SAN MIGUEL PURE FOODS COMPANY INC.

Primary Offer in the Philippines of up to 10,000,000 Perpetual Series 2 Preferred Shares
With an Oversubscription Option of up to 5,000,000 Perpetual Series 2 Preferred Shares
consisting of
Series 2 Preferred Shares (PFP2) : 5.6569%
at an Offer Price of ₱1,000.00 per Share
to be listed and traded on the Main Board of The Philippine Stock Exchange, Inc.

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners

Co-Lead Underwriters

Participating Underwriter

Selling Agents

The Trading Participants of The Philippine Stock Exchange, Inc.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

This Prospectus is dated February 11, 2015

SAN MIGUEL PURE FOODS COMPANY INC.
23F, The JMT Corporate Condominium, ADB Avenue
Ortigas Center, Pasig City
1605 Philippines
Telephone number (632) 702-5000
FAX number (632) 914-0314
http://sanmiguelpurefoods.com

This Prospectus relates to the offer and sale by way of a primary offer in the Philippines (the “Offer”) of up to 15,000,000 cumulative, non-voting, non-participating, non-convertible Peso-denominated Perpetual Preferred Shares with a par value of ₱10.00 each (the “Preferred Shares” or “Shares”) of San Miguel Pure Foods Company Inc. (“San Miguel Pure Foods”, the “Company” or the “Issuer”), a corporation duly organized and existing under Philippine law. The offer and sale of the Preferred Shares will be by way of a primary offer (the “Offer”) of 10,000,000 Preferred Shares. In the event of an oversubscription, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, in consultation with the Issuer, reserve the right, but not the obligation, to increase the Offer size by up to an additional 5,000,000 Preferred Shares, subject to the registration requirements of the Philippine Securities and Exchange Commission (“SEC”) (the “Oversubscription Option”). The Preferred Shares will be issued by the Company from its 40,000,000 authorized preferred share capital, out of which 15,000,000 are currently issued and outstanding. Each Preferred Share has a par value of ₱10.00 and a liquidation right equal to the Offer Price of the Preferred Share plus an amount equal to any dividends declared but unpaid in respect of the previous dividend period and any accrued and unpaid dividends for the then-current dividend period to (and including) the date of commencement of the Company’s winding up or the date of any such other return of capital, as the case may be (the “Liquidation Right”).

The Preferred Shares are being offered for subscription solely in the Philippines through BPI Capital Corporation, China Banking Corporation, RCBC Capital Corporation, SB Capital Investment Corporation and Standard Chartered Bank (the “Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners”), as well as Other Underwriters and Selling Agents named herein at a subscription price of ₱1,000.00 per share (the “Offer Price” or the “Issue Price”).

Following the Offer, the Company will have (i) 166,667,096 Common Shares and (ii) 25,000,000 Preferred Shares issued and outstanding, if the Oversubscription Option is not exercised. On the other hand, if the Oversubscription Option is exercised in full, the Company will have a (i) 166,667,096 Common Shares and (ii) 30,000,000 Preferred Shares issued and outstanding. The holders of the Preferred Shares do not have identical rights and privileges with holders of the existing Common Shares of the Company. Furthermore, following the redemption of the Outstanding Preferred Shares and assuming the Oversubscription Option on the Preferred Shares is not exercised, the Company will have (i) 166,667,096 Common Shares and (ii) 10,000,000 Preferred Shares issued and outstanding. On the other hand, if the Oversubscription Option on the Preferred Shares is exercised in full and after the redemption of the Outstanding Preferred Shares, the Company will have (i) 166,667,096 Common Shares and (ii) 15,000,000 Preferred Shares issued and outstanding. Upon redemption, the Preferred Shares shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors.

San Miguel Pure Foods plans to issue the Preferred Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners (as well as the other underwriters and Selling Agents). The Offer does not include an international offering. For a detailed discussion on the Plan of Distribution, please refer to page 56.

The declaration and payment of dividends on the Preferred Shares will be subject to the sole and absolute discretion of the Issuer’s Board of Directors (the “Board”) to the extent permitted by law, and subject to the covenants (financial or otherwise) in the agreements to which the Company is a party. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders.

As and if declared by the Board, dividends on the Series 2 Preferred Shares shall be at a fixed rate of 5.6569% per annum, in all cases calculated by reference to the Issue Price thereof in respect of each Dividend Period (the "Dividend Rate"). Subject to the limitations described in this Prospectus, cash dividends on the Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date"), which date shall be any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period, in accordance with the term and conditions of the Preferred Shares. A "Dividend Period" shall refer to (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. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amounts of dividends to be paid. Unless the Preferred Shares are redeemed by the Issuer, in respect of the Series 2 Preferred Shares, on the fifth anniversary from Listing Date (the "Series 2 Step Up Date"), the dividends on the Shares will be adjusted on the Series 2 Step Up Date to the higher of the applicable: (a) Initial Dividend Rate; or (b) Step Up Rate. The Step Up Rate for the Series 2 Preferred Shares shall be the simple average of the closing per annum rates of the 7-year PDST-R2, or if the 7-year PDST-R2 is not available or cannot be determined, any such successor rate that is generally accepted by the market or a self-regulatory organization, for three consecutive days ending on (and including) the fifth anniversary from the Listing Date, as shown on the PDEX page (or such successor page) of Bloomberg (or such successor electronic service provider), in each case, plus 3.75%. (see "Terms of the Offer" on page 17).

Dividends on the Shares will be cumulative. If for any reason the Issuer's Board does not declare a dividend on the Shares for a dividend period, the Issuer will not pay a dividend on the Dividend Payment Date for the dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Payment Date (see "Description of the Preferred Shares" on page 29).

