approved.

3. Ratification of Acts of Management

The minutes of all meetings of the Board of Directors and the acts of the corporate officers for the period between the 2012 Annual Stockholders' Meeting until the 2013 Annual Stockholders' Meeting were ratified, approved and confirmed. Further, all resolutions adopted by the Board of Directors at said meetings were ratified and adopted and all acts and proceedings of all Corporate Officers and Directors since the Annual Meeting were also ratified, approved and confirmed by the stockholders.

4. Election of Directors

The following directors were elected:

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

5. Appointment of External Auditor

The appointment of External Auditor was delegated to the Board of Directors.

Item 16. Matters Not Required to be Submitted

Approval and ratification of all acts of Management and the Board of Directors for the fiscal year 2013 which are considered purely administrative, such as but not limited to:

1. Renewal of credit facilities, foreign exchange lines, domestic bills line and omnibus line with banks.
2. Authority to purchase, sell, negotiate, trade and transact foreign exchange with CC currency.
3. Application and Acceptance of short term credit lines and finance accommodation with banks.
4. Amendment of authorized signatories for bank, Long Term Commercial Paper and treasury-related transactions.
5. Opening of peso/dollar CASA/ investment in short term Money Market and Temporary Placement instruments with banks.
6. Others.

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

1. On 16 October 2013, the Securities and Exchange Commission approved the amendment of the Tenth Article of the Articles of Incorporation through written assent of its stockholders representing at least two-thirds (2/3) of the outstanding capital stock. The amendment of the Articles of Incorporation refers to the following:

"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."

2. On the 2 July 2014 Annual Stockholders' Meeting, the Corporation shall likewise seek its stockholders' approval to amend the Third Article of the Articles of Incorporation that will change the principal office of the Corporation from *Metro Manila , Philippines* to *RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong City, Philippines, 1550***,** pursuant to SEC Memorandum Circular No. 6, Series of 2014.

Item 18. Voting Procedures

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

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

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

PART III

SIGNATURE PAGE

After reasonable inquiry to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City on 04 June 2014.

RFM CORPORATION
By:



ATTY. ROWEL S. BARBA
Corporate Secretary

MANAGEMENT REPORT OF RFM CORPORATION

I. CONSOLIDATED AUDITED FINANCIAL STATEMENTS

The 2013 Audited Consolidated Financial Statements and the latest Interim Unaudited Financial Statement (Quarterly Report) for 2013 are incorporated herein by reference and are filed as part of this Management Report.

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

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

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

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

Introduction

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of RFM Corporation and its Subsidiaries for the period December 31, 2013. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2013. All necessary adjustments to present the Company's consolidated financial position as of December 31, 2013 and 2012 and the results of operations and cash flow for the years then ended have been made.

Year ended December 31, 2013 vs. 2012

Management Report on Operations

Food and beverage company RFM Corporation finished the year 2013 with P786 Million net income, or a 17% income growth over the previous year's P673 Million net income

The accelerated income growth was credited to stronger sales of its higher margin businesses. Better margins were achieved due to the lower commodity input costs this year, such as for milk, wheat and sugar, as well as better yields due to scale economies as we reach higher volumes in our key brands, such as Selecta ice cream, and Fiesta spaghetti.

The positive economic climate have further boosted consumer confidence and spending, which led to continued growth practically in all the company's brands, led by Selecta ice cream, Fiesta pasta, White King cake and sauce mixes, Selecta milk and Sunkist juice.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2013, the Group's total assets increased to P13.48 billion from P11.35 billion last year.

Total current assets of the Group rose by P862.53 million to P7.0 billion, mainly due to the increase in cash and cash equivalents due to the collection of deposits for future stock subscription of several shareholders. The shares will be issued in 2014.

The total non-current assets also rose to P6.47 billion due mainly to the appraisal increase recognized in the Group's land properties by P1.02 billion to P2.56 billion. The increase in group plant, property and equipment was due to new investments to boost plant capacity and to improve manufacturing efficiencies.

The total liabilities decreased by P743.93 million to P5.06 billion, mainly due to the full settlement of RFM's long-term loan with a floating rate note facility before its maturity in 2015. This was offset slightly by the increase in Deferred income tax liabilities due to the recognition of appraisal increase of the Group's land properties.

Year ended December 31, 2012 vs. 2011

Management Report on Operations

Food and beverage company RFM Corporation finished the year 2012 with P672 Million net income, or a 34% income growth over the previous year's P504 Million net income. This was on the back of a 6% sales growth to P11.0 billion for the period.

The accelerated income growth was credited to stronger sales of its higher margin businesses. Better margins were achieved due to the lower commodity input costs this year, such as for milk, wheat and sugar, as well as better yields due to scale economies as we reach higher volumes in our key brands, such as Selecta ice cream, and Fiesta spaghetti.

The positive economic climate have further boosted consumer confidence and spending, which led to continued growth practically in all the company's brands, led by Selecta ice cream, Fiesta pasta, White King cake and sauce mixes, Selecta milk and Sunkist juice.

Financial Position

Analysis of Balance Sheet Accounts

As of December 31, 2012, the Group's total assets increased to P11.35 billion from P10.76 billion last year.

Total current assets of the Group increased by P1.26 billion to P6.13 billion, mainly due to its receivables which grew 26.5% to P2.68 billion from last year's P2.12 billion, contributed by the growth in revenues during the period.

The total non-current assets rose to P5.22 billion due mainly to the increase in plant, property and equipment by P84.15 million to P4.30 billion. The increase in group plant, property and equipment was due to new investments to boost plant capacity and to improve manufacturing efficiencies.

The total liabilities increased by P196.57 million to P5.80 billion. Total current liabilities increased by P646.65 million mainly due to the increase in Accounts payable and accruals which primarily funded the increase in inventory position as of year end. Meanwhile, the combined long-term debt and long-term obligations have declined by P345.10 million to P1.82 billion due to payment of loan amortizations.

Year ended December 31, 2011 vs. 2010

Management Report on Operations

Food and beverage company RFM Corporation's full year net income of P503.8 million in 2011 surpassed market analysts' year-end estimate of P420-430 million.

Higher revenues and easing of commodity cost inputs such as milk and sugar in the second half, coupled with internal production improvements pushed-up profitability to P295 million in the second half, up 38.8% from first half income.
Topline sales registered a faster growth of 27.2% for the second semester, versus 7% growth in the first half of the year, ending the year with P10.3 Billion sales revenue, 13.6% higher compared to P9.1 Billion in 2010. The

focus on core food and beverage business have built stronger brand equity and product innovations have influenced the shift in buying pattern and frequency in a number of categories.

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

Financial Position

Analysis of Balance Sheet Accounts

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

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

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

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

Key Performance Indicators

For the full fiscal years 2013, 2012 & 2011 the Company's and majority-owned subsidiaries' top five (5) key performance indicators are as follows:

In Millions	**December 2013**	December 2012	December 2011
Revenues	**10,240**	10,998	10,336
Operating Margin	**1,030**	879	786
Net Income (Loss)	**786**	673	504
EBITDA	**1,370**	1,195	1,038
Current Ratio	**1.82**	1.42	1.33

(a) Revenue Growth

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

(b) Operating Margin

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

(c) Net Income

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

(d) EBITDA

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

(e) Current Ratio

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

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

Please refer to the discussions under Results of Operations and Financial Position for the year ended December 31, 2013 vs. 2012, year ended December 31, 2012 vs. 2011 and year ended December 31, 2011 vs. 2010.

The Company is not aware of the following:

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

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

Seasonal Aspects that has Material Effect on the FS

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

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

PART I – BUSINESS AND GENERAL INFORMATION

Item 1 - Business

The RFM Group

RFM Corporation (the "Company") is a major player in the food and beverage industry in the Philippines, specifically in the processing and manufacture of flour, flour-based products like pasta, sauces and cake mixes, milk and juice drinks, and ice cream.

The Company also operates non-food businesses, which include barging services (Rizal Lighterage Corporation) and leasing of commercial/office spaces (Invest Asia Corporation) that mainly serves the internal requirement of the various operating divisions.

History and Business Development

RFM Corporation was incorporated on August 16, 1957 as Republic Flour Mills, Inc. to manufacture flour in the Philippines, a country which does not grow wheat, in order to contribute to the country's greater self-reliance

in basic food. From its original business of flour milling, the Company diversified into poultry and livestock production and areas of food manufacturing that includes flour-based products, margarine, milk & juices, canned and processed meat, ice cream, and bottled mineral water.

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

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

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

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

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

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

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

A year later, in 1995, the Company incorporated RFM Properties and Holdings, Inc. to consolidate its real estate assets as well as to break into the land and housing development business. The company was later renamed Philippine Townships, Inc. In 2008, the company was again renamed to Philtown Properties, Inc.

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

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

In 2003, the company's common shares from Swift Foods, Inc. were declared as property dividends to its stockholders. Likewise, the company's common shares from Philtown Properties, Inc. (formerly Philippine Townships, Inc.), the property company, were declared as property dividends in tranches in 2008, 2009 and 2012. However, the company remains committed in liquidating its landholdings through the development of

middle income housing enclaves. It also builds condominium projects in saleable areas in Fort Bonifacio, Rockwell, and Taft.

The remaining business, nevertheless, gives RFM the foundation to build on. Within the Parent Company, the original business of flour making continues together with the manufacture and sale of Sunkist Juices, Selecta Milk, Fiesta Pasta Noodles, White King Hot Cake, Butterfresh Margarine, among others. The ice cream business remains profitable and is presently co-owned with Unilever Philippines, under a new corporate name, Unilever-RFM Ice Cream Inc.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and frozen meat products, and certain machinery and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

In January 2014, the Corporation agreed to acquire the Royal brand and pasta business of the Unilever Group, subject to customary closing requirements. The transaction was valued at $47.8 million or over P2.1 Billion, covering mainly the Royal trademarks, goodwill and inventories. The company believes this would allow RFM to tighten its market leadership in the pasta category.

The Group and the Products

Food Businesses

RFM Corporation (Parent Company)

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

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

See table on sales.

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

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

Interbake Commissary Corporation

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

RFM Foods Philippines Corporation

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

Southstar Bottled Water Company, Inc.

Southstar Bottled Water Company, Inc. (Southstar) was incorporated in 1992 to manufacture and distribute all kinds and classes of bottle water, carbonated water, drinking water, fluoridated water, mineral water, natural water, purified water, spring water, well water, flavored water, as well as bottling equipment, purification equipment, coolers, dispensers, water treatment plants, water bottling plants, bottles, crates, including their accessories, attachments, spare parts and any merchandise of similar nature. Southstar, however, suspended its operations due to sustained operating losses.

Engrain – RFM Pacific, Inc.

Engrain – RFM Pacific Inc. (ERPI) is a joint venture owned 50% - 50% by RFM Corporation and Engrain LLC. It was incorporated in June 2013 to engage in the business of selling, marketing and distributing wholesale enzyme-enhanced flour and products for the Philippines and Asia Pacific market.

FWBC Holdings, Inc.

FWBC Holdings, Inc. is 83.38% owned by RFM Corporation, and organized in 2001 to hold and manage Filipinas Water Bottling Corporation (FWBC). FWBC is involved in the processing and distribution of bottled mountain spring water. FWBC, however, ceased operations in June 2012 due to operating losses.

Non-Food Businesses

RFM Equities, Inc.

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

Rizal Lighterage Corporation

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

Cabuyao Logistics and Industrial Center, Inc.

Formerly Bringmenow, Inc., the company was renamed into Cabuyao Meat Processing Corporation (CMPC) in 2005 upon the transfer into it of the meat manufacturing assets. This is 100% owned by RFM Corporation, and its primary possession is the processing plant in Cabuyao, Laguna, which produces hotdogs, corned beef, hams, and other meat products under the Swift brand. In October 2012, the Company sold its trademark "Swift", finished goods and raw material inventories, as well as specific processed meat equipment. In 2013, the Company was renamed Cabuyao Logistics and Industrial Center, Inc. Due to the discontinuance of the operations of the Parent Company's Meat Division, the use of the Company's operational service areas was also terminated in March 2013. Subsequently, the operations of the Parent Company's Milk and Juice Division were transferred to the Company's premises and facilities which were previously occupied by the Meat Division in June 2013.

WS Holdings, Inc.

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

Selecta Wall's Land Corporation

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

Invest Asia Corporation

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

Contribution to Sales

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

Business Unit	Products	Brands	Contribution to Sales
Institutional Group	Flour Products	Republic Special, Cinderella, Hi-Pro Majestic, Pioneer, Señorita, Altar Bread, Milenyo	34.70%
	Hamburger buns, English muffins		
Consumer Group	Flour-based and rice-based products	White King All–Purpose flour, White King Hotcake mixes, White King Native Mixes, White King Brownie Mixes, White King Champ-O-Rado, White King Arroz Cald-O, White King Chicken Sopas	65.10%
	Pasta	Fiesta Spaghetti, Fiesta Elbow Macaroni, Fiesta Salad Macaroni	
	Spaghetti Sauce	Fiesta Sweet Spaghetti Sauce, Fiesta Italian Style Spaghetti Sauce, Fiesta 3-Cheese Spaghetti Sauce	
	Margarine	Selecta Butterfresh	
	Ready to Drink Juice, Ready to Drink Tea, Powdered Juice, Ready to Drink Milk and Choco Milk, Ready to Drink Functional Drinks	Sunkist Orange Pulp, Sunkist Healthy Heart, Sunkist Iced Tea,Sunkist Tetra Juice Drink, Sunkist Doy Packs, Alo Green Tea, Selecta Moo, Selecta Fortified Choco,Selecta Filled Milk, Selecta Fortified Milk,Selecta Fortified Filled Low Fat Milk, Selecta Full Cream Milk, Vitwater	
Business Unit	**Products**	**Brands**	**Contribution to Sales**
	Ice Cream products	Selecta Supreme, Selecta Gold Series, Selecta Super Thick Classic, Selecta Birthday 3-in-1, Selecta Magnum, Selecta Cornetto, Selcta Cornetto Disc, Selecta Ice Cream Sticks, Selecta Paddle Pop	

Others			0.20%

Domestic and Export Sales

The amounts of revenue, profitability, and identifiable assets attributable to domestic and export operations for 2013, 2012 and 2011 in **Million Pesos** are as follows:

	2013	%	2012	%	2011	%
Sales						
Domestic	9,981	98	10,730	98	10,080	98
Foreign (Export)	259	2	268	2	256	2
	10,240		10,998		10,336	

	2013	2012	2011
Operating income(loss)			
Domestic	965	855	762
Foreign (Export)	65	24	24
	1,030	879	786

Total Assets (All Domestic)	13,482	11,350	10,764

Distribution Methods of the Products or Services

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

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

Status of New products, Market and Competition

The Food and Beverage industry, in which RFM Corporation belongs to, is generally a fast-growing but competitive consumer industry.

The Company continued with its various brand building campaigns and sales promotions. These include advertising campaigns in TV, radio and prints, as well as online and thru social media network. It has continued as well in coming out with different kinds of trade promotions like product bundling or giving a free-product for a volume-buy, trade sampling and merchandising and outdoor billboards.

For the Fiesta pasta business, which is now clearly the market leader in the Pasta category with 29% market share, the Company has successfully launched dish concepts that promoted the sale of both Fiesta pasta and Fiesta sauce. For instance, the Spaghettipid is sold for the same price of P69, which already has Fiesta pasta noodles and Fiesta sauce that can make 10 servings. Spartygetti is a bigger sized bundle that combines spaghetti pasta, spaghetti sauce, and an additional pasta macaroni all inside a free plastic pasta-keeper container, that presents itself as a very good value to consumers. These offerings further build on FIESTA's promise of "sarap that's Sulit i-share", with all these generous bundles. Fiesta also launched new products to grow the macaroni pasta side of the business with Easy-to-cook macaroni sopas.

More impressively, Fiesta has taken the lead on both volume and value in Super Value, Inc. (SVI), registering shares of 35% and 32%, respectively, and widening the gap to 12 percentage points ahead of its closest competition during the peak month of December. These feats were accomplished through focus and consistency especially in delivering quality and value for money to consumers.

With critical cross-functional support of the different teams, 2013 saw RFM's flour-based businesses introduce products offering value to the consumers. One of which is the occasion-driven Sweet and Italian Spartyghetti which includes a 1kg pack of Spaghetti, 1 kg pack of Sweet/ Italian Spaghetti Sauce, 250g Spaghetti Sauce, with a bar of Eden Cheese packed in a pasta keeper. This serves to be an all in 1 offering to the consumers launched in October, just in time for the Christmas season.

From the non-pasta side of the White King business introduced the new White King Double Chocolate Chip Hotcake Mix which makes use of chocolate flavored pancake mix with added chocolate chips giving kids a different take on pancake eating. Another introduction in 2013 was the Ultimate Fudge Brownie Mix which is the first offering in White King's premium line. Ultimate Fudge is a level up brownie mix which has more chocolatey goodness. These innovations further strengthen RFM's stature as one of the pioneer flour millers in the Asian region, and the first in the Philippines.

The launch of these new products is indicative of increasingly more aggressive flour and flour mixes business that grew to 32% in 2013. Other products that comprise the category include Hotcake Mixes, Native Mixes (Puto and Bibingka), and Brownie Mixes, and the Rice-Based Mixes. White King Flour Mixes also took center stage as it launched fresh and modern package designs that evidently brought up White King total sales.

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

2013 has played out to be another banner year for Fiesta as it remains number one in the spaghetti market. Despite entry of new players and a very noisy and active category in 2013, Fiesta finished the year with a 28% volume market share, still 13 percentage points ahead of the Top 2 brand Royal. Kris Aquino also remains to be the endorser of Fiesta delivering the message that she is one of the millions of moms who have tried and tested Fiesta as "The Firm Spaghetti" that's why it's the true #1 spaghetti brand. Together with Bimby, Kris Aquino delivered yet another powerful TV advertisement for Fiesta supported by various consumer promotions helping Fiesta keep its #1 post in the market. These feats were accomplished through focus and consistency especially in delivering quality and value for money to consumers.

All these efforts contributed to the ever dominating leadership of the White King Fiesta Spaghetti business at 28% market share.

For the Milk products, it continued to highlight the Mas Moo-rami campaign for the new Selecta Moo Super Chocolate. It is the same Selecta Moo kids love but now made with more chocolate with a delicious creamy taste complemented with a playful new packaging design that catches the eye of every kid at heart. There were also promos that promote volume-buys, such as the 9+1 offering all in one box of Selecta Moo choco.

Selecta Moo, RFM's leading product in the dairy RTD category, showcased stable performance in 2013, garnering +3.6% growth in volume vs. last year. The brand was able to sustain its business, despite aggressive moves of competition, including continued promo pack efforts in trade and moves toward the mass market.

The brand held its bearing despite a challenging market via continued consumer efforts (i.e. 5+1 bundling packs), massive visibility drives in-store, selective TV placements, and kid-centric communication drives (i.e. Adventure Time packaging).

Selecta Milk on the other hand posted a slight 4% dip in volumes this year, facing an even tougher challenge from category market leader. Sales would've posted higher decline, if not with the various brand efforts of continued bundling drives, and shelf enhancement initiatives across all major supermarket outlets.

Competition showed aggressive media presence last year, advertising early on and exceeding their adspends vs. YAGO, coupled with 5+1 deals to counter Selecta Moo's initiatives

For the Beverage Business, it focused on its main brand – Sunkist. Sunkist Pulp that used to be available in 320ml single serve and 1L size launched a new SKU entry, Sunkist Big 1.5L, the only RTD Orange Juice in the market with pulp that is in the 1.5L size – a size ideal for sharing with the family or friends.

Sunkist Tetra Juice continued to show strong growth this year, garnering a 10.9% increase in volumes. Its strong attachment to kids, with the popularity of Angry Birds, proved a steadfast approach in further sustaining growth for the brand. Its aggressive entry in the doy pack business also showcased a positive impact to total Sunkist Business, as Doy pouch packs achieved 23% increase in volumes this year. Wholesaler promotions, such as trade deals, remained effective come on in generating distribution.

Sunkist Orange Juice PET (Pulp and Healthy Heart) business remained steadfast posting a 7.6% increase in sales. Although more innovations were noted in the beverage market, as competition launched new products.

In beverage on the other hand, lots of various innovations have popped out in the market, that catapulted total category growth, ranging from the Coco drinks to Mogu Mogu drinks dominating the "mouthfeel" beverage.

Lastly, the market continues to grow driven by aggressive entry of imported brands, paving the way for premium juice drink brands to come into the tetra market.

Capturing the other target market segment of Sunkist, the kids, is the Sunkist Tetra packs. The same Sunkist tetra packs that consumers have grown up with has solidified its foothold in the RTD Juice segment for kids via partnership with Rovio's well loved digital app character, Angry Birds. All the packs and label designs featured the four (4) most popular birds of the Angry Birds game app. The combined efforts of Sunkist targeted for families and targeted for kids propelled the beverage business to significant growth in 2012.

The re-launch of Vitamin-enhanced water Vitwater is expected to promote this product as the healthier and tastier alternative to all the functional drinks in the market. Vitpower still comes in 350ml bottles and is priced at P15.00 per bottle SRP. It has higher contents of Taurine, Inositol, Vitamin B and Ginseng that aids in the breakdown of fats and absorption of vitamins.

The Selecta ice cream business, under the joint venture with Unilever Philippines, continued to dominate the ice cream category with 76% market share. It has launched various ice cream innovations both in the bulk ice cream category (in containers) and the impulse (single-served) category. For the bulk ice cream, it launched several exciting Chocolate and Pinoy flavors for both summer and Christmas seasons under the Supreme platform. The Value platform through the new flavor for Birthday 3in1 (three flavors in one pack) packs attracted the mass based buyers into the category. On impulse, Selecta Cornetto launched new flavors for both the core and premium line. Ice cream sticks, another mass based line is also growing double digit, benefitting from the extension of Supreme new flavors.

Competing Companies continue to be aggressive, particularly in the bulk ice cream segment.

For the flour business, the Company continues to provide commodity flour to several institutional accounts and flour-based product manufacturers and retailers like biscuits, noodles cakes and breadmakers. There are eleven flour millers in the country, under two trade associations – Philippine Association of Flour Millers (PAFMIL) and Chamber of Philippine Flour Millers Inc (Champflour). RFM Corporation is a member PAFMIL. The Company has about 8% to 9% of total industry volume sales.

Purchases of Raw Materials and Supplies

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

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

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

Customers

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

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

RFM Corporation is not dependent on any single or few customers that might have any material adverse effect on its business, except for the processing and exclusive sale of hamburger buns to Golden Arches (Mc Donalds). These hamburger buns account for about 67% of the total sales of Interbake Commissary Corporation in 2013 and 85% in 2012.

Related Party Transactions

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

- Purchase of goods and services.
- Cash advances for working capital purposes.
- Lease of the plant property and equipment for manufacturing operations.
- The Parent Company provides management services to RFM Insurance Brokerage, Inc. and Interbake Commissary Corporation
- Distribution, sale and merchandising of RFM Group products.

Trademark, Royalty and Patents

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

On 01 January 1995, RFM entered into a Trademark License Agreement with Sunkist Growers, Inc. (Sunkist). Under the said agreement, Sunkist grants RFM (a) exclusive right, without the right to sublicense, to use the Sunkist Trademark(s) and related Trade dress approved by Sunkist, in connection with the marketing, distribution and sale of licensed products in the Philippines; (b) exclusive right, without the right to sublicense, to use the Know-How within the Philippines for the production and sale of Licensed Products; (c) the right and privilege to receive technical assistance regarding the implementation of Know-How; and (d) to make available Base Ingredients directly or through authorized Base Ingredients Suppliers to enable RFM to manufacture Licensed Products. For and in consideration of the rights granted above, RFM pays an annual royalty to Sunkist. The Amendment to the TLA was extended for another five (5) years or from 01 January 2005 to 31 December 2009. Another Amendment extending the TLA for another five years was signed by the Parties on 27 January 2010.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and frozen meat products, and certain machinery and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

In January 2014, the Corporation acquired the Royal brand and pasta business of the Unilever Group, covering mainly the Royal trademarks, goodwill and inventories. The company believes this would allow RFM to tighten its market leadership in the pasta category.

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

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

The Company believes that it has complied with all applicable environmental laws and regulations, and incurred about P383,000 and P382,000 during the years 2013 and 2012, respectively, for payment of annual permits and fees.

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

Research and Development Activities

The Company invests in Research and Development (R&D) which is necessary for corporate viability. R&D activities focus on Customer and Consumer satisfaction through new product development and/or improvement in new or existing categories via line extensions, reformulation and innovation. The development process covers product specifications, process standards, equipment efficiencies, packaging studies and cost management. Every product launched in the market had undergone stringent quality control checks to ensure food safety and sensory acceptability.

The Company conducts research and development activities to improve existing products and to create new product lines, as well as to improve production processes, quality control measures, and packaging to meet the continuing and changing demands of the consumers at the least possible cost. The Company spent about P14.6 million and P14.5 million in 2013 and 2012 respectively, for research and development.

