CR05430-2015

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended

   Jun 30, 2015

2. SEC Identification Number

   11840

3. BIR Tax Identification No.

   000-100-341-000

4. Exact name of issuer as specified in its charter

   San Miguel Pure Foods Company Inc.

5. Province, country or other jurisdiction of incorporation or organization

   Philippines

6. Industry Classification Code(SEC Use Only)

7. Address of principal office

   23F, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City, Metro Manila

   Postal Code

   1605

8. Issuer's telephone number, including area code

   (632) 317-5000

9. Former name or former address, and former fiscal year, if changed since last report

   N/A

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common (PF)	166,667,096
Preferred (PFP2)	15,000,000

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

    ◉ Yes ○ No

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange, Common and Preferred Shares

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

    ◉ Yes ○ No

(b) has been subject to such filing requirements for the past ninety (90) days

◉ Yes ○ No

San Miguel Pure Foods

San Miguel Pure Foods Company, Inc.

PF

PSE Disclosure Form 17-2 - Quarterly Report

References: SRC Rule 17 and

Sections 17.2 and 17.8 of the Revised Disclosure Rules

For the period ended	Jun 30, 2015
Currency (indicate units, if applicable)	Php (in thousands)

Balance Sheet

	Period Ended	Fiscal Year Ended (Audited)
	Jun 30, 2015	Dec 31, 2014
Current Assets	44,407,150	48,192,192
Total Assets	63,573,913	66,654,955
Current Liabilities	25,612,245	29,781,550
Total Liabilities	26,575,184	30,692,132
Retained Earnings/(Deficit)	13,624,961	12,764,027
Stockholders' Equity	36,998,729	35,962,823
Stockholders' Equity - Parent	35,419,869	34,235,128
Book Value per Share	133.71	126.8

Income Statement

	Current Year (3 Months)	Previous Year (3 Months)	Current Year-To-Date	Previous Year-To-Date
Operating Revenue	25,417,098	24,947,200	50,508,233	49,176,284
Other Revenue	145,605	43,759	195,348	54,155
Gross Revenue	25,562,703	24,990,959	50,703,581	49,230,439
Operating Expense	24,144,539	23,584,821	47,768,118	46,479,364
Other Expense	152,961	117,496	342,516	185,033
Gross Expense	24,297,500	23,702,317	48,110,634	46,664,397
Net Income/(Loss) Before Tax	1,265,203	1,288,642	2,592,947	2,566,042
Income Tax Expense	347,143	396,290	764,079	822,324
Net Income/(Loss) After Tax	918,060	892,352	1,828,868	1,743,718
Net Income Attributable to Parent Equity Holder	854,737	880,214	1,773,069	1,750,513
Earnings/(Loss) Per Share (Basic)	3.86	3.48	7.57	6.9

Earnings/(Loss) Per Share (Diluted)	-	-	-	-

Other Relevant Information
Please see attached SEC Form-17-Q for the period ended June 30, 2015, filed with the Securities and Exchange Commission on August 14, 2015.

Filed on behalf by:

Name	Alexandra Trillana
Designation	AVP & Corporate Secretary

108142015001762

SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
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Company Information

SEC Registration No.	0000011840
Company Name	SAN MIGUEL PURE FOODS COMPANY INC.
Industry Classification	
Company Type	Stock Corporation

Document Information

Document ID	108142015001762
Document Type	17-Q (FORM 11-Q:QUARTERLY REPORT/FS)
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Period Covered	June 30, 2015
No. of Days Late	0
Department	CFD
Remarks	

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COVER SHEET

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S. E. C. Registration Number

SAN MIGUEL

PURE FOODS

COMPANY INC.

(Company's Full Name)

23rd Flr. JMT Bldg. ADB

Ave. Pasig City

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

ALEXANDRA B. TRILLANA

Contact Person

(632) 702-5450

Company Telephone Number

SEC Form

Month | Day | 17-Q FORM TYPE | Month | Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

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 I. D.

Cashier

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SEC FORM 17-Q

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

1. For the quarterly period ended **June 30, 2015**

2. SEC Identification Number **11840**

3. BIR Tax Identification No. **000-100-341-000**

4. Exact name of issuer as specified in its charter **San Miguel Pure Foods Company Inc.**

5. **Philippines**
Province, Country or other jurisdiction
Of incorporation or organization

6. ______ SEC Use Only
Industry Classification Code

7. **23rd Floor, The JMT Corporate Condominium**
ADB Avenue, Ortigas Center, Pasig City **1605**
Address of issuer's principal office Postal code

8. **(02) 702-5000**
Issuer'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 8 and 12 of the Code, or Section 4 and 8 of the RSA

	Number of Shares Issued and Outstanding and Total Liabilities (As at June 30, 2015)
Common Shares - P10 par value	**166,667,096**
Preferred Shares - P10 par value	**15,000,000**
Total Liabilities (in '000)	**P26,575,184**

11. Are any or all these securities listed on 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 17 of the Code and SRC Rule 17 thereunder or Sections 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 during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports);

Yes (√) No ( )

b) has been subject to such filing requirements for the past ninety (90) days.

Yes (√) No ( )

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Pure Foods Company Inc. ("SMPFC" or the "Company") and its subsidiaries (collectively, the "Group") as at and for the period ended June 30, 2015 (with comparative figures as at December 31, 2014 and for the period ended June 30, 2014) and Selected Notes to Consolidated Financial Statements are hereto attached as Annex "A". Notes 9 and 10 of the Selected Notes to Consolidated Financial Statements contain the required information on the financial risk exposures and financial instruments of the Company.

Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as Annex "B."

PART II - OTHER INFORMATION

SMPFC may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which would otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.

In compliance with the Notice of Approval issued by the Philippine Stock Exchange, Inc. (PSE) for the listing of 15,000,000 Perpetual Series "2" Preferred Shares (PFP2 Shares) issued by the Company to the public on March 12, 2015, SMPFC submitted to the PSE on April 15, 2015 via the Electronic Disclosure Generation Technology (EDGE), a quarterly progress report on the application of the proceeds from the preferred shares offering (the "PFP2 Offering Proceeds").

The aforementioned quarterly progress report noted that for the quarter ended March 31, 2015, SMPFC has fully disbursed the PFP2 Offering Proceeds amounting to P15,000,000,000.00. As such, and as confirmed with the PSE, there is no need for SMPFC to file a quarterly progress report for the quarter ending June 30, 2015.

The details of the disbursements made from the PFP2 Offering Proceeds are as follows:

PFP2 Offering Proceeds		Php 15,000,000,000.00
Less: Disbursements Relating to the PFP2 Shares		
Underwriting fees	Php 104,838,709.67	
PSE listing fee	15,000,000.00	
PSE processing fee	50,000.00	
SEC filing and legal research fees	4,358,150.00	
Legal and other fees	5,314,352.73	
DST	750,000.00	
Other expenses	1,320,679.18	131,631,891.58
Less: Disbursements Relating to the Redemption of the Preferred Shares issued on March 3, 2011 (the "PFP Shares")		
Payment of short-term loan plus interest, proceeds from which loan was used to redeem the Company's then outstanding PFP Shares		5,003,472,222.22
Recovery of the amount advanced by SMPFC for the redemption of PFP Shares		9,864,895,886.20

SIGNATURES

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

Issuer	**SAN MIGUEL PURE FOODS COMPANY INC.**
Signature and Title	**ZENAIDA M. POSTRADO** Treasurer and Chief Finance Officer
Date	August 14, 2015

Annex A

SEC Number **11840**
File Number

SAN MIGUEL PURE FOODS COMPANY INC.
AND SUBSIDIARIES
(Company's Full Name)

23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City
(Company's Address)

317-5000
(Telephone Number)

(Year Ending)
(month & day)

Quarterly Consolidated
Financial Statements
Form Type

Amendment Designation (If applicable)

June 30, 2015
Period Ended Date

(Secondary License Type and File Number)

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	June 30, 2015 Unaudited	December 31, 2014 Audited
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	**₱11,639,626**	₱14,215,875
Trade and other receivables - net (Notes 7, 9 and 10)	**7,982,501**	10,827,434
Inventories	**19,054,102**	16,426,482
Biological assets	**3,443,031**	3,319,916
Prepaid expenses and other current assets (Notes 7, 9 and 10)	**2,287,890**	3,402,485
Total Current Assets	**44,407,150**	48,192,192
Noncurrent Assets		
Investment property - net	**636,101**	638,736
Property, plant and equipment - net (Note 4)	**10,375,674**	10,719,721
Biological assets - net of current portion	**2,164,685**	1,973,151
Other intangible assets - net (Note 5)	**4,158,326**	3,776,353
Goodwill - net	**177,029**	177,029
Deferred tax assets	**799,547**	802,981
Other noncurrent assets (Notes 7, 9 and 10)	**855,401**	374,792
Total Noncurrent Assets	**19,166,763**	18,462,763
	₱63,573,913	₱66,654,955

LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 9 and 10)	**₱6,800,717**	₱8,753,425
Trade payables and other current liabilities (Notes 7, 9 and 10)	**14,043,499**	16,231,401
Current maturities of long-term debt - net of debt issue costs (Notes 9 and 10)	**4,495,998**	4,491,685
Income tax payable	**272,031**	305,039
Total Current Liabilities	**25,612,245**	29,781,550
Noncurrent Liabilities		
Long-term debt (Notes 9 and 10)	**50,730**	-
Deferred tax liabilities	**26,727**	27,857
Other noncurrent liabilities (Notes 9 and 10)	**885,482**	882,725
Total Noncurrent Liabilities	**962,939**	910,582
Equity (Note 6)		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock	**2,008,748**	1,858,748
Additional paid-in capital	**35,234,781**	20,500,284
Revaluation surplus	**402,002**	18,219
Reserve for retirement plan	**(470,628)**	(470,628)
Cumulative translation adjustments	**(197,901)**	(253,428)
Retained earnings		
Appropriated	**6,199,100**	1,200,000
Unappropriated	**7,425,861**	11,564,027
Treasury stock	**(15,182,094)**	(182,094)
	35,419,869	34,235,128
Non-controlling Interests	**1,578,860**	1,727,695
Total Equity	**36,998,729**	35,962,823
	₱63,573,913	₱66,654,955