As and if declared by the Board, the Issuer may redeem in whole (not in part), the Series 2 Preferred Shares on the 3rd anniversary of the Listing Date or on any Dividend Payment Date thereafter, (each a "Series 2 Optional Redemption Date"), after giving not less than 30 nor more than 60 days' written notice prior to the intended date of redemption at a redemption price (the "Redemption Price") equal to the Offer Price of the Preferred Shares plus all accrued and unpaid dividends for all dividend periods up to the date of actual redemption by the Issuer.

The Issuer may purchase the Shares at any time in the open market or by public tender or by private contract at any price through The Philippine Stock Exchange, Inc. ("PSE") without any obligation to purchase or redeem the other Preferred Shares. The Shares so purchased may either be redeemed and cancelled after the Redemption Date or kept as Treasury Shares.

The gross proceeds of the Offer are expected to reach approximately ₱10 billion, or should the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners exercise in full the Oversubscription Option, ₱15 billion. The net proceeds from the Offer, estimated to be at ₱9.91 billion or should the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners exercise in full the Oversubscription Option, ₱14.87 billion, are determined by deducting from the gross proceeds the total issue management, underwriting and selling fees, listing fees, taxes and other related fees and out-of-pocket expenses, and will be used by the Company to refinance the Issuer's ₱15 billion Outstanding Preferred Shares which are callable on March 3, 2014 or on any dividend payment date thereafter (see "Use of Proceeds" on page 51).

The Joint Lead Underwriters shall receive an estimated underwriting fee of ₱53.76 million or ₱80.64 million, should the Oversubscription Option be exercised in full, of the gross proceeds of the Offer, inclusive of amounts to be paid to any other underwriters and Selling Agents.

No dealer, salesman or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners or any of the other underwriters. The distribution of this Prospectus and the offer and sale of the Preferred Shares may, in certain jurisdictions, be restricted by law. The Company, Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners require persons into whose possession this Prospectus comes, to inform themselves of and observe all such restrictions. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer in such jurisdiction.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. To the best of its knowledge and belief, the Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect. The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners have exercised reasonable due diligence required by regulations in ascertaining that all material representations contained in the Prospectus, and any amendment or supplement thereto are true and correct and that no material information was omitted, which was necessary in order to make the statements contained in said documents not misleading. No representation, warranty or undertaking, express or implied, is made by any of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, and no responsibility or liability is accepted by any thereof to the accuracy, adequacy, reasonableness or completeness of the information and materials contained herein (excluding any and all information pertaining to the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners) or any other information provided by the Company in connection with the Preferred Shares, their distribution or their future performance.

Unless otherwise indicated, all information in the Prospectus is as of February 11, 2015. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Company, Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners makes any representation, undertaking or other assurance as to the accuracy or completeness of such information or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

Each person contemplating an investment in the Preferred Shares should make his own investigation and analysis of the creditworthiness of San Miguel Pure Foods and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Shares. A person contemplating an investment in the Preferred Shares should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Preferred Shares involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Preferred Shares, see the section on “Risks Factors” starting on page 34.

The Company owns land as identified in the section on Description of Property on page 89. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. For as long as the percentage of Filipino ownership of the capital stock of the Company is at least 60% of the total shares outstanding and voting, the corporation shall be considered as a 100% Filipino-owned corporation.

The listing of the Preferred Shares is subject to the approval of the board of directors of the PSE. An application to list the Preferred Shares has been filed with the PSE and has been approved by the board of directors of the PSE on January 20, 2015. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Preferred Shares by the PSE. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CORRECT.

SAN MIGUEL PURE FOODS COMPANY INC.
By:

FRANCISCO S. ALEJO III
President

SUBSCRIBED AND SWORN to before me this FEB 11 2015 in PASIG CITY City, affiant exhibiting to me his Passport No. EB6193070 expiring on August 23, 2017 as competent evidence of identity.

Doc No. 42
Page No. 10
Book No. VI
Series of 2015.

MA. FRANCESCA Q. BALTAZAR
Notary Public for Pasig City
Commission until 31 December 2016
22nd Floor, JMT Corporate Condominium,
ADB Ave., Ortigas Center, Pasig City
APPT No. 94 (2015-2016)/Roll No. 57174
PTR No. 0396440; 1/13/2015; Pasig City
IBP No. 0990397; 1/12/2015; Makati City

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Forward-Looking Statements

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause San Miguel Pure Foods' actual results, performance or achievements to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding San Miguel Pure Foods' present and future business strategies and the environment in which San Miguel Pure Foods will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- San Miguel Pure Foods' ability to successfully implement its strategies;
- San Miguel Pure Foods' ability to anticipate and respond to consumer trends;
- changes in availability of raw materials used in San Miguel Pure Foods' production processes;
- San Miguel Pure Foods' ability to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines; and
- competition in the food industry in the Philippines and globally.

Additional factors that could cause San Miguel Pure Foods' actual results, performance or achievements to differ materially include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. San Miguel Pure Foods and the Joint Lead Underwriters and Other Underwriters expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in San Miguel Pure Foods' expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes forward-looking statements, including statements regarding the Issuer's expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project", "may", "plan", "intend", "will", "shall", "should", "would" and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in the Prospectus as to the opinions, beliefs and intentions of the Issuer accurately reflect in all material respects the opinions, beliefs and intentions of San Miguel Pure Foods' management as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "Risk Factors" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and oral forward-looking statements attributable to the Issuer or persons acting on behalf of either the Issuer are expressly qualified in their entirety by cautionary statements.