Employees

As of December 31, 2013, the Company and its subsidiaries had approximately 509 employees, of which 14 are executives, 42 managers and 144 supervisory staff and 339 were non-supervisory staff. The Company does not anticipate any significant increase in the number of its employees in the year 2014.

About 14% of the total employees of the Company and its subsidiaries are members of various labor unions. The Company and its subsidiaries have collective bargaining agreements with these unions.

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

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

With the sale of its “Swift” brand and related machineries during the last quarter of 2012, the Company and its meat subsidiary, CMPC, had no choice but to retrench affected employees.

Effective May 2013, the Tetra operations in Manggahan, Pasig City was moved to CLIC in Cabuyao, Laguna resulting to the transfer of the remaining MJ employees. However, the Company offered a voluntary retirement program to qualified MJ rank and file employees who opted not to join the transfer.

Except for the affected employees in MJ, the Company and its subsidiaries do not expect any significant change in its existing workforce level within the ensuing twelve (12) months.

Working Capital

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

Major Business Risks

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

Financial Risk Management Objectives and Policies

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

There is no other impact on the Group's equity other than those affecting the statement of 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 2013 and 2012.

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.

Market risks

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

Technological changes

RFM Corporation has been in the flour manufacturing for several decades, and its operating mills are older than many of its competitors which have more modern equipment and, thus, better rated operating yields. To meet these challenges, the Company continues to provide sufficient repairs and maintenance on its equipment and continually upgrades sections of its facilities to remain at par with the modern machineries. Recent installations are a Buhler blending system which allowed for more efficiency in product mixing and customization; and a Buhler carousel packing and weighing system provides very accurate weighing of flour in bags. In addition, the Company spends in research and development, particularly in the areas of process engineering and wheat mixtures to produce higher flour yields.

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

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

tea drinks. In 2013, the PET line instrumentation and controls system has been upgraded to provide a more accurate on-line measurements and monitoring.

Technological advances in manufacturing sector contributed to hectic product competition in the market, RFM recognizes the need to update its technology for a more reliable quality and higher productivity. In 2011 and 2012, the Milk and Juice Division invested in improving and replacing its line instrumentation system which resulted to a fast and more accurate product quality monitoring which ensures that every package conforms to the quality standards. In 2013, the Milk and Juice Division production line was transferred to our Laguna factory compound upgrading it production processes through major overhauling of the machineries and installation of new and more efficient utilities. The production facility was rebuilt and upgraded to further improve compliance to the requirements of the Good Manufacturing Practices. The company invested P150 Million to this transfer and upgrading.

Collaboration with technical experts in the field of food science and technology as well as manufacturing has been extended to foreign and local business partners to be updated in the latest food trends, equipment and raw materials sourcing. It has its sources of technology information via attendance to seminars, conferences, conventions, journal subscription and internet access to further enhance its research and development skills and manufacturing processes.

Labor

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

The pending cases are those which are related to the retrenchment of 116 trade merchandisers in 2006. Eventually, three (3) separate groups of employees and three (3) individuals filed separate complaints for illegal dismissal. Two cases (Panao Case and Ayta Case) were settled in 2012 (but a group of complainants in Panao Case questioned the settlement which is now pending in the Court of Appeals).One case (Sarmiento Case) was dismissed due to prescription in 2012 but the complainant filed an appeal before the Court of Appeals. One case (Salac Case) was closed upon payment of nominal damages in 2012, and, eventually, in 2013, it was deemed closed and terminated with finality upon the Supreme Court's resolution only noting without action the letter of the complainants.

As of December 31, 2013, only two (2) cases are pending before the Court of Appeals. All the said cases are currently being handled by external counsel specializing in labor matters on behalf of the Company.

On September 13, 2013, the MJ Union filed a Preventive Mediation before the National Conciliation & Mediation Board questioning the retrenchment of two (2) quality assurance personnel. This preventive mediation was later converted to a Notice of Strike when the parties could not agree to a settlement. However, on January 8, 2014 the Notice of Strike was withdrawn when the Union and Manager agreed to settle the issue.

Item 2 – Properties

A. Flour Division:

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

B. Pasta Contract Manufacturing Division

Description	LOCATION	CONDITION
Land - 2,356 sq. m.	Pineda, Pasig City	In good condition
Pasta Plant/Office/Conference Room/Die Washing Room	Pineda, Pasig City	In good condition
Pasta Plant – Furniture & Office Equipment	Pineda, Pasig City	In good condition
Pasta Plant – Long goods line	Pineda, Pasig City	In good condition
Pasta Plant – Short goods line	Pineda, Pasig City	In good condition
Pasta Plant – RM/PM Warehouse	Pineda, Pasig City	Warehouse (new)

C. Milk and Juice Division:

Owned Properties

Description	LOCATION	CONDITION
Land -20,002 SQ.M SDD Warehouse	Manggahan, Pasig City	
Milk & Juices Tetra Machines	Cabuyao Laguna (transferred from Manggahan, Pasig City)	In good condition
Pet Line Machines	Cabuyao, Laguna	In good working condition

Leased Properties

Description	LOCATION	CONDITION	Expiration Date	Terms of Renewal
M& J Plant Warehouse (URICI)	Manggahan, Pasig City	Leased Property	Until June 2013	-

D. Corporate Division:

Owned Properties

Description	LOCATION	CONDITION
Pioneer Business Park Building	Fairlane, Pasig City	Two (2) storey Building

E. Cabuyao Logistics & Industrial Center (formerly Cabuyao Meat Processing Corporation)

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

F. Interbake Commissary Corporation:

Description	LOCATION	CONDITION
Bun Line	Fairlane, Pasig City	In good working condition
Muffin Line	Fairlane, Pasig City	In good working condition
Private Label	Fairlane, Pasig City	In good working condition
Margarine Plant	Fairlane, Pasig City	In good working condition

G. Invest Asia Corporation

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

Item 3 – Legal Proceedings

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

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

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

V. DIRECTORS AND EXECUTIVE OFFICERS

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

(1) List of Directors, Including Independent Directors, and Executive Officers as of 30 April 2014

Name of Director/ Executive Officer	*Position*	*Age*	*Term as Director*
Jose S. Concepcion Jr.	Chairman of the Board, Chairman, Nomination Com.	82	31
Ernest Fritz Server	Vice Chairman, Chairman, Investment Com., Member, Compensation Com.	70	25
Jose Ma. A. Concepcion III	Director/President & CEO	55	27
Joseph D. Server	Director, Member, Audit Com. & Investment Com.	73	34
Felicisimo M. Nacino Jr.	Director/EVP & COO, Member, Audit Com.	61	18
John Marie A. Concepcion	Director/Managing Director, Ice Cream	52	26
Ma.Victoria Herminia C. Young	Director/SVP & GM, Consumer Group	54	7
Francisco A. Segovia	Director, Member, Investment Com.	60	27
Raissa Hechanova Posadas	Director, Member, Compensation Com. & Nomination Com.	53	16
Romeo L. Bernardo	Independent Director, Chairman, Compensation Com., Member, Investment Com., Nomination Com. & Audit Com.	59	11
Lilia R. Bautista	Independent Director, Chairman, Audit Com., Member, Investment Com.	78	7
Rowel S. Barba	Corporate Secretary/VP & Head, Corporate Legal & HR Divisions	49	NA
Norman P. Uy	SVP & GM, Institutional Group	55	NA
Ramon M. Lopez	VP & Exec. Assistant to the President & CEO and Concurrent Head, Corporate Planning	53	NA
Minerva C. Laforteza	Treasurer, VP & Head, Finance & Controllership	49	NA
Ariel A. de Guzman	VP, Internal Audit	50	NA
Philip V. Prieto	Asst. Treasurer	55	NA
Eduardo M. Policarpio	VP & Head of Sales	52	NA
Melchor B. Bacsa	VP & Head of Operations	53	NA
Susan A. Atienza	AVP, Research & Development, Flour Based Group	56	NA
Faye Christine B. Matriano	AVP, Marketing Manager, WK	39	NA

As provided in the Company's amended Articles of Incorporation, eleven (11) directors were elected to its Board of Directors during the last Annual Stockholders meeting. The officers, on the other hand, were elected

during the Organizational Meeting following the Annual Stockholders' meeting, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been qualified and elected or appointed.

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

The following sets forth certain information as to the directors and executive officers of the Company as of April 30, 2014

Directors

Jose S. Concepcion, Jr.
82 years old
Filipino

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

Ernest Fritz Server
70 years old
Filipino

Born on 08 July 1943, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania. He is Vice Chairman of the Board of Directors of RFM Corporation. He is also a Vice Chairman of Philtown Properties, Inc., and a Director of RFM Equities, Inc. and RFM Foundation, Inc. He is the President of Superior Las Pinas, Inc., Westview Properties, Inc., Capital Mediaworks, Inc. Multimedia Telephony, Inc. (Broadband Philippines) and Seacage Industries, Inc. He is a member of the Board of Directors of BJS Development Corporation, Phil Stratbase Consultancy, Inc. and Chairman of Arrakis Holding, Inc. He was the President of Philam Fund, Philippine Home Cable Holdings, Inc., Trans-Pacific Properties, Inc. and United Housing Corporation. He became the Chairman of Intercity Properties, Inc. and Vice Chairman of Commercial Bank of Manila, Consumer Bank, Cosmos Bottling, Co. He also served as a Director of Farmingtown, Rizal Lighterage Corporation, RFM Insurance Brokers, Inc. and Psi Technologies. He first became a director of the Corporation on 27 October 1988. He is also the Chairman of the Investment Committee and a member of the Compensation Committee of RFM Corporation.

Jose Ma. A. Concepcion III
55 years old
Filipino

Born on 23 June 1958, has a Bachelor's degree in Business Management from Dela Salle University. He is the President and Chief Executive Officer of the Corporation. In 2005, he was appointed by the President of the Philippines as the Presidential Consultant for Entrepreneurship which he held until 2010. He is the Chairman of the Board of Directors of Cabuyao Meat Processing Corporation, Interbake Commissary Corporation, RFM Equities, Inc., RFM Insurance Brokers, Inc., FWBC Holdings, Inc., Filipinas Water Bottling Company, Inc.,

Unilever RFM Ice Cream, Inc.(formerly Selecta Walls, Inc.), He is a director of Concepcion Industries Inc., the largest air-conditioner and refrigerator manufacturer in the country. He was an awardee of the Ten Outstanding Young Men of the Philippines (TOYM) in 1995 and Time Global 100 List of Young Leaders for the New Millennium in 1994. He is associated with major business and industry and various socio-civic associations. He is the founding Trustee of the Philippine Center for Entrepreneurship-Go Negosyo. He first became a director of the Corporation on 30 October 1986 and was elected President and Chief Executive Officer in 1989.

Joseph D. Server Jr.
73 years old
Filipino

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

Felicisimo M. Nacino, Jr.
62 years old
Filipino

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

John Marie A. Concepcion
52 years old
Filipino

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

Ma. Victoria Herminia C. Young
54 years old
Filipino

Born on 4 August 1959, has a Bachelor of Science Degree in Management and Marketing from Assumption College in 1981. She is currently a Senior Vice President and General Manager of the Consumer Group of RFM Corporation. She is a Trustee and President of RFM Foundation, Inc., Trustee of Soul Mission Org., Ronald McDonald House of Charities and a Director of Interbake Commissary Commission. She became a director of the RFM Corporation on 27 September 2006.

Francisco A. Segovia
60 years old
Filipino

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

He first became a director of the RFM Corporation on 30 October 1986. He is also a member of the Investment Committee of the Corporation.

Raissa Hechanova Posadas
54 years old
Filipino

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

Romeo L. Bernardo
59 years old
Filipino

Born on 5 September 1954, Mr. Bernardo received a Bachelor of Science degree in Business Economics from the University of the Philippines (Magna Cum Laude) and a Masters Degree in Development Economics from Williams College, Mass. USA. He has had a varied career in public institutions before he co-founded LBT (with former Energy Secretary Del Lazaro and corporate lawyer Helen Tiu) in 1997. His public sector work spans teaching finance at the state university, a career in the Department of Finance rising to the Undersecretary post , and working in multilateral institutions such as the IMF and the World Bank, based in Washington DC, as well as the ADB in Manila. Presently, he provides business advice as board director in leading listed Philippine companies such as ALFM family of funds (Chairman), Bank of the Philippine Islands, Globe Telecom, Aboitiz Power, National Reinsurance Corporation of the Philippines, Philippine Investment Management (PHINMA) Inc., and Institute of Development and Econometric Analysis, Inc. He has done policy advisory for multilateral and bilateral institutions and he Philippine government in public finance, capital markets, public-private partnership, pension reform, economic governance. He is the lead Philippine partner/advisor to Global Source Partners, a global network of independent analysts. He first became an independent director of RFM Corporation on 25 September 2002. He is presently the Chairman of the Compensation Committee and member of the Audit, Investment and Nomination Committees of RFM Corporation.

Lilia R. Bautista
78 years old
Filipino

Born on 16 August 1935, Filipino is an Independent Director of the Company since September 2006. She is also an independent director of Transnational Diversified Group and a professional lecturer at the Philippine Judicial Academy. Recently, she was appointed as Dean of the College of Law of Jose Rizal University. She previously held several positions including as a Member of the Appellate Body of the World Trade Organization, Chairman, Securities and Exchange Commission, Ex-Officio Member, Anti-Money Laundering Council, Senior DTI Undersecretary & Special Trade Negotiator and subsequently acting DTI Secretary. Ex-officio member of the Monetary Board, Chairman of the Board of Investments, National Development Company and other DTI agencies. Thereafter, she was appointed Ambassador to the United Nations and other international agencies in Geneva, Switzerland. She holds an L.L.B., University of the Philippines, LLM, University of Michigan (Dewitt Fellow), M.B.A., University of the Philippines, and attended special courses in corporate finance and reorganization, New York University and Investment negotiation course, Georgetown University. She is presently the Chairman of the Audit Committee and a member of the Investment Committee of RFM Corporation.

Executive Officers

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

Norman P. Uy
55 years old
Filipino

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

Ramon M. Lopez
53 years old
Filipino

Born on 26 October 1960, has a Bachelor of Arts degree major in Economics from U.P School of Economics and a Masters Degree in Economics at Williams College, Massachusetts, U.S.A. He is a member of the Board of Directors of Phil. Chamber of Food Manufacturers. He is currently Vice President & Executive Assistant to the President and CEO, and concurrent Head, Corporate Planning. He joined the Corporate Planning Department of RFM Corporation in 1994.

Rowel S. Barba
50 years old
Filipino

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

Minerva C. Laforteza
49 years old
Filipino

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

Ariel A. de Guzman
50 years old
Filipino

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

Susan A. Atienza
56 years old
Filipino

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

Eduardo M. Policarpio
52 years old
Filipino

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

Melchor B. Bacsa
53 years old
Filipino

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

Faye Christine B. Matriano
39 years old
Filipino

Born on 21 December 1974, has a Bachelor's degree in Psychology from Ateneo De Manila University and completed a Certificate Course in Marketing Management at New York University. Prior to joining RFM Corporation, she was the Senior Brand Manager at General Mills International from 2002 to 2007. She started her career in marketing at Universal Robina Corporation in 1999 to 2002 where she initially held the position of Brand Assistant and later on becoming the Assistant Brand Manager. She joined the company in March 2009 as Group Product Manager of White King Division and promoted to Assistant Vice President and Marketing Manager in May 2012.

VI. SECURITIES OF THE CORPORATION

(1) Market Information

RFM shares are traded at the Philippine Stock Exchange (PSE). As of April 30, 2014, the total number of issued and outstanding shares of the Company is 3,500, 403,866 common shares.

On 27 November 2013, the Board of Directors approved the issuance of 340,000,000 shares from the unissued capital stock of the Corporation to the following stockholders: Horizons Realty, Inc., BJS Development Corporation, Triple Eight Holdings, Inc. and RPMC Resources, Inc. The said stockholders were the Selling Shareholders in the equity fund raising of the Corporation, consisting of a placing and subscription transaction which was implemented in two concurrent stages comprising of (a) the offer and sale by existing shareholder/s not exceeding 450 million of their existing shares in the Corporation

(the "placement tranche"); and (b) as part of the transaction, the subscription by the selling shareholder/s and the issuance by the Corporation to the selling shareholders, of unissued common shares at most in the same number and share price as the shares sold in the placement tranche (the "subscription tranche"), with such new common shares being listed as soon as practicable thereafter. The Board likewise authorized that the 340,000,000 Offer Shares be listed with the Philippine Stock Exchange at the soonest practicable time.

The following are the high and low prices per common share for each quarter within the last three calendar years and the first quarter of 2014:

2014	High	Low
First Quarter	4.75	4.72

2013	High	Low
First Quarter	4.75	4.72
Second Quarter	5.15	4.80
Third Quarter	4.95	4.80
Fourth Quarter	5.55	5.50

2012	High	Low
First Quarter	2.05	1.99
Second Quarter	3.58	3.23
Third Quarter	4.24	4.05
Fourth Quarter	5.09	4.85

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

The application for listing of the 340M shares issued to the selling shareholders pursuant to the placing and subscription transaction is pending with the Philippine Stock exchange.

The price of RFM shares as of last trading date – April 30, 2014 was P6.50.

(2) Holders

As of April 30, 2014, there are a total of 3,301 shareholders of RFM common stock. Filipinos owned 2,692,005,112 common shares or 76.91% while the foreigners owned 808,398,754 common shares or 23.09%.

Below are the top 20 stockholders of common shares as of April 30, 2014:

Name	**No. of shares held**	**% to Total**
1. PCD Nominee Corporation (Foreign)	808,168,442	23.087863
2. Triple Eight Holdings, Inc.	552,670,472	15.788763
3. PCD Nominee Corporation (Filipino)	539,049,436	15.399635
4. Horizons Realty, Inc.	505,865,550	14.451634
5. BJS Development Corporation	260,210,184	7.433719
6. Feati University	112,011,350	3.199955
7. Triple Eight Holdings, Inc.	105,890,978	3.025107
8. Renaissance Property Management Corp.	96,945,752	2.769559
9. Chilco Holdings Inc.	72,748,950	2.078302
10 Concepcion Industries, Inc.	71,384,424	2.039320

11. Select Two Incorporated	49,499,612	1.414111
12. S&A Industrial Corporation	41,308,360	1.180103
13. Republic Commodities Corporation	33,115,616	0.946051
14. RPMC Resources, Inc.	32,037,214	0.915243
15. Macric Incorporated	23,302,412	0.665706
16. Lace Express Inc.	23,278,716	0.665029
17. Monaco Express Corporation	23,278,552	0.665025
18. Foresight Realty & Dev't Corp	19,215,194	0.548942
19. Silang Forest Park, Inc.	14,915,694	0.426114
20. Hyland Realty Corporation	11,919,518	0.340518

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

(3) Dividends

(a) Dividend per Share

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

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

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

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

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

On February 29, 2012, the BOD approved the declaration of ₱0.02391 cash dividend per share, or a total of ₱74.07 million representing the first tranche of the 30% of recurring net income for 2011 to its stockholders of record as of March 14, 2012. The dividends were paid on April 12, 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. to stockholders owning 77 shares or more as of July 11, 2012. On August 13, 2012, the SEC approved the distribution of 41,042,080 shares and was issued to the stockholders on September 7, 2012 at ₱3.49 per share, for a total of ₱144.75 million.

On November 14, 2012, the BOD approved the declaration of ₱0.02434 cash dividend per share, or a total of ₱76.92 million representing the full declaration of the 30% recurring net income for 2011 to its stockholders of record as of November 28, 2012. The dividends were paid on December 26, 2012.

On April 30, 2013, the BOD approved the declaration of ₱0.03237 cash dividend per share, or a total of ₱102.30 million representing the first tranche of the 30% of recurring net income for 2012 to its stockholders of record as of May 16, 2013. The dividends were paid on June 11, 2013.

On August 28, 2013, the BOD approved the declaration of ₱0.02726 cash dividend per share, or a total of ₱86.14 million representing the full declaration of the 30% recurring net income for 2012 to its stockholders of record as of September 11, 2013. The dividends were paid on October 7, 2013.

(b) Dividends Restriction

The Parent Company's retained earnings as of December 31, 2013 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 remeasurement gains on defined benefits plan of ₱3.02 million as of December 31, 2013 which are not available for dividend declaration.

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

VII. LEADING PRACTICES ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

9. On 1 July 2013, the Corporation completed and filed with the SEC its Annual Corporate Governance Report, which was subsequently revised on March 11, 2014.

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

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

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

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

VIII. REGISTRANT'S MANAGEMENT REPORT

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

MR. RAMON M. LOPEZ
VP & Exec. Asst. to the Pres. & CEO
& Concurrent Head, Corporate Planning
8/F RFM Corporate Center
Pioneer Corner Sheridan Streets
Mandaluyong City

RFM CORPORATION
By:



ATTY. ROWEL S. BARBA
Corporate Secretary

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 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 26 MAY 2014 day of _____ 2013 at Mandaluyong City.

Lilia R. Bautista
LILIA R. BAUTISTA
affiant

SUBSCRIBED AND SWORN to before me this 26 MAY 2014 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.

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Page No. 43;
Book No. II;
Series of 2014

ANGELINE G. VILLAMOR-LIM
Notary Public for and in Mandaluyong City
Notarial Commission No. 0237-13
Commission Expires on 31, December 2014
BARBA LIM SIQUIAN & PAREDES LAW OFFICES
2nd Floor, RFM Corporate Center,
Pioneer corner Sheridan Sts. Mandaluyong City
PTR No. 2167485, 1/9/2014, Mandaluyong City
IBP No. 954322 , 1/9/2014 Leyte
Roll of Attorneys No. 36941

CERTIFICATION OF INDEPENDENT DIRECTORS

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 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	2007
ALFM Money Market Fund	Chairman	2007
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 Globe BanKo, Inc.	Independent Director	May 30, 2008
BPI/MS Insurance Corporation	Independent Director	December 4, 2009
BPI-Philam Life Assurance Corporation	Independent Director	April 2006
Financial Executives Institute of the Philippines (FINEX) Foundation	Board of Trustee	January 2012
Foundation for Economic Freedom	Vice Chairman & Founding	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.	President & 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
RL Bernardo & Associates, Inc.	Chairman & CEO	2000

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 20th day of May, 2014 at Pasig City, Philippines.

ROMEO L. BERNARDO
Affiant

SUBSCRIBED AND SWORN to before me this 2 3 MAY 2014 at Mandaluyong City Affiant, who is personally known to me, personally appeared before me and exhibited to me his Philippine Passport No. EB2294305 issued at DFA Manila, Philippines on April 11, 2011 and his Community Tax Certificate No. 19362143 issued on 17th January 2014 at Quezon City, Philippines.

Doc. No. 208;
Page No. 43;
Book No. I;
Series of 2014.