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

ZENAIDA M. POSTRADO
Treasurer and Chief Finance Officer

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In Thousands, Except Per Share Data)

	For the Six Months Ended		For the Three Months Ended	
	June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
REVENUES (Note 7)	**₱50,508,233**	₱49,176,284	**₱25,417,098**	₱24,947,200
COST OF SALES (Note 7)	**40,416,121**	39,881,395	**20,355,019**	20,211,093
GROSS PROFIT	**10,092,112**	9,294,889	**5,062,079**	4,736,107
SELLING AND ADMINISTRATIVE EXPENSES (Note 7)	**(7,351,997)**	(6,597,969)	**(3,789,520)**	(3,373,728)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	**(216,829)**	(214,824)	**(97,615)**	(100,400)
INTEREST INCOME	**95,455**	54,007	**46,366**	43,598
GAIN ON SALE OF INVESTMENT PROPERTY AND PROPERTY AND EQUIPMENT	**99,893**	148	**99,239**	161
OTHER INCOME (CHARGES) - Net	**(125,687)**	29,791	**(55,346)**	(17,096)
INCOME BEFORE INCOME TAX	**2,592,947**	2,566,042	**1,265,203**	1,288,642
INCOME TAX EXPENSE	**764,079**	822,324	**347,143**	396,290
NET INCOME	**₱1,828,868**	₱1,743,718	**₱918,060**	₱892,352
Attributable to:				
Equity holders of the Parent Company	**₱1,773,069**	₱1,750,513	**₱854,737**	₱880,214
Non-controlling interests	**55,799**	(6,795)	**63,323**	12,138
	₱1,828,868	₱1,743,718	**₱918,060**	₱892,352
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company (Note 8)	**₱7.57**	₱6.90	**₱3.86**	₱3.48

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

ZENAIDA M. POSTRADO
Treasurer and Chief Finance Officer

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(In Thousands)

	For the Six Months Ended		For the Three Months Ended	
	June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
NET INCOME	**₱1,828,868**	₱1,743,718	**₱918,060**	₱892,352
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss				
Net gain (loss) on exchange differences on translation of foreign operations	**7,219**	(1,839)	**4,021**	(6,825)
Net gain (loss) on available-for-sale financial assets	**441**	(67)	**458**	(67)
Income tax benefit (expense)	**(44)**	7	**(46)**	7
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**7,616**	(1,899)	**4,433**	(6,885)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD - Net of tax	**₱1,836,484**	₱1,741,819	**₱922,493**	₱885,467
Attributable to:				
Equity holders of the Parent Company	**₱1,781,468**	₱1,748,508	**₱859,268**	₱875,132
Non-controlling interests	**55,016**	(6,689)	**63,225**	10,335
	₱1,836,484	₱1,741,819	**₱922,493**	₱885,467

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

ZENAIDA M. POSTRADO
Treasurer and Chief Finance Officer

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands)

	Attributable to Equity Holders of the Parent Company											
					Cumulative Translation Adjustments		Retained Earnings					
	Capital Stock	Additional Paid-in Capital	Revaluation Surplus	Reserve for Retirement Plan	Translation Reserve	Fair Value Reserve	Appropriated	Unappropriated	Treasury Stock	Total	Non-controlling Interests	Total Equity
As at December 31, 2014 (Audited)	₱1,858,748	₱20,500,284	₱18,219	(₱470,628)	(₱256,751)	₱3,323	₱1,200,000	₱11,564,027	(₱182,094)	₱34,235,128	₱1,727,695	₱35,962,823
Other comprehensive income (loss)												
Net gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	8,002	-	-	-	-	8,002	(783)	7,219
Net gain on available-for-sale financial assets, net of tax	-	-	-	-	-	397	-	-	-	397	-	397
Other comprehensive income (loss)	-	-	-	-	8,002	397	-	-	-	8,399	(783)	7,616
Net income for the period	-	-	-	-	-	-	-	1,773,069	-	1,773,069	55,799	1,828,868
Total comprehensive income for the period	-	-	-	-	8,002	397	-	1,773,069	-	1,781,468	55,016	1,836,484
Issuance (redemption) of preferred shares	150,000	14,734,497	-	-	-	-	-	-	(15,000,000)	(115,503)	-	(115,503)
Acquisition of non-controlling interests in a foreign subsidiary	-	-	383,783	-	47,128	-	-	-	-	430,911	126,149	557,060
Cash dividends (Note 6)	-	-	-	-	-	-	-	(912,135)	-	(912,135)	(330,000)	(1,242,135)
Appropriations (Note 6)	-	-	-	-	-	-	4,999,100	(4,999,100)	-	-	-	-
As at June 30, 2015 (Unaudited)	₱2,008,748	₱35,234,781	₱402,002	(₱470,628)	(₱201,621)	₱ 3,720	₱6,199,100	₱7,425,861	(₱15,182,094)	₱35,419,869	₱1,578,860	₱36,998,729

Forward

	Attributable to Equity Holders of the Parent Company											
					Cumulative Translation Adjustments		Retained Earnings					
	Capital Stock	Additional Paid-in Capital	Revaluation Surplus	Reserve for Retirement Plan	Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated	Treasury Stock	Total	Non-controlling Interests	Total Equity
As at December 31, 2013 (Audited)	₱1,858,748	₱20,500,284	₱18,219	(₱434,714)	(₱251,603)	₱2,865	₱750,000	₱17,929,528	(₱182,094)	₱40,191,233	₱2,168,692	₱42,359,925
Other comprehensive income (loss)												
Net gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	(1,945)	-	-	-	-	(1,945)	106	(1,839)
Net loss on available-for-sale financial assets, net of tax	-	-	-	-	-	(60)	-	-	-	(60)	-	(60)
Other comprehensive income (loss)	-	-	-	-	(1,945)	(60)	-	-	-	(2,005)	106	(1,899)
Net income (loss) for the period	-	-	-	-	-	-	-	1,750,513	-	1,750,513	(6,795)	1,743,718
Total comprehensive income (loss) for the period	-	-	-	-	(1,945)	(60)	-	1,750,513	-	1,748,508	(6,689)	1,741,819
Cash dividends (Note 6)	-	-	-	-	-	-	-	(8,800,021)	-	(8,800,021)	(400,300)	(9,200,321)
Appropriations (Note 6)	-	-	-	-	-	-	450,000	(450,000)	-	-	-	-
As at June 30, 2014 (Unaudited)	₱1,858,748	₱20,500,284	₱18,219	(₱434,714)	(₱253,548)	₱2,805	₱1,200,000	₱10,430,020	(₱182,094)	₱33,139,720	₱1,761,703	₱34,901,423

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

ZENAIDA M. POSTRADO
Treasurer and Chief Finance Officer

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In Thousands)

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,592,947**	₱2,566,042
Adjustments for:		
Depreciation and amortization	**1,401,718**	1,372,656
Interest expense and other financing charges	**216,829**	214,824
Allowance for impairment losses on receivables and write-down of inventories	**92,143**	247,476
Interest income	**(95,455)**	(54,007)
Other charges (income) net of loss (gain) on derivative transactions	**10,653**	(246,455)
Gain on sale of investment property and property and equipment	**(99,893)**	(148)
Operating income before working capital changes	**4,118,942**	4,100,388
Decrease (increase) in:		
Trade and other receivables	**2,854,191**	2,860,589
Inventories	**(2,729,142)**	(1,156,813)
Biological assets	**(123,115)**	13,652
Prepaid expenses and other current assets	**1,110,188**	327,788
Decrease in trade payables and other current liabilities	**(2,483,116)**	(1,264,568)
Cash generated from operations	**2,747,948**	4,881,036
Interest received	**80,188**	57,422
Interest paid	**(214,677)**	(219,096)
Income taxes paid	**(809,063)**	(968,705)
Net cash flows provided by operating activities	**1,804,396**	3,750,657
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of non-controlling interests in a foreign subsidiary	**557,060**	-
Acquisitions of intangible assets	**(457,351)**	(69,658)
Acquisitions of property, plant and equipment	**(616,711)**	(394,006)
Increase in noncurrent biological assets and other noncurrent assets	**(1,044,805)**	(776,592)
Proceeds from sale of investment, investment property and property and equipment	**102,292**	13,886,613
Increase in other noncurrent liabilities	**2,818**	4,447
Net cash flows provided by (used in) investing activities	**(1,456,697)**	12,650,804
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of outstanding preferred shares	**(15,000,000)**	-
Proceeds from issuance of perpetual series "2" preferred shares	**14,884,497**	-
Availment of long-term debt	**50,730**	-
Net payments of notes payable	**(1,945,603)**	(2,245,524)
Cash dividends paid	**(913,452)**	(9,195,779)
Net cash flows used in financing activities	**(2,923,828)**	(11,441,303)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(120)**	591
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,576,249)**	4,960,749
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**14,215,875**	7,030,943
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱11,639,626**	₱11,991,692

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

ZENAIDA M. POSTRADO
Treasurer and Chief Finance Officer

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Per Share Data)

1. Reporting Entity

San Miguel Pure Foods Company Inc. (SMPFC or the Parent Company), a subsidiary of San Miguel Corporation (SMC or the Intermediate Parent Company), was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) in October 1956. 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) since 1973. Top Frontier Investment Holdings, Inc. (Top Frontier) is the ultimate parent company of the Group. The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the "Group").