Definition of Terms

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

ASEAN	The Association of Southeast Asian Nations, including Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
Banking Day	A day other than Saturday or Sunday on which banks are open for business in Metro Manila, Philippines.
BIR	The Philippine Bureau of Internal Revenue.
Board of Directors or Board	The Board of Directors of San Miguel Pure Foods.
Breeder	Pigs or chickens that are raised and bred to produce marketable hogs and broilers, respectively.
Broiler	The offspring of the breeder chickens that are grown for chicken meat production.
BPG	San Miguel Pure Foods' Business Procurement Group.
BSP	*Bangko Sentral ng Pilipinas*, the Central Bank of the Philippines.
CAGR	Compound annual growth rate.
Co-Lead Underwriters	BDO Capital & Investment Corporation and PNB Capital and Investment Corporation.
Corporation Code	Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines".
DENR	The Philippine Department of Environment and Natural Resources.
Depository Agent or PDTC	Philippine Depository & Trust Corporation.
Dividend Rate Setting Date	February 11, 2015.
DOH	The Philippine Department of Health.
EBIT	Earnings Before Interest and Taxes.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization.
ECC	Environmental Compliance Certificate.
EISS Law	The Philippine Environmental Impact Statement System.
FSSC	Food Safety System Certification.
Government	The Government of the Republic of the Philippines.
Hog	The offspring of breeder pigs that are grown and fattened for pork production.
ISO	International Organization for Standardization.
MCIT	The minimum corporate income tax under the National Internal Revenue Code of 1997 of the Philippines, as amended, which is currently fixed at 2.0% of gross income.
Nielsen	The Nielsen Company (Philippines) Inc.
Joint Issue Managers, Joint Lead	BPI Capital Corporation, China Banking Corporation,

Underwriters and Joint Bookrunners	RCBC Capital Corporation, SB Capital Investment Corporation and Standard Chartered Bank.
Listing Date……………………………….	March 12, 2015.
Participating Underwriter……………...	Unicapital, Inc.
PAS..	Philippine Accounting Standards.
PDST-R2…………………………………	The prevailing rate of Fixed Rate Treasury Notes (FXTNs) as published on the PDST-R2 section of the Philippine Dealing and Exchange Corp (PDEx) Market Page under the heading “Bid Yield” as of 4:15 PM, Manila time.
Peso or Php or ₱...............................	Philippine Peso, the lawful currency of the Republic of the Philippines.
PFC..	Pure Foods Corporation.
PFRS	Philippine Financial Reporting Standards.
PSE..	The Philippine Stock Exchange, Inc.
Receiving Agent…………………………..	SMC Stock Transfer Service Corporation.
SCCPL…………………………………….	Super Coffee Corporation Pte. Ltd.
SCVL……………………………………....	Super Coffeemix Vietnam Ltd.
SCML………………………………………	SCML (Thailand) Company Ltd.
PF-Hormel…………………………………	The Purefoods-Hormel Company, Inc.
SEC..	The Securities and Exchange Commission of the Philippines.
Selling Agents……………………………	The Trading Participants of the PSE.
Shares or Preferred Shares	The Preferred Shares being offered hereby by the Issuer.
SMC	San Miguel Corporation.
SMC Group	SMC and its subsidiaries, including San Miguel Pure Foods.
SMMI……………………………………..	San Miguel Mills, Inc.
SMSCCI…………………………………	San Miguel Super Coffeemix Co., Inc.
San Miguel Pure Foods or the Company or the Issuer	San Miguel Pure Foods Company Inc. Unless the context otherwise requires, references herein to San Miguel Pure Foods or the Company or the Issuer include the businesses and operations of San Miguel Pure Foods’ consolidated subsidiaries and the other entities described herein in which San Miguel Pure Foods has significant direct or indirect equity interests.
San Miguel Pure Foods Brands	Certain brands, related trademarks and other intellectual properties that San Miguel Pure Foods acquired from SMC and that it uses to prepare, package, advertise, distribute and sell its products in the Philippines.
SRC	Republic Act No. 8799, otherwise known as “The Securities Regulation Code of the Philippines”, as amended from time to time, and including the rules and regulations issued thereunder.
Step Up Rate……………………………..	For Series 2 Preferred Shares, the rate which is the higher of: the Initial Dividend Rate or the simple average of the closing per annum rates of the 7-year PDST-R2, or if the 7-year PDST-R2 is not available or cannot be determined,

	any successor rate that is generally accepted by the market or a self-regulatory organization, for three (3) consecutive days ending on (and including) the fifth anniversary from the Listing Date as shown on the PDEX page (or such successor page) of Bloomberg (or such successor electronic service provider), in each case, plus 3.75%.
U.S. dollars or USD or US$	The lawful currency of the United States of America.
VAT	Value-added tax.

Executive Summary

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information and audited financial statements, including notes thereto, found elsewhere in this Prospectus.

Prospective investors should read this entire Prospectus fully and carefully, including the section on "Risk Factors". In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.

Brief Background on the Company

OVERVIEW

San Miguel Pure Foods Company Inc. ("San Miguel Pure Foods") is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional, and foodservice customers in the Philippines. The Company has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, customized and premixes, other flour-based products and grain terminal operations; and others include the dairy, spreads and oils, coffee, foodservice and franchising businesses and international operations.