ANGELINE G. VILLAMOR-LIM
Notary Public for and in Mandaluyong City
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BARBA LIM SIQUIAN & PAREDES LAW OFFICES
2nd Floor, RFM Corporate Center,
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PTR No. 2167485, 1/9/2014, Mandaluyong City
IBP No. 954322 , 1/9/2014 Leyte
Roll of Attorneys No. 36941

RFM CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

Securities and Exchange Commission
SEC Building EDSA, Greenhills
Mandaluyong City

The management of RFM Corporation (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements as of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, including the additional components attached therein, in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

SyCip, Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the periods December 31, 2013, 2012 and 2011, have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

Signed this 22nd day of April 2014

Jose S. Concepcion, Jr.	**Jose Maria Concepcion III**	**Minerva C. Laforteza**
Chairman of the Board	President & CEO	VP-Finance & Controllership

SUBSCRIBED AND SWORN to before me this _____ day of 23 APR 2014 2014 affiant(s) exhibiting to me his/her Passport as follows:

Names	Passport Number	Date of Issue/Expiry	Place of Issue
Jose S. Concepcion, Jr.	EB7150358	14 Jan 2013 /13 Jan 2018	DFA, Manila
Jose Maria Concepcion III	EB7274235	02 Feb 2013 /01 Feb 2018	DFA, Manila
Minerva C. Laforteza	EB0027767	25 Mar 2010/24 Mar 2015	DFA, Manila

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ANGELINE G. VILLAMOR-LIM
Notary Public for and in Mandaluyong City
Notarial Commission No. 0237-13
Commission Expires on 31, December 2014
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2nd Floor, RFM Corporate Center,
Pioneer corner Sheridan Sts. Mandaluyong City
PTR No. 2167485, 1/9/2014, Mandaluyong City
IBP No. 95[illegible], 1/9/2014 Leyte
Roll of Attorneys No. 36941

RFM CORPORATION
RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City 1550, Metro Manila, Philippines
Telephone: (63-2) 631-8101 Facsimile: (63-2) 631-5001 Website: www.rfmfoods.com

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of RFM Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity, and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RFM Corporation and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 012-082-670
BIR Accreditation No. 08-001998-63-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225153, January 2, 2014, Makati City

April 30, 2014

A member firm of Ernst & Young Global Limited

RFM Corporation and Subsidiaries

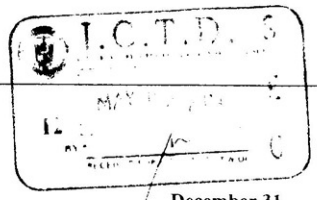
Consolidated Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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



	December 31	
	2013	2012 (As Restated - Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱2,885,218	₱1,474,713
Accounts receivable (Note 6)	2,207,947	2,587,683
Advances to related parties (Note 26)	140,015	89,252
Inventories (Note 7)	1,547,535	1,789,046
Other current assets (Note 8)	214,788	192,278
Total Current Assets	6,995,503	6,132,972
Noncurrent Assets		
Property, plant and equipment (Note 9):		
At cost	3,077,305	2,758,376
At appraised value	2,564,222	1,539,359
Investment properties (Note 10)	35,545	56,927
AFS financial assets (Note 11)	315,993	329,705
Investment in associate and joint venture (Note 12)	141,857	138,852
Deferred income tax assets - net (Note 29)	82,722	88,378
Other noncurrent assets (Note 14)	268,460	305,338
Total Noncurrent Assets	6,486,104	5,216,935
TOTAL ASSETS	₱13,481,607	₱11,349,907
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Note 15)	₱725,000	₱888,500
Accounts payable and accrued liabilities (Note 16)	2,614,209	2,613,354
Income tax payable (Note 29)	56,723	36,389
Advances from related parties (Note 26)	88,482	69,777
Customers' deposits (Note 17)	96,844	79,208
Current portion of:		
Long-term debts (Note 19)	265,846	546,078
Finance lease obligations (Note 18)	–	7,261
Provisions (Note 20)	6,000	67,982
Total Current Liabilities	3,853,104	4,308,549
Noncurrent Liabilities		
Long-term debts - net of current portion (Note 19)	651,801	1,265,393
Deferred income tax liabilities - net (Note 29)	504,717	196,410
Net pension obligation (Note 27)	45,995	28,148
Security deposits	2,069	1,183
Finance lease obligations - net of current portion (Note 18)	–	1,931
Total Noncurrent Liabilities	1,204,582	1,493,065
Total Liabilities	5,057,686	5,801,614

(Forward)

	December 31	
	2013	2012 (As Restated - Note 2)
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 21)	**₱3,160,404**	₱3,160,404
Capital in excess of par value	**788,643**	788,643
Deposit for stock subscriptions (Note 21)	**1,599,945**	–
Equity reserve (Note 2)	**(7,075)**	(7,075)
Net changes in fair value of AFS financial assets (Note 11)	**(655)**	1,906
Revaluation increment on land (Note 9)	**1,286,346**	568,942
Share-based compensation (Note 28)	**673**	360
Retained earnings (Note 21)	**1,602,258**	1,037,658
	8,430,539	5,550,838
Non-controlling Interests (Note 21)	**(6,618)**	(2,545)
Total Equity	**8,423,921**	5,548,293
TOTAL LIABILITIES AND EQUITY	**₱13,481,607**	₱11,349,907

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
REVENUE			
Manufacturing	**₱10,178,891**	₱10,965,933	₱10,310,477
Services and others	**61,067**	32,116	25,845
	10,239,958	10,998,049	10,336,322
COST OF SALES AND SERVICES (Note 22)			
Manufacturing	**(6,459,168)**	(7,222,341)	(7,019,647)
Services and others	**(111,033)**	(47,908)	(38,293)
	(6,570,201)	(7,270,249)	(7,057,940)
GROSS PROFIT	**3,669,757**	3,727,800	3,278,382
OPERATING EXPENSES			
Selling and marketing (Note 23)	**(1,769,554)**	(1,783,241)	(1,601,241)
General and administrative (Note 24)	**(890,861)**	(1,065,407)	(891,029)
OTHER INCOME (CHARGES)			
Interest expense (Notes 15, 18, 19 and 25)	**(62,715)**	(117,368)	(128,772)
Interest and financing income (Note 25)	**17,789**	22,076	17,681
Gain on sale of investments in shares of stock (Note 11)	**80**	35,819	19,717
Gain on sale of trademark (Note 30)	**–**	600,000	–
Impairment loss on:			
AFS financial assets	–	(545,861)	–
Other noncurrent asset	**(3,072)**	–	–
Reversal of allowance for:			
Doubtful accounts (Note 34)	**20,938**	37,143	12,843
Inventory obsolescence (Note 7)	**12,505**	26,255	791
Other income (charges) - net (Note 25)	**21,512**	(3,399)	1,941
INCOME BEFORE INCOME TAX	**1,016,379**	933,817	710,313
PROVISION FOR INCOME TAX (Note 29)			
Current	**209,028**	276,419	187,374
Deferred	**21,426**	(15,228)	19,175
	230,454	261,191	206,549
NET INCOME	**₱785,925**	₱672,626	₱503,764
Net income (loss) attributable to:			
Equity holders of the Parent Company	**₱787,889**	₱676,105	₱505,039
Non-controlling interests	**(1,964)**	(3,479)	(1,275)
	₱785,925	₱672,626	₱503,764
Basic/Diluted Earnings Per Share (Note 32)	**₱0.249**	₱0.214	₱0.160

See accompanying Notes to Consolidated Financial Statements.

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RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
NET INCOME FOR THE YEAR	**₱785,925**	₱672,626	₱503,764
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified subsequently to profit and loss:			
Valuation gains realized through profit or loss (Note 11)	**(1,905)**	(25,744)	–
Net changes in fair value of AFS financial assets (Note 11)	**(656)**	1,906	(2,307)
Items that will not be reclassified to profit and loss:			
Revaluation increment on land - net of deferred income tax effect of ₱326,139 (Note 9)	**717,404**	–	–
Remeasurement gain (loss) on defined benefit plans - net of deferred income tax effect of ₱14,936, (₱15,470) and ₱14,430 in 2013, 2012 and 2011, respectively (Note 27)	**(34,849)**	36,097	(33,672)
	679,994	12,259	(35,979)
TOTAL COMPREHENSIVE INCOME	**₱1,465,919**	₱684,885	₱467,785
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱1,467,883**	₱688,364	₱469,060
Non-controlling interests	**(1,964)**	(3,479)	(1,275)
	₱1,465,919	₱684,885	₱467,785

See accompanying Notes to Consolidated Financial Statements.

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock	Capital in Excess of Par Value	Deposit for Stock Subscriptions	Equity Reserve	Net Changes In Fair Value Of AFS Financial Assets	Revaluation Increment on Land	Share-based Compensation	Retained Earnings	Subtotal	Non-Controlling Interests	Total Equity
BALANCES AT JANUARY 1, 2011	**₱3,160,404**	**₱788,643**	**₱–**	**₱–**	**₱28,051**	**₱568,942**	**₱277**	**₱1,172,385**	**₱5,718,702**	**₱4,714**	**₱5,723,416**
Net income (loss) for the year, as previously reported	–	–	–	–	–	–	–	509,580	509,580	(1,275)	508,305
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	(4,541)	(4,541)	–	(4,541)
Net income (loss) for the year, as restated	–	–	–	–	–	–	–	505,039	505,039	(1,275)	503,764
Other comprehensive income (loss):											
Remeasurement losses on defined benefit plan, as previously reported (Note 27)	–	–	–	–	–	–	–	(36,851)	(36,851)	–	(36,851)
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	3,179	3,179		3,179
Remeasurement losses on defined benefit plan, as restated (Note 27)	–	–	–	–	–	–	–	(33,672)	(33,672)	–	(33,672)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	–	(2,307)	–	–	–	(2,307)	–	(2,307)
Total comprehensive income (loss) for the year, as restated	–	–	–	–	(2,307)	–	–	471,367	469,060	(1,275)	467,785
Property dividends (Note 21)	–	–	–	–	–	–	–	(834,913)	(834,913)	–	(834,913)
Cash dividends (Note 21)	–	–	–	–	–	–	–	(187,503)	(187,503)	–	(187,503)
Effect of acquisition of additional shares of stock of a subsidiary (Note 2)	–	–	–	(7,075)	–	–	–	–	(7,075)	–	(7,075)
Share-based compensation plan	–	–	–	–	–	–	(97)	–	(97)	–	(97)
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**3,160,404**	**788,643**	**–**	**(7,075)**	**25,744**	**568,942**	**180**	**621,336**	**5,158,174**	**3,439**	**5,161,613**
BALANCES AT DECEMBER 31, 2011, AS PREVIOUSLY REPORTED	**3,160,404**	**788,643**	**–**	**(7,075)**	**25,744**	**568,942**	**180**	**622,698**	**5,159,536**	**3,439**	**5,162,975**
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	**(1,362)**	**(1,362)**		**(1,362)**

(Forward)

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	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock	Capital in Excess of Par Value	Deposit for Stock Subscriptions	Equity Reserve	Net Changes In Fair Value Of AFS Financial Assets	Revaluation Increment on Land	Share-based Compensation	Retained Earnings	Subtotal	Non-Controlling Interests	Total Equity
BALANCES AT DECEMBER 31, 2011, AS RESTATED	**₱3,160,404**	**₱788,643**	**₱–**	**(₱7,075)**	**₱25,744**	**₱568,942**	**₱180**	**₱621,336**	**₱5,158,174**	**₱3,439**	**₱5,161,613**
Net income (loss) for the year, as previously reported	–	–	–	–	–	–	–	685,750	685,750	(3,479)	682,271
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	(9,645)	(9,645)	–	(9,645)
Net income (loss) for the year, as restated	–	–	–	–	–	–	–	676,105	676,105	(3,479)	672,626
Other comprehensive income (loss):											
Remeasurement gains on defined benefit plan, as previously reported (Note 27)	–	–	–	–	–	–	–	29,345	29,345	–	29,345
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	6,752	6,752	–	6,752
Remeasurement gains on defined benefit plan, as restated (Note 27)	–	–	–	–	–	–	–	36,097	36,097	–	36,097
Valuation gains realized through profit or loss (Note 12)	–	–	–	–	(25,744)	–	–	–	(25,744)	–	(25,744)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	–	1,906	–	–	–	1,906	–	1,906
Total comprehensive income (loss) for the year, as restated	–	–	–	–	(23,838)	–	–	712,201	688,363	(3,479)	684,884
Property dividends (Note 21)	–	–	–	–	–	–	–	(143,388)	(143,388)	–	(143,388)
Cash dividends (Note 21)	–	–	–	–	–	–	–	(152,491)	(152,491)	(2,505)	(154,996)
Share-based compensation plan	–	–	–	–	–	–	180	–	180	–	180
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**3,160,404**	**788,643**	–	**(7,075)**	**1,906**	**568,942**	**360**	**1,037,658**	**5,550,838**	**(2,545)**	**5,548,293**
BALANCES AT DECEMBER 31, 2012, AS PREVIOUSLY REPORTED	**3,160,404**	**788,643**	–	**(7,075)**	**1,906**	**568,942**	**360**	**1,041,914**	**5,555,094**	**(2,545)**	**5,552,549**
Effect of adoption of Revised PAS 19 (Note 2)	–	–	–	–	–	–	–	**(4,256)**	**(4,256)**		**(4,256)**
BALANCES AT DECEMBER 31, 2012, AS RESTATED	**3,160,404**	**788,643**	–	**(7,075)**	**1,906**	**568,942**	**360**	**1,037,658**	**5,550,838**	**(2,545)**	**5,548,293**
Net income (loss) for the year	–	–	–	–	–	–	–	787,889	787,889	(1,964)	785,925

(Forward)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock	Capital in Excess of Par Value	Deposit for Stock Subscriptions	Equity Reserve	Net Changes In Fair Value Of AFS Financial Assets	Revaluation Increment on Land	Share-based Compensation	Retained Earnings	Subtotal	Non-Controlling Interests	Total Equity
Other comprehensive income (loss):											
Remeasurement gain on defined benefit plans (Note 27)	₱–	₱–	₱–	₱–	₱–	₱–	₱–	(₱34,849)	(₱34,849)	₱–	(₱34,849)
Revaluation of land	–	–	–	–	–	717,404	–	–	717,404	–	717,404
Valuation gains realized through profit or loss (Note 12)	–	–	–	–	(1,905)	–	–	–	(1,905)	–	(1,905)
Net changes in fair value of AFS financial assets (Note 12)	–	–	–	–	(656)	–	–	–	(656)	–	q(656)
Total comprehensive income (loss) for the year	–	–	–	–	(2,561)	717,404	–	753,040	1,467,883	(1,964)	1,465,919
Cash dividends (Note 21)	–	–	–	–	–	–	–	(188,440)	(188,440)	(2,109)	(190,549)
Deposit for stock subscriptions (Note 21)	–	–	1,599,945	–	–	–	–	–	1,599,945	–	1,599,945
Share-based compensation plan	–	–	–	–	–	–	313	–	313	–	313
BALANCES AT DECEMBER 31, 2013	**₱3,160,404**	**₱788,643**	**₱1,599,945**	**(₱7,075)**	**(₱655)**	**₱1,286,346**	**₱673**	**₱1,602,258**	**₱8,430,539**	**(₱6,618)**	**₱8,468,214**

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2013	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,016,37**	₱933,81	₱710,31
Adjustments for:			
Depreciation and amortization (Notes 9, 10 and 25)	**346,297**	315,595	251,614
Interest expense (Notes 15, 18, 19 and 25)	**62,715**	117,368	128,772
Loss on sale of property and equipment (Notes 9 and 25)	**10,113**	708	(1,649)
Loss on sale of investment property (Notes 10 and 25)	**1,608**	–	–
Unrealized foreign exchange loss (gain) - net	**919**	377	(1,982)
Share-based compensation (Note 28)	**313**	180	(97)
Gain on sale of investments in shares of stock (Note 11)	**(80)**	(35,819)	(19,717)
Interest and financing income (Note 25)	**(17,789)**	(22,076)	(17,681)
Equity in net earnings of an associate (Note 25)	**(11,935)**	(11,172)	(12,451)
Gain on sale of trademark (Note 30)	**–**	(600,000)	–
Impairment loss on AFS financial assets (Note 11)	**–**	545,861	–
Impairment loss on property and equipment (Note 9)	**–**	5,243	–
Mark-to-market loss (gain) on derivative liability (Notes 25 and 33)	**–**	(1,732)	(10,895)
Dividend income (Note 11)	**–**	(825)	(552)
Loss on retirement of property and equipment	**–**	–	866
Movement in net pension obligation (Note 27)	**33,558**	(24,123)	(2,170)
Movement in provisions	**(61,982)**	15,825	50,066
Operating income before working capital changes	**1,380,116**	1,239,227	1,074,437
Decrease (increase) in:			
Accounts receivable	**379,921**	(682,660)	(169,977)
Inventories	**241,511**	(183,826)	105,463
Other current assets	**(4,431)**	147,993	(54,503)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**(72,136)**	528,468	84,843
Customers' deposits	**17,638**	60,868	(7,559)
Security deposits	**–**	(1,271)	820
Cash generated from operations	**1,942,619**	1,108,799	1,033,524
Income taxes paid, including creditable withholding taxes	**(206,773)**	(302,232)	(170,546)
Interest paid	**(70,192)**	(119,681)	(152,791)
Interest received	**17,604**	21,926	21,023
Net cash from operating activities	**1,683,258**	708,812	731,210
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Trademark (Note 30)	**–**	600,000	–
Property and equipment	**41,738**	52,648	3,546
Investments in shares of stocks	**44,686**	43,746	36,000
Investment property	**27,298**	–	–
Acquisition of property and equipment and investment properties (Notes 9 and 10)	**(718,073)**	(437,258)	(1,016,050)

(Forward)

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	Years Ended December 31		
	2013	2012	2011
Decrease (increase) in:			
Other noncurrent assets	**(₱16,603)**	₱49,004	(₱55,303)
Investments	**–**	13,508	11,904
Acquisition of AFS financial assets (Note 11)	**(33,405)**	(15,000)	–
Acquisition of investment in joint venture (Note 12)	**(3,123)**		
Dividends received (Note 11)	**–**	825	552
Acquisition of additional shares of stock of a subsidiary (Note 2)	**–**	79	(8,659)
Net cash from (used) in investing activities	**(657,482)**	307,552	(1,028,010)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of bank loans (Note 15)	**22,597,000**	15,863,755	27,171,000
Availment of long-term debts (Note 19)	**395,000**	160,000	650,000
Deposit for stock subscriptions	**1,599,945**	–	–
Payments of:			
Bank loans (Note 15)	**(22,760,500)**	(15,855,250)	(26,661,005)
Long-term debts and obligations (Notes 18 and 19)	**(1,298,015)**	(505,104)	(5,952)
Trust receipts payable	**–**	–	(417,189)
Dividends paid (Note 21)	**(115,724)**	(135,460)	(187,503)
Advances from (payments to) related parties (Note 26)	**(32,058)**	117,788	(79,864)
Net cash from (used in) financing activities	**385,648**	(354,271)	469,487
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(**	(	1,
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,410,50**	661,7	174,5
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,474,713**	812,997	638,472
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱2,885,218**	₱1,474,713	₱812,997

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the Parent Company's Audit Committee as delegated by the Board of Directors (BOD), on April 30, 2014.

2. Summary of Significant Accounting Policies

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 that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional currency. All values are rounded off to the nearest thousand pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the Philippine Securities and Exchange Commission (SEC) which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements* with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) in 2013 and 2012 and in compliance with PFRSs in 2011 (see Note 13).

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended pronouncements starting January 1, 2013. Adoption of these new and amended pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Government Loans* (Amendments)
- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*

Effective January 1, 2013, PFRS 11 will supersede PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* PFRS 11 will remove the option to account for jointly controlled entities using the proportionate consolidation method. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Under PFRS 11, the Group's investment in URICI meets the definition of a joint venture. On October 1, 2012, the Parent Company requested for an exemptive relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI (see Note 13). Engrain-RFM Pacific, Inc., a new joint venture acquired by the Group in 2013, will be accounted for using the equity method in accordance with PFRS 11 (see Note 12).

- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*

The Group has updated its accounting policy on fair value measurement as a result of the adoption of PFRS 13. The adoption of PFRS 13 has no significant impact on the fair value measurements of the Group. Additional disclosure requirements were made in compliance with the requirements in PFRS 13 (see Note 35).

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (OCI) (Amendments)

As a result of adopting the said amendments to PAS 1, the Group has modified its presentation of items of other comprehensive income in the statements of comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time will be presented separately from items that will never be reclassified.

- PAS 19, *Employee Benefits* (Revised)

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred. It also replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, as at the beginning of the annual period.

The Group has adopted the Revised PAS 19 retrospectively. The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

Increase (decrease) in:		As of December 31, 2013	As of December 31, 2012
Consolidated balance sheets			
Deferred income tax liabilities - net		₱4,722	₱4,256
Retained earnings		(4,722)	(4,256)
Increase (decrease) in:	**2013**	**2012**	**2011**
Consolidated Statements of Income			
Cost of goods sold	₱6,134	₱1,797	₱1,023
Gross profit	(6,134)	(1,797)	(1,023)
Selling and marketing expenses	4,943	2,636	(437)
General and administrative expenses	4,664	5,212	3,955
Income before income tax	(15,741)	(9,645)	(4,541)

Net income attributable to equity holders of the Parent Company	(15,741)	(9,645)	(4,541)
Consolidated Statements of Comprehensive Income			
Other comprehensive income - remeasurement gain on net pension obligation, net of tax	11,019	6,751	3,179
Total comprehensive income	(₱4,722)	(₱2,894)	(₱1,362)
Attributable to equity holders of the Parent Company	(₱4,722)		(₱1,362)

Prior to the adoption of the Revised PAS 19, the Group's accounting policy is to recognize actuarial gains and losses on defined benefit plans in full in other comprehensive income and transferred to retained earnings in the period they arise. Thus, the adoption of the Revised PAS 19 did not have a significant impact on the Group's financial position. The adoption of the Revised PAS 19 also did not have an impact on the Group's statements of cash flows. Further, there is no significant impact on the Group's earnings per share.

- PAS 27, *Separate Financial Statements (Amendments)*
- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements to PFRSs* (2009-2011 cycle)

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 as of December 31 is as follows:

	Percentage of Ownership	
	2013	2012
Cabuyao Logistics and Industrial Center, Inc. (CLIC)**	**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**	93.60
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*

***Changed its name from Cabuyao Meat Processing Corporation to Cabuyao Logistics and Industrial Center, Inc. in 2013*

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 controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from involvement with the investee; and,
- The ability to use power over the investee to affect the amount of the investor's returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of income and comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

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 Parent Company loses control over a subsidiary, it:

- Derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and,
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling interest
Non-controlling interest represents the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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 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 or loss (FVPL), the initial measurement of financial assets includes transactions costs. The Group's

financial assets are further classified into the following categories: financial assets at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate), loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group also classifies its financial liabilities as financial liabilities at FVPL (as derivatives designated as hedging instruments in an effective hedge, as appropriate) and other financial liabilities. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at each balance sheet date.

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

As of December 31, 2013 and 2012, the Group has no financial assets and financial liabilities at FVPL and HTM investments.

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 amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As of December 31, 2013 and 2012, the Group's loans and receivables include cash in banks and cash equivalents, accounts receivable, advances to related parties and other current receivables.

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

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

As of December 31, 2013 and 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 December 31, 2013 and 2012, the Group's other financial liabilities include bank loans, accounts payable and accrued liabilities, long-term debts, finance lease obligations 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 the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income.

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

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

Derecognition of Financial Assets and Financial Liabilities
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet

if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Inventories

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

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

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

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

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

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

Investment Properties

Investment properties 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. Land is carried at cost less any accumulated impairment losses.

Depreciation of investment properties is computed using the straight-line method over the estimated 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 the statement of income 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 Group accounts for such property in accordance with the policy stated under investment property up to 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. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

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 property, plant and equipment 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 and 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. Construction in progress are reclassified into appropriate class of property, plant and equipment when 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.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

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 an Associate and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in an associate and joint ventures are accounted for using the equity method except for its investment in URICI, a joint venture, which was accounted for using the proportionate consolidation method as permitted by the Philippine SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income as part of Other Income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method and the proportionate consolidation method for the investment in URICI, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint

ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Impairment of Noncurrent Non-financial Assets

The carrying values of property, plant and equipment, investments in joint ventures and investment in an associate 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 recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. 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 which the future cash flow estimates have not been adjusted. 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 the assumptions on the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, 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.

Deposit for Stock Subscriptions

Deposit for stock subscriptions represent the amount received which will be applied as payment in exchange for a fixed number of the Parent Company's capital stock. These are classified as equity if there is sufficient unissued authorized capital stock; or if in the case where the unissued capital stock is insufficient to cover the amount of the deposit, the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and the proposed increase has been filed with the Philippine SEC on or before the balance sheet date. Otherwise, the deposits are classified as liability.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, effect of changes in accounting policy and other capital adjustments.

Dividends on Common Shares

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

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

Revenue Recognition

Revenue from sale of goods and services from manufacturing and service operations is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable excluding value-added tax (VAT), returns and discounts. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as

principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements, except for RIBI, an insurance broker, which acts as an agent. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods (Manufacturing)

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

Sale of services (Service)

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

Rent

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

Interest 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/or the stockholders.

Cost and Expense Recognition

Cost of sales and services

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

Selling and marketing, and general and administrative expenses

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

Other Comprehensive Income (Loss)

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

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits

available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefits costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized in other comprehensive income and transferred to retained earnings in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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 outside profit or loss is 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 attributable to the equity holders of the Parent Company 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.

Diluted earnings per share is computed by adjusting the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares outstanding during the year for the effects of all dilutive potential common shares.

The Parent Company does not have potentially dilutive common shares.

Segment Reporting

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

Foreign Currency-Denominated Transactions and Translations

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

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

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be

required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Pronouncements Issued but Not yet Effective

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

Effective in 2014

- PFRS 10, PFRS 12 and PAS 27, *Investment Entities (Amendments)*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- 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.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*, remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*, relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments are not relevant to the Group because currently, the Group does not apply hedge accounting.

- Philippine Interpretation IFRIC 21, *Levies*, clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 2, *Share-based Payment - Definition of Vesting* Condition, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The Group shall consider this amendment for future share-based payment arrangements.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business* Combination, clarifies

that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date

of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either

  standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRSs.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint* Arrangements, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio* Exception, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

- PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*, stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3.

Effective in 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied.

No Effective Mandatory Date and Adoption

- PFRS 9, *Financial Instruments: Classification and Measurement*, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 liabilities designated at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an impact on the classification and measurement of the Group's financial assets but potentially have no significant impact on the classification and measurement of the Group's financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. The adoption of the third phase of PFRS 9 will not have an impact to the Group because the Group does not apply hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not early adopt PFRS 9 but will continue to evaluate and conduct a study on the possible impact of adopting the limited amendments to the classification and measurement model and second phase of PFRS 9 when they are completed.

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.