The Group is involved in poultry operations, livestock farming and processing and selling of meat products, processing and marketing of refrigerated and canned meat products, manufacturing and marketing of feeds and flour products, cooking oils, breadfill, desserts and dairy-based products, biscuits (beginning February 2015), importation and marketing of coffee and coffee-related products, and grain terminal handling.

The registered office address of the Parent Company is 23rd Floor, The JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City.

2. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended June 30, 2015 and comparative financial statements for the same period in 2014 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements are presented in Philippine peso and all values are rounded off to the nearest thousand (₱000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements.

<u>Adoption of New and Amended Standards</u>

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of new and amended standards as part of PFRS.

Amendments to Standards Adopted in 2015

The Group has adopted the following PFRS starting January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
  - Meaning of 'Vesting Condition' *(Amendment to PFRS 2, Share-based Payment)*. PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be

differentiated from a non-vesting condition.

- Scope Exclusion for the Formation of Joint Arrangements *(Amendment to PFRS 3, Business Combinations).* PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e., including joint operations - in the financial statements of the joint arrangements themselves.

- Disclosures on the Aggregation of Operating Segments *(Amendments to PFRS 8, Operating Segments).* PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Scope of Portfolio Exception *(Amendment to PFRS 13, Fair Value Measurement).* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument.

- Definition of 'Related Party' (*Amendments to PAS 24, Related Party Disclosures*). The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans.

- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40).* PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3.

▪ Classification and Measurement of Contingent Consideration *(Amendments to PFRS 3).* The amendments clarify the classification and measurement of contingent consideration in a business combination. When contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to PAS 32, rather than to any other PFRS. Contingent consideration that is classified as an asset or a liability is always subsequently measured at fair value, with changes in fair value recognized in profit or loss. Consequential amendments are also made to PAS 39 and PFRS 9 to prohibit contingent consideration from subsequently being measured at amortized cost. In addition, PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is amended to exclude provisions related to contingent consideration.

Except as otherwise indicated, the adoption of these foregoing amended standards did not have a material effect on the interim consolidated financial statements.

New and Amended Standards Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2015, and have not been applied in preparing the interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- Disclosure Initiative *(Amendments to PAS 1, Presentation of Financial Statements)*. The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, the consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and the consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Accounting for Acquisitions of Interests in Joint Operations *(Amendments to PFRS 11).* The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured. The amendments place the focus firmly on the definition of a business, because this is key to determining whether the acquisition is accounted for as a business combination or as the acquisition of a collection of assets. As a result, this places pressure on the judgment applied in making this determination. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- Clarification of Acceptable Methods of Depreciation and Amortization *(Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets).* The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates).* The amendments address an inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture between the requirements in PFRS 10 and PAS 28. The amendments require that a full gain or loss is recognized when a transaction involves a business whether it is housed in a subsidiary or not. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- *Annual Improvements to PFRS Cycles 2012-2014* contain changes to four standards, of which the following are applicable to the Group:

  - Changes in Method for Disposal *(Amendments to PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations).* PFRS 5 is amended to clarify that: (a) if an entity changes the method of disposal of an asset or disposal group - i.e., reclassifies an asset or disposal group from held-for-distribution to owners to held-for-sale, or vice versa, without any time lag - the change in classification is considered a continuation of the original plan of disposal and the entity continues to apply held-for-distribution or held-for-sale accounting. At the time of the change in method, the entity measures the carrying amount of the asset or disposal group and recognizes any write-down (impairment loss) or subsequent increase in the fair value of the asset or disposal group, less costs to sell or distribute; and (b) if an entity determines that an asset or disposal group no longer meets the criteria to be classified as held-for-distribution, then it ceases held-for-distribution accounting in the same way as it would cease held-for-sale accounting. Any change in method of disposal or distribution does not, in itself, extend the period in which a sale has to be completed. The amendments to PFRS 5 are applied prospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* to changes in methods of disposal that occur on or after January 1, 2016.

  - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements *(Amendment to PFRS 7, Financial Instruments: Disclosures).* The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

  - Disclosure of Information 'Elsewhere in the Interim Financial Report' *(Amendment to PAS 34).* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment is required to be applied retrospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

3. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group has three reportable segments, namely, Agro-Industrial, Value-Added Meats and Milling. Management identified and grouped the operating units in its operating segments with the objective of transforming the Group into a more rationalized and focused organization. The structure aims to boost efficiencies across the Group and raise effectiveness in defining and meeting the needs of consumers in innovative ways.

The Agro-Industrial segment includes the integrated Feeds, Poultry and Fresh Meats operations. These businesses are involved in feeds production and in poultry and livestock farming, processing and selling of poultry and meat products.

The Value-Added Meats segment is engaged in the processing and marketing of value-added refrigerated processed meats and canned meat products.

The Milling segment is into manufacturing and marketing of flour, flour mixes and bakery ingredients, and is engaged in grain terminal handling.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oils, biscuits (beginning February 2015), importation and marketing of coffee and coffee-related products, and foreign operations which include hog farming, feeds production and sale of fresh and processed meats by foreign subsidiaries.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

Major Customer

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

Financial information about reportable segments follows:

	For the Six Months Ended June 30, 2015						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Dairy and Others	Eliminations	Consolidated
REVENUES							
External	**₱33,990,866**	**₱6,913,899**	**₱4,456,221**	**₱45,360,986**	**₱5,147,247**	**₱ -**	**₱50,508,233**
Inter-segment	**514,648**	**23,570**	**616,730**	**1,154,948**	**102,409**	**(1,257,357)**	**-**
Total revenues	**₱34,505,514**	**₱6,937,469**	**₱5,072,951**	**₱46,515,934**	**₱5,249,656**	**(₱1,257,357)**	**₱50,508,233**
Segment operating results	**₱723,693**	**₱358,803**	**₱1,162,172**	**₱2,244,668**	**₱495,447**	**₱ -**	**₱2,740,115**
Interest expense and other financing charges	**(137,841)**	**(17,512)**	**(20,241)**	**(175,594)**	**(43,654)**	**2,419**	**(216,829)**
Interest income	**7,749**	**2,868**	**5,687**	**16,304**	**81,570**	**(2,419)**	**95,455**
Gain on sale of investment property and property and equipment	**99,197**	**146**	**59**	**99,402**	**491**	**-**	**99,893**
Other charges - net	**(33,393)**	**(2,761)**	**(6,502)**	**(42,656)**	**(83,031)**	**-**	**(125,687)**
Income tax benefit (expense)	**(194,014)**	**(102,485)**	**(327,239)**	**(623,738)**	**(147,327)**	**6,986**	**(764,079)**
Net income	**₱465,391**	**₱239,059**	**₱813,936**	**₱1,518,386**	**₱303,496**	**₱6,986**	**₱1,828,868**

	For the Six Months Ended June 30, 2014						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Dairy and Others	Eliminations	Consolidated
REVENUES							
External	₱33,415,787	₱6,145,307	₱4,374,529	₱43,935,623	₱5,240,661	₱ -	₱49,176,284
Inter-segment	402,824	22,886	483,709	909,419	114,476	(1,023,895)	-
Total revenues	33,818,611	6,168,193	4,858,238	44,845,042	5,355,137	(1,023,895)	49,176,284
Segment operating results	1,111,995	273,254	1,104,386	2,489,635	207,104	181	2,696,920
Interest expense and other financing charges	(123,064)	(26,749)	(16,359)	(166,172)	(63,035)	14,383	(214,824)
Interest income	752	17,020	3,623	21,395	46,995	(14,383)	54,007
Gain (loss) on sale of property and equipment	-	-	150	150	(2)	-	148
Other income (charges) - net	(6,610)	6,295	43,553	43,238	(13,447)	-	29,791
Income tax benefit (expense)	(286,154)	(80,972)	(341,153)	(708,279)	(114,396)	351	(822,324)
Net income	₱696,919	₱188,848	₱794,200	₱1,679,967	₱63,219	₱532	₱1,743,718

4. Property, Plant and Equipment

This account consists of:

June 30, 2015

	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:						
December 31, 2014	**₱2,482,284**	**₱7,431,797**	**₱10,550,213**	**₱429,061**	**₱125,816**	**₱21,019,171**
Additions	**100,691**	**140,130**	**199,023**	**1,341**	**175,526**	**616,711**
Disposals	**-**	**-**	**(16,239)**	**(8,860)**	**-**	**(25,099)**
Transfers/reclassifications	**7,622**	**(1,147,096)**	**(475,260)**	**(25,314)**	**(24,004)**	**(1,664,052)**
Currency translation adjustments	**(1,345)**	**(21,601)**	**(16,320)**	**(1,422)**	**-**	**(40,688)**
June 30, 2015	**2,589,252**	**6,403,230**	**10,241,417**	**394,806**	**277,338**	**19,906,043**
Accumulated depreciation:						
December 31, 2014	**347,859**	**2,743,949**	**6,790,431**	**417,211**	**-**	**10,299,450**
Additions	**10,431**	**121,032**	**323,817**	**1,547**	**-**	**456,827**
Disposals	**-**	**-**	**(16,135)**	**(8,860)**	**-**	**(24,995)**
Transfers/reclassifications	**-**	**(696,048)**	**(452,014)**	**(24,642)**	**-**	**(1,172,704)**
Currency translation adjustments	**-**	**(12,816)**	**(13,981)**	**(1,412)**	**-**	**(28,209)**
June 30, 2015	**358,290**	**2,156,117**	**6,632,118**	**383,844**	**-**	**9,530,369**
Carrying amount at June 30, 2015	**₱2,230,962**	**₱4,247,113**	**₱3,609,299**	**₱10,962**	**₱277,338**	**₱10,375,674**