In 2013 and for the nine months ended September 30, 2014, the contribution of each business segment to San Miguel Pure Foods' revenues was as follows:(1)

	Year Ended December 31, 2013		Nine Months Ended September 30, 2014	
	Revenues ₱	**% of Revenues**	**Revenues ₱**	**% of Revenues**
		(in millions, except %)		
Agro-industrial	64,383	64.5	50,089	67.3
Value-added Meats	14,876	14.9	9,821	13.2
Milling	8,693	8.7	6,561	8.8
Others	11,821	11.9	7,944	10.7
Total	99,773	100.0	74,415	100.0

(1) *Represents segment's external revenues and excludes inter-segment revenues.*

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups - the food businesses of SMC and PFC. As of the date of this Prospectus, SMC owns 85.37% of San Miguel Pure Foods' Common Shares. Its revenues, gross profit, EBITDA and net income were ₱99,773 million, ₱20,188 million, ₱8,581 million and ₱4,084 million, respectively, for 2013, and ₱74,415 million, ₱14,347 million, ₱6,238 million and ₱2,722 million, respectively, for the nine months ended September 30, 2014.

On January 26, 2015, San Miguel Pure Foods International, Limited ("SMPFIL"), a 100%-owned subsidiary of San Miguel Pure Foods Company Inc. incorporated in the British Virgin Islands, signed an agreement for the purchase from Hormel Netherlands B.V. of the latter's 49% of the issued share capital of San Miguel Pure Foods Investment (BVI) Limited ("SMPFIB"). SMPFIB is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam that engages in production of processed meats and owns assets in hog farming and feed milling. SMPFIB is now a wholly-owned subsidiary of SMPFIL.

On February 1, 2015, San Miguel Pure Foods completed the acquisition of the trademarks, formulations, recipes and other intangible properties relating to the *La Pacita* biscuit and flour-based snack business of Felicisimo Martinez & Co. Inc. San Miguel Pure Foods is currently licensing the trademarks to Magnolia, Inc.

San Miguel Pure Foods is listed on the PSE, with its Common Shares listed under the symbol “PF” and its Preferred Shares listed under the symbol “PFP.”

About San Miguel Corporation

San Miguel Corporation is one of the largest and most diversified conglomerates in the Philippines with sales accounting for approximately 6.5% of the Philippine gross domestic product in 2013. Originally founded in 1890 as a single-product brewery in the Philippines, it has transformed itself from a market-leading beverages, food and packaging businesses, with a globally recognized beer brand, into a diversified conglomerate with market-leading businesses and investments in fuel and oil, energy, infrastructure, telecommunications and banking. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of its home market, benefitting from and contributing to the development and economic progress of the Philippines. The common shares of SMC is listed in the PSE since November 5, 1948 under the symbol “SMC”.

Competitive Strengths

San Miguel Pure Foods believes that its competitive strengths will enable it to protect and build on its leadership position in the food industry. At the same time, leveraging on its existing assets and expertise, San Miguel Pure Foods will pursue opportunities that will complement its core business and capture higher-value products and markets. San Miguel Pure Foods believes that its principal strengths include the following:

- Portfolio of leading and highly recognized brands and highly diversified product portfolio
- Extensive market penetration through multi-channel distribution network
- Vertically-integrated meats business model allowing for higher efficiency, profitability and operational synergies.
- Strong commitment to product innovation
- Experienced management team

Business Strategies

San Miguel Pure Foods’ key strategies include the following:

Enhance product offering and distribution

- Focus on increasing stable-priced and value-added product offerings
- Continuous investment in brand equity

Improve profitability through cost leadership

- Continue sourcing alternative raw materials
- Focus on efficiency improvements
- Continue harvesting synergies through further integration of the businesses

Explore additional growth opportunities

- Improve distribution network in remote areas of Visayas and Mindanao
- Enter into new product categories and expand production capabilities
- Source potential acquisition targets in food or food-related businesses including acquisitions in fast-growing emerging Asian countries

Risks of Investing

Prospective investors should consider the following risks of investing in the Preferred Shares:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines, as a principal risk for investing in general;
2. Risks relating to San Miguel Pure Foods, its subsidiaries and their business and operations; and
3. The absence of a liquid secondary market for the Preferred Shares and other risks relating to the Preferred Shares.

(for a more detailed discussion, see "Risk Factors" on page 34)

Use of Proceeds

The offer price shall be at ₱1,000.00**.** The net proceeds from the Offer are estimated to be ₱9.91 billion or ₱14.87 billion if the Oversubscription Option is exercised in full, after deducting expenses relating to the issuance of the Preferred Shares. Proceeds of the Offer will be used by the Company to refinance its ₱15 billion Outstanding Preferred Shares which are callable on March 3, 2014 or on any dividend payment date thereafter.

Plan of Distribution

San Miguel Pure Foods plans to issue the Preferred Shares to institutional and retail investors through a public offering to be conducted through the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, (see "Plan of Distribution" on page 56), as well as other underwriters and Selling Agents.

Expected Timetable

The timetable of the Offer is expected to be as follows:

Dividend Rate Setting Date	11 February 2015
Start of Offer Period	16 February 2015
Last Day of Offer Period	5 March 2015
Listing Date and Commencement of Trading on the PSE	12 March 2015

The dates indicated above are subject to market and other conditions and may be changed subject to the approval by the SEC and the PSE.

Summary of Financial Information

Prospective purchasers of the Preferred Shares should read the summary of financial data below together with the financial statements, including the notes thereto, included in this Prospectus and "Management's Discussion and Analysis of Results of Operations and Financial Condition". The summary of financial data for the three years ended December 31, 2011, 2012 and 2013 are derived from San Miguel Pure Foods' audited financial statements, including the notes thereto, which are found elsewhere in this Prospectus. The detailed financial information for the three years ended December 31, 2011, 2012 and 2013 and the nine months ended September 30, 2013 and 2014 may be found on the Appendix of this Prospectus.