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

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

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

Judgments

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

Classification of financial instruments

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

of financial instruments is reviewed at each balance sheet date.

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

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 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. As of December 31, 2013 and 2012, AFS financial assets in equity securities amounted to ₱316.00 million and ₱329.71 million, respectively (see Note 11).

In light of the changing business model of Philtown Properties, Inc. (Philtown), the Parent Company 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, 2013 and 2012. The net assets of Philtown were compared against the carrying value of the Parent Company's investment in Philtown. The Parent Company determined that its AFS financial assets in Philtown were impaired as of December 31, 2012. Impairment loss was recognized on the said AFS financial assets amounting to ₱544.50 million in 2012. No impairment loss was recognized in 2013 (see Note 11).

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

Total provisions amounted to ₱6.00 million and ₱67.98 million as of December 31, 2013 and 2012, respectively (see Note 20).

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.

Finance lease obligations and aggregate minimum lease payments are disclosed under Note 18.

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

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

loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made during the year.

As of December 31, 2013 and 2012, the carrying value of accounts receivable amounted to ₱2,207.95 million and ₱2,587.68 million, respectively (see Note 6). As of December 31, 2013 and 2012, advances to related parties amounted to ₱140.02 million and ₱89.25 million, respectively (see Note 26). The related allowance for doubtful accounts for both accounts amounted to ₱350.73 million and ₱894.03 million as of December 31, 2013 and 2012, respectively (see Notes 6, 26 and 34).

The Group wrote off accounts receivable and advances to related parties against the related allowance of ₱ 566.45 million in 2013 and ₱736.43 million in 2012 (see Note 34).

Estimation of inventory obsolescence
The Group estimates the allowance for inventory obsolescence 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 salability of goods such as present demand in the market and emergence of new products, among others.

The Group's allowance for inventory obsolescence amounted to ₱144.48 million and ₱151.37 million as of December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, the total carrying value of inventories amounted to ₱1,547.54 million and ₱1,789.05 million, respectively (see Note 7).
Determination of NRV of inventories
The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV. The Group's inventories stated at NRV amounted to ₱154.13 million and ₱231.23 million as of December 31, 2013 and 2012, respectively (see Note 7).

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

The allowance for probable losses pertaining to prepaid expenses amounted to ₱33.65 million as of December 31, 2013 and 2012 (see Note 8). Other current assets amounted to ₱214.79 million and ₱192.28 million as of December 31, 2013 and 2012, respectively.

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives of depreciable property, plant and equipment and investment properties based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa. The estimated useful lives of property, plant and equipment and investment properties are discussed in Note 2 to the consolidated financial statements. There had been no changes in the estimated useful lives of property, plant and equipment and investment properties in 2013 and 2012.

The carrying values of these property, plant and equipment valued at cost amounted to ₱3,077.31 million and ₱2,758.38 million as of December 31, 2013 and 2012, respectively (see Note 9). The carrying values of investment properties amounted to ₱35.55 million and ₱56.93 million as of December 31, 2013 and 2012, respectively (see Note 10).

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 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 land at appraised value amounting to ₱1,286.35 million and ₱568.94 million as of December 31, 2013 and 2012, respectively, is presented as "Revaluation increment on land" account, net of deferred income tax effect of ₱551.29 million and ₱243.83 million, in the equity section of the consolidated balance sheets (see Notes 9 and 35).

Impairment of property, plant and equipment, investment properties and investments in associate and joint ventures
The Group assesses whether there are indications of impairment on its property, plant and equipment, investment properties and investments in associate and joint ventures, 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 loss recognized on property, plant and equipment amounted to nil in 2013, ₱5.24 million in 2012 and nil in 2011. The carrying value of property, plant and equipment valued at cost amounted to ₱3,077.31 million and ₱2,758.38 million as of December 31, 2013 and 2012, respectively (see Note 9). Accumulated impairment loss on property, plant and equipment amounted to ₱21.30 million and ₱26.54 million as of December 31, 2013 and 2012. The carrying value of investment properties amounted to ₱35.55 million as of December 31, 2013 and ₱56.93 million as of December 31, 2012 (see Note 10).

As of December 31, 2013 and 2012, the carrying value of investment in an associate amounted to ₱138.73 million and ₱138.85 million, respectively (see Note 12). As of December 31, 2013, the carrying value of investment in a joint venture accounted using the equity method amounted to ₱3.13 million. No impairment loss was recognized for investment properties and investments in associate and joint ventures in 2013, 2012 and 2011.

Impairment of goodwill
The Group reviews for impairment the carrying value of goodwill 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 the 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 2013 and 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 December 31, 2013 and 2012 (see Note 14). The Parent Company used a discount rate of 5.27% and the growth rate assumption on sales of URICI through out the projection period. No impairment losses were recognized for the years ended December 31, 2013, 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.

Deferred income tax assets recognized amounted to ₱129.79 million and ₱141.35 million as of December 31, 2013 and 2012, respectively (see Note 29).

Deferred income tax assets on certain deductible temporary differences, carryforward benefits of NOLCO and excess MCIT amounting to ₱1,197.77 million and ₱1,156.65 million as of December 31, 2013 and 2012, respectively, were not recognized because the Group believes that it is not probable that it will have sufficient future taxable profits against which these items can be utilized (see Note 29).

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

Net pension obligation amounted to ₱46.00 million and ₱28.15 million as of December 31, 2013 and 2012, respectively. Pension benefits costs amounted to ₱29.07 million in 2013, ₱29.05 million in 2012 and ₱22.58 million in 2011 (see Note 27).

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

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

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

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

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

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

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

	2013						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated

Net Sales							
External sales	**₱6,201,043**	**₱3,981,523**	**₱52,169**	**₱5,224**	**₱10,239,958**	**₱–**	**₱10,239,958**
Intersegment sales	**1,767**	**331,363**	**48,908**	**–**	**382,039**	**(382,039)**	**–**
	₱6,202,810	**₱4,312,886**	**₱101,077**	**₱5,224**	**₱10,621,997**	**(₱382,039)**	**₱10,239,958**
Results							
Interest and other financial charges - net	**(₱13,495)**	**(₱7,413)**	**₱4,286**	**(₱28,304)**	**(₱44,926)**	**₱–**	**(₱44,926)**
Equity in net earnings of an associate	**₱–**	**₱–**	**₱11,935**	**₱–**	**₱11,935**	**₱–**	**₱11,935**
Income (loss) before provision for income tax and non-controlling interest	**₱336,364**	**₱827,667**	**(₱30,953)**	**₱299,996**	**₱1,433,074**	**(₱416,695)**	**₱1,016,379**
Provision for income tax	**–**	**–**	**–**	**(230,454)**	**(230,454)**	**–**	**(230,454)**
Net income (loss)	**₱336,364**	**₱827,667**	**(₱30,953)**	**₱69,542**	**₱1,202,620**	**(₱416,695)**	**₱785,925**
Other information							
Segment assets	**₱4,727,534**	**₱4,323,418**	**₱1,314,389**	**₱3,159,985**	**₱13,525,326**	**(₱581,166)**	**₱12,944,160**
Investments	**314,964**	**–**	**62,709**	**1,308,659**	**1,686,332**	**(1,231,607)**	**454,725**
Deferred income tax assets	**76,158**	**2,845**	**3,719**	**–**	**82,722**	**–**	**82,722**
Consolidated Total Assets	**₱5,118,656**	**₱4,326,263**	**₱1,380,817**	**₱4,468,644**	**₱15,294,380**	**(₱1,812,773)**	**₱13,481,607**
Consolidated Total Liabilities	**₱2,552,563**	**₱1,342,028**	**₱1,191,219**	**₱1,100,104**	**₱6,185,914**	**(₱1,128,228)**	**₱5,057,686**
Capital expenditures	**₱566,123**	**₱104,756**	**₱30,355**	**₱8,760**	**₱709,995**	**₱–**	**₱709,995**
Depreciation and amortization	**189,459**	**88,468**	**63,515**	**5,702**	**347,144**	**(847)**	
Noncash expenses other than depreciation and amortization	**6,345**	**20,747**	**1,492**	**29,945**	**58,529**	**–**	**58,529**

	2012						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱7,159,702	₱3,816,614	₱6,669	₱15,064	₱10,998,049	₱–	₱10,998,049
Intersegment sales	3,340	626,232	92,430	–	722,002	(722,002)	–
	₱7,163,042	₱4,442,846	₱99,099	₱15,064	₱11,720,051	(₱722,002)	₱10,998,049
Results							
Interest and other financial charges - net	(₱18,866)	(₱4,308)	(₱5,165)	(₱66,953)	(₱95,292)	₱–	(₱95,292)
Equity in net earnings of an associate	₱–	₱–	₱–	₱11,172	₱11,172	₱–	₱11,172
Income (loss) before provision for income tax and non-controlling interest	₱362,585	₱857,580	(₱50,075)	₱225,228	₱1,395,318	(₱461,501)	₱933,817
Provision for income tax	(172,608)	(32,654)	(1,505)	(54,424)	(261,191)	–	(261,191)
Net income (loss)	₱189,977	₱824,926	(₱51,580)	₱170,804	₱1,134,127	(₱461,501)	₱672,626
Other information							
Segment assets	₱7,767,427	₱7,618,668	₱1,202,663	₱2,773,421	₱19,362,179	(₱8,569,207)	₱10,792,972
Investments	469,346	–	107,362	1,128,357	1,705,065	(1,236,508)	468,557
Deferred income tax assets	82,859	3,239	2,280	–	88,378	–	88,378
Consolidated Total Assets	₱8,319,632	₱7,621,907	₱1,312,305	₱3,901,778	₱21,155,622	(₱9,805,715)	₱11,349,907
Consolidated Total Liabilities	₱8,360,641	₱2,575,207	₱1,127,751	₱2,890,214	₱14,953,813	(₱9,152,199)	₱5,801,614
Capital expenditures	₱477,973	₱93,300	₱25,629	₱7,396	₱604,298	₱–	₱604,298
Depreciation and amortization	172,241	80,428	57,742	5,184	315,595	–	
Noncash expenses other than depreciation and amortization	23,361	76,392	5,494	110,256	215,503	–	215,503

	2011						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Net Sales							
External sales	₱6,233,238	₱4,076,155	₱26,929	₱–	₱10,336,322	₱–	₱10,336,322
Intersegment sales	62,177	484,677	47,092	–	593,946	(593,946)	–
	₱6,295,415	₱4,560,832	₱74,021	₱–	₱10,930,268	(₱593,946)	₱10,336,322
Results							
Interest and other financial charges - net	(₱65,863)	(₱1,251)	₱9,341	(₱53,318)	(₱111,091)	₱–	(₱111,091)
Equity in net earnings of an associate	₱–	₱–	₱12,451	₱–	₱12,451	₱–	₱12,451
Income (loss) before provision for income tax and non-controlling interest	77,130	831,863	(1,374)	2,034,382	2,942,001	(2,231,688)	710,313
Provision for income tax	(138,203)	(23,524)	(2,533)	(42,289)	(206,549)	–	(206,549)
Net income (loss)	(₱61,073)	₱808,339	(₱3,907)	₱1,992,093	₱2,735,452	(₱2,231,688)	₱503,764

	2011						
	Consumer Business	Institutional Business	Other Operations	Unallocated Corporate Balances	Total	Eliminations	Consolidated
Other Information							
Segment assets	₱7,700,232	₱5,597,088	₱615,250	₱2,298,500	₱16,211,070	(₱6,692,849)	₱9,518,221
Investments	313,996	-	61,838	2,108,267	2,484,101	(1,304,069)	1,180,032
Deferred income tax assets	59,392	4,214	1,906	–	65,512	–	65,512
Consolidated Total Assets	₱8,073,620	₱5,601,302	₱678,994	₱4,406,767	₱18,760,683	(₱7,996,918)	₱10,763,765
Consolidated Total Liabilities	₱7,731,275	₱1,514,658	₱635,829	₱3,031,887	₱12,913,649	(₱7,312,859)	₱5,600,790
Capital expenditures	₱578,069	₱394,638	₱47,473	₱1,581	₱1,021,761	₱–	₱1,021,761
Depreciation and amortization	161,877	58,426	25,591	5,720	251,614	–	251,614
Noncash expenses other than depreciation and amortization	36,588	10,857	17,139	3,948	68,532	–	68,532

5. **Cash and Cash Equivalents**

	2013	2012
Cash on hand and in banks	**₱430,632**	₱251,544
Cash equivalents	**2,454,586**	1,223,169
	₱2,885,218	₱1,474,713

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

Interest income earned from cash in banks and short-term investments amounted to ₱10.52 million in 2013, ₱15.41 million in 2012 and ₱8.23 million in 2011 (see Note 25).

6. Accounts Receivable

	2013	2012
Trade receivables:		
Third parties	**₱2,343,088**	₱2,550,078
Related parties (Note 26)	**14,399**	388,593
Current portion of loans receivable (Note 14)	**117,891**	17,689
Advances to officers and employees	**38,155**	48,674
Other receivables	**33,091**	289,159
	2,546,624	3,294,193
Less allowance for doubtful accounts (Note 34)	**338,677**	706,510
	₱2,207,947	₱2,587,683

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

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

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

7. Inventories

	2013	2012
At NRV:		
Finished goods	**₱85,856**	₱127,689
Raw materials	**62,343**	71,843
Spare parts and supplies	**5,934**	31,693
	154,133	231,225
At Cost:		
Finished goods	**322,379**	226,484
Goods in process	**4,930**	6,876
Raw materials	**801,292**	658,451
Spare parts and supplies	**260,550**	170,051
Raw materials in transit	**4,251**	495,959
	1,393,402	1,557,821
	₱1,547,535	₱1,789,046

Finished goods, raw materials, and spare parts and supplies amounting to ₱115.84 million and ₱127.69 million as of December 31, 2013 and 2012, respectively, have been fully provided with allowance for inventory obsolescence. Allowance for inventory obsolescence amounting to ₱28.64 million and ₱23.68 million as of December 31, 2013 and 2012, respectively, pertains to the inventories of the Group valued at NRV.

The movements in the allowance for inventory obsolescence account are as follows:

	2013	2012
At January 1	**₱151,370**	₱159,347
Provisions during the year (Note 22)	**30,726**	36,084
Reversals	**(12,505)**	(26,255)
Write-offs	**(25,114)**	(17,806)
At December 31	**₱144,477**	₱151,370

Cost of inventories charged to cost of sales amounted to ₱5,262.57 million in 2013, ₱5,733.46 million in 2012 and ₱5,677.68 million in 2011. Inventories which were directly written off and charged to cost of sales amounted to ₱8.09 million, ₱24.71 million and ₱9.43 million in 2013, 2012 and 2011, respectively (see Note 22).

8. Other Current Assets

	2013	2012
Creditable withholding taxes	**₱63,592**	₱60,425
Input VAT	**56,220**	50,638
Deposits on purchases	**45,678**	33,825
Prepaid expenses - net of allowance for probable losses of ₱33,649 in both years	**40,580**	42,805
Receivable from Meralco	**4,456**	–
Others	**4,262**	4,585
	₱214,788	₱192,278

9. Property, Plant and Equipment

As of December 31, 2013:

	Land Improvements	Silos, Buildings and Improvements	Machinery and Equipment	Transportation and Delivery Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost							
Cost:							
At January 1	**₱31,473**	**₱883,990**	**₱3,737,380**	**₱221,861**	**₱128,221**	**₱93,294**	**₱5,096,219**
Additions	**–**	**98,519**	**412,429**	**31,416**	**4,482**	**170,231**	**717,077**
Write-off/disposal	**–**	**(20,608)**	**(104,456)**	**(48,178)**	**(25,432)**	**–**	**(198,674)**
Reclassification	**–**	**(5,007)**	**93,361**	**21,735**	**972**	**(97,168)**	**13,893**
At December 31	**31,473**	**956,894**	**4,138,714**	**226,834**	**108,243**	**166,357**	**5,628,515**
Accumulated depreciation and amortization:							
At January 1	**10,465**	**320,914**	**1,699,565**	**168,016**	**112,344**	**–**	**2,311,304**
Depreciation and amortization (Note 25)	**601**	**40,075**	**260,551**	**34,929**	**10,141**	**–**	**346,297**
Write-off/disposal	**–**	**(15,116)**	**(59,090)**	**(46,149)**	**(26,468)**	**–**	**(146,823)**
Reclassification	**–**	**19,136**	**–**	**–**	**–**	**–**	**19,136**
At December 31	**11,066**	**365,009**	**1,901,026**	**156,796**	**96,017**	**–**	**2,529,914**
Accumulated impairment loss:							
At January 1	**–**	**–**	**26,539**	**–**	**–**	**–**	**26,539**
Reversal of provision for impairment (Note 25)	**–**	**–**	**(5,243)**	**–**	**–**	**–**	**(5,243)**
December 31	**–**	**–**	**21,296**	**–**	**–**	**–**	**21,296**
Net Book Values at December 31	**₱20,407**	**₱591,885**	**₱2,216,392**	**₱70,038**	**₱12,226**	**₱166,357**	**₱3,077,305**
At Appraised Value - Land							
At January 1							**₱1,539,359**
Revaluation							**1,024,863**
At December 31							**₱2,564,222**

As of December 31, 2012:

	Land Improvements	Silos, Buildings and Improvements	Machinery and Equipment	Transportation and Delivery Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost							
Cost:							
At January 1	₱31,413	₱788,795	₱3,461,034	₱197,431	₱125,225	₱171,555	₱4,775,453
Additions	598	35,306	75,398	40,625	4,398	278,189	434,514
Write-off/disposal	(936)	–	(119,204)	(17,605)	–	–	(137,745)
Reclassification	398	59,889	320,152	1,410	(1,402)	(356,450)	23,997
At December 31	31,473	883,990	3,737,380	221,861	128,221	93,294	5,096,219
Accumulated depreciation and amortization:							
At January 1	10,826	278,154	1,528,813	158,898	103,245	–	2,079,936
Depreciation and amortization (Note 25)	575	40,903	239,014	23,842	9,565	₱–	313,899
Write-off/disposal	(936)	–	(68,728)	(14,724)	–	–	(84,388)
Reclassification	–	1,857	466	–	(466)	–	1,857

At December 31	10,465	320,914	1,699,565	168,016	112,344	–	2,311,304
Accumulated impairment loss:							
At January 1	–	–	21,296	–	–	–	21,296
Impairment loss (Note 25)	–	–	5,243	–	–	–	5,243
December 31	–	–	26,539	–	–	–	26,539
Net Book Values at December 31	₱21,008	₱563,076	₱2,011,276	₱53,845	₱15,877	₱93,294	₱2,758,376
At Appraised Value - Land							₱1,539,359

In 2013, the Group revalued its parcels of land based on valuations performed by qualified independent appraisers whose report was dated January 2, 2014 (see Note 35). The revaluation resulted in revaluation increment of ₱ 1,286.35 million is presented under the "Revaluation increment on land" account, net of deferred income tax effect of 551.29 million. The movements in revaluation increment on land are as follows:

	2013	2012
Beginning of the year	**₱568,942**	₱568,942
Appraisal increase during the year	**1,024,863**	–
Tax effect	**(307,459)**	–
End of the year	**₱1,286,346**	₱568,942

The cost of these parcels of land amounted to ₱326.21 million as of December 31, 2013 and 2012.

Property, plant and equipment include machinery and equipment under finance lease with net carrying amount of ₱ 20.44 million as of December 31, 2012 (see Note 18).

10. Investment Properties

As of December 31, 2013:

	Land	**Buildings and Improvements**	**Total**
Cost			
At January 1	**₱28,907**	**₱32,074**	**₱60,981**
Additions	**–**	**9,100**	**9,100**
Disposal	**(28,907)**	**–**	**(28,907)**
Reclassification	**–**	**–**	**–**
At December 31	**–**	**41,174**	**41,174**
Accumulated Depreciation and Amortization			
At January 1	**–**	**4,054**	**4,054**
Depreciation and amortization (Note 25)	**–**	**1,575**	**1,575**
At December 31	**–**	**5,629**	**5,629**
Net Book Values at December 31	**₱–**	**₱35,545**	**₱35,545**

As of December 31, 2012:

	Land	Buildings and Improvements	Total
Cost			
At January 1	₱27,780	₱54,454	₱82,234
Additions	1,127	1,617	2,744
Reclassification	–	(23,997)	(23,997)
At December 31	28,907	32,074	60,981
Accumulated Depreciation and Amortization			
At January 1	–	4,215	4,215
Depreciation and amortization (Note 25)	–	1,696	1,696
Reclassification	–	(1,857)	(1,857)
At December 31	–	4,054	4,054
Net Book Values at December 31	₱28,907	₱28,020	₱56,927

As of December 31, 2013 and 2012, investment properties include the portion of the RFM Corporate Center building being leased out to third parties. The fair value of the building which was based on an appraisal report of an

independent appraiser amounted to ₱92.12 million. Rental income from the investment property amounted to ₱ 13.16 million and ₱11.17 million in 2013 and 2012, respectively, while the related direct cost which consists of depreciation expense, real property taxes and other direct costs amounted to ₱28.19 million and ₱26.17 million for the years ended December 31, 2013 and 2012, respectively.

In 2012, Double Dragon Properties Corporation assigned to RIBI a condominium unit with a total floor area of 16.5 sqm. amounting ₱1.62 million as settlement of Philtown Properties, Inc.'s (Philtown) payable to RIBI.

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

11. AFS Financial Assets

Rollforward of AFS financial assets follows:

	Unquoted			Golf Club and Quoted	
	Redeemable Preferred Shares		Common	Common	
	Philtown	Swift	Shares	Shares	Total
Balances at December 31, 2011	₱762,850	₱1,886	₱149,752	₱32,134	₱946,622
Reclassification		–		–	
Impairment loss	(54	–		–	(54
Property dividends distributed	–	–	(14	–	(14
Sale of investments	–		–	(31,785)	(
Purchase of additional common shares	–	–	–	15,000	15,000
Net change in fair value	–	–	–	1,906	1,906
Balances at December 31, 2012	307,447	–	5,003	17,255	329,705
Additions	–	–	4,000	31,719	35,719
Sale of investments	–	–	–	(46,399)	(
Net change in fair value	–	–	(607)	(2,425)	(3,032)
Balances at December 31, 2013	**₱307,447**	**₱–**	**₱8,396**	**₱150**	**₱315,993**

The preferred shares of Philtown have no voting rights and redeemable at the discretion of Philtown's BOD at ₱ 3.50 per share but no less than its par or issued value. The preferred shares of Swift Foods, Inc. (Swift) have no voting rights and are convertible to common shares anytime at the ratio of 10 common shares for every preferred share held and are redeemable at the option of Swift.

The AFS financial assets in unquoted shares of stock are carried at cost less any impairment in value because fair values cannot be readily determined.

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

The changes in value of quoted AFS financial assets amounted to an increase of ₱1.13 million in 2013 and an increase of ₱1.91 million in 2012. These changes in fair values have been recognized and shown as "Net changes in fair value of AFS financial assets" in the consolidated statement of comprehensive income. The cost of these quoted AFS financial assets amounted to ₱4.48 million and ₱15.39 million as of December 31, 2013 and 2012, respectively.

Rollforward of net changes in fair value of AFS financial assets follows:

	2013	2012
Beginning of year	**₱1,906**	₱25,744
Valuation gains realized in profit or loss due to sale of investment	**(1,905)**	(25,744)
Unrealized gain (loss)	**(656)**	1,906
End of year	**(₱655)**	₱1,906

In 2012, the Parent Company sold its quoted shares of stock with a cost of ₱6.04 million for ₱41.86 million which resulted to a gain on sale of investments amounting to ₱35.82 million. The unrealized valuation gain on these quoted shares of stock amounting to ₱25.74 million was recycled to the statement of

income following the sale of these shares.

In May 2012, RIBI acquired additional investments from Sun Life Prosperity Balanced Fund aggregating 4,953,512 shares for ₱15.00 million. As of December 31, 2012, the current value of the investments amounted to ₱16.91 million. The fluctuation in value amounting to ₱1.91 million are shown as "Net changes in fair value of AFS financial assets" in the equity section of the consolidated balance sheets as of December 31, 2012. In 2013, RIBI disposed the said investments for ₱16.79 million and recognized gain on sale of AFS financial assets of ₱1.79 million.

On August 13, 2012, the Philippine SEC approved the declaration of property dividends consisting of the Parent Company's 41,042,080 common shares in Philtown at ₱3.49 per share. Stockholders of the Parent Company owning at least 77 of the Parent Company's shares as of July 11, 2012 are entitled to one Philtown common shares (see Note 21).

In light of the changing business model of Philtown by the end of 2013 and 2012, the Parent Company performed an impairment testing of its AFS financial assets in Philtown by estimating their fair value using the "Adjusted Net Asset Method" in which the outstanding assets and liabilities of Philtown were valued at fair values as of December 31, 2013 and 2012 and the net amount is compared against the carrying value of the Parent Company's investment in Philtown. The impairment test resulted to an impairment loss amounting to ₱ 545.86 million in 2012 on the Parent Company's AFS financial assets with Philtown. No impairment loss was set up in 2013.