June 30, 2014

	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost:						
December 31, 2013	₱2,323,925	₱7,364,208	₱10,530,509	₱427,180	₱11,432	₱20,657,254
Additions	172,490	12,841	120,809	-	87,866	394,006
Disposals	-	-	(631)	(2,368)	-	(2,999)
Transfers/reclassifications	(1,253)	57,613	(197,173)	6,369	(78,382)	(212,826)
Currency translation adjustments	32	(35,074)	(16,852)	(748)	8	(52,634)
June 30, 2014	2,495,194	7,399,588	10,436,662	430,433	20,924	20,782,801
Accumulated depreciation:						
December 31, 2013	328,302	2,473,221	6,190,524	411,019	-	9,403,066
Additions	9,899	145,585	347,584	2,548	-	505,616
Disposals	-	-	(629)	(2,269)	-	(2,898)
Transfers/reclassifications	-	(14,498)	(33,655)	6,369	-	(41,784)
Currency translation adjustments	-	(20,311)	(14,907)	(727)	-	(35,945)
June 30, 2014	338,201	2,583,997	6,488,917	416,940	-	9,828,055
Carrying amount at June 30, 2014	₱2,156,993	₱4,815,591	₱3,947,745	₱13,493	₱20,924	₱10,954,746

Depreciation charged to operations amounted to ₱456.8 million and ₱505.6 million for the six months period ended June 30, 2015 and 2014, respectively.

5. Other Intangible Assets

In November 2014, SMPFC entered into an Intellectual Property Rights Transfer Agreement with Felicisimo Martinez & Co. Inc. (FMC) for the transfer to SMPFC of FMC's trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC's *La Pacita* biscuit and flour-based snack business. The refundable deposit paid by SMPFC in November 2014 was recognized by SMPFC as part of non-trade receivables as at December 31, 2014.

In February 2015, the acquisition of FMC's IP Rights was completed following the substantial fulfillment of the closing conditions and the payment of the consideration for such IP Rights.

6. Equity

Capital Stock

The Parent Company's capital stock, at P10 par value, consists of the following number of shares as at June 30, 2015:

	Common	Preferred
Issued shares at beginning of period	170,874,854	15,000,000
Issuances during the period	-	15,000,000
Issued shares at end of period	170,874,854	30,000,000
Treasury shares	(4,207,758)	(15,000,000)
Issued and outstanding shares at end of period	166,667,096	15,000,000
Authorized shares	206,000,000	40,000,000

Preferred Shares issued and listed with the PSE on March 3, 2011

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of P1,000.00 per share during the period February 14 to 25, 2011. The dividend rate was set at 8% per annum with dividend payment dates on March 3, June 3, September 3 and December 3 of each year calculated on a 30/360-day basis, as and if declared by the BOD. The preferred shares are redeemable in whole or in part, in cash, at the sole option of SMPFC, at the end of the 5th year from issuance date or on any dividend payment date thereafter, at the price equal to the issue price plus any accumulated and unpaid cash dividends. Optional redemption of the preferred shares prior to 5th year from issuance date was provided under certain conditions (i.e., accounting, tax or change of control events), as well as on the 3rd anniversary from issuance date or on any dividend payment date thereafter, as and if declared by the BOD. Unless the preferred shares are redeemed by SMPFC on its 5th year anniversary, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 8% or the ten-year PDST-F rate prevailing on the optional redemption date plus 3.33% per annum.

On February 3, 2015, SMPFC's Board of Directors (BOD) approved the redemption on March 3, 2015 of the 15,000,000 outstanding preferred shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

Perpetual Series "2" Preferred Shares issued and listed with the PSE on March 12, 2015

On January 20, 2015, the board of directors of the PSE approved, subject to SEC approval and certain conditions, the application of SMPFC to list up to 15,000,000 perpetual series "2" preferred shares (PFP2 Shares) with a par value of P10.00 per share to cover the Company's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered the Parent Company's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by the Parent Company's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of P1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of the Parent Company, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by the Parent Company on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by the Parent Company, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, the Parent Company's 15,000,000 PFP2 Shares with par value of P10.00 per share were issued and listed with the PSE.

As at June 30, 2015, the Parent Company has a total of 129 and 88 common and preferred stockholders, respectively.

Treasury Shares

Treasury shares, totaling 4,207,758 common shares and 15,000,000 preferred shares, are carried at cost as at June 30, 2015.

Treasury shares, totaling 4,207,758 common shares, are carried at cost as at December 31, 2014.

Appropriated Retained Earnings

On March 7, 2013, the BOD of The Purefoods-Hormel Company, Inc. (PF-Hormel), a 60%-owned subsidiary of SMPFC, approved the retention of the ₱1,250.0 million appropriated retained earnings as at December 31, 2013 and 2012 to finance future capital expenditure projects expected to be completed within two years.

On March 10, 2014, the BOD of PF-Hormel approved an additional appropriation amounting to ₱750.0 million, increasing its total appropriated retained earnings from ₱1,250.0 million to ₱2,000.0 million, to finance a plant expansion. The project started in 2015 and is expected to be completed in two years.

On June 23, 2015, the BOD of San Miguel Foods, Inc. (SMFI), a 99.97% -owned subsidiary of SMPFC, approved an appropriation amounting to ₱3,000.0 million, to finance SMFI's feed mill expansion projects. The projects started in 2015 and are expected to be completed in three years.

On the same date, the BOD of San Miguel Mills, Inc. (SMMI), a wholly-owned subsidiary of SMPFC, approved an appropriation amounting to ₱2,000.0 million, to finance SMMI's flour mill expansion project. The project started in 2015 and is expected to be completed in two years.

Dividends

On February 3, 2015, the Parent Company's BOD declared cash dividends to all preferred and common shareholders of record as at February 17, 2015 amounting to ₱20.00 and ₱1.20 per share, respectively, payable on March 3, 2015.

On May 7, 2015, the Parent Company's BOD declared cash dividends to all common shareholders of record as at May 22, 2015 amounting to ₱1.20 per share payable on June 5, 2015. SMPFC's BOD likewise declared on May 7, 2015 cash dividends to all preferred shareholders of record as at May 22, 2015 amounting to ₱14.14225 per share payable on June 12, 2015.

7. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, and associate in the normal course of business, purchase products and services from one another. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial period by examining the financial position of the related party and the market in which the related party operates.

Transactions with related parties and the related balances include the following:

	Period	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Intermediate Parent Company	**June 30, 2015**	**₱853**	**₱316,423**	**₱5,785**	**₱150,985**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2014	₱7,226	₱676,076	₱18,162	₱313,408		
Entities under Common Control	**June 30, 2015**	**5,244**	**776,550**	**105,068**	**778,448**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2014	27,397	3,235,328	116,118	710,989		
Shareholder in subsidiaries	**June 30, 2015**	**-**	**-**	**7,200**	**-**	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2014	-	-	14,886	159,808		
Total	**June 30, 2015**	**₱6,097**	**₱1,092,973**	**₱118,053**	**₱929,433**		
Total	December 31, 2014	₱34,623	₱3,911,404	₱149,166	₱1,184,205		

Amounts owed by related parties consist mainly of trade and non-trade receivables and derivative assets. As at June 30, 2015, amounts owed by related parties amounting to ₱1.4 million and ₱1.2 million are included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts, respectively, while as at December 31, 2014, amounts owed by related parties amounting to ₱1.2 million is included under "Other noncurrent assets" account.

Amounts owed to related parties consist mainly of trade and non-trade payables, management fees and derivative liabilities.

8. Basic and Diluted Earnings Per Common Share

Basic and diluted earnings per common share is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Basic earnings per common share is computed as follows:

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Net income attributable to equity holders of the Parent Company	**₱1,773,069**	₱1,750,513
Dividends on preferred shares for the period	**(512,134)**	(600,000)
Net income attributable to common shareholders of the Parent Company (a)	**₱1,260,935**	₱1,150,513
Common shares issued and outstanding	**166,667,096**	166,667,096
Weighted average number of common shares (b)	**166,667,096**	166,667,096
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**₱7.57**	₱6.90

As at June 30, 2015 and 2014, the Group has no dilutive equity instruments.

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Commodity Price Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure of the Group to each of the foregoing risks, objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, available-for-sale (AFS) financial assets, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, trade payables and other current liabilities, and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity options are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to commodity price risks arising from the operating activities.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the BOD on its activities.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures of the Group, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The BOD constituted the Audit Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with legal and regulatory requirements, including the disclosure control and procedures; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee reviews the reports required to be included in the annual report of the Group.