San Miguel Pure Foods' summary of financial and operating information presented below as of and for the years ended December 31, 2011, 2012 and 2013 were derived from San Miguel Pure Foods' consolidated financial statements, audited by R.G. Manabat & Co., a member firm of KPMG, and prepared in compliance with PFRS. San Miguel Pure Foods' summary of financial and operating information presented below as of and for the nine months ended September 30, 2013 and 2014 were derived from the condensed consolidated interim financial statements of San Miguel Pure Foods prepared in accordance with PAS 34, "Interim Financial Reporting" and reviewed by R.G. Manabat & Co. in accordance with PSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditors of the Entity." The information below should be read in conjunction with San Miguel Pure Foods' consolidated financial statements and the related notes thereto, which are included elsewhere in this Prospectus. San Miguel Pure Foods' historical financial condition, results of operations and cash flows are no guarantee of its future operating and financial performance.

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2011[1]	2012[1]	2013	2013	2014
	₱	₱	₱	₱	₱
	(Audited)			(Unaudited)	
	(in thousands except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Revenues	89,591,080	95,787,365	99,772,930	71,412,982	74,415,441
Cost of sales	73,417,057	77,949,732	79,584,594	58,184,227	60,068,840
Gross profit	16,174,023	17,837,633	20,188,336	13,228,755	14,346,601
Selling and administrative expenses	(10,093,711)	(12,660,333)	(14,678,339)	(9,562,166)	(10,019,308)
Interest expense and other financing charges	(530,972)	(574,898)	(549,606)	(431,738)	(313,104)
Interest income	393,572	148,518	58,918	65,649	92,135
Equity in net earnings of an associate	270,478	884,884	714,946	714,946	-
Gain on sale of investment and property and equipment	6,708	115,097	394,579	3,982	95
Other income (charges) - net	(323,696)	56,800	(532,796)	(336,790)	(161,708)
Income before income tax	5,896,402	5,807,701	5,596,038	3,682,638	3,944,711
Income tax expense	1,725,794	1,545,135	1,512,203	990,259	1,222,227
Net income	4,170,608	4,262,566	4,083,835	2,692,379	2,722,484
Attributable to:					
Equity holders of the Parent Company	4,060,557	4,171,984	4,096,989	2,745,825	2,689,099
Non-controlling Interests	110,051	90,582	(13,154)	(53,446)	33,385
	4,170,608	4,262,566	4,083,835	2,692,379	2,722,484
Basic and diluted earnings per common share attributable to Equity Holders of the Parent Company	18.40	17.83	17.38	11.07	10.73

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2011[(1)]	2012[(1)]	2013	2013	2014
	₱	₱	₱	₱	₱
	(Audited)			(Unaudited)	
	(in thousands except per share figures or where otherwise indicated)				
Consolidated Statements of Financial Position Data					
Assets					
Total Current Assets	31,825,514	37,266,163	53,683,093	50,237,517	44,207,862
Total Noncurrent Assets	29,262,293	31,305,424	19,161,187	18,755,076	18,692,765
Total Assets	61,087,807	68,571,587	72,844,280	68,992,593	62,900,627
Liabilities and Equity					
Total Current Liabilities	16,336,818	22,234,003	24,971,487	21,973,767	22,019,186
Total Noncurrent Liabilities	5,295,032	5,315,202	5,512,868	5,373,734	5,501,550
Equity					
Equity Attributable to Equity Holders of the Parent Company	36,350,300	38,233,917	40,191,233	39,512,985	33,577,833
Non-controlling Interests	3,105,657	2,788,465	2,168,692	2,132,107	1,802,058
Total Equity	39,455,957	41,022,382	42,359,925	41,645,092	35,379,891
Total Liabilities and Equity	61,087,807	68,571,587	72,844,280	68,992,593	62,900,627
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	3,694,148	3,099,215	6,955,792	5,021,080	4,227,230
Investing activities	(18,873,563)	(3,569,826)	(2,898,728)	(1,950,311)	12,199,417
Financing activities	13,071,542	(191,724)	(1,310,978)	(1,944,159)	(11,405,075)
Effect of exchange rates changes in cash and cash equivalents	(754)	10,035	4,439	3,976	(926)
Net increase/(decrease) in cash and cash equivalents	(2,108,627)	(652,300)	2,750,525	1,130,586	5,020,646
Cash and cash equivalents at beginning of year	7,041,345	4,932,718	4,280,418	4,280,418	7,030,943
Cash and cash equivalents at end of period	4,932,718	4,280,418	7,030,943	5,411,004	12,051,589

(1) *As restated in accordance with PAS 19R.*

Capitalization

The following table sets forth the Company's unaudited consolidated short-term and long-term debt and capitalization as of September 30, 2014. This table should be read in conjunction with the more detailed information and audited and unaudited financial statements, including notes thereto, located elsewhere in this Prospectus.