Dividend income earned from AFS financial assets amounted to nil, ₱0.83 million and ₱0.55 million in 2013, 2012 and 2011, respectively (see Note 25).

12. Investment in Associate and Joint Venture

	2013	2012
Cost		
Beginning of year	**₱33,801**	₱126,023
Addition	**3,125**	–
Reclassification	–	(92,222)
End of year	**36,926**	33,801
Accumulated Equity in Net Earnings		
Beginning of year	**105,051**	107,387
Equity in net earnings for the year (Note 25)	**11,935**	11,172
Dividends received	**(12,055)**	(13,508)
End of year	**104,931**	105,051
	₱141,857	₱138,852

Summarized financial information of Selecta Walls Land Corporation (SWLC), an associate follow:

	December 31, 2013	December 31, 2012
Current assets (includes cash amounting to ₱12.36 million and ₱26.60 million as of December 31, 2013 and 2012, respectively)	**₱19,899**	₱31,624
Noncurrent assets	**224,416**	376,330
Current liabilities (includes income tax payable amounting to ₱1.30 million and ₱1.10 million as of December 31, 2013 and 2012, respectively)	**1,786**	11,234
Equity	**396,377**	396,720
Proportion of the Group's ownership	**35%**	35%
Carrying amount of the investment	**138,732**	138,852

	2013	2012
Revenue	**₱26,930**	₱26,930

Interest income	**68**	212
Provision for income tax	**4,826**	4,738
Net income	**19,892**	18,621

Dividends received from SWLC amounted to ₱7.76 million and ₱10.01 million for the years ended December 31, 2013 and 2012, respectively.

Engrain-RFM Pacific, Inc.
In 2013, the Parent Company entered into a joint arrangement with Engrain LLC to form a new corporation named Engrain-RFM Pacific, Inc., the primary purpose of which is to sell, market, distribute at wholesale enzyme-enhanced flour-based products for the Philippines and Asia Pacific market. The Parent Company has a 50% equity interest in the said arrangement. The Parent Company has accounted for its investment in Engrain-RFM Pacific, Inc. as a joint venture under PFRS 11. Engrain-RFM Pacific, Inc. has not yet started commercial operations as of April 30, 2014. Investment in Engrain-RFM Pacific, Inc. amounted to ₱3.13 million as of December 31, 2013.

13. **Interest in a Joint Venture Proportionately Consolidated**

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (ULP), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and ULP, the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱3,704.19 million and ₱2,260.90 million as of December 31, 2013 and 2012, respectively.

On October 1, 2012, the Parent Company requested for an exemptive relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI on the following grounds:

- Material impact
  The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement
  a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

     The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

  b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by domestic corporations, the Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company. Thus, the Parent Company indirectly controls SWLC, the owner of the real property being leased and used by URICI in its business.

Presented below is the impact on the consolidated financial statements if PFRS 11 is applied on the Parent Company's investment in URICI:

Increase (decrease) in	**2013**	2012
Consolidated Balance Sheets		
Cash and cash equivalents	**(₱123,445)**	(₱66,736)

Increase (decrease) in	**2013**	2012
Accounts receivable	**(326,229)**	(431,847)
Advances to related parties	**(18,223)**	(20,577)
Inventories	**(156,664)**	(201,392)
Other current assets	**(30,737)**	(40,093)
Total Current Assets	**(655,298)**	(760,645)
Property, plant and equipment		
At cost	**(952,833)**	(1,022,520)
Investment in associate and joint venture	**742,538**	416,117
Deferred income tax assets - net	**(76,159)**	(82,859)
Other noncurrent assets	**(239,846)**	(255,795)
Total Noncurrent Assets	**(526,300)**	(945,057)
Total Assets	**(1,181,598)**	(1,705,702)
Bank loans	**(725,000)**	(888,500)
Accounts payable and accrued liabilities	**(734,501)**	(768,806)

(Forward)

Increase (decrease) in	**2013**	2012
Income tax payable	**(₱39,695)**	(₱27,491)
Advances from related parties	**(36,727)**	(30,828)
Provisions	**–**	(1,360)
Total Current Liabilities	**(1,535,923)**	(1,716,985)
Net pension obligation	**(21,620)**	(18,600)
Total Noncurrent Liabilities	**(21,620)**	(18,600)
Total Liabilities	**(₱1,557,543)**	(₱1,735,585)
Consolidated Statements of Income		
Revenue	**(₱3,072,691)**	(₱3,577,919)
Cost of goods sold	**(1,437,006)**	(1,765,788)
Gross profit	**(1,635,685)**	(1,812,131)
Selling and marketing expenses	**(651,056)**	(687,643)
General and administrative expenses	**(449,042)**	(527,803)
Other income	**383,669**	424,077
Income before income tax	**(151,918)**	(172,608)
Provision for income tax	**(151,918)**	(172,608)
Net income	**₱–**	₱–

Summarized financial information of URICI as of and for the years ended December 31, 2013 and 2012 follow:

	2013	2012
Current assets (includes cash amounting to ₱246.89 million and ₱133.47 million as of December 31, 2013 and 2012, respectively)	**₱1,310,596**	₱1,521,293
Noncurrent assets	**2,156,551**	2,341,223
Current liabilities (includes income tax payable amounting to ₱79.39 million and ₱54.98 million and provisions amounting to nil and ₱ 2.70 as of December 31, 2013 and 2012, respectively)	**3,071,846**	3,433,971
Noncurrent liabilities - net pension obligation	**43,241**	37,200
Revenue	**6,145,382**	7,155,838
Depreciation and amortization expense	**265,921**	214,469
Interest income	**253**	865
Interest expense	**46,915,532**	62,678,076
Provision for income tax	**303,836**	345,217
Net income	**703,891**	805,010
Other comprehensive income - remeasurement gain (loss) on net pension obligatoin	**312**	(10,048)
Total comprehensive income	**704,203**	794,962

Dividends received from URICI amounted to ₱372.06 million and ₱441.82 million for the years ended December 31, 2013 and 2012, respectively.

14. **Other Noncurrent Assets**

	2013	2012
Goodwill	**₱190,562**	₱190,562
Others	**77,898**	114,776
	₱268,460	₱305,338

Goodwill amounting to ₱190.56 million as of December 31, 2013 and 2012 pertains to the Parent Company's investment in URICI (see Note 2).

Other noncurrent assets include car loans, multi-purpose loans to employees of the Parent Company and its subsidiaries, and to OFWs referred by the agencies accredited by the Group. Loans receivables of CSFC, included in "Others", earn interest at rates ranging from 15% to 30% in 2013 and 2012. Payment for principal and interest are received in six (6) to sixty (60) equal monthly installments.

Interest income from loans receivables amounted to ₱7.22 million in 2013, ₱6.66 million in 2012 and ₱9.46 million in 2011 (see Note 25).

15. Bank Loans

This account represents the Group's proportionate share in the unsecured short-term loans of URICI from local banks and lending investors bearing effective annual interest rates within the range of 1.70% to 4.25% in 2013 and 3.40% to 5.18% in 2012 and 3.38% to 5.18% in 2011. Bank loans amounted to ₱725.00 million and ₱888.50 million as of December 31, 2013 and 2012, respectively.

Interest expense amounted to ₱23.46 million in 2013, ₱31.34 million in 2012 and ₱26.75 million in 2011 (see Note 25). Interest payable as of December 31, 2013 and 2012 amounted to ₱0.14 million and ₱0.28 million, respectively (see Note 16).

16. Accounts Payable and Accrued Liabilities

	2013	2012
Trade payables:		
Third parties	**₱1,194,003**	₱1,115,305
Related parties (Note 26)	**26**	1,041
Accrued liabilities:		
Advertisements and promotions	**373,549**	406,829
Importation	**248,139**	295,029
Profit bonus	**47,655**	73,288
Payroll	**47,279**	42,957
Freight and handling	**37,218**	58,617
Manpower services	**35,787**	76,487
Taxes	**32,273**	24,328
Merchandising charges	**12,276**	56,470

(Forward)

	2013	2012
Commission expense	**₱7,860**	₱11,510
Repairs and maintenance	**–**	13,367
Others	**309,070**	212,274
Dividends payable	**74,826**	25,714
Cash bond - distributors	**26,619**	20,741
Subscriptions payable	**6,107**	2,758
Interest payable (Notes 15 and 19)	**5,947**	14,171
Other payables	**155,575**	162,468
	₱2,614,209	₱2,613,354

Trade payables are noninterest-bearing and are generally settled on 30-60 days' terms.

Other accrued liabilities consist of accruals made for utilities, rentals and others.

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

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

17. **Customers' Deposits**

As of December 31, 2013 and 2012, customers' deposits pertain to the advances from the Parent Company's customers for future purchases amounting to ₱96.84 million and ₱79.21 million, respectively.

18. **Finance Lease Obligations**

This account consists of obligations under finance leases as follows:

	2013	2012
Total	**₱–**	₱9,192
Less current portion	**–**	7,261
Noncurrent portion	**₱–**	₱1,931

The finance lease obligations were fully settled in 2013. Interest expense incurred on finance lease obligations amounted to ₱0.89 million, ₱1.28 million and ₱1.90 million in 2013, 2012 and 2011, respectively (see Note 25).

As of December 31, 2012, machinery and equipment capitalized under finance lease have a carrying value of ₱ 20.44 million.

The aggregate future minimum payments under finance leases as of December 31, 2012 follow:

Within one year	₱7,852
Over one year up to 2014	1,963
Total minimum lease obligations	9,815
Less amounts representing interest	623
Present value of minimum lease payments	9,192
Less current portion	7,261
Noncurrent portion	₱1,931

19. **Long-term Debts**

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

	2013	2012

	2013	2012
Parent Company:		
a. Loan from a local bank, with interest on the loan the higher of (1) the sum of three months PDST-F rate plus a certain spread or (2) the BSP overnight reverse repurchase rate and principal payments payable in sixteen equal quarterly installments of ₱23.13 million starting May 29, 2014	**₱370,000**	₱–
b. Loan from a local bank with interest rate based on 3-month PDST-F plus a certain spread; payable in seventeen equal quarterly installments of ₱29,412 each starting May 12, 2012	**294,118**	411,765
c. Floating rate note facility from local banks, with principal payments payable in sixteen equal quarterly installments of ₱93,750 each starting January 27, 2012	**–**	1,125,000
ICC:		
d. Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.75%; payable in seventeen equal quarterly installments of ₱10,882 each starting October 31, 2013	**₱174,118**	₱160,000
e. Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.75%; payable in seventeen equal quarterly installments of ₱8,824 each starting March 15, 2012	**79,411**	114,706
Total	**917,647**	1,811,471
Less current portion	**265,846**	546,078
Noncurrent portion	**₱651,801**	₱1,265,393

In accordance with the loan agreements, the Group is restricted from performing certain corporate acts without the prior consent or approval of the creditors, the more significant of which relate to entering into merger or consolidation, entering into guaranty or surety of obligation and acquiring treasury stock. The Parent Company is also required to maintain certain financial ratios based on the consolidated financial statements. As of December 31, 2013 and 2012, the Group is in compliance with the terms and conditions of the loan agreements with the banks.

a. On February 12, 2013, the Parent Company availed of a loan from a local bank amounting to ₱370.00 million. The principal amount of the loan shall be paid within four years from initial drawdown date with interest on the loan the higher of (1) the sum of three months PDST-F rate plus a certain spread or (2) the BSP overnight reverse repurchase rate. The payments are to be made in sixteen (16) equal quarterly installments of ₱23.13 million each starting May 29, 2014.

b. On May 13, 2011, the Parent Company availed of an additional loan from a local bank amounting to ₱500.00 million. The principal amount of the loan shall be paid within five years from initial drawdown date with interest rate based on 3-month PDST-F plus a certain spread. The payments are to be made in seventeen (17) equal quarterly installments of ₱29.41 million each to commence at the end of the fourth quarter following the date of borrowing.

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

On January 28, 2013, through the concurrence of the leaders, the Parent Company made a partial prepayment of their floating rate notes facility amounting to ₱900.00 million. The remaining balance was paid-off until end of 2013.

d. On March 15, 2011, ICC obtained a ₱150.00 million unsecured and interest-bearing long-term debt from a local bank payable in seventeen (17) equal quarterly installments of ₱8.82 million each starting March 15, 2012. The interest rate will be based on 3-month PDST-F + 1.75% per annum subject to repricing every quarter. The proceeds of the debt were used by ICC to finance the acquisitions of new machinery and equipment, and construction of a warehouse building extension to house the newly acquired assets.

e. On October 19, 2012, ICC obtained another unsecured and interest-bearing long-term debt from the same local bank amounting to ₱185.00 million payable in seventeen (17) equal quarterly installments of ₱10.88 million starting October 31, 2013. The interest rate will be based on 3-month PDST-F + 1.75% per annum subject to repricing per quarter. Interest rates for the period October 15 to December 31, 2012 and in 2013 range from 2.69% to 4.51% and 2.69% to 3.68%, respectively. The proceeds of the loan were used to finance the acquisitions of machinery and equipment. The proceeds of the loan are to be drawn by ICC based on a committed drawdown date. As of December 31, 2013 and 2012, a total of ₱185.00 million and ₱ 160.00 million have already been drawn by ICC.

Interest expense incurred from the long-term debts amounted to ₱34.06 million, ₱82.29 million and ₱ 92.19 million in 2013, 2012 and 2011, respectively (see Note 25).

20. Provisions

Movements of the provisions for the years ended December 31, 2013 and 2012 follow:

	2013	2012
At January 1	**₱67,982**	₱52,157
Additions (Note 25)	**501**	66,100
Settlement	**(62,483)**	(50,275)
At December 31	**₱6,000**	₱67,982

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

In 2012, the Parent Company and CLIC recognized provisions for certain legal, contractual and regulatory matters and restructuring costs amounting to ₱66.10 million. Restructuring costs are mainly provisions for employee redundancy already offered or communicated to affected employees of the Group at balance sheet date.

The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

21. Equity

Capital stock

As of December 31, 2013 and 2012, the Parent Company has 3,978,265,025 authorized common stock with ₱1 par value. Issued and outstanding common shares of 3,160,403,866 are held by 3,391 stockholders as of December 31, 2013 and 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.

On August 28, 2013, the Board of Directors approved the amendment of the Article X of the Articles of Incorporation of the Parent Company removing the pre-emptive right of the stockholders on all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the Board of Directors.

Deposit for stock subscriptions

On November 28, 2013, the Board of Directors approved the proposed issuance of 340 million shares of capital stock to its existing shareholders, namely, Horizons Realty, Inc., BJS Development Corporation, Triple Eight Holdings, Inc. and RPMC Resources, Inc. at the price of ₱4.77 per share. The said shares will be issued pursuant to the equity fund raising of the Parent Company consisting of a placing and subscription transaction which will be implemented in two concurrent stages comprising of: (a) the offer and sale by the said existing shareholders not exceeding 450 million of their existing shares in the Parent Company ("the placement tranche") and (b) as part of the transaction, the subscription by the selling shareholders and the issuance by the Parent Company to the selling shareholders of unissued common shares at most in the same number and share price as the shares sold in the placement tranche ("the subscription tranche"), with such new common shares being listed as soon as practicable thereafter. In view of the foregoing, the Parent Company wrote to the SEC on December 4, 2013 requesting that the proposed issuance of the 340 million common shares be exempted from the registration requirements under the Securities Regulation Code (SRC).

The placing agreement for the placing transaction was executed by and among the Parent Company, the placing agent and the aforementioned shareholders on October 3, 2013, whereas the subscription agreement for the subscription transaction was executed between Parent Company and the shareholders on December 9, 2013.

As of December 31, 2013, the SEC has not approved the request for exemption for registration requirements under the SRC. Accordingly, the amount received for the stock subscription, net of transaction costs, in relation to the subscription tranche amounted to ₱1,599.94 million, was presented as deposit for stock subscriptions in the 2013 consolidated balance sheet.

Retained earnings

On August 28, 2013, the BOD approved the declaration of ₱0.027256 cash dividend per share or a total of ₱86.14 million to its stockholders as of September 11, 2013.

On April 30, 2013, the BOD approved the declaration of ₱0.032369 cash dividend per share or a total of ₱102.30 million to its stockholders as of May 16, 2013.

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, 2013 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 ₱53.85 million. These will only be available for declaration as dividends when these are actually received.

22. Cost of Sales and Services

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Manufacturing:			
Raw materials used and changes in inventories (Note 7)	**₱5,262,574**	₱5,733,456	₱5,677,678
Depreciation and amortization (Note 25)	**247,505**	218,633	177,111
Utilities	**240,358**	359,048	308,751
Outside services	**193,211**	295,105	247,510
Personnel costs (Notes 25, 27 and 28)	**120,037**	177,961	168,968
Repairs and maintenance	**80,921**	124,297	101,039
Direct labor	**37,013**	40,223	67,532
Provision for inventory obsolescence (Note 7)	**30,726**	36,084	–
Rental	**20,996**	44,402	27,524
Other expenses	**225,827**	193,132	243,534
	6,459,168	7,222,341	7,019,647
Services and others:			
Depreciation and amortization (Note 25)	**59,104**	4,542	7,035
Outside services	**35,381**	24,199	21,584

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Other expenses	**16,548**	19,167	9,674
	111,033	47,908	38,293
	₱6,570,201	₱7,270,249	₱7,057,940

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

23. Selling and Marketing Expenses

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Advertisements	**₱955,746**	₱999,684	₱800,930
Freight and handling	**407,621**	413,108	399,725
Outside services	**163,298**	141,428	130,739
Personnel costs (Notes 25, 27 and 28)	**101,220**	98,255	106,411
Depreciation and amortization (Note 25)	**15,307**	22,079	7,692
Rental	**10,508**	11,214	13,895
Provision for doubtful accounts (Note 34)	**27,803**	11,071	49,069
Transportation and travel	**7,877**	9,238	8,565
Other expenses (Note 31)	**80,174**	77,164	84,215
	₱1,769,554	₱1,783,241	₱1,601,241

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

24. General and Administrative Expenses

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Personnel costs (Notes 25, 27 and 28)	**₱324,705**	₱347,366	₱306,013
Outside services	**248,006**	252,233	233,386
Taxes and licenses	**51,680**	47,195	36,954
Royalty and service fees	**32,693**	104,928	80,943
Utilities	**25,026**	27,749	24,450
Depreciation and amortization (Note 25)	**24,381**	70,341	59,776
Provision for doubtful accounts (Note 34)	–	66,158	3,215
Repairs and maintenance	**20,335**	17,081	15,558
Director's fees	**16,878**	19,423	15,536
Transportation and travel	**16,657**	22,319	17,819
Other expenses	**130,500**	90,614	97,379
	₱890,861	₱1,065,407	₱891,029

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

25. **Additional Information on Income and Expense Accounts**

Personnel Costs

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Salaries and wages	**₱499,788**	₱552,751	₱520,599
Pension benefits costs (Note 27)	**29,071**	29,051	22,577
Other employee benefits (Note 28)	**17,103**	82,003	105,748
	₱545,962	₱663,805	₱648,924

The distribution of the above amounts follows:

	2013	2012	2011
Cost of sales and services (Note 22)	**₱120,037**	₱218,184	₱236,500
Selling and marketing expenses (Note 23)	**101,220**	98,255	106,411
General and administrative expenses (Note 24)	**324,705**	347,366	306,013
	₱545,962	₱663,805	₱648,924

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

	2013	2012	2011
Cost of sales and services (Note 22)	**₱306,609**	₱223,175	₱184,146
Selling and marketing expenses (Note 23)	**15,307**	22,079	7,692
General and administrative expenses (Note 24)	**24,381**	70,341	59,776
	₱346,297	₱315,595	₱251,614

Interest and Financing Income

	2013	2012	2011
Interest income on loans receivables (Note 14)	**₱7,218**	₱6,662	₱9,455
Interest income on cash and cash equivalents (Note 5)	**10,571**	15,414	8,226
	₱17,789	₱22,076	₱17,681

Interest Expense

	2013	2012	2011
Interest expense on long-term debts (Note 19)	**₱34,055**	₱82,290	₱92,194
Interest expense on bank loans (Note 15)	**23,458**	31,339	26,748
Interest expense on finance lease obligations (Note 18)	**887**	1,278	1,900
Interest expense on trust receipts payable	**–**	–	4,310
Others	**4,315**	2,461	3,620
	₱62,715	₱117,368	₱128,772

Other Income (Charges)

	2013	2012	2011
Other income:			
Equity in net earnings of an associate	**₱11,935**	₱11,172	₱12,451
Foreign exchange gain – net	**7,130**	9,141	–
Reversal of impairment loss on property and equipment (Note 9)	**5,243**	–	–

	2013	2012	2011
Income from toll processing	**247**	672	451
Realized mark-to-market gain	**–**	1,732	5,952
Dividend income (Note 11)	**–**	825	552
Gain on sale of property and equipment	**–**	708	1,649
Unrealized mark-to-market gain (Note 34)		–	4,943
Others	**15,812**	43,694	26,071
	40,367	67,944	52,069
Other charges:			
Loss on sale of property and equipment	**(10,113)**	–	–
Foreign exchange loss - net	**(8,241)**	–	(128)
Provisions for probable losses (Note 20)	**(501)**	(66,100)	(50,000)
Impairment loss on property and equipment (Note 9)	**–**	(5,243)	–
	(18,855)	(71,343)	(50,128)
	₱21,512	(₱3,399)	₱1,941

26. 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 December 31, 2013 and 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 non-interest-bearing and collectible/payable on demand.

Significant related party transactions with nonconsolidated entities are as follows:

a. The following are the outstanding trade receivables from related parties:

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions
Entities under common major shareholder group					
Swift Foods, Inc.	Sale of pollard	**2013**	**₱–**	**₱6,592**	Non-interest-bearing, collectible in 60 days.
		2012	612	7,157	unsecured, unimpaired
Food Cart Concepts, Inc. / Kettle Foods Corporation	Sale of flour	**2013**	–	–	Interest-bearing, collectible in 60 days. Unsecured, partially
		2012	168	4,322	impaired.
Philtown Properties, Inc.	Interest income	**2013**	**–**	**–**	Unsecured and impaired
		2012	2,288	1,165	
Bevco Philippines, Inc.	Sale of goods	**2013**	**–**	**–**	Non-interest-bearing, collectible in 60 days.
		2012	166	166	unsecured, unimpaired
Joey Pepperoni Pizzeria	- do -	**2013**	–	**3,652**	Non-interest bearing, collectible in 60 days.
		2012	**–**	**–**	Unsecured, unimpaired
RFM Foundation, Inc.	- do -	**2013**	**–**	**60**	Non-interest bearing, Unsecured, partially.
		2012	**–**	**–**	Impaired

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions
Philippine Center for Entrepreneurship	- do -	**2013**	**–**	**139**	Non-interest bearing, collectible in 60 days.
			–	**–**	Unsecured, unimpaired
Others	- do -		–	**3,956**	Non-interest bearing, collectible in 60 days.
		2012	–	1,883	Unsecured, unimpaired
Subtotal		**2013**		**14,399**	
		2012		14,693	
Less: Allowance for doubtful accounts		**2013**		–	
		2012		6,721	
Total		**2013**		**₱14,399**	
Total		2012		₱7,972	

b. The following are the outstanding advances to related parties:

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions
Joint Venturer					
Unilever Philippines, Inc. (Parent)	Advances to URICI	**2013**	**₱–**	**₱1,383**	Non-interest-bearing, collectible in 60 days.
		2012	–	3,092	Unsecured, unimpaired
Unilever Group	- do -	**2013**	**–**	**4,947**	- do -
		2012	–	2,101	

(Forward)

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions
nilever NV (Netherlands)	- do -	**2013**	**₱–**	**₱11,893**	- do -
		2012	–	120	
Entities under common major shareholder group					
Philtown Properties, Inc.	Advances	**2013**	**₱–**	**₱128,973**	Non-interest-bearing, Secured, partially Impaired
		2012	–	153,006	
Asia Foods Franchising Corporation	- do -	**2013**	–	**–**	Non-interest bearing,
		2012	–	109,890	Unsecured, impaired
RFM Foundation	- do -	**2013**	**4,810**	**4,810**	Non-interest-bearing, Unsecured, partially
		2012	7,903	7,903	Impaired
Swift Foods, Inc.	- do -	**2013**	**64**	**64**	Non-interest-bearing, Unsecured, partially
		2012	36	36	Impaired
Others	- do -	**2013**	–	–	Non-interest-bearing, Unsecured, partially
		2012	–	620	Impaired
Subtotal		**2013**		**152,070**	
		2012		276,768	
Less: Allowance for doubtful accounts		**2013**		**12,055**	
		2012		187,516	
Total		**2013**		**₱140,015**	
Total		2012		₱89,252	

c. The following are the advances from related parties as follows:

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions
Joint Venturer					
Unilever Group	Advances from URICI	**2013**	**₱23,310**	**₱23,581**	Non-interest bearing, collectible in 60 days.
		2012	26,165	26,485	Unsecured.
Unilever Philippines, Inc. (Parent)	- do -	**2013**	**1,174**	**12,541**	- do -
		2012	360	3,994	
Unilever NV (Netherlands)	- do -	**2013**	–	**605**	- do -
		2012	–	350	
(Forward)					
Entities under common major shareholder group					
Philtown Properties, Inc.	Advances	**2013**	**₱–**	**₱23,993**	Unsecured
		2012	–	23,993	
Swift Foods, Inc.	- do -	**2013**	–	–	- do -
		2012	–	50	
PT Aqua	- do -	**2013**	–	**17,514**	- do -
		2012	–	–	
Others	- do -	**2013**	–	**10,248**	- do -
		2012	–	14,905	
Total		**2013**		**₱88,482**	
Total		2012		₱69,777	

d. The following are the outstanding trade payables to related parties:

Related Parties	Nature	Year	Transactions during the Year Ended December 31	Outstanding Balance as of December 31	Terms and Conditions

Entities under common major shareholder group					
Republic Consolidated Corporation	Purchase of services	**2013**	**₱–**	**₱26**	Interest-bearing, collectible in 60 days
		2012	1,041	1,041	Unsecured

e. The Group has long outstanding receivables from the shareholders of Invest Asia amounting to ₱373.90 million as of December 31, 2013 and 2012 which are fully provided.