The accounting policies in relation to derivatives are set out in Note 10 to the interim consolidated financial statements.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any;

- fair value reserves arising from increases or decreases in fair values of AFS financial assets reported as part of other comprehensive income; and

- hedging reserves arising from increases or decreases in fair values of hedging instruments designated in qualifying cash flow hedge relationships reported as part of other comprehensive income.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱37.0 million for the period ended June 30, 2015 and for the year ended December 31, 2014. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Interest Rate Risk Table

As at June 30, 2015 and December 31, 2014, the terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

June 30, 2015	**<1 Year**	**1-2 Years**	**Total**
Fixed rate			
Philippine peso-denominated	**₱800,000**	**₱ -**	**₱800,000**
Interest rate	**5.4885%**		
Foreign currency-denominated (expressed in Philippine peso)	**-**	**50,730**	**50,730**
Interest rate		**12.45% -12.85%**	
Floating rate			
Philippine peso-denominated	**3,700,000**	**-**	**3,700,000**
Interest rate*	**3-month PDST-R plus margin**		
	₱4,500,000	**₱50,730**	**₱4,550,730**

December 31, 2014	<1 Year	1-2 Years	Total
Fixed rate			
Philippine peso-denominated	₱800,000	₱ -	₱800,000
Interest rate	5.4885%		
Floating rate			
Philippine peso-denominated	3,700,000	-	3,700,000
Interest rate	3-month PDST-F plus margin		
	₱4,500,000	₱ -	₱4,500,000

**Philippine Dealing and Exchange Corp. discontinued to publish PDST-F effective April 1, 2015.*

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using non-derivative instruments to manage its foreign currency risk exposure.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents are as follows:

	June 30, 2015		December 31, 2014	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$8,578**	**₱386,782**	US$4,797	₱214,522
Trade and other receivables	**6,608**	**297,955**	8,044	359,728
	15,186	**684,737**	12,841	574,250
Liabilities				
Notes payable	**2,205**	**99,423**	6,522	291,664
Trade payables and other current liabilities	**7,207**	**324,964**	9,899	442,683
Long-term debt	**1,125**	**50,730**	-	-
Other noncurrent liabilities	**1**	**45**	1	45
	10,538	**475,162**	16,422	734,392
Net foreign currency-denominated monetary liabilities	**US$4,648**	**₱209,575**	(US$3,581)	(₱160,142)

The Group reported net foreign exchange losses of ₱24.5 million and ₱19.5 million for the period ended June 30, 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	Philippine Peso to US Dollar
June 30, 2015	45.090
December 31, 2014	44.720
June 30, 2014	43.650
December 31, 2013	44.395

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in unrealized and realized foreign exchange gains or losses;

- translation reserves arising from increases or decreases in foreign exchange gains or losses recognized directly as part of other comprehensive income; and

- hedging reserves arising from increases or decreases in foreign exchange gains or losses of the hedged item and the hedging instrument.

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations) as at June 30, 2015 and December 31, 2014.

	June 30, 2015			
	₱1 Decrease in the US Dollar Exchange Rate		**₱1 Increase in the US Dollar Exchange Rate**	
	Effect on Income before Income Tax	**Effect on Equity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	**(₱7,492)**	**(₱6,331)**	**₱7,492**	**₱6,331**
Trade and other receivables	**(2,820)**	**(5,762)**	**2,820**	**5,762**
	(10,312)	**(12,093)**	**10,312**	**12,093**
Notes payable	**-**	**2,205**	**-**	**(2,205)**
Trade payables and other current liabilities	**2,785**	**6,372**	**(2,785)**	**(6,372)**
Long-term debt	**-**	**1,125**	**-**	**(1,125)**
Other noncurrent liabilities	**-**	**1**	**-**	**(1)**
	2,785	**9,703**	**(2,785)**	**(9,703)**
	(₱7,527)	**(₱2,390)**	**₱7,527**	**₱2,390**

	December 31, 2014			
	₱1 Decrease in the US Dollar Exchange Rate		₱1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity (Net of Tax)	Effect on Income before Income Tax	Effect on Equity (Net of Tax)
Cash and cash equivalents	(₱2,767)	(₱3,968)	₱2,767	₱3,968
Trade and other receivables	(3,731)	(6,924)	3,731	6,924
	(6,498)	(10,892)	6,498	10,892
Notes payable	-	6,522	-	(6,522)
Trade payables and other current liabilities	4,230	8,630	(4,230)	(8,630)
Other noncurrent liabilities	-	1	-	(1)
	4,230	15,153	(4,230)	(15,153)
	(₱2,268)	₱4,261	₱2,268	(₱4,261)

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices. The Group, through SMC, enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show mark-to-market losses; however, any loss in the mark-to-market position is offset by the resulting lower physical raw material cost.

SMC enters into commodity derivative transactions on behalf of the Group to reduce cost by optimizing purchasing synergies within the SMC Group of Companies and managing inventory levels of common materials.

The Group uses commodity futures, swaps and options to manage the Group's exposures to volatility in prices of certain commodities such as soybean meal, wheat and fuel oil.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

	June 30, 2015					
	Carrying Amount	**Contractual Cash Flow**	**1 Year or Less**	**> 1 Year - 2 Years**	**> 2 Years - 5 Years**	**Over 5 Years**
Financial Assets						
Cash and cash equivalents	**₱11,639,626**	**₱11,639,626**	**₱11,639,626**	**₱ -**	**₱ -**	**₱ -**
Trade and other receivables - net	**7,982,501**	**7,982,501**	**7,982,501**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**7,584**	**7,584**	**7,584**	**-**	**-**	**-**
AFS financial assets (included under "Other noncurrent assets" account)	**10,405**	**10,405**	**-**	**-**	**-**	**10,405**
Financial Liabilities						
Notes payable	**6,800,717**	**6,803,003**	**6,803,003**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**12,884,141**	**12,884,141**	**12,884,141**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**47,005**	**47,005**	**47,005**	**-**	**-**	**-**
Long-term debt including current maturities - net of debt issue costs	**4,546,728**	**4,647,580**	**4,593,518**	**54,062**	**-**	**-**
Other noncurrent liabilities (excluding retirement liability)	**40**	**40**	**-**	**40**	**-**	**-**

	December 31, 2014					
	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	₱14,215,875	₱14,215,875	₱14,215,875	₱ -	₱ -	₱ -
Trade and other receivables - net	10,827,434	10,827,434	10,827,434	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	12,422	12,422	12,422	-	-	-
AFS financial assets (included under "Other noncurrent assets" account)	9,962	9,962	-	-	-	9,962
Financial Liabilities						
Notes payable	8,753,425	8,763,524	8,763,524	-	-	-
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	14,726,814	14,726,814	14,726,814	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account)	55,310	55,310	55,310	-	-	-
Current maturities of long-term debt - net of debt issue costs	4,491,685	4,683,379	4,683,379	-	-	-
Other noncurrent liabilities (excluding retirement liability)	41	41	-	41	-	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade and other receivables and investment securities. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

Goods are subject to retention of title clauses so that in the event of default, the Group would have a secured claim. Where appropriate, the Group obtains collateral or arranges master netting agreements.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments
The Group recognizes impairment losses based on specific and collective impairment tests, when objective evidence of impairment has been identified either on an individual account or on a portfolio level.

Financial information on the Group's maximum exposure to credit risk as at June 30, 2015 and December 31, 2014, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	June 30, 2015	December 31, 2014
Cash and cash equivalents (excluding cash on hand)	**₱11,626,982**	₱14,198,983
Trade and other receivables - net	**7,982,501**	10,827,434
Derivative assets	**7,584**	12,422
AFS financial assets	**10,405**	9,962
	₱19,627,472	₱25,048,801

The credit risk for cash and cash equivalents, derivative assets and AFS financial assets is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock
The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk
The Group's market price risk arises from its investments carried at fair value (AFS financial assets). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management
The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Treasury stock, which is also a component of equity, is deducted from capital for purposes of capital management. Other components of equity such as cumulative translation adjustments, reserve for retirement plans and revaluation surplus are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group is not subject to externally-imposed capital requirements.

10. Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVPL), includes transaction costs.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial Assets
The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no financial assets classified as HTM investments as at June 30 and March 31, 2015 and December 31, 2014.

Financial Assets at FVPL. A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair values in accordance with the documented risk management or investment strategy of the Group. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated by management at initial recognition as at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned is recognized as part of “Interest income” account in the consolidated statements of income. Any dividend income from equity securities classified as at FVPL is recognized in profit or loss when the right to receive payment has been established.

The Group’s derivative assets are classified under this category (Note 9).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” account in the consolidated statements of income. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group’s cash and cash equivalents and trade and other receivables are included under this category (Note 9).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other financial asset categories. Subsequent to initial recognition, AFS financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS debt instruments, are recognized in other comprehensive income and presented in the “Fair value reserve” account in the consolidated statements of changes in equity. The effective yield component of AFS debt securities is reported as part of “Interest income” account in the consolidated statements of income. Dividends earned on holding AFS equity securities are recognized as dividend income when the right to receive the payment has been established. When individual AFS financial assets are either derecognized or impaired, the related accumulated unrealized gains or losses previously reported in equity are transferred to and recognized in profit or loss.

AFS financial assets also include unquoted equity instruments with fair values which cannot be reliably determined. These instruments are carried at cost less impairment in value, if any.

The Group's investments in shares of stock included under "Other noncurrent assets" account are classified under this category (Note 9).

Financial Liabilities
The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Financial Liabilities at FVPL. Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income.

The Group's derivative liabilities are classified under this category (Note 9).

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

The Group's liabilities arising from its trade or borrowings such as notes payable, trade payables and other current liabilities, long-term debt and other noncurrent liabilities are included under this category (Note 9).

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

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When 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. The difference in the respective carrying amounts is recognized in profit or loss.

<u>Impairment of Financial Assets</u>
The Group assesses, at the reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group 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 the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in profit or loss. If, in a 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 profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For equity instruments carried at fair value, the Group assesses, at each reporting date, whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Group generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.

If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals of impairment losses in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are recognized in profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

In the case of an unquoted equity instrument or of a derivative asset linked to and must be settled by delivery of an unquoted equity instrument, for which its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed.