(in ₱ Millions)	As of Sept 30, 2014 (Unaudited)	As adjusted for maximum Issue Size of ₱15 Billion
Short-Term Debt		
Bank loans	6,941	6,941
Current portion of long-term debt	-	-
Total Short-Term Debt	6,941	6,941
Long-Term Debt[1]		
Long-term debt - net of debt issue costs	4,489	4,489
Total Debt	11,430	11,430
Equity		
Common stock - ₱10.00 par value Authorized - 206,000,000 shares Issued - 170,874,854 shares [2]	1,709	1,709
Preferred stock - ₱10.00 par value Authorized - 40,000,000 shares Issued - 15,000,000 shares	150	150[3]
Additional paid-in capital	20,500	20,538[4]
Revaluation surplus	18	18
Reserve for retirement plan	(435)	(435)
Cumulative translation adjustment	(251)	(251)
Retained earnings	12,069	12,069
Treasury stock	(182)	(182)
Equity attributable to Equity holders of the Parent Company	33,578	33,616
Non-controlling Interests	1,802	1,802
Total Equity	35,380	35,418
Total Capitalization	**46,810**	46,848

Notes:

(1) On December 7, 2010, San Miguel Foods, Inc. issued corporate notes with aggregate principal amount of ₱4.5 billion and with maturity period of 5 years and 1 day.

(2) Inclusive of 4,207,758 Treasury Shares.

(3) Should the Company redeem the Outstanding Preferred Shares starting on March 3, 2015 or on any dividend payment date thereafter.

(4) Net of estimated upfront fees, listing and professional fees, taxes and other expenses related to the Offer.

Terms of the Offer

The following does not purport to be a complete listing of all the rights, obligations and privileges attaching to or arising from the Preferred Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective Shareholders are enjoined to perform their own independent investigation and analysis of the Issuer and the Preferred Shares. Each prospective Shareholder must rely on its own appraisal of the Issuer and the Preferred Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Preferred Shares and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective Shareholder's independent evaluation and analysis.

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Preferred Shares. Accordingly, any decision by a prospective investor to invest in the Preferred Shares should be based on a consideration of this Prospectus as a whole. Should there be any inconsistency between the summary below and the final documentation, the final documentation shall prevail.

San Miguel Pure Foods Company Inc. - Perpetual Series 2 Preferred Shares	
Issuer	San Miguel Pure Foods Company Inc. (the "Company" or the "Issuer").
Offer Size	₽10 billion base offer size, with an oversubscription option of up to ₽5 billion.
Instrument	Cumulative, non-voting, non-participating, non-convertible Peso-denominated Perpetual Preferred Shares ("Preferred Shares"). The Preferred Shares will be issued as Series 2 Preferred Shares (PFP2).
Oversubscription Option	In the event of an oversubscription, the Joint Issue Managers, in consultation with the Issuer, reserve the right to increase the Offer Size by up to ₽5 billion, subject to the registration requirements of the SEC.
Registration and Listing	To be registered with the SEC and listed on the PSE, subject to compliance with SEC regulations and PSE listing rules.
Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	BPI Capital Corporation China Banking Corporation RCBC Capital Corporation SB Capital Investment Corporation Standard Chartered Bank

Other Underwriters	The syndicate of Co-Lead Underwriters and Participating Underwriter formed by the Joint Issue Managers in consultation with the Issuer.
Use of Proceeds	To refinance the Issuer's ₱15 billion Outstanding Preferred Shares which are callable on March 3, 2014 or on any dividend payment date thereafter.
Par Value	The Preferred Shares shall have a par value of ₱10.00 per share.
Offer Price	The Preferred Shares shall be offered at a price of ₱1,000.00 per share.
Dividend Rate	As and if cash dividends are declared by the Board of Directors, cash dividends on the Preferred Shares shall be at the fixed rate of: Series 2 Preferred Shares: 5.6569% per annum; in all cases calculated by reference to the Offer Price thereof in respect of each Dividend Period (each, the "Initial Dividend Rate" for the relevant Series). Dividend Rate means (a) from the Listing Date up to the Step Up Date, the Initial Dividend Rate, and (b) from the Step Up Date, the higher of the Initial Dividend Rate and the Step Up Rate. (Please see below relevant definitions.)
Dividend Rate Step Up	Unless the Series 2 Preferred Shares shall have been redeemed by the Company on the 5th anniversary of the Listing Date (the "Series 2 Step Up Date"), the Initial Dividend Rate shall be adjusted, for Series 2 Preferred Shares, on the Series 2 Step Up Date, the simple average of the closing per annum rates of the 7-year PDST-R2, or if the 7-year PDST-R2 is not available or cannot be determined, any successor rate that is generally accepted by the market or a self-regulatory organization, for three (3) consecutive days ending on (and including) the fifth anniversary from the Listing Date as shown on the PDEX page (or such successor page) of Bloomberg (or such successor electronic service provider), in each case, plus 3.75%. (The date of the listing of Series 2 Preferred Shares is referred to as the "Listing Date". The Series 2 Step Up Date is referred to as a "Step Up Date". The adjusted rate referred to is referred to as a "Step Up Rate".) However, if the Initial Dividend Rate is higher than the applicable Step Up Rate, there shall be no adjustment on the

	Dividend Rate, and the Initial Dividend Rate shall continue to be the Dividend Rate.
Dividend Payment Dates	Cash dividends on the Preferred Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a "Dividend Payment Date") in accordance with the terms and conditions of the Preferred Shares, which date shall be any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A "Dividend Period" shall refer to (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. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amounts of dividends to be paid. The dividends on the Preferred Shares will be calculated on a 30/360-day basis. If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.
Conditions on Declaration and Payment of Cash Dividends	The declaration and payment of cash dividends for each Dividend Period will be subject to the sole and absolute discretion of the Board of Directors to the extent permitted by applicable laws and regulations, and the covenants (financial or otherwise) in the agreements to which the Company is a party. The Board of Directors will not declare and pay dividends for any Dividend Period where payment of the Dividend would cause the Company to breach any of its financial covenants. If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Company to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and have an equal right to dividends as the Preferred Shares, the Company is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares, and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the

right to dividends with the Preferred Shares.