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		
	2013	2012	2011	**2013**	2012	2011
Parent Company	**₱102,781**	₱199,503	₱163,334	**₱237,425**	₱454,372	₱353,410
ICC	**143,475**	414,236	321,343	**260,999**	199,503	163,334
RLC	**35,608**	40,136	32,067	–	–	–

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. On January 1, 2011, the monthly fee was increased to ₱2.50 million. Total service income amounted to ₱15 million, ₱30.00 million and ₱30.00 million in 2013, 2012 and 2011, respectively.

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. Rental income amounted to ₱11.40 million, ₱28.41 million and ₱28.00 million in 2013, 2012 and 2011, respectively. Net payable to ICC amounted to ₱29.72 million as of December 31, 2012. Net receivable from ICC amounted to ₱26.04 million as of December 31, 2011.

c. The Parent Company utilizes RLC for its lighterage requirements. Service fee to RLC amounted to ₱35.61 million in 2013, ₱40.14 million in 2012 and ₱32.07 million in 2011. Deposits on purchases amounted to ₱ 15.96 as of December 31, 2012 and accounts payable amounted to ₱1.23 million as of December 31, 2011.

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. Total interest earned by the Parent Company amounted to ₱8.95 million in 2013, ₱25.75 million in 2012 and ₱82.12 million in 2011.

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. Service fees amounted to ₱20.82 million, ₱25.87 million and ₱5.63 million for the years ended December 31, 2013, 2012 and 2011, respectively.

f. Management services of the Parent Company to RIBI wherein RIBI pays the Parent Company a yearly management fee equivalent to 5% of income before income tax or a fixed amount based on the level of net sales, whichever is higher. Management fee for the years ended December 31, 2013, 2012 and 2011 amounted to ₱0.38 million, ₱0.50 million and ₱0.50 million, respectively.

Compensation of key management personnel of the Group by benefit type follows:

	2013	2012	2011
Salaries and other short-term benefits	**₱85,814**	₱79,652	₱72,020
Proportionate share in share-based compensation of URICI	**7,736**	562	883
Pension benefits costs	**15,027**	11,123	5,813

	₱108,577	₱91,337	₱78,716

27. Pension Benefits

The Parent Company, joint venture and certain subsidiaries have funded, noncontributory defined benefits pension plans (the Plans) covering substantially all their permanent employees.

a. Pension Benefits Costs

The components of pension benefits costs recognized in the consolidated statements of income for the years ended December 31 follow:

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Current service cost	**₱29,002**	₱24,098	₱18,542
Net interest cost	**69**	4,953	4,035
Pension benefits costs	**₱29,071**	₱29,051	₱22,577

b. Net Pension Obligation

The details of the net pension obligation and the amounts recognized in the consolidated balance sheets as of December 31, 2013 and 2012 follow:

	2013	2012
Defined benefits obligation	**₱412,670**	₱406,609
Fair value of plan assets	**(366,675)**	(397,187)
	45,995	9,422
Unrecognized asset due to asset ceiling limit	**–**	18,726
Net pension obligation	**₱45,995**	₱28,148

Changes in the present value of the defined benefit obligations follow:

	2013	2012
January 1	**₱406,609**	₱395,269
Interest cost	**20,144**	24,467
Current service cost	**29,002**	24,098
Remeasurement loss (gain)	**39,584**	(20,356)
Benefits paid	**(82,669)**	(16,869)
December 31	**₱412,670**	₱406,609

Changes in the fair value of plan assets follow:

	2013	2012
January 1	**₱397,187**	₱291,433
Contributions	**15,557**	39,108
Asset return included in net interest cost	**20,075**	19,514
Benefits paid	**(55,941)**	(2,805)
Remeasurement gain (loss)	**(10,203)**	49,937
December 31	**₱366,675**	₱397,187

Breakdown of the plan assets follow:

	2013	2012
Investments in:		
Unit investment trust fund	**₱95,305**	₱52,634
Corporate bonds	**81,645**	84,357
Equity securities	**45,313**	44,202

Real estate	**10,661**	11,578
Government bonds	**41,166**	54,121
Cash and cash equivalents	**69,537**	112,649
Others	**24,000**	38,613
	367,627	398,154
Less: Payables	**(952)**	(967)
	₱366,675	**₱397,187**

Investments in the shares of stock of the Parent Company held by the Parent Company's retirement fund have fair values amounting to ₱33.80 million and ₱35.02 million as of December 31, 2013 and 2012, respectively. Gain on sale of the shares of stock of the Parent Company amounted to ₱23.17 million in 2013.

As of December 31, 2013, 2012 and 2011, the principal assumptions used in determining the defined benefit obligations of the Group follow:

	December 31		
	2013	2012	2011
Discount rate per annum	**4.9% to 5.5%**	5% to 6%	6% to 8%
Future annual increase in salary rate	**5% to 8%**	5% to 6%	6% to 7%

The following are expected payments to be made out of the defined benefit plan obligation in the future years:

	2013	2012
One year and less	**₱11,102**	₱10,932
Between 1 and 5 years	**154,748**	140,918
Between 5 and 10 years	**263,546**	133,183
Between 10 and 15 years	**241,589**	388,969
Between 15 and 20 years	**150,626**	211,953
Beyond 20 years	**371,420**	416,320
Total expected payments	**₱1,193,031**	₱1,302,275

The average duration of the defined benefit plan obligations as of December 31, 2013 ranges from 16-22 years.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming if all other assumptions were held constant:

	Discount rate		Future salary increases	
Sensitivity level	1.0% increase	1.0% decrease	1.0% increase	1.0% decrease
Impact on the defined benefit obligation	(30,805)	36,335	29,690	(25,270)

28. **Share-based Compensation Plan**

URICI has the following share-based compensation plans, wherein key management of URICI are participating in the following share options and purchase plans of Unilever N.V. (NV) and Unilever PLC (PLC).

Global Share Incentive Plan (GSIP)
Under the GSIP, annual awards of shares in NV and PLC are granted to executive directors along with other senior employees. The actual number of shares received at vesting after three years depends on the satisfaction of performance conditions linked to improvements in URICI's performance.

The vesting share will be conditional on the achievement of three distinct performance conditions over the performance period. The performance period is a 3-year calendar period. These are: (a) vesting of 40% of the shares in the award is based on a condition measuring URICI's relative total shareholder return; (b) vesting of a further 30% of the shares in the award is conditional on average underlying sales growth performance over the three-year period; and (c) the vesting of the final 30% of the shares in the award is conditional on cumulative ungeared free cash flow performance which is the basic driver of returns URICI is able

to generate to its stockholders.

Management Co-Investment Plan (MCIP)
The Management Co-Investment Plan further enhances alignment with shareholder's interest. Under the MCIP, key executives can elect to invest up to 60% of their annual bonus in Unilever NV and PLC shares (Investment Shares). These are then matched with an equivalent number of shares.

The matching shares will vest in 3 years at 0% to 200% depending on Unilever's achievement of the vesting conditions. The vesting conditions are: (1) Underlying Sales Growth, (2) Average Underlying Operating Margin and (3) Cumulative Operating Cash Flow.

During the vesting period, the match shares can earn dividend equivalents. These dividend shares are re-invested as additional MCIP target shares.

Share-based compensation plan recognized in equity consist of MCIP amounting to ₱0.31 million and ₱0.36 million as of December 31, 2013 and 2012, respectively.

Share-based compensation expense relating to key executives that transferred employment within the Unilever Group entities (including URICI) are recognized in the entity where the services have been rendered. Share-based compensation expense in relation to these key executives are recognized by URICI within personnel costs in the consolidated statement of income.

In 2013 and 2012, NV and PLC charged URICI an amount equal to the fair value at grant date of the share options provided by URICI under GSIP and MCIP share-based plans. As a result, the related amounts of share options under share-based compensation reserve in the consolidated statement of changes in equity were transferred to due to related parties in the consolidated balance sheet.

For the year ended December 31, 2013, total recharge from NV and PLC based on the foregoing discussions amounted to ₱2.60 million. Out of this amount, ₱0.60 million was credited to share-based compensation reserve in the statement of changes in equity and ₱2.60 million was credited to due to related parties.

For the year ended December 31, 2012, total recharge from NV and PLC based on the foregoing discussions amounted to ₱0.55 million. Out of this amount, ₱0.20 million was charged to share-based compensation reserve in the statement of changes in equity and ₱0.35 million was credited to due to related parties.

As at December 31, 2013 and 2012, the exercise price is generally equal to the market price at the date of grant.

The summary of the status and changes on the GSIP and MCIP as of and for the years ended December 31 is as follows:

GSIP

	2013		2012	
	Unilever NV Shares		Unilever NV Shares	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	**1,180**	**₱24.05**	1,978	₱18.34
Grant	**1,719**	**26.93**	654	20.00
Lapsed	**–**	**–**	–	–
Released	**(705)**	**(23.57)**	(1,452)	(16.71)
Outstanding at December 31	**2,194**	**₱28.65**	1,180	₱24.05
Fair value per share award during the year in Euro/Pound [(a) (b)]	**£28.9 1**		£25.0 2	
Fair value per share award during the year in Peso	**₱1,569**		₱1,408	

[(a)] *Weighted average of share awards granted during the year.*
[(b)] *Estimated based on par achievement target.*

MCIP

	2013		2012	
	Unilever NV Shares		Unilever NV Shares	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1	**765**	**£22.91**	765	£22.91
Grant	**952**	**26.24**	–	–
Vested	**(578)**	**27.40**		
Outstanding at December 31	**1,139**	**£25.64**	765	£22.91
Fair value per share award during the year in Euro/Pound [(a)]	**28.91**	–		–
Fair value per share award during the year in Peso	**1,569**	–		–

(a) Weighted average of share awards granted during the year.

29. **Income Taxes**

a. The details of the Group's net deferred income taxes per company follows:

	December 31, 2013		December 31, 2012	
	Net deferred income tax assets	Net deferred income tax liabilities	Net deferred income tax assets	Net deferred income tax liabilities
Parent Company	**₱–**	**(₱474,996)**	₱–	(₱177,224)
CLIC	–	**(29,552)**	–	(19,186)
URICI	**76,159**	**–**	82,859	–
RIBI	**3,613**	**–**	**–**	**–**
ICC	**2,845**	**–**	3,239	–
Others	**105**	**(169)**	2,280	–
	₱82,722	**(₱504,717)**	₱88,378	(₱196,410)

b. The components of the Group's net deferred income tax liabilities follow:

	2013	2012
Deferred income tax assets on:		
Accrual of advertising and promotions	**₱53,959**	₱57,728
Doubtful accounts and probable losses	**24,575**	29,033
Accrual of employee benefits	**18,968**	23,427
Net pension obligation	**10,366**	1,931
Cumulative actuarial loss on defined benefit plan	**2,766**	–
Inventory losses and obsolescence	**6,472**	9,099
Provision for probable losses	**–**	18,030
Others	**12,687**	2,102
Total deferred income tax assets	**129,793**	141,350

(Forward)

	2013	2012
Deferred income tax liabilities on:		
Revaluation increment on land	**(₱551,291)**	(₱243,832)
Capitalized interest expense	**(314)**	–
Accrued rental	**(132)**	–
Unrealized foreign exchange gains	**(14)**	–
Cumulative actuarial gain on defined benefit plan	–	(1,294)
Others	**(36)**	–
Total deferred income tax liabilities	**(551,787)**	(245,126)
Net deferred income tax liabilities	**(₱421,994)**	(₱103,776)

c. Deferred income tax assets have not been recognized by the individual subsidiaries in the Group to which these deductible temporary differences, carryforward benefits of NOLCO and excess of MCIT over RCIT relate because they do not expect availability of taxable income to realize the benefits:

	2013	2012
Allowances for:		
Doubtful accounts	**₱919,382**	₱797,249
Inventory obsolescence	**144,092**	121,040
Losses on prepayments	**33,649**	33,649
Impairment losses on property, plant and equipment	**20,356**	21,296
Unamortized past service cost	**–**	55,444
Accrual and advertising promotions	**–**	52,000
NOLCO	**68,423**	53,593
Net pension obligation	**11,557**	21,711
Excess MCIT	**310**	335
Unrealized foreign exchange loss	**–**	337

NOLCO:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2010	₱16,752	(₱16,752)	₱–	2013
2011	13,656	–	13,656	2014
2012	23,185	–	23,185	2015
2013	12,463	–	12,463	2016
	₱66,056	(₱16,752)	₱49,304	

Excess MCIT:

Inception Year	Amount	Applied/Expired	Balance	Expiry Year
2010	₱97	(₱97)	₱–	2013
2011	127	–	127	2014
2012	111	–	111	2015
2013	72	–	72	2016
	₱407	(₱97)	₱310	

d. A reconciliation of income tax computed at the statutory income tax rate to the provision for income tax follows:

	2013	**2012**	2011
Provision for income tax at the statutory income tax rate	**₱427,869**	₱283,039	₱214,456
Additions to (reductions in) income tax resulting from:			
Equity in net earnings of an associate	–	(3,352)	(3,735)
Dividend income exempted from income tax	**(124,161)**	–	–
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized in the previous years but applied and utilized in the current year	**(62,396)**	(221,864)	(15,674)
Interest income subjected to final tax	**(3,913)**	(4,624)	(2,468)
Nontaxable financing income	**(2,373)**	–	–
Nondeductible portion of interest expense	**1,956**	1,393	748
Nondeductible impairment of AFS financial assets	**921**	163,758	–
Nontaxable gain on sale of investments	**(24)**	–	–
Nondeductible expenses	**2,848**	–	–
NOLCO	**(249)**	–	–
MCIT	**67**	–	–
Gain on redemption on AFS financial assets	**(1,794)**	–	–
Others	**(8,297)**	42,841	13,222
Provision for income tax	**₱230,454**	₱261,191	₱206,549

30. Sale of "Swift" Trademark

On October 16, 2012, the Parent Company entered into a Trademark and Asset Purchase Agreement with Pacific Meat Company, Inc. (PMCI), the meat subsidiary of the Century Canning Group, on the sale of the Swift trademark and certain machinery and equipment. The agreement covers the sale of the Swift brand at ₱600 million, specific processed meat equipment at ₱50 million, and certain raw materials and finished product inventories at ₱170 million. The transaction was effected on November 16, 2012. Gain on this transaction, reported in the 2012 statement of income, amounted to ₱600 million, particularly from the sale of the trademark.

Raw materials and finished goods inventories were purchased by PMCI on a per purchase order basis from November 16, 2012 and during the first quarter of 2013.

31. Commitments

a. The Parent Company entered into license agreements with Sunkist Growers, Inc., Rovio Entertainment Ltd., and Turner Broadcasting System Asia Pacific, Inc. whereby the licensors granted the Company the non-exclusive license to manufacture, market, distribute and sell the licensed products. The Company agreed to pay a fixed amount of royalty every year, as stipulated in the agreeements. Royalty expense lodged under selling and marketing expenses amounted to ₱21.72 million and ₱10.64 million in 2013 and 2012, respectively. Unpaid royalty, included under "Other accrued liabilities" account, amounted to ₱1.94 million and ₱1.91 million as of December 31, 2013 and 2012, respectively (see Note 18).

b. The Parent Company entered into distribution agreements with Dole Philippines, Inc. (Dole) and Marca Piña

Corporation (Marca Piña) whereby Dole and Marca Piña appointed the Parent Company as their distributor of their products. The agreement with Dole commenced on May 1, 2013 and shall expire on April 30, 2014 and the agreement with Marca Piña commenced on April 15, 2013 and shall expire on December 31, 2013. Both agreements are renewable at the option of both parties.

32. Earnings Per Share

	2013	2012 (As Restated - Note 2)	2011 (As Restated - Note 2)
Net income attributable to equity holders of the Parent Company (a)	**₱787,889**	₱676,105	₱505,039
Weighted average number of common shares outstanding (b)	**3,160,403,866**	3,160,403,866	3,160,403,866
Basic/diluted earnings per share (a/b)	**₱0.249**	₱0.214	₱0.160

The Group does not have potentially dilutive common shares in 2013, 2012 and 2011. Therefore, the basic/dilutive earnings per share are the same.

33. Financial Instruments

The following summarizes the carrying values of the Group's financial instruments as of December 31:

	2013	**2012**
Financial Assets		
Loans and receivables:		
Cash in banks and cash equivalents	₱2,739,042	**₱1,421,992**
Trade receivables:		
Manufacturing	2,332,682	**2,305,387**
Services and others	10,406	**38,191**
Advances to related parties	129,825	**89,252**
Other current receivables	33,165	**262,917**
Other current assets	4,601	**80,741**
	5,249,721	**4,198,480**
(Forward)		
AFS financial assets:		
Unquoted:		
Redeemable preferred shares	₱307,447	**₱307,447**
Common shares	8,396	**5,003**
Quoted common and golf shares	150	**17,255**
	315,993	**329,705**
	₱5,565,714	**₱4,528,185**
Financial Liabilities		
Other financial liabilities:		
Bank loans	₱725,000	**₱888,500**
Accounts payable and accrued liabilities	2,787,022	**2,451,464**
Advances from related parties	169,953	**69,777**
Long-term debts and obligations	917,647	**1,820,663**
	4,599,622	**5,230,404**
	₱4,599,622	**₱5,230,404**

Due to the short-term maturities and demand feature, the carrying amounts of cash and cash equivalents, accounts receivable, advances to related parties, other current assets and receivables, bank loans, accounts payable and accrued liabilities and advances from related parties approximate their fair values.

The fair value of quoted AFS financial assets has been determined by reference to quoted market prices at the

close of business as of December 31, 2012 (Level 1 - quoted prices in active markets).

The carrying value of the long-term debts approximates fair value due to quarterly interest repricing.

Derivative Instruments

Forward Contracts
For the years ended December 31, 2013 and 2012, URICI, through its Central Treasury Department, entered into forward foreign exchange contracts as a hedge against foreign currency denominated liabilities and commitments. These forward foreign exchange contracts are expected to be settled within one month from the balance sheet date.

URICI's forward foreign exchange contracts outstanding as of December 31, 2013 and 2012 follow:

	2013	2012
Receivable leg	**₱13,138**	₱29,492
Payable leg	**(13,287)**	(29,235)
Fair value	**(₱149)**	₱257
Notional principal amount in USD	**$299**	$712

As at and for the years ended December 31, 2013 and 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.

34. **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 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 and foreign exchange risk.

Credit risk
Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. 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 accounts receivable (such as cash and cash equivalents and AFS financial assets), the Group's exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments.

The maximum exposures to credit risk as of December 31, 2013 and 2012 for the components of the consolidated balance sheets before the effect of mitigation through the use of master netting and collateral agreements follow:

	2013	2012
Loans and receivables:		
Cash in banks and cash equivalents	**₱2,739,042**	₱1,421,992

Trade receivables:		
Manufacturing	**2,332,682**	2,305,387
Services and others	**10,406**	38,191
Advances to related parties	**129,825**	89,252
Other current receivables	**33,165**	262,917
Other current assets	**4,601**	80,741
	₱5,249,721	₱4,198,480

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The credit quality of financial assets is managed by the Group using internal credit ratings. The credit quality by class, of neither past due nor impaired financial assets as of December 31, 2013 and 2012, based on the Group's credit rating system follows:

As of December 31, 2013:

	Neither past due nor impaired		**Past due but not Impaired**	**Past due and Individually Impaired**	**Total**
	Excellent	**Good**			
Loans and receivables:					
Cash in banks and cash equivalents	**₱2,739**	**₱–**	**₱–**	**₱–**	**₱2,739**
Trade receivables:					
Manufacturing	**522,153**	**546,896**	**1,255,006**	**189,404**	**2,513,459**
Services and others	**175,441**	**1,754,965**	**2,375**	**751,452**	**2,684,233**
Advances to related parties	**139,992**	**24**	**–**	**–**	**140,015**
Other current receivables	**23,519**	**9,646**	**–**	**–**	**33,165**
Other current assets	**214,788**	**–**	**–**	**–**	**214,788**
	₱1,078,632	**₱2,311,530**	**₱1,257,380**	**₱940,856**	**₱5,588,788**

As of December 31, 2012:

	Neither past due nor impaired		Past due but not Impaired	Past due and Individually Impaired	Total
	Excellent	Good			
Loans and receivables:					
Cash in banks and cash equivalents	₱1,421,992	₱–	₱–	₱–	₱1,421,992
Trade receivables:					
Manufacturing	359,327	317,782	1,628,278	187,126	2,492,513
Services and others	9,660	28,531	–	398,330	436,521
Advances to related parties	–	89,252	–	187,516	276,768
Other current receivables	9,550	246,024	7,343	121,054	383,971
Other current assets	80,741	–	–	–	80,741
	₱1,881,270	₱681,589	₱1,635,621	₱894,026	₱5,092,506

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

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

The aging analysis of past due but not impaired financial assets as of December 31, 2013 and 2012 follows:

As of December 31, 2013:

	Past due but not impaired					
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 365 days**	**More than 365 days**	**Total**
Loans and receivables:						
Trade receivables	**₱194,485**	**₱268,226**	**₱163,069**	**₱49,447**	**₱580,148**	**₱1,255,375**
Other current receivables	**1,802**	**–**	**139**	**–**	**64**	**2,005**
	₱196,287	**₱268,226**	**₱163,208**	**₱49,447**	**₱580,212**	**₱1,257,380**

As of December 31, 2012:

	Past due but not impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 365 days	More than 365 days	Total
Loans and receivables:						
Trade receivables	₱515,141	₱503,194	₱117,955	₱117,140	₱374,848	₱1,628,278
Other current receivables	7,343	–	–	–	–	7,343
	₱522,484	₱503,194	₱117,955	₱117,140	₱374,848	₱1,635,621

Reconciliation of the allowance for doubtful accounts for loans and receivables by class follows:

As of December 31, 2013:

	January 1, 2013	**Charges for the year**	**Write-offs**	**Reclassification**	**Reversals**	**December 31,**
Trade receivables :						
Manufacturing	**₱187,126**	**₱12,947**	**(₱19,158)**	**₱–**	**₱–**	**₱180**
Services and others	**398,330**	**10,211**	**(259,906)**	**–**	**–**	**14**
Advances to related parties	**187,516**	**–**	**(175,461)**	**–**	**–**	**1**
Other current receivables	**121,054**	**–**	**(111,927)**	**–**	**–**	
	₱894,026	**₱23,158**	**(₱566,452)**	**₱–**	**₱-**	**₱350**
Individual impairment	**₱874,160**	**₱17,424**	**(₱560,516)**	**₱–**	**₱-**	**₱331**
Collective impairment	**19,866**	**5,734**	**(5,936)**	**–**	**–**	**1**
	₱894,026	**₱23,158**	**(₱566,452)**	**₱–**	**₱-**	**₱350**

As of December 31, 2012:

	January 1, 2012	Charges for the year	Write-offs	Reclassification	Reversals	December 31,
Trade receivables :						
Manufacturing	₱369,086	₱47,474	(₱189,510)	(₱2,781)	(₱37,143)	₱187
Services and others	391,405	6,925	–	–	–	39
Advances to related parties	711,250	20,400	(546,915)	2,781	–	187
Other current receivables	118,624	2,430	–	–	–	12
	₱1,590,365	₱77,229	(₱736,425)	₱–	(₱37,143)	₱894
Individual impairment	₱1,569,880	₱73,000	(₱731,577)	₱–	(₱37,143)	₱874
Collective impairment	20,485	4,229	(4,848)	–	–	1
	₱1,590,365	₱77,229	(₱736,425)	₱–	(₱37,143)	₱894

Liquidity risk

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

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

The following tables show the maturity profile of the Group's undiscounted cash flows from financial assets used for liquidity purposes and other financial liabilities as of December 31, 2013 and 2012.