Classification of Financial Instruments between Debt and Equity

From the perspective of the issuer, a financial instrument is classified as debt instrument if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position 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 assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as at June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**₱11,639,626**	**₱11,639,626**	₱14,215,875	₱14,215,875
Trade and other receivables - net	**7,982,501**	**7,982,501**	10,827,434	10,827,434
Derivative assets (included under "Prepaid expenses and other current assets" account)	**7,584**	**7,584**	12,422	12,422
AFS financial assets (included under "Other noncurrent assets" account)	**10,405**	**10,405**	9,962	9,962
Financial Liabilities				
Notes payable	**6,800,717**	**6,800,717**	8,753,425	8,753,425
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**12,884,141**	**12,884,141**	14,726,814	14,726,814
Derivative liabilities (included under "Trade payables and other current liabilities" account)	**47,005**	**47,005**	55,310	55,310
Long-term debt including current maturities - net of debt issue costs	**4,546,728**	**4,562,477**	4,491,685	4,514,109
Other noncurrent liabilities (excluding retirement liability)	**40**	**40**	41	41

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents and Trade and Other Receivables. The carrying amounts of cash and cash equivalents, and trade and other receivables approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding commodity derivatives, the fair values are determined based on quoted prices obtained from active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

AFS Financial Assets. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. Unquoted equity securities are carried at cost less impairment.

Notes Payable and Trade Payables and Other Current Liabilities. The carrying amounts of notes payable and trade payables and other current liabilities approximate fair values due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 2.17% to 2.18% and 2.54% to 2.69% as at June 30, 2015 and December 31, 2014, respectively. Discount rates used for foreign currency-denominated loan range from 6.86% to 8.04% as at June 30, 2015. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments
The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments are discussed below.

The Group, through SMC, enters into various commodity derivative contracts to manage its exposure on commodity price risk. The portfolio is a mixture of instruments including futures, swaps and options.

Derivative Financial Instruments and Hedging
Freestanding Derivatives
For the purpose of hedge accounting, hedges are classified as either: a) fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); b) cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or c) hedges of a net investment in foreign operations.

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

Fair Value Hedge. Derivatives classified as fair value hedges are carried at fair value with corresponding change in fair value recognized in profit or loss. The carrying amount of the hedged asset or liability is also adjusted for changes in fair value attributable to the hedged item and the gain or loss associated with that remeasurement is also recognized in profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued and the adjustment to the carrying amount of a hedged financial instrument is amortized immediately.

The Group discontinues fair value hedge accounting if: (a) the hedging instrument expires, is sold, is terminated or is exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

The Group has no outstanding derivatives accounted for as fair value hedges as at June 30 and March 31, 2015 and December 31, 2014.

Cash Flow Hedge. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, all gains or losses previously recognized directly in equity are transferred from equity and included in the initial measurement of the cost or carrying amount of the asset or liability. Otherwise, for all other cash flow hedges, gains or losses initially recognized in equity are transferred from equity to profit or loss in the same period or periods during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been reported directly in equity is retained in equity until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in equity is recognized in profit or loss.

The Group has no outstanding derivatives accounted for as cash flow hedges as at June 30 and March 31, 2015 and December 31, 2014.

Net Investment Hedge. Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of a foreign operation, the cumulative value of any such gains and losses recorded in equity is transferred to and recognized in profit or loss.

The Group has no hedge of a net investment in a foreign operation as at June 30 and March 31, 2015 and December 31, 2014.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss during the year incurred.

Embedded Derivatives
The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized as at FVPL. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Derivative Instruments Not Designated as Hedges
The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding commodity options and embedded currency forwards which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in profit or loss. Details are as follows:

Freestanding Derivatives
Freestanding derivatives consist of various commodity options entered into by SMC on behalf of the Group.

The Group has outstanding bought and sold options covering its wheat requirements with notional quantities as at March 31, 2015 and December 31, 2014 of 2,994 and 5,987 metric tons, respectively. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. As at March 31, 2015 and December 31, 2014, the net negative fair value of these options amounted to ₱5.0 million. As at June 30, 2015, the Group has no outstanding options covering its wheat requirements.

The Group has outstanding bought options covering its fuel oil requirements with notional quantity as at June 30 and March 31, 2015 of 1,950 and 975 metric tons, respectively. These options can be exercised at various calculation dates in 2015 with specified quantities on each calculation date. As at June 30 and March 31, 2015, the positive fair value of these options amounted to ₱1.2 million and ₱0.6 million, respectively. As at December 31, 2014, the Group has no outstanding options covering its fuel oil requirements.

As at June 30 and March 31, 2015 and December 31, 2014, the Group has no outstanding bought and sold options covering its soybean meal requirements.

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at June 30 and March 31, 2015 and December 31, 2014, the total outstanding notional amount of such

embedded currency forwards amounted to US$74.8 million, US$89.7 million and US$85.6 million, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. As at June 30 and March 31, 2015 and December 31, 2014, the net negative fair value of these embedded currency forwards amounted to ₱40.6 million, ₱38.0 million and ₱37.9 million, respectively.

For the periods ended June 30, 2015 and 2014 and March 31, 2015 and 2014, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (₱23.7 million), ₱69.7 million, (₱7.6 million) and ₱44.0 million, respectively.

Fair Value Measurements

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

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 most advantageous market must be accessible to the Group.

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

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 consolidated 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 prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization 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.

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The table below analyzes financial instruments carried at fair value by valuation method:

June 30, 2015

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**₱-**	**₱7,584**	**₱7,584**
AFS financial assets	**9,324**	**1,081**	**10,405**
Financial Liabilities			
Derivative liabilities	**-**	**47,005**	**47,005**

December 31, 2014

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	₱ -	₱12,422	₱12,422
AFS financial assets	8,867	1,095	9,962
Financial Liabilities			
Derivative liabilities	-	55,310	55,310

As at June 30, 2015 and December 31, 2014, the Group has no financial instruments valued based on Level 3. During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

11. Other Matters

a. On August 6, 2015, the Parent Company's BOD declared cash dividends to all common shareholders of record as at August 24, 2015 amounting to ₱1.20 per share payable on September 4, 2015. SMPFC's BOD likewise declared on August 6, 2015 cash dividends to all preferred shareholders of record as at August 24, 2015 amounting to ₱14.14225 per share payable on September 12, 2015.

b. There were no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.

c. There were no material changes in estimates of amounts reported in prior financial years.

d. Certain amounts in prior year have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

e. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.

f. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operations.

g. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 35 (b) of the 2014 Audited Consolidated Financial Statements that remain outstanding as at June 30, 2015. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

h. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period ended June 30, 2015.

i. Except for the Processed Meats, Dairy, Poultry and Fresh Meats businesses which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicality on the interim operations of the Parent Company's other businesses are not material.

j. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at end of June 30, 2015. These consist mainly of expansion-related projects and fixed asset acquisitions. Also included are the replacements and major repairs of fixed assets needed for normal operations of the businesses. These projects will be carried forward to the next quarter until completion. The fund to be used for these projects will come from available cash, and short-term and long-term loans.

Annex “B”

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Pure Foods Company Inc. (“SMPFC” or the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the period ended June 30, 2015 (with comparative figures as at December 31, 2014 and for the period ended June 30, 2014). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2015, and for all the other periods presented, have been made. Certain information and footnote disclosures normally included in the audited consolidated financial statements prepared in accordance with the Philippine Financial Reporting Standards have been omitted.

I. FINANCIAL PERFORMANCE

2015 vs 2014

The Group posted consolidated revenues of P50.5 billion for the first semester of 2015, a 3% increase from same period in 2014 on account of the good performance of the Feeds, Processed Meats, Dairy and Spreads, and Milling businesses.

Notwithstanding the drop in margins of Poultry and Fresh Meats business due to depressed selling prices on the back of chicken oversupply situation, gross profit increased by 9% as a result of higher volume and lower costs of some raw materials.

Selling and administrative expenses went up by 11% due to increased advertising and promotions spending on brand-building activities, as well as support to new products, and logistics costs such as warehousing rental and transportation driven by higher inventory and increased sales volume. Other factors that led to the increase in transportation costs were higher trucking rates and the Group’s ongoing programs to further widen its distribution reach.

The increase in interest income was mainly due to higher cash held in short-term placements.

The one-time gain recognized from the disposal of an investment property explains the substantial increase in gain on sale of investment property and property and equipment.

Other charges - net for the first half of 2015 was due to the costs of non-operating business of a foreign subsidiary, the year-to-date June 2015’s mark-to-market loss on wheat options and the depreciation of the peso, which affected the valuation of the Group’s embedded third currency transactions. On the other hand, other income - net for the first semester of 2014 was due to mark-to-market gain on wheat options.

Income tax expense was down by 7% due to lower taxable income of certain subsidiaries.

The overall performance of the Group in the first six months of 2015 yielded a consolidated net income of P1.8 billion, a 5% growth versus same period in 2014. The one-time gain on sale of investment property, as well as the interest income from temporary cash investments, contributed to the increase in net income.

Net income attributable to non-controlling interests contrasted that of 2014 due to better combined performances of subsidiaries where non-controlling stockholders hold stake.

Business Highlights:

Agro-Industrial

The Poultry and Fresh Meats business of San Miguel Foods, Inc. (SMFI) experienced a temporary setback due to industry oversupply of chicken which dampened selling prices. Extreme summer heat, on the other hand, resulted in lower weights of marketable hogs and broilers, thus, affecting sales volume. These factors resulted in a 3% drop in revenue and an operating profit that is lower than same period in 2014.

The Feeds business of SMFI, on the other hand, achieved an 11% revenue growth due to better selling prices and higher volume, driven mainly by the effective marketing campaigns and improved quality of feeds. The increase in revenue, combined with the cost breaks in some major raw materials and increased availability of cheaper alternative input materials, translated to a double-digit growth in operating income.