The profits available for distribution are, in general and with some adjustments, equal to the Company's accumulated realized profits less accumulated realized loss.

Dividends on the Preferred Shares will be cumulative. If for any reason the Company's Board does not declare a dividend on the Shares for a Dividend Period, the Company will not pay a dividend for that Dividend Period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Period.

Holders of Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Shares.

The Issuer will covenant that, in the event (a) any dividends due with respect to any Preferred Shares then outstanding for any period are not declared and paid in full when due, or (b) any other amounts payable under the Preferred Share terms and conditions are not paid in full when due for any reason:

It will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking junior to Preferred Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking junior to Preferred Shares);

Subject to legal requirements, the Issuer will procure that no subsidiary over which the Issuer has a Controlling Participation will pay any discretionary dividends or other discretionary distributions on, or at the Issuer's discretion repurchase or redeem, any security ranking senior to the respective subsidiary's common shares other than those senior securities held by the Issuer or a wholly-owned subsidiary thereof (or contribute any moneys to a sinking fund for the purposes of any such redemption).

"Controlling Participation" shall refer to the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of the corporation, whether through the ownership of voting securities, as trustee or executor, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the Board of Directors or similar body governing the affairs of the corporation.

Optional Redemption	As and if approved by the Board of Directors (or the Executive Committee), the Company may redeem in cash, in whole (not in part), the Series 2 Preferred Shares on the 3rd anniversary of the Listing Date or on any Dividend Period thereafter, (each of the dates when the Series 2

	Preferred Shares may be redeemed pursuant to this paragraph, an "Optional Redemption Date"), after giving not less than 30 nor more than 60 days' written notice prior to the intended date of redemption, at a redemption price (the "Redemption Price") equal to the Offer Price of the Preferred Shares plus all dividends due them on the actual date of redemption as well as all accumulated dividends due and payable, or dividends in which the declaration and/or payment have been deferred, in respect of prior Dividend Periods. Such notice to redeem shall be deemed irrevocable upon issuance thereof. For the avoidance of doubt, on the applicable Optional Redemption Date, the Company has the option to redeem, without preference or priority, in whole (not in part), the Series 2 Preferred Shares.
Redemption Due to an Accounting Event, Tax Event or Change of Control	The Company may also redeem the Preferred Shares, in whole (not in part), at any time if an Accounting Event, Tax Event or Change of Control (each as defined below) has occurred and is continuing, having given not less than 30 nor more than 60 days' written notice prior to the intended date of redemption, such notice to be deemed irrevocable upon issuance thereof.
Accounting Event	An accounting event ("Accounting Event") shall occur if an opinion of a recognized accountancy firm authorized to perform auditing services in the Republic of the Philippines has been delivered to the Company stating that the Preferred Shares may no longer be recorded as equity in the audited consolidated financial statements of the Company prepared in accordance with PFRS, or such other accounting standards which succeed PFRS as adopted by the Company for the preparation of its audited consolidated financial statements for the relevant financial year and such event cannot be avoided by the Company taking reasonable measures available to it.
Tax Event	A tax event ("Tax Event") shall occur if payments on the Preferred Shares become subject to additional or higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company.
Change of Control ("CoC Event")	Change in Control shall be deemed to have occurred if any person or persons acting in concert or any third person or persons acting on behalf of such person(s) at any time acquire(s) directly or indirectly a Controlling Participation in the Company pursuant to the Philippine laws. The Dividend Rate will be increased by 400 basis points commencing and including the day falling 180 days after

	the day on which a CoC Event has occurred. If a Change of Control has occurred, the Issuer may at any time redeem the Preferred Shares (in whole, not in part) at the Redemption Price, which shall include dividends computed on the applicable Dividend Rate plus the additional 400 basis points commencing and including on the day on which a CoC Event has occurred.
No Sinking Fund	The Company is not legally required, has not established, and currently has no plans to establish, a sinking fund for the redemption of the Preferred Shares.
Purchase of the Preferred Shares	Upon listing on the PSE, the Company may purchase the Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other Preferred Shares. The Preferred Shares so purchased may either be redeemed (pursuant to the terms and conditions of the Preferred Shares) and cancelled or kept as Treasury Shares, as applicable.
Taxation	All payments in respect of the Preferred Shares are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including, but not limited to, stamp, issue, registration, documentary, value-added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the Company will pay additional amounts so that holders of the Preferred Shares will receive the full amount of the relevant payment which otherwise would have been due and payable. Provided, however, that the Company shall not be liable for, and the foregoing payment undertaking of the Company shall not apply to: (a) the final withholding tax applicable on dividends earned on the Preferred Shares as prescribed under the National Internal Revenue Code of 1997; (b) as applicable, any income tax (whether or not subject to withholding), percentage tax, stock transaction tax and documentary stamp tax on the redemption of the Preferred Shares or on the liquidating distributions as may be received by a holder of Preferred Shares; (c) any expanded value-added tax which may be payable by any holder of the Preferred Shares on any amount to be received from the Company under the terms and conditions of the Preferred Shares; (d) any withholding tax on any amount payable to any holder of Preferred Shares or any entity which is a non-resident foreign corporation; and (e) any applicable taxes on any subsequent sale or transfer

	of the Preferred Shares by any holder of the Preferred Shares which shall be for the account of the said holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes). All sums payable by the Company to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or governmental charges provided said entities present sufficient proof of such tax-exempt status from the tax authorities. Documentary stamp tax for the primary issue of the Preferred Shares and the documentation, if any, shall be for the account of the Company.
Form, Title and Registration of the Preferred Shares	The Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with Philippine Depository and Trust Corporation as Depository Agent on Listing Date through PSE Trading Participants nominated by the accepted Applicants. For this purpose, Applicants shall indicate in the proper space provided for in the Application form ("Application to Purchase") the name of a PSE trading participant under whose name their Shares will be registered. After Listing Date, shareholders may request the Registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Preferred Shares registered under their name, or (b) issue stock certificates evidencing their investment in the Preferred Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder. Legal title to the Preferred Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every year a statement of account to all shareholders named in the Registry of Shareholders confirming the number of Shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder.
Selling and Transfer Restrictions	Initial placement and subsequent transfers of interests in the Preferred Shares shall be subject to normal selling restrictions for listed securities that may prevail in the