As of December 31, 2013:

	Less than 1 year	**1 to less than 2 years**	**2 to less than 3 years**	**3 to less than 4 years**	**4 to less than 5 years**	**More than 5 years**	**Total**
Financial Assets							
Cash on hand	**₱146,176**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱146,176**

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Cash in banks and cash equivalents	**2,739,042**	**–**	**–**	**–**	**–**	**–**	**2,739,042**
Trade receivables:							
Manufacturing	**681,128**	**1,637,941**	**–**	**–**	**–**	**–**	**2,319,069**
Service	**38,418**	**–**	**–**	**–**	**–**	**–**	**38,418**
Advances to related parties	**1,801**	**–**	**–**	**–**	**–**	**–**	**1,801**
Other current receivables	**2,650**	**–**	**–**	**–**	**–**	**–**	**2,650**
Other current assets	**94,976**	**–**	**–**	**–**	**–**	**–**	**94,976**
	₱3,704,191	**₱1,637,941**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,342,132**
Financial Liabilities							
Bank loans	**₱725,000**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱725,000**
Accounts payable and accrued liabilities*	**2,659,967**	**–**	**–**	**–**	**–**	**–**	**2,659,967**
Advances from related parties	**88,482**	**–**	**–**	**–**	**–**	**–**	**88,482**
Customers' deposits	**96,846**	**–**	**–**	**–**	**–**	**–**	**96,846**
Long-term debts and obligations, including current maturities**	**266,336**	**275,714**	**274,770**	**84,236**	**14,181**	**–**	**915,237**
	₱3,836,631	**₱275,714**	**₱274,770**	**₱84,236**	**₱14,181**	**₱–**	**₱4,485,532**

**Excluding payable to government agencies of ₱45,758.*
***Inclusive of interest expense until maturity.*

As of December 31, 2012:

	Less than 1 year	1 to less than 2 years	2 to less than 3 years	3 to less than 4 years	4 to less than 5 years	More than 5 years	Total
Financial Assets							
Cash on hand	₱52,721	₱–	₱–	₱–	₱–	₱–	₱52,721
Cash in banks and cash equivalents	1,421,992	–	–	–	–	–	1,421,992
Trade receivables:							
Manufacturing	677,109	1,628,278	–	–	–	–	2,305,387
Service	38,191	–	–	–	–	–	38,191
Advances to related parties	89,252	–	–	–	–	–	89,252
Other current receivables	262,917	–	–	–	–	–	262,917
Other current assets	80,741	–	–	–	–	–	80,741
	₱2,622,923	₱1,628,278	₱–	₱–	₱–	₱–	₱4,251,201
Financial Liabilities							
Bank loans	₱888,500	₱–	₱–	₱–	₱–	₱–	₱888,500
Accounts payable and accrued liabilities*	2,451,464	–	–	–	–	–	2,451,464
Advances from related parties	69,777	–	–	–	–	–	69,777
Customers' deposits	79,208	–	–	–	–	–	79,208
Long-term debts and obligations, including current maturities**	553,930	573,434	571,471	175,196	34,506	–	1,908,537
	₱4,042,879	₱573,434	₱571,471	₱175,196	₱34,506	₱–	₱5,397,486

**Excluding payable to government agencies of ₱161,890.*
***Inclusive of interest expense until maturity.*

Refer to Notes 15, 18 and 19 for the interest rate profile of bank loans, long-term obligations and debts, respectively.

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 by 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.

The sensitivity to a reasonably possible change in interest rates on the Group's short-term and long-term debts and obligations, with all other variables held constant of the Group's income before income tax for the years ended December 31, 2013 and 2012 follows:

December 31, 2013:

	Change in interest rates (in basis points*)			
	107bp rise	**143bp rise**	**107bp fall**	**143bp fall**
Effect on income before income tax	**₱9,841**	**₱13,152**	**(₱9,841)**	**(₱13,152)**

**1 basis point is equivalent to 0.01%.*

December 31, 2012:

	Change in interest rates (in basis points*)			
	107bp rise	143bp rise	107bp fall	143bp fall
Effect on income before income tax	(₱20,421)	(₱27,292)	₱20,421	₱27,292

**1 basis point is equivalent to 0.01%.*

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

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

Foreign exchange risk

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

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2013 and 2012.

A reasonably possible change of –/+ 4% in 2013 and –/+ 0.96% in 2012 in United States dollar (US$) exchange rate at December 31, 2013 and 2012 would lead to the following income before income tax movements in the Group's consolidated statements of income:

December 31, 2013:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	**US dollar weakened by 0.52% against Philippine peso**	**US dollar strengthened by 0.52% against Philippine peso**
Cash and cash equivalents	**₱442**	**(₱23)**	**₱23**
Trade receivables	**58**	**(3)**	**3**
Advances to related parties	**1,760**	**(92)**	**92**
Accounts payable	**(1,337)**	**70**	**(70)**
Advances from related parties	**(2,279)**	**119**	**(119)**
	(₱1,356)	**₱71**	**(₱71)**

December 31, 2012:

		Increase (decrease) in income before income tax	
	Peso equivalent of US dollar denominated assets/liabilities	US dollar weakened by 0.96% against Philippine peso	US dollar strengthened by 0.96% against Philippine peso
Cash and cash equivalents	₱10,228	(₱10)	₱10
Trade receivables	15,437	(15)	15
Advances to related parties	2,842	(3)	3
Other assets	97	(0)	0
Accounts payable	(40,352)	39	(39)
Advances from related parties	(22,842)	22	(22)
	(₱34,590)	₱33	(₱33)

The exchange rate of the Peso to the US Dollar is ₱44.40 and ₱41.05 as of December 31, 2013 and 2012, respectively.

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

35. Fair Value Measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2013:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
AFS investments in unquoted redeemable preferred shares in Philtown	December 31, 20	₱307,447	₱–	₱–	₱307,447
Property, plant and equipment at appraised value	December 31, 2013	2,564,222	–	–	2,564,222
Asset for which fair value is disclosed					
Investment properties	December 31, 20	92,120	–	–	92,120

In 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

AFS investments in Philtown preferred shares
In light of the changing business model of Philtown, the Parent Company performed an impairment testing of its AFS financial assets in Philtown by estimating their fair value using the "Adjusted Net Asset Method" in which the outstanding assets and liabilities of Philtown were valued at fair values as of December 31, 2013 and 2012 and the net amount is compared against the carrying value of the Parent Company's investment in Philtown. A significant portion of the assets of Philtown are real estate properties of which the appraised values of the land were determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-15% to 20%), location (-20% to 10%), shape (-20% to 10%) and utility (-20% to -5%).

Property, plant and equipment at appraised value
The appraised value of the land was determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-20% to -10%) and location (-5% to 10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land.

Investment properties
The fair value of the investment properties was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on terrain, size, location and utility.

36. Capital Management

It is the objective of the Group to maintain a capital base that adequately services the needs of its present and future operations while keeping within the capital level required by creditors. The capital base is also sufficient to address present and future uncertainties and risks inherent in the business and changes in the economic conditions. Payment of dividends, return of capital, or issuance of shares to increase capital shall be made accordingly and as may be necessary. No changes were made in the objectives, policies and processes as of December 31, 2013 and 2012.

The table below summarizes the total capital considered by the Group:

	2013	2012
Capital stock	**₱3,160,404**	₱3,160,404
Capital in excess of par value	**788,643**	788,643
Deposit for stock subscriptions	**1,599,945**	–
Retained earnings	**1,602,528**	1,041,914
	₱7,151,520	₱4,990,961

37. **Notes to Consolidated Statements of Cash Flows**

Noncash Investing Activities

a. In 2012, Double Dragon Properties Corporation assigned to RIBI a condominium unit with a total floor area of 16.5 sqm. amounting to ₱1.62 million as settlement of Philtown's payable to RIBI.

b. The Group's noncash investing activity in 2011 pertains to acquisitions of property and equipment amounting to ₱5.71 million which were not paid as of December 31, 2011. These amounts are included as part of the "Accounts payable and accrued liabilities" account in the 2011 consolidated balance sheet.

38. **Events after the Balance Sheet Date**

a. In January 2014, the Parent Company purchased the Royal brand from the Unilever Group for ₱2.10 billion covering mainly the brand and existing inventories.

b. In 2014, the Parent Company sold its parcel of land where the Manggahan plant in Pasig City is situated for ₱ 200.02 million.

c. In January 2014, the SEC confirmed that the proposed issuance of shares discussed in Note 21 is exempted from the registration requirements under the Securities Regulation Code.

RFM CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

For the year ended December 31, 2013 Page No.

Statement of Management's Responsibility

Consolidated Financial Statements

Consolidated Statement of Management's Responsibility for Financial Statements
Report of Independent Public Accountants
Consolidated Balance Sheets as of December 31, 2013 and 2012
Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

Supplementary Schedules

A.	Financial Assets	1
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C.	Amounts Receivable from Related Parties which are eliminated during Consolidation of Financial Statements	3
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* *These schedules, which are required by SRC Rule68, have been omitted because they either are not applicable or does not exceed 5% of the total assets shown in the related Consolidated Balance Sheet.*

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SGV
Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of RFM Corporation and its subsidiaries (the Group) as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A and have issued our report thereon dated April 30, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-AR-2 (Group A),
March 26, 2014, valid until March 25, 2017
Tax Identification No. 012-082-670
BIR Accreditation No. 08-001998-63-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225153, January 2, 2014, Makati City

April 30, 2014

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RFM CORPORATION AND SUBSIDIARIES
Schedule A. Financial Assets
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Balance Sheet	Valued based on market quotation at end of reporting period	Income received and accrued
Philtown Inc. Preferred	218,349,995	307	Not listed	0
Sun Life Prosperity Balanced Fund	4,953,512	17	Not listed	0
Republic Dynamics Corporation	1,630,935	4	Not listed	0
PSI Technologies, Inc., (formerly PACSEM)	2,253	1	Not listed	0
Philtown Inc. Common	389,382	0	Not listed	
Philippine Long Distance Telephone Company, Inc.	5,670	0	Yes	0
Asia Finance Corporation, Ltd.	100,000	0	Not listed	0
Club Filipino, Inc.	1	0	Not listed	0
Philippine Exporters Trading Corporation	1	0	Not listed	0
Universal Rightfield	500,000	0	Not listed	0
Wellex Industries	280,000	0	Yes	0
Total		330		0

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RFM CORPORATION AND SUBSIDIARIES
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period	If collections was other than in cash, explain	If for write off, give reasons
Concepcion, Jose Jr.	0				0		0		
Concepcion, John Marie	0				0		0		
Concepcion, Jose Maria III	13				13		13		
Nacino, Felicisimo Jr.	1				1		1		
Monasterio, Vina	1				1		1		
Others	1				1		1		
	17				**17**	**-**	**17**		

RFM CORPORATION AND SUBSIDIARIES
Schedule C. Amounts Receivable from Related Parties which are eliminated during the Consolidation of Financial Statements
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Balance at the end of period	If collections was other than in cash, explain	If for write off, give reasons
Cabuyao Meat Processing Corporation	441	446		
Interbake Commissary Corporation	187	6		
RFM Foods Philippines Corporation	185	85		
RFM Tuna Corporation	142	142		
Filipinas Water Bottling Company, Inc.	24	25		
RFM Canning & Marketing, Inc.	35	35		
Engrain-RFM Pacific, Inc.	-	11		
Total	1,014	749		

RFM CORPORATION AND SUBSIDIARIES
Schedule D. Intangible Assets - Other Assets
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period	If collections was other than in cash, explain	If for write off, give reasons
Goodwill	191					191	191		

RFM CORPORATION AND SUBSIDIARIES
Schedule E. LONG TERM DEBT
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Title of Issue and type of obligation	Amount authorized by Indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
Loan from a local bank, with interest on the loan the higher of (1) the sum of three months PDST-F rate plus a certain spread or (2) the BSP overnight reverse repurchase rate and principal payments payable in sixteen equal quarterly installments of ₱ 23.13 million starting May 29, 2014	370.00	69.38	300.62
Loan from a local bank with interest rate based on 3-month PDST-F plus a certain spread; payable in seventeen equal quarterly installments of ₱29,412 each starting May 12, 2012	294.12	117.65	176.47
Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.75%; payable in seventeen equal quarterly installments of ₱10,882 each starting October 31, 2013	160.00	43.53	130.59
Loan from a local bank with interest rate based on 3-month PDST-F plus spread of 1.75%; payable in seventeen equal quarterly installments of ₱8,824 each starting March 15, 2012	93.53	35.29	44.12
Total	**917.65**	**265.85**	**651.80**

RFM CORPORATION AND SUBSIDIARIES
Schedule F. INDEBTEDNESS TO RELATED PARTIES
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Name and Designation of Debtor	Balance at the beginning of period	Balance at the end of period
Unilever Group	(26)	(24)
Unilever Philippines Inc. (Parent)	(4)	(13)
Unilever NV (Netherlands)	(0)	(1)
Philtown Properties, Inc.	(24)	(24)
Swift Foods Inc.	-	-
PT Aqua	-	(18)
Selecta Wall's Land Corporation	-	-
Others	(15)	(10)
Total	(70)	(88)

RFM CORPORATION AND SUBSIDIARIES
Schedule H. CAPITAL STOCK
For the year Ended December 31, 2013
(Amounts in Million Pesos unless otherwise stated)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding*	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shared Held By		
				Affiliates	Directors, Officers and Employees	Others
Common stock – P1 par value	3,978,265,025	3,160,403,866	-	-	21,622,695	3,138,781,171
	3,978,265,025	3,160,403,866	-	-	21,622,695	3,138,781,171

RFM CORPORATION AND SUBSIDIARIES
Schedule I. List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] effective as of December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
	Amendments to PFRS 7: Hedge Accounting		✓*	
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments		✓*	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓*	
	Amendments to PFRS 9: Hedge Accounting		✓*	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities		✓*	
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investment Entities		✓*	
PFRS 13	Fair Value Measurement	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions		✓*	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities		✓*	
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		✓*	
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets		✓*	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

**Not early adopted*

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting		✓*	
	Amendments to PAS 39: Hedge Accounting		✓*	
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓

**Not early adopted*

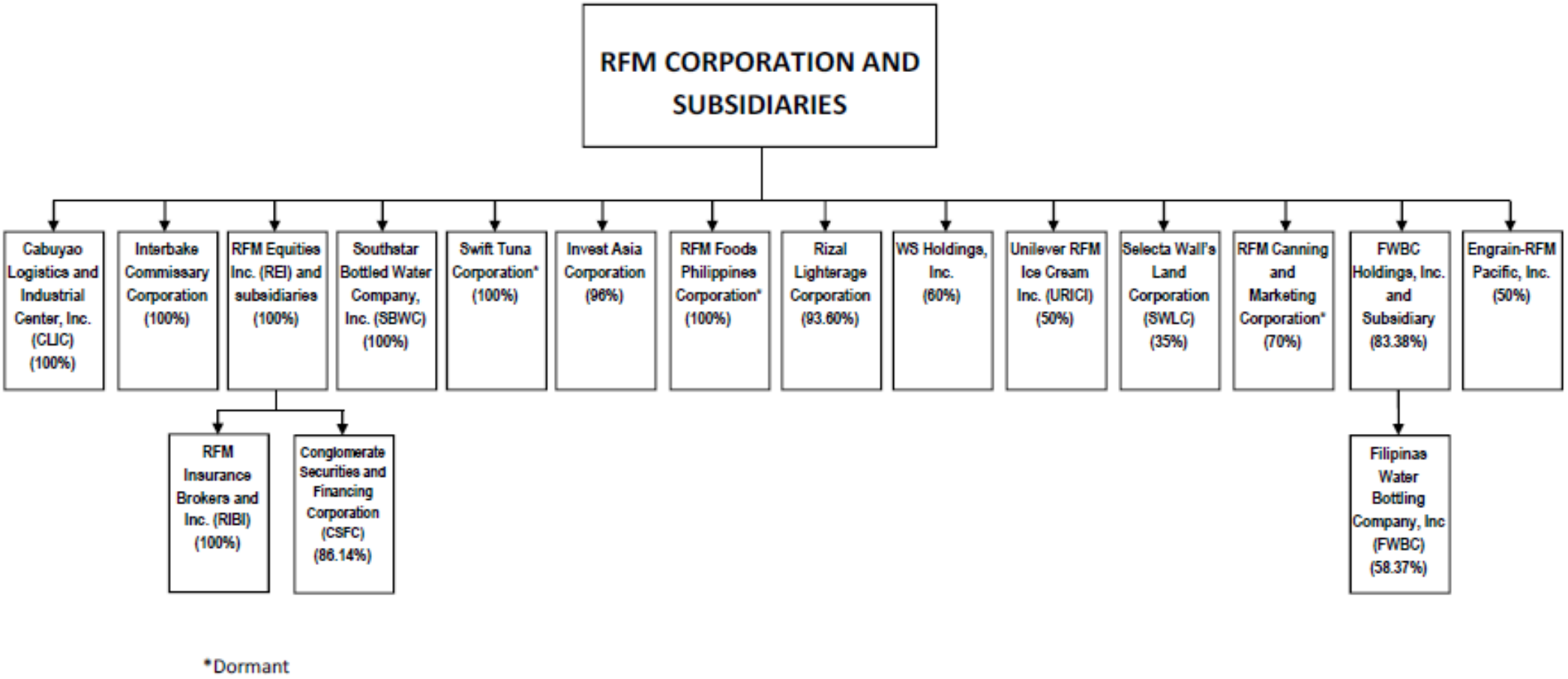
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013		Adopted	Not Adopted	Not Applicable
IFRIC 10	*Interim Financial Reporting and Impairment*			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies		✓*	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Not early adopted*

RFM CORPORATION
Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
For the year Ended December 31, 2013
(Amounts in Thousand Pesos unless otherwise stated)

Retained Earnings, 1 January 2013	**1,176,054**
Add (Deduct) Reconciling Items:	
Unrealized actuarial loss (gain)	
Unrealized mark-to-market gain on derivative liability	
Provision for deferred income tax	5,556
	5,556
Retained Earnings Available for Dividends, 1 January 2013	**1,181,610**
Add: Net Income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	**838,522**
Less: Non-actual/unrealized income net of tax	
Unrealized actuarial loss (gain)	
Fair value adjustment (M2M gains)	
Fair value adjustment of Investment Property resulting to gain	
Adjustment due to deviation from PFRS/GAAP-gain	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	
Unrealized mark-to-market gain on derivative liability	
Provision for income tax deferred	15,547
Sub-total	**15,547**
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	
Adjustment due to deviation from PFRS/GAAP-loss	
Loss on fair value adjustment of investment property (after tax)	
Sub-total	
Net income actually earned during the period	**854,069**
Add (Less):	
Dividend declarations during the year	(188,440)
Appropriations of RE during the year	
Reversals of appropriations	
Effects of prior period adjustments	
Treasury shares	
	(188,440)
TOTAL RETAINED EARNINGS AS OF 31 DECEMBER 2013 AVAILABLE FOR DIVIDEND	**1,816,145**

RFM CORPORATION AND SUBSIDIARIES
Schedule K. Conglomerate Mapping
As of December 31, 2013



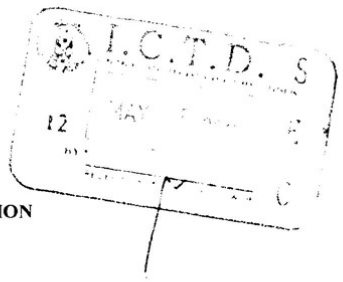
*Dormant

		1	2	9	9	8		

SEC Registration Number

RFM CORPORATION AND SUBSIDIARIES
Schedule L. Financial Soundness Indicators

		Years ended December 31	
		2013	2012
1	Current Ratio	**1.82**	1.42
2	Debt-to-Equity Ratio	**0.60**	1.04
3	Asset to Equity Ratio	**1.60**	2.04
4	Interest Rate Coverage Ratio	**16.43**	7.57
5	Gross Profit Rate	**35.84%**	33.91%
6	Net income Rate	**7.68%**	6.20%



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **MARCH 31, 2014**

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	**3,500,403,866**

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 [ ]

SE

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

First Quarter 2014 vs. First Quarter 2013

Food and beverage company RFM Corporation posted P167 Million in net income for the first three months of the year, up by 8.4% from P154 Million for the same period last year. This is backed by sales revenue of P2.24 Billion for the first three months, slightly higher than the P2.22 Billion sales revenues for the same period last year. Despite modest sales growth, profitability has improved due to better margins in its core businesses and higher sales of higher margin products.

There are double-digit growth in the consumer brands, which help alleviate the weaker sales from flour products during the period. The company have prioritized growing the branded food business, as encouraged by the increasing consumer offtake readings from Fiesta pasta, White King cake mixes and Selecta Milk. Revenues from our newly-acquired Royal pasta have just started to be sold under RFM only in February, and so far have shown promising results.

The key financial performance indicators for the Company for the three-month period ended March 31, 2014 as compared to the same period in 2013, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**	
	March 31, 2014	March 31, 2013
Net Revenues	**₱2,238**	₱2,220
Net Operating Margin	**218**	207
Net Income (Loss)	**167**	154
EBITDA	**304**	283
Current Ratio	**1.30**	1.33

** Except current ratio*

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

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

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

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

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

Analysis of Financial Condition and Balance Sheet Accounts

As of March 31, 2014, the Group's Total Assets increased 8.7% to P14.66 Billion compared to December 31, 2013 of P13.48 Billion. The increase was primarily from the Noncurrent Assets segment which rose by 26.1% to P8.18 Billion. This was mainly due to the purchase of the Royal Brand in early 2014 for a total consideration of P2.0 Billion, which was funded partially through dollar denominated bank loans. Banks loans, accordingly, have doubled since end of December 2013 due to this transaction.

The Group has a current ratio of 1.30 and 1.62 on March 31, 2014 and December 31, 2013, respectively. The Group's Debt to Equity ratio was 0.71 and 0.60 on March 31, 2014 and December 31, 2013, respectively.

Notes to Financial Statements

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

The Company discloses the following:

(a) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;.

(b) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;

(c) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;

(d) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;

(e) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;

(f) There are no dividends paid separately for ordinary shares and other shares;

(g) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;

(h) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;

(i) There is no change in contingent liabilities since the most recent audited financial statements;

(j) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of March 31, 2014;

(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.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The consolidated financial statements are filed as part of this form 17-Q, pages 7 to 40 and are incorporated herein by reference to said quarterly report.

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

Analysis of Results of Operations

First Quarter 2013 vs. First Quarter 2012

Food and beverage company RFM Corporation posted an 18% growth in its net income for the first quarter of the year, reaching P153.7 Million, and ahead of its internal target for the period. This was on the back of around P2.2 billion sales revenue for the first quarter, around 8% lower than last year's P2.4 billion, primarily due to its disposal of the meat business late last year.

The income growth is credited to better margins in its core businesses. Lower commodity input costs such as sugar and wheat, as well as better yields due to scale economies, have contributed to improved margins, especially for Selecta ice cream and Fiesta pasta.

The key financial performance indicators for the Company for the three-month period ended March 31, 2013 as compared to the same period in 2012, are as follows:

Key Financial Performance Indicators (Amounts in Millions)*	**For the Quarter Ended**	
	March 31, 2013	March 31, 2012
Net Revenues	**₱2,220**	₱2,393
Net Operating Margin	**207**	190
Net Income (Loss)	**154**	130

EBITDA	**283**	257
Current Ratio	**1.33**	1.31

* *Except current ratio*

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

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

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

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

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

Analysis of Financial Condition and Balance Sheet Accounts

As of March 31, 2013, the Group's Total Assets declined 5.8% to P10.67 Billion compared to December 31, 2012 of P11.35 Billion. The decline was primarily from the Current Assets segment which decreased by 9.6% to P5.55 Billion.

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 6.8% to P1.67 billion was attributed to lower cost of major raw materials obtained by the Group.

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

Total liabilities have declined by 14.2% to P4.98 billion primarily due to the reduction in long-term debts as discussed above.

The Group has a current ratio of 1.33 and 1.42 on March 31, 2013 and December 31, 2012, respectively. The Group's Debt to Equity ratio was 0.87 and 1.04 on March 31, 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:

(l) There are no unusual items as to the nature and amount affecting assets, liabilities, equity, net income, or cash flows, except those stated in Management's Discussion and Analysis of Results of Operations and Financial Condition;.