Value-Added Meats

The Purefoods-Hormel Company, Inc.'s (PF-Hormel) Processed Meats business posted volume growth due to the strong performance of its core brands. New products launched and introduced in the market played a key role, accounting for three-fourths of the processed meats growth. The increase in volume, combined with better selling prices and improved margins, resulted in higher operating income compared to the first half of 2014.

Milling

Increased sales volume and higher service revenue from its grain terminal enabled the Company's Miling business under San Miguel Mills, Inc. (SMMI) to achieve a 4% revenue growth leading to the increase in its operating profit versus last year.

Dairy and Others

The Company's Dairy, Spreads and Biscuits business under Magnolia, Inc. (Magnolia) posted a 13% increase in revenue due to better selling prices and higher volume of cheese, margarine and ice cream, as well as volume contribution of the biscuits category beginning February 2015. The softening of prices of certain major raw materials likewise contributed to its profit growth.

Heightened competitive pressures, which affected San Miguel Super Coffeemix Co., Inc.'s (SMSCCI) flagship product variant, resulted in lower volume and revenue versus the same period in 2014.

Combined operating income of businesses under Dairy and Others for the first half of 2015 is higher than same period last year's level.

2014 vs 2013

SMPFC ended the first half of 2014 with consolidated revenues reaching P49.2 billion, a 4% increase from same period in 2013 driven by the good performance of the Poultry and Fresh Meats, Milling, and Dairy and Spreads businesses. Higher sales volume and better selling prices were the revenue growth drivers.

Cost of sales of P39.9 billion was up by 5% versus 2013's level largely due to higher volume and increase in costs of some major raw materials.

Interest expense and other financing charges dropped by 29% due to lower average level of borrowings.

Interest income increased by 19% mainly due to the earnings from the proceeds of SMPFC's sale of investment in Meralco which was received in March 2014 and was held thereafter in money market placements.

The sale of SMPFC's investment in Meralco shares in September 2013 likewise explained the 100% decline in the equity in net earnings of an associate.

Lower gain on sale of investment property and property and equipment was recognized due to minimal disposal of idle assets in the first semester of 2014 versus same period in 2013.

Other income (charges) - net contrasted that of 2013 primarily due to the year-to-date June 2014's net unrealized mark-to-market gain on wheat options as against the net unrealized mark-to-market loss during the first semester of 2013.

The good performance of the Group translated to an 8% increase in income before income tax.

Income tax expense, on the other hand, posted double-digit growth as most of the income in the first half of 2014 was subjected to the 30% regular income tax rate in contrast with that of the first semester of 2013 where the equity in net earnings of an associate, which formed part of the income before income tax, is not subject to tax.

Net loss attributable to non-controlling interests was reduced due to lower loss recognized by certain subsidiaries where non-controlling stockholders hold stake.

Business Highlights:

Agro-Industrial

Revenue of the combined Poultry and Fresh Meats business of SMFI went up by 8% largely on account of the increased sales volume of poultry products and better selling prices due to industry's supply shortage in the first half of 2014. This, combined with improvements in growing efficiencies, translated to an operating profit higher than 2013's level.

SMFI's Feeds business posted 5% revenue growth mainly due to higher volume brought about by the strong performance of certain feed segments of the business. The increase in revenue, however, was tempered by high raw materials and production costs, as well as increased operating expenses, thus, resulting in an operating income slightly lower than same period in 2013.

Value-Added Meats

PF-Hormel's Processed Meats revenue for the first semester of 2014 was lower than same period in 2013 due to the purposive move in the first quarter of 2014 to reduce *'sales-to-trade'* to normalize the high inventory level coming from December 2013. This, combined with higher raw material prices and operating expenses, resulted in lower operating income as compared to the first semester of 2013.

Milling

Revenue of the Company's Milling business under SMMI grew by 7% on account of higher flour sales volume and additional revenue from the grain terminal operations. The reduction in wheat cost enabled the business to surpass 2013's operating income.

Dairy and Others

Volume growth in most categories under Magnolia's Dairy and Spreads business, as well as favorable selling prices, resulted in an 8% increase in revenue.

On the other hand, the drop in SMSCCI's volume versus 2013's level, brought about by soft demand for its two categories, resulted in a 5% decline in revenue.

Combined operating income of businesses under Dairy and Others was 9% lower versus year ago level.

II. FINANCIAL POSITION

The Group's consolidated financial position remained healthy with current ratio as at June 30, 2015 recorded at 1.73:1. Debt to equity ratio, on the other hand, improved from 0.85:1 in December 2014 to 0.72:1 in June 2015 as matured bank loans were paid in the first semester of 2015.

Below were the major developments in the first half of 2015:

a. Acquisition of Hormel Netherlands B.V.'s (Hormel) 49% interest in San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited)

   In January 2015, San Miguel Pure Foods International, Limited (SMPFIL), a wholly-owned subsidiary of SMPFC, signed an agreement for the purchase from Hormel of the latter's 49% of the issued share capital of SMPFI Limited. SMPFIL already owned 51% interest in SMPFI Limited prior to the acquisition. SMPFI Limited is the sole investor in San Miguel Hormel (Vn) Co., Ltd. (SMHVN), a company incorporated in Vietnam, which is licensed to engage in live hog farming and the production of feeds and fresh and processed meats. Following the acquisition, SMPFI Limited became a wholly-owned subsidiary of SMPFIL.

   With the divestment made by Hormel, SMHVN changed its corporate name to San Miguel Pure Foods (VN) Co., Ltd. in June 2015 following the issuance of the Binh Duong People's Committee of the amended business license of the company.

b. Acquisition of *La Pacita* Trademarks

   In February 2015, the acquisition by SMPFC of Felicisimo Martinez & Co. Inc.'s (FMC) trademarks, formulations, recipes and other intangible properties (IP Rights) relating to FMC's *La Pacita* biscuit and flour-based snack business was completed following the substantial fulfillment of the closing conditions and the payment of the consideration for such IP Rights.

c. Redemption of Outstanding Preferred Shares (PFP Shares)

   On February 3, 2015, SMPFC's Board of Directors (BOD) approved the redemption on March 3, 2015 of the 15,000,000 outstanding PFP Shares issued on March 3, 2011 at the redemption price of P1,000.00 per share.

   The redemption price and all accumulated unpaid cash dividends were paid on March 3, 2015 to relevant stockholders of record as at February 17, 2015. The redeemed preferred shares thereafter became part of SMPFC's treasury shares.

d. Issuance of Perpetual Series "2" Preferred Shares (PFP2 Shares)

   On January 20, 2015, the board of directors of the PSE approved, subject to the Philippine Securities and Exchange Commission (SEC) approval and certain conditions, the application of SMPFC to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the Company's preferred shares offering at an offer price of P1,000.00 per share and with a dividend rate to be determined by management.

On February 5, 2015, the SEC favorably considered SMPFC's Registration Statement covering the registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share (the "PFP2 Shares Offering"), subject to the conditions set forth in the pre-effective letter issued by the SEC on the same date.

On February 9, 2015, the PSE issued, subject to certain conditions, the Notice of Approval on SMPFC's application to list up to 15,000,000 PFP2 Shares with a par value of P10.00 per share to cover the PFP2 Shares Offering at an offer price of P1,000.00 per share and with a dividend rate still to be determined by management on February 11, 2015, the dividend rate setting date.

On February 11, 2015, further to the authority granted by SMPFC's BOD to management during the BOD meetings on November 5, 2014 and February 3, 2015 to fix the terms of the PFP2 Shares Offering, management determined the terms of the PFP2 Shares (Terms of the Offer), including the initial dividend rate for the PFP2 Shares at 5.6569% per annum.

A summary of the Terms of the Offer is set out below:

SMPFC, through the underwriters and selling agents, offered up to 15,000,000 cumulative, non-voting, non-participating and non-convertible peso-denominated perpetual series 2 preferred shares at an offer price of P1,000.00 per share during the period February 16 to March 5, 2015. The dividend rate was set at 5.6569% per annum with dividend payable once for every dividend period defined as (i) March 12 to June 11, (ii) June 12 to September 11, (iii) September 12 to December 11, or (iv) December 12 to March 11 of each year, calculated on a 30/360-day basis, as and if declared by the BOD. The series 2 preferred shares are redeemable in whole and not in part, in cash, at the sole option of SMPFC, on the 3rd anniversary of the listing date or on any dividend period thereafter, at the price equal to the offer price plus any accumulated and unpaid cash dividends. The series 2 preferred shares may also be redeemed in whole and not in part, under certain conditions (i.e., accounting, tax or change of control events). Unless the series 2 preferred shares are redeemed by SMPFC on the 5th year anniversary of the listing date, the dividend rate shall be adjusted thereafter to the higher of the dividend rate of 5.6569% or the 3-day average of the 7-year PDST-R2 plus 3.75%.

On February 12, 2015, the SEC rendered effective the Registration Statement and other papers and documents attached thereto filed by SMPFC, and issued the Order of Registration of up to 15,000,000 PFP2 Shares at an offer price of P1,000.00 per share. The Certificate of Permit to Offer Securities for Sale was issued by the SEC on the same date.

On March 12, 2015, SMPFC's 15,000,000 PFP2 Shares with par value of P10.00 per share were issued and listed with the PSE.

e. Availment of Long-term Debt

On various dates in 2015, PT San Miguel Pure Foods Indonesia (PTSMPFI) availed a total of Indonesian Rupiah (IDR) 15.0 billion (US$1.1 million or P50.7 million as at June 30, 2015) loan, proceeds from which were used to finance its capital expenditure requirements in Indonesia.

The loan, which was drawn against the US$5.0 million term loan facility agreement, has a term of two years and bears an interest rate of Cost of Fund plus 3.5% per annum.