	Philippines from time to time.
Eligible Investors	The Preferred Shares may be owned or subscribed to by any person, partnership, association or corporation regardless of nationality, provided that the Preferred Shares shall not be sold to persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States (FATCA), as this may be amended from time to time. “U.S. Persons” means any of the following: (i) a U.S. citizen (including dual citizen); (ii) a U.S. resident alien for U.S. tax purposes; (iii) a U.S. partnership; (iv) a U.S. corporation; (v) any U.S. estate; (vi) any U.S. trust if: (y) a court within the United States is able to exercise primary supervision over the administration of the trust; or, (z) one or more U.S. persons have the authority to control all substantial decisions of the trust; and (vii) any other person that is not a non-US person. The Company may reject an Application or reduce the number of Shares applied for subscription or purchase for purposes of complying with any applicable constitutional or statutory minimum Filipino ownership requirement. In determining compliance with such nationality requirement, the required percentage of Filipino ownership shall be applied to both (a) the total number of Outstanding Shares of Stock entitled to vote in the election of directors, and (b) the total number of Outstanding Shares of Stock, whether or not entitled to vote in the election of directors, as set out in applicable regulations. Law may restrict subscription to the Preferred Shares in certain jurisdictions. Foreign investors interested in subscribing for or purchasing the Preferred Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, shall warrant that their purchase of the Preferred Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Preferred Shares.
Governing Law	The Preferred Shares will be issued pursuant to the laws of the Republic of the Philippines.
Procedure for Application	Applications to Purchase may be obtained from any of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, Other Underwriters or Selling Agents. All Applications shall be evidenced by the Application to Purchase, duly executed in each case by the Applicant or an authorized signatory of the Applicant and accompanied by two completed signature cards, the corresponding payment for the Preferred Shares covered by the Application to Purchase and all other required documents including documents required for registry with the Registrar and Depository Agent (“Application”). The duly executed

	Application to Purchase and required documents should be submitted to the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners (which may be through the Other Underwriters) or Selling Agents on or prior to set deadlines for submission of Applications to Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners and Selling Agents, respectively. If the Applicant is a corporation, partnership, or trust account, the Application must be accompanied by the following documents: a. a certified true copy of the Applicant's latest articles of incorporation and by-laws, general information sheet or equivalent constitutive documents, each as amended to date, duly certified by the corporate secretary (or equivalent officer); b. a certified true copy of the Applicant's SEC certificate of registration, duly certified by the corporate secretary (or equivalent officer); and c. a duly notarized corporate secretary's certificate setting forth the resolution of the Applicant's board of directors or equivalent body authorizing (i) the purchase of the Preferred Shares indicated in the Application and (ii) the designated signatories authorized for the purpose, including their respective specimen signatures. Individual Applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, Social Security System/Government Service and Insurance System ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank. An Applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates must also submit the documents described in the Section on "Taxation" in pages 148 to 153 of this Prospectus.
Payment for the Preferred Shares	The Preferred Shares must be paid for in full upon submission of the Application. The purchase price must be paid in full in Pesos upon the submission of the duly completed and signed Application to Purchase and signature card together with the requisite attachments. Payment for the Preferred Shares shall be made either by: (i) a personal or corporate check drawn against an account with a BSP authorized bank at any of its branches located in Metro Manila; or (ii) a manager's or cashier's check issued by an authorized bank. All checks should be made payable to "**San Miguel Pure Foods Preferred Shares Offer**", crossed "Payee's Account Only," and dated on or before the date as the Application. The Applications and the related payments will be received at any of the offices of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners (which may be through the Other Underwriters) or Selling Agents. Applicants submitting their Application to a Joint Issue Manager, Joint Lead

	Underwriter and Joint Bookrunner may also remit payment for their Preferred Shares through the Real Time Gross Settlement ("RTGS") facility of the BSP to the Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner to whom such Application was submitted or via direct debit to their deposit account maintained with such Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner. Cash payments shall not be accepted. Should the Applicant elect to pay through RTGS, the Application should be accompanied by an instruction issued by the Applicant to effect payment through RTGS in an amount equal to the total Offer Price of the Offer Shares applied for, to be effected and fully funded not later than 5:00 p.m. on March 5, 2015. Should the Applicant elect to pay by a debit memo or instruction, the Application should be accompanied by a debit memo or instruction issued by the Applicant in an amount equal to the total Offer Price applied for in favor of the Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner to whom the Application is submitted, to be effected no later than 5:00 p.m. on March 5, 2015.
Acceptance/Rejection of Application	The actual number of Preferred Shares that an Applicant will be allowed to subscribe for is subject to the confirmation of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners. The Company reserves the right to accept or reject, in whole or in part, or to reduce any Application due to any grounds specified in the Underwriting Agreement to be entered into by the Company and the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners. Applications which were unpaid