(m) There are no material changes in estimates of amounts reported in prior financial periods, other than those disclosed in the most recent audited financial statements;

(n) Except as disclosed, there are no known trends, demand, commitments, events or uncertainties that may have an impact on sales and income from continuing operations;

(o) There are no issuances, repurchases and repayments of debt and equity securities other than mentioned;

(p) There are no known trends, demands, commitments, events or uncertainties that will have material impact on the Company's liquidity nor have a favorable or unfavorable impact on revenues or income from continuing operations;

(q) There are no dividends paid separately for ordinary shares and other shares;

(r) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements;

(s) Other than mentioned, there are no material changes in the business composition of the Company during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring, and discontinuing operations;

(t) There is no change in contingent liabilities since the most recent audited financial statements;

(u) There were no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that remain outstanding as of March 31, 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: **May 12, 2014**

RFM CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Millions)

	For the period ended	
	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	**₱1,794**	₱2,885
Accounts receivable (Note 5)	**2,352**	2,348
Inventories (Note 6)	**1,618**	1,548
Other current assets (Note 7)	**623**	215
Total Current Assets	**6,387**	6,996
Noncurrent Assets		
Property, equipment and investment property (Note 8)	**5,460**	5,677
Investment (Note 9)	**458**	458
Other noncurrent Asset (Note 11)	**2,350**	351
Total Noncurrent Assets	**8,268**	6,486
TOTAL ASSETS	**₱14,655**	₱13,482
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans	**₱1,671**	₱ 725
Accounts payable and accrued liabilities (Note 12)	**2,801**	2,856
Current portion of Long-term debts	**237**	266
Provisions	**187**	6
Total Current Liabilities	**4,896**	3,853
Noncurrent Liabilities		
Long-term debts - net of current portion	**632**	652
Other noncurrent liabilities (Note 13)	**537**	553
Total Noncurrent Liabilities	**1,169**	1,205
Total Liabilities	**6,065**	5,058
Equity attributable to equity holders of the Parent Company (Note 13)		
Capital stock (Note 14)	**3,500**	3,160
Capital in excess of par value	**2,049**	789
Deposit for stock subscriptions (Note 14)	**–**	1,600
Equity reserve	**(7)**	(7)
Net changes in fair value of AFS financial assets (Note 16)	**(1)**	(1)
Revaluation increment on land - net of deferred income tax effect	**1,286**	1,286
Share based compensation	**1**	1
Retained earnings	**1,768**	1,602
Non-controlling interests	**(6)**	(7)
Total Equity	**8,590**	8,424
TOTAL LIABILITIES AND EQUITY	**₱14,655**	₱13,482

See accompanying Notes to Unaudited Consolidated Financial Statements.

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

	For the Quarter Ended March 31	
	2014	2013
NET REVENUES	**₱2,238**	₱2,220
DIRECT COSTS AND EXPENSES	**1,427**	1,412
GROSS PROFIT	**811**	808
SELLING AND MARKETING EXPENSES	**(445)**	(454)
GENERAL AND ADMINISTRATIVE EXPENSES	**(148)**	(147)
NET OPERATING INCOME	**218**	207
OTHER INCOME (CHARGES) – Net (Note 18)	**(12)**	(12)
INCOME BEFORE PROVISION FOR INCOME TAX	**206**	195
PROVISION FOR INCOME TAX	**(39)**	(41)
NET INCOME	**167**	₱154
Attributable to:		
Equity holders of the Parent Company	**166**	₱153
Minority interests (Note 2)	1	1
	167	₱154
Basic/Diluted Earnings Per Share (Note 19)	**₱0.048**	₱0.049

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	For the Quarter Ended March 31	
	2014	2013
NET INCOME	**₱167**	₱154
OTHER COMPREHENSIVE INCOME	**–**	–
Total comprehensive income for the period	**₱167**	₱154
Attributable to:		
Equity holders of the Parent Company	**166**	₱154
Minority interests (Note 2)	1	1
	167	₱154

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	Deposit for Stock Subscription	Equity Reserve	Net Changes in Fair Value of AFS Financial Assets	Revaluation Increment	Share-based Compensation	Retained Earnings	Total	Minority Interests	Total Equity
BALANCES AT JANUARY 1, 2013	**₱3,160**	**₱789**	**₱-**	**₱**(7)	**₱2**	**₱569**	**₱–**	**₱1,037**	**₱5,550**	**₱(2)**	**₱5,548**
Net income for the period	–	–	–	–	–	–	–	153	153	1	154
Effect of adoption of Revised PAS 19	–	–	–	–	–	–	–	6	6	2	8
BALANCES AT MARCH 31, 2013	**₱3,160**	**₱789**	**₱-**	**₱**(7)	**₱2**	**₱569**	**₱–**	**₱1,196**	**₱5,709**	**₱1**	**₱5,710**
Net income for the period	–	–	–	–	–	–	–	629	629	(6)	623
Remeasurement gain on defined benefit plan	–	–	–	–	–	–	–	(35)	(35)	–	(35)
Revaluation of land	–	–	–	–	–	717	–	–	717	–	717
Valuation gains realized through profit and loss	–	–	–	–	(2)	–	–	–	(2)	–	(2)
Net changes in fair value of AFS financial assets	–	–	–	–	(1)	–	–	–	(1)	–	(1)
Cash dividends	–	–	–	–	–	–	–	(188)	(188)	(2)	(190)
Deposit for stock subscriptions	–	–	1,600	–	–	–	–	–	1,600	–	1,600
Share-based compensation plan	–	–	–	–	–	–	1	–	1	–	1
BALANCES AT DECEMBER 31, 2013	**₱3,160**	**₱789**	**₱1,600**	**₱(7)**	**₱(1)**	**₱1,286**	**₱**1	**₱1,602**	**₱8,430**	**₱(7)**	**₱8,423**
Net income for the period	–	–	–	–	–	–	–	166	166	1	167
Cash dividends	–	–	–	–	–	–	–	(120)	(120)	–	(120)
Issuance of capital stock	340	1,260	(1,600)	–	–	–	–	–	–	–	–
BALANCES AT MARCH 31, 2014	**₱3,500**	**₱2,049**	**₱–**	**₱(7)**	**₱(1)**	**₱1,286**	**₱**1	**₱1,648**	**₱8,476**	**(₱6)**	**₱8,470**

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

	For the Period Ended March 31	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income after income tax	**₱167**	₱154
Adjustments for:		
Depreciation and amortization	**92**	76
Operating income (loss) before working capital changes	**259**	230
Decrease (increase) in:		
Accounts receivable	**4**	(46)
Inventories	**(70)**	121
Other current assets	**(408)**	(11)
Increase (decrease) in:		
Accounts payable and accrued liabilities	**(57)**	151
Other current liabilities	**181**	17
Net Cash generated from (used in) operations	**(91)**	462
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal (Acquisition) of investments and property and equipment, net	**118**	45
Decrease (Increase) in other noncurrent assets	**(1,999)**	(6)
Net cash used in investing activities	**(1,881)**	39
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of Long-term debt and obligations / bank loans	**1,072**	156
Repayments of Long-term debt and obligations / bank loans	**(175)**	(1,148)
Increase (decrease) in minority interests and other noncurrent liabilities	**(16)**	3
Net cash from financing activities	**881**	(989)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,091)**	(488)
CASH AND CASH EQUIVALENTS, JANUARY 1	**2,885**	1,475
CASH AND CASH EQUIVALENTS, MARCH 31	**₱1,794**	₱987

See accompanying Notes to Consolidated Financial Statements

39. 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.

40. 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 that are measured at fair value. The consolidated financial statements are presented in Philippine peso (Peso), which is the Parent Company's functional currency. All values are rounded off to the nearest thousand pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the Philippine Securities and Exchange Commission (SEC) which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements* with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) in 2014 and 2013 and in compliance with PFRSs in 2011.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new and amended pronouncements starting January 1, 2013. Adoption of these new and amended pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Government Loans* (Amendments)
- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*

Effective January 1, 2013, PFRS 11 will supersede PAS 31, *Interests in Joint Ventures* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* PFRS 11 will remove the option to account for jointly controlled entities using the proportionate consolidation method. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Under PFRS 11, the Group's investment in URICI meets the definition of a joint venture. On October 1, 2012, the Parent Company requested for an exemptive

relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI. Engrain-RFM Pacific, Inc., a new joint venture acquired by the Group in 2013, will be accounted for using the equity method in accordance with PFRS 11.

- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*

The Group has updated its accounting policy on fair value measurement as a result of the adoption of PFRS 13. The adoption of PFRS 13 has no significant impact on the fair value measurements of the Group. Additional disclosure requirements were made in compliance with the requirements in PFRS 13.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (OCI) (Amendments)

As a result of adopting the said amendments to PAS 1, the Group has modified its presentation of items of other comprehensive income in the statements of comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time will be presented separately from items that will never be reclassified.

- PAS 19, *Employee Benefits* (Revised)

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred. It also replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, as at the beginning of the annual period.

Prior to the adoption of the Revised PAS 19, the Group's accounting policy is to recognize actuarial gains and losses on defined benefit plans in full in other comprehensive income and transferred to retained earnings in the period they arise. Thus, the adoption of the Revised PAS 19 did not have a significant impact on the Group's financial position. The adoption of the Revised PAS 19 also did not have an impact on the Group's statements of cash flows. Further, there is no significant impact on the Group's earnings per share.

- PAS 27, *Separate Financial Statements (Amendments)*
- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- *Annual Improvements to PFRSs* (2009-2011 cycle)

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	
	March 31, 2014	December 31, 2013
Cabuyao Logistics and Industrial Center, Inc.(CLIC)**	**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
Conglomerate Securities and Financing Corporation (CSFC)	**-**	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**	93.60
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*

***Changed its name from Cabuyao Meat Processing Corporation to Cabuyao Logistics and Industrial Center, Inc. in 2013*

In 2014, the Parent Company sold all its shares in RIBI and CSFC, subsidiaries, at a total cash consideration of
₱16.80 million and ₱17.99 million, respectively and accordingly executed corresponding deeds of absolute sale of shares of stock with the new shareholders.

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 controlled by the Parent Company. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from involvement with the investee; and,
- The ability to use power over the investee to affect the amount of the investor's returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and,
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate

that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of income and comprehensive income from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

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 Parent Company loses control over a subsidiary, it:

- Derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interests;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and,
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets or liabilities.

Non-controlling Interest
Non-controlling interest represents the portion of equity not attributable to the Group. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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 March 31, 2014 and December 31, 2013, the Group has no financial assets and financial liabilities at FVPL and HTM investments.

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 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 March 31, 2014 and December 31, 2013, the Group's loans and receivables include cash in banks and cash equivalents, accounts receivable, advances to related parties and other current receivables.

AFS financial assets
Non-derivative financial assets are designated as AFS when they are not classified in any of the three other categories. The Group classifies financial assets as AFS 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 March 31, 2014 and December 31, 2013 and 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 March 31, 2014 and December 31, 2013 and 2012, the Group's other financial liabilities include bank loans, accounts payable and accrued liabilities, long-term debts, finance lease obligations 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 the consolidated statement of income is removed from the consolidated statement of comprehensive income and recognized in the consolidated statement of income.

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

comprehensive income.

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

Derecognition of Financial Assets and Financial Liabilities

Financial asset

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

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

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

Financial liability

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would

use when pricing the asset or liability, assuming that market participants act in their economic best interest.
A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

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.

Property, plant and equipment are written off when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

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 an Associate and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in an associate and joint ventures are accounted for using the equity method except for its investment in URICI, a joint venture, which was accounted for using the proportionate consolidation method as permitted by the Philippine SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost.

The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income as part of Other Income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method and the proportionate consolidation method for the investment in URICI, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint ventures are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Impairment of Noncurrent Non-financial Assets

The carrying values of property, plant and equipment, investments in joint ventures and investment in an associate 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 recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. 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 which the future cash flow estimates have not been adjusted. 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.

Deposit for Stock Subscriptions

Deposit for stock subscriptions represent the amount received which will be applied as payment in exchange for a fixed number of the Parent Company's capital stock. These are classified as equity if there is sufficient unissued authorized capital stock; or if in the case where the unissued capital stock is insufficient to cover the amount of the deposit, the BOD and stockholders have approved a proposed increase in authorized capital stock for which a deposit was received, and the proposed increase has been filed with the Philippine SEC on or before the balance sheet date. Otherwise, the deposits are classified as liability.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, effect of changes in accounting policy and other capital adjustments.

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 net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future

contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefits costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized in other comprehensive income and transferred to retained earnings in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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 attributable to the equity holders of the Parent Company 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.

Diluted earnings per share is computed by adjusting the net income for the year attributable to equity holders of the Parent Company and the weighted average number of common shares outstanding during the year for the effects of all dilutive potential common shares.

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

Events After the Balance Sheet Date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Pronouncements Issued but Not yet Effective

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

Effective in 2014

- PFRS 10, PFRS 12 and PAS 27, *Investment Entities (Amendments)*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

- 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.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*, remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*, relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments are not relevant to the Group because currently, the Group does not apply hedge accounting.

- Philippine Interpretation IFRIC 21, *Levies*, clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is

triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 2, *Share-based Payment - Definition of Vesting* Condition, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. The Group shall consider this amendment for future share-based payment arrangements.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business* Combination, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  c. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  d. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated*

Amortization, clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount and the asset shall be treated in one of the following ways:

c. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

d. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

Annual Improvements to PFRSs (2011-2013 cycle)

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRSs.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint* Arrangements, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

- PFRS 13, *Fair Value Measurement - Portfolio* Exception, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

- PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property*, stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3.

Effective in 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied.

No Effective Mandatory Date and Adoption

- PFRS 9, *Financial Instruments: Classification and Measurement*, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 liabilities designated at FVPL using the fair value option, 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 relating to the entity's own 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an impact on the classification and measurement of the Group's financial assets but potentially have no significant impact on the classification and measurement of the Group's financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. The adoption of the third phase of PFRS 9 will not have an impact to the Group because the Group does not apply hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not early adopt PFRS 9 but will continue to evaluate and conduct a study on the possible impact of adopting the limited amendments to the classification and measurement model and second phase of PFRS 9 when they are completed.

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.

41. **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 light of the changing business model of Philtown Properties, Inc. (Philtown), the Parent Company 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, 2013 and 2012. The net assets of Philtown were compared against the carrying value of the Parent Company's investment in Philtown. The Parent Company determined that its AFS financial assets in Philtown were impaired as of December 31, 2012. Impairment loss was recognized on the said AFS financial assets amounting to ₱544.50 million in 2012. No impairment loss was recognized in 2013.

Provisions

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

Determination of the classification of leases

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

Accounting Estimates and Assumptions

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

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 properties
The Group estimates the useful lives of depreciable property, plant and equipment and investment properties based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment and investment properties would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa. The estimated useful lives of property, plant and equipment and investment properties are discussed in Note 2 to the consolidated financial statements. There had been no changes in the estimated useful lives of property, plant and equipment and investment properties in 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 land at appraised value amounting to ₱1,286.35 million and ₱568.94 million as of December 31, 2013 and 2012, respectively, is presented as "Revaluation increment on land" account, net of deferred income tax effect of ₱551.29 million and ₱243.83 million, in the equity section of the consolidated balance sheets.

Impairment of property, plant and equipment, investment properties and investments in associate and joint ventures

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 for impairment the carrying value of goodwill 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 the 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 2013 and 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 December 31, 2013 and 2012. The Parent Company used a discount rate of 5.27% and the growth rate assumption on sales of URICI through out the projection period. No impairment losses were recognized for the years ended December 31, 2013, 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.

42. **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 and bread products, manufactures pasta, flour and rice-based mixes to institutional customers. The consumer business segment manufactures and sells ice cream, milk and juices, sells 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 March 31, 2014

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱921	₱1,309	₱8	₱–	**₱2,238**
Intersegment sales	–	–	9	(9)	**–**
	₱921	₱1,309	₱17	₱(9)	**₱2,238**
Results					
Income (loss) from operations	₱198	₱73	₱(53)	₱-	**₱218**
Other income (charges) - net					**(12)**
Provision for income tax					**(39)**
Net income					**167**
Other information					
Segment assets	₱10,303	₱7,950	₱8,148	₱(12,204)	**₱14,197**
Investments	–	315	1,370	(1,227)	**458**
Consolidated Total Assets	₱10,303	₱8,265	₱9,518	₱(13,431)	**₱14,655**
Consolidated Total Liabilities					**₱6,065**
Depreciation and amortization					**₱86**

For the Quarter Ended March 31, 2013

	Institutional Business	Consumer Business	Other Businesses	Eliminations	**Consolidated**
Net sales					
External sales	₱939	₱1,262	₱19	₱–	**₱2,220**
Intersegment sales	–	–	9	(9)	**–**
	₱939	₱1,262	₱28	₱(9)	**₱2,220**
Results					
Income (loss) from operations	₱228	₱31	₱(52)	₱-	**₱207**
Other income (charges) - net					**(12)**
Provision for income tax					**(41)**
Net income					**154**
Other information					

Segment assets	₱7,997	₱7,492	₱3,632	₱(8,904)	**₱10,217**
Investments	–	315	1,456	(1,302)	**469**
Consolidated Total Assets	₱7,997	₱7,807	₱5,088	₱(10,206)	**₱10,686**
Consolidated Total Liabilities					**₱4,967**
Depreciation and amortization					**₱76**

43. **Accounts Receivable**

	March 31, 2014 (Unaudited)	
	(amounts in millions)	
Trade receivables	**₱2,424**	₱2,484
Advances to related parties	**14**	14
Other receivables	**268**	189
	2,706	2,687
Less allowance for doubtful accounts	**354**	339
	₱2,352	₱2,348

44. **Inventories**

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

45. **Other Current Assets**

March 31, 2014 (Unaudited)

	(amounts in millions)	
Deposits on purchases	**₱150**	₱46
Creditable withholding taxes	**100**	64
Input VAT	**234**	56
Prepaid expenses and other current assets – net of allowance for probable losses	**163**	49
	₱647	₱215

46. **Property , Equipment and Investment Property**

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Property, plant and equipment		
At cost	**₱3,060**	₱3,277
At appraised value	**2,364**	2,364
Investment property	**36**	36
	₱5,460	₱5,677

47. **Investment**

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
AFS financial assets	**₱316**	₱316
Investments in associates	**142**	142
	₱458	₱458

48. **Interest in a Joint Venture Proportionately Consolidated**

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (ULP), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and ULP, the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱3,704.19 million and ₱2,260.90 million as of December 31, 2013 and 2012, respectively.

On October 1, 2012, the Parent Company requested for an exemptive relief from the adoption of PFRS 11 to its investment in URICI from the SEC. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 to its investment in URICI on the following grounds:

- Material impact
  The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement
  a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

     The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

  b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by domestic corporations, the Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company. Thus, the Parent Company indirectly controls SWLC, the owner of the real property being leased and used by URICI in its business.

49. **Other Noncurrent Asset**

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Deferred income tax assets - net	**₱73**	₱83
Goodwill	**191**	191
Other noncurrent assets	**2,086**	78
	₱2,350	₱351

In January 2014, the Parent Company purchased the Royal brand from the Unilever Group of for P2.10 billion covering mainly the brand and existing inventories.

50. **Accounts Payable and Accrued Liabilities**

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Accounts payable and accrued liabilities	**₱2,551**	₱2,614
Income tax payable	**94**	57

Advances to related parties	**92**	88
Customers' deposits	**64**	97
	₱2,801	₱2,856

51. Other Noncurrent Liabilities

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
	(amounts in millions)	
Deferred income tax liabilities	**505**	505
Net pension obligation	**30**	46
Security deposits	**2**	2
	537	553

52. Equity

Capital Stock

As of March 31, 2014 and December 31, 2013, the Parent Company has 3,978,265,015 authorized common stock with ₱1 par value. Issued and outstanding common stocks were 3,500,403,866 shares and 3,160,403,866 shares as of March 31, 2014 and December 31, 2013.

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)
2014		340,000,000	(g)
		3,500,403,866	

(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.
(g) Follow-on offering through a placing transaction with several existing shareholders

On August 28, 2013, the Board of Directors approved the amendment of the Article X of the Articles of Incorporation of the Parent Company removing the pre-emptive right of the stockholders on all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the Board of Directors.

Deposit for stock subscriptions
On November 28, 2013, the Board of Directors approved the proposed issuance of 340 million shares of capital stock to its existing shareholders, namely, Horizons Realty, Inc., BJS Development Corporation, Triple Eight Holdings, Inc. and RPMC Resources, Inc. at the price of ₱4.77 per share. The said shares will be issued pursuant to the equity fund raising of the Parent Company consisting of a placing and subscription transaction which will be implemented in two concurrent stages comprising of: (a) the offer and sale by the said existing shareholders not exceeding 450 million of their existing shares in the Parent Company ("the placement tranche") and (b) as part of the transaction, the subscription by the selling shareholders and the issuance by the Parent Company to the selling shareholders of unissued common shares at most in the same number and share price as the shares sold in the placement tranche ("the subscription tranche"), with such new common shares being listed as soon as practicable thereafter. In view of the foregoing, the Parent Company wrote to the SEC on December 4, 2013 requesting that the proposed issuance of the 340 million common shares be exempted from the registration requirements under the Securities Regulation Code (SRC).

The placing agreement for the placing transaction was executed by and among the Parent Company, the placing agent and the aforementioned shareholders on October 3, 2013, whereas the subscription agreement for the subscription transaction was executed between Parent Company and the shareholders on December 9, 2013.

On January 2014, the SEC has approved the request for exemption for registration requirements under the SRC. The amount received for the stock subscription, net of transaction costs, in relation to the subscription tranche amounted to ₱1,599.94 million, was presented as deposit for stock subscriptions in the 2014 and 2013 consolidated balance sheet.

Retained Earnings
On February 26, 2014 the BOD approved the declaration of ₱0.034515 cash dividend per share or a total of ₱120.82 million to its stockholders as of April 7, 2014.

On August 28, 2013 the BOD approved the declaration of ₱0.027256 cash dividend per share or a total of ₱86.14 million to its stockholders as of September 11, 2013.

On April 30, 2013 the BOD approved the declaration of ₱0.032369 cash dividend per share or a total of ₱102.30 million to its stockholders as of May 16, 2013.

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.

The Parent Company's retained earnings as of December 31, 2013 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 ₱

53.85 million. These will only be available for declaration as dividends when these are actually received.

53. **Related Party Transactions**

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The transactions from related parties are made under normal commercial terms and conditions. Outstanding balances as at March 31, 2014 and December 31, 2013 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:

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

	Sales and Services		Purchases	
	For the period ended March 31		For the period ended March 31	
	2014	2013	**2014**	2013
Parent Company	**42,740**	42,065	35,481	40,568
ICC	**25,524**	31,759	42,740	42,065
RLC	**9,957**	8,809	–	–

h. The Parent Company entered into a management agreement with ICC under which the Parent Company shall receive from ICC a monthly fee of ₱2.50 million. Total service income amounted to ₱15 million, and ₱30.00 million in 2013 and 2012, respectively.

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.

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

j. 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.

k. 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.

54. **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 2013 and 2012.

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.

55. Fair Value Measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2013:

			Fair Value Measurement Using		
	Date of Valuation	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
AFS investments in unquoted redeemable preferred shares in Philtown	December 31, 2012	₱307,447	₱–	₱–	₱307,447
Property, plant and equipment at appraised value	December 31, 2013	2,564,222	–	–	2,564,222
Asset for which fair value is disclosed					
Investment properties	December 31, 2013	92,120	–	–	92,120

In 2013, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

AFS investments in Philtown preferred shares
In light of the changing business model of Philtown, the Parent Company performed an impairment testing of its AFS financial assets in Philtown by estimating their fair value using the "Adjusted Net Asset Method" in which the outstanding assets and liabilities of Philtown were valued at fair values as of December 31, 2013 and 2012 and the net amount is compared against the carrying value of the Parent Company's investment in Philtown. A significant portion of the assets of Philtown are real estate properties of which the appraised values of the land were determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-15% to 20%), location (-20% to 10%), shape (-20% to 10%) and utility (-20% to -5%).

Property, plant and equipment at appraised value
The appraised value of the land was determined using the Market Approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size (-20% to -10%) and location (-5% to 10%). Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land.

Investment properties

The fair value of the investment properties was determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on terrain, size, location and utility.of these forward foreign exchange contracts is recognized immediately in the consolidated statement of income.

56. **Other Income (Charges)**

	For the Period Ended March 31	
	2014 (Unaudited)	
	(amounts in millions)	
Interest expense	**(₱18)**	**(₱17)**
Interest income	2	1
Other income, net	4	4
	(₱12)	**(₱12)**

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

		For the Period Ended March 31	
		2014 (Unaudited)	2013 (Unaudited)
a.	Net income attributable to eq holders of the Parent Company (Amounts in Milli	**₱167**	**₱154**
b.	Common shares outstanding	**3,500,403,866**	**3,160,403,866**
c.	Weighted average common s outstanding	**3,500,403,866**	**3,160,403,866**
d.	Basic earnings per share (a/t	**₱0.048**	**₱0.049**
e.	Diluted earnings per share (a	**₱0.048**	**₱0.049**

RFM CORPORATION AND SUBSIDIARIES
Aging Analysis of Trade Receivables
As of March 31, 2014
(Amounts in Millions)

	Amount	%
Under Six (6) Months	₱1,562	64%

Six (6) Months to One (1) Year	627	26%
Over One (1) Year	235	10%
	₱2,424	**100%**