Analysis of Financial Position Accounts

Unaudited Financial Position as at June 30, 2015 vs Audited December 31, 2014

Cash and cash equivalents decreased by 18% as funds were used by the subsidiaries to pay maturing short-term loans and to settle certain payables with suppliers.

Trade and other receivables - net declined by 26% as peak season sales made in December 2014 were collected in the first quarter of 2015. Proceeds from these collections were likewise used to pay-off the banks and the Group's suppliers, thus, the 22% and 13% drop in notes payable and trade payables and other current liabilities, respectively.

Inventories grew by 16% due to the increased availability of a major raw material for feeds, higher importation of wheat and the purposive build-up of other major raw materials to support expected increase in volume in the succeeding months.

The 33% drop in prepaid expenses and other current assets is due to the reclassification of advance payments made from prepaid expenses to inventories, as a result of the arrival of imported raw materials in the first quarter of 2015, and the application of creditable input taxes against output tax payable.

Noncurrent biological assets grew by 10% as breeding stocks affected by typhoon Glenda were replenished.

Other intangible assets - net went up by 10% due to the acquisition by SMPFC of FMC's IP Rights relating to *La Pacita* brand.

Other noncurrent assets increased due to the reclassification of a foreign subsidiary's non-operating assets to noncurrent assets.

Income tax payable was 11% lower versus year-end 2014 level as provision for income tax in the fourth quarter of 2014 was higher than the set-up for the second quarter of 2015 given that December is the peak month for the food business.

PTSMPFI's drawdown of a two-year fixed rate loan from a term loan facility agreement to finance its capital expenditure requirements explains the P50.7 million balance of long-term debt.

SMPFC's issuance on March 12, 2015 of 15,000,000 PFP2 Shares with a par value per share of P10.00 and an offer price of P1,000.00 per share explains the 8% and 72% increases in capital stock and additional paid-in capital, respectively.

The increase in revaluation surplus, as well as the increment in cumulative translation adjustments, were on account of the acquisition by SMPFC, through SMPFIL, of Hormel's 49% interest in SMPFI Limited.

The increase in appropriated retained earnings and the corresponding decrease in unappropriated retained earnings were mainly due to the additional appropriations made to cover the subsidiaries' expansion projects.

SMPFC's redemption on March 3, 2015 of 15,000,000 PFP Shares issued on March 3, 2011 with an offer price of P1,000.00 per share explains the increase in treasury stock.

The cash dividend declaration by a domestic subsidiary where non-controlling stockholders hold stake resulted in a 9% decline in the balance of non-controlling interests.

Unaudited Financial Position as at June 30, 2014 vs Audited December 31, 2013

The increase in cash and cash equivalents and the corresponding decrease in trade and other receivables - net are mainly due to the receipt of payment from sale of SMPFC's investment in Meralco. The collection of peak season sales made in December 2013 likewise contributed to the drop in trade and other receivables - net.

Proceeds from collections were then used to pay-off the P8.0 billion cash dividend declared in March 2014, settle maturing short-term loans and pay certain payables to suppliers, thus, the 26% decline in notes payable and the 10% drop in trade payables and other current liabilities.

Inventories grew by 6% primarily due to SMFI Feeds business' importation of soybean meal in June 2014, usage of which will commence in the third quarter, and the purposive build-up of other major raw materials' inventory requirements to support expected increase in volume in the succeeding months of 2014.

Prepaid expenses and other current assets was 11% lower versus year-end 2013 level as December balance includes input taxes recognized on delayed billings of some third party suppliers which were subsequently applied against output taxes payable in the first quarter of 2014.

Other noncurrent assets declined by 8% on account of the reclassification of input taxes from noncurrent to current status.

Income tax payable was 37% lower versus year-end 2013 level as provision for income tax in the fourth quarter of 2013 was higher than the set-up for the second quarter of 2014 given that December is the peak month of the Group.

Appropriated retained earnings went up by 60% on account of a subsidiary's additional appropriation for plant expansion while unappropriated retained earnings dropped by 42% mainly due to the declaration in March 2014 of P8.0 billion cash dividend to all outstanding common shareholders of the Company payable in May 2014.

The cash dividend declarations made by two subsidiaries where non-controlling stockholders hold stake resulted in a 19% decline in the balance of non-controlling interests.

III. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	June 30	
	Unaudited 2015	**Unaudited 2014**
	(In Millions)	
Net cash flows provided by operating activities	P1,804.4	P3,750.6
Net cash flows provided by (used in) investing activities	(1,456.7)	12,650.8
Net cash flows used in financing activities	(2,923.8)	(11,441.3)

Net cash from operations basically consist of income for the period and changes in non-cash current assets, certain current liabilities and others.

Net cash provided by (used in) investing activities include the following:

	June 30	
	Unaudited 2015	**Unaudited 2014**
	(In Millions)	
Acquisition of non-controlling interests in a foreign subsidiary	P557.1	P -
Acquisitions of intangible assets	(457.4)	(69.6)
Acquisitions of property, plant and equipment	(616.7)	(394.0)
Increase in noncurrent biological assets and other noncurrent assets	(1,044.8)	(776.6)
Proceeds from sale of investment, investment property		

and property and equipment	102.3	13,886.6
Increase in other noncurrent liabilities	2.8	4.4

The net cash used in financing activities consists mainly of the net payments of short-term loans, payment of dividends to shareholders, payments made in relation to the redemption of outstanding PFP shares, partly offset by the proceeds from the issuance of PFP2 shares, and availment of long-term loan.

The effect of exchange rate changes on cash and cash equivalents amounted to (P0.1) million and P0.6 million on June 30, 2015 and 2014, respectively.

IV. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the periods indicated below.

KPI	Unaudited June 2015	Audited December 2014
Liquidity: Current Ratio	1.73	1.62
Solvency: Debt to Equity Ratio	0.72	0.85
Asset to Equity Ratio	1.72	1.85
Profitability: Return on Average Equity Attributable to Equity Holders of the Parent Company	13.01%	11.99%
Interest Rate Coverage Ratio	19.10	20.97

KPI	Unaudited Period Ended June 2015	Unaudited Period Ended June 2014
Operating Efficiency: Volume Growth	2.78%	2.07%
Revenue Growth	2.71%	4.45%
Operating Margin	5.43%	5.48%

The manner by which the Group calculates the above indicators is as follows:

KPI	Formula
Current Ratio	$\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\dfrac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Asset to Equity Ratio	$\dfrac{\text{Total Assets (Current + Noncurrent)}}{\text{Non-controlling Interests + Equity}}$
Return on Average Equity Attributable to Equity Holders of the Parent Company	$\dfrac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company**}}$
Interest Rate Coverage Ratio	$\dfrac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$
Volume Growth	$\left(\dfrac{\text{Sum of all Businesses' Sales at Prior Period Prices}}{\text{Prior Period Net Sales}}\right) -1$
Revenue Growth	$\left(\dfrac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right) -1$

Operating Margin	$\dfrac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* *Annualized for quarterly reporting; excluding cash dividends paid to preferred shareholders*

** *Excluding preferred capital stock and related additional paid-in capital*

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
AS AT JUNE 30, 2015

I. AGING OF ACCOUNTS RECEIVABLE

Type of Receivable:	Total	Current	1-30 days	31-60 days	61-90 days	Over 90 days
A. Trade	₱7,411,245,214.95	₱4,354,910,792.95	₱1,316,562,185.96	₱553,120,469.34	₱141,786,604.92	₱1,044,865,161.78
Less: Allowance	580,029,171.65	-	-	-	-	580,029,171.65
Net Trade Receivable	6,831,216,043.30	4,354,910,792.95	1,316,562,185.96	553,120,469.34	141,786,604.92	464,835,990.13
B. Non-Trade	1,209,721,320.90	283,505,743.50	108,763,998.53	87,779,541.25	62,085,564.74	667,586,472.88
Less: Allowance	58,436,181.36	-	-	-	-	58,436,181.36
Net Non-Trade Receivable	1,151,285,139.54	283,505,743.50	108,763,998.53	87,779,541.25	62,085,564.74	609,150,291.52
Net Receivables	₱7,982,501,182.84	₱4,638,416,536.45	₱1,425,326,184.49	₱640,900,010.59	₱203,872,169.66	₱1,073,986,281.65

II. Accounts Receivable Description

	Type of Accounts Receivable:	Nature/Description	Collection Period
a.	Trade Receivables	Sales of fresh and processed meats, poultry, feeds, flour, cooking oils, biscuits, breadfill, desserts and dairy-based products and importation and marketing of coffee and coffee-related products	
		San Miguel Foods, Inc	46 days
		San Miguel Mills, Inc. and subsidiaries	25 days
		Magnolia, Inc. and subsidiaries	38 days
		PT San Miguel Pure Foods Indonesia	67 days
		San Miguel Pure Foods International Limited and subsidiary	51 days
		San Miguel Super Coffeemix Co., Inc.	37 days
		The Purefoods-Hormel Company, Inc.	43 days
b.	Non-Trade Receivables	Consists mainly of:	
		1. Advances to contract growers and breeders	Upon harvest of marketable broilers and hogs/ Upon harvest of eggs and fully grown parent stocks
		2. Receivables from truckers and toll partners	Upon demand or not over 60 days
		3. Insurance Claims	30 days from the date of offer settlement

III. Normal Operating Cycle

San Miguel Foods, Inc.	132 days
San Miguel Mills, Inc. and subsidiaries	88 days
Magnolia, Inc. and subsidiaries	118 days
PT San Miguel Pure Foods Indonesia	157 days
San Miguel Pure Foods International Limited and subsidiary	88 days
San Miguel Super Coffeemix Co., Inc.	263 days
The Purefoods-Hormel Company, Inc.	133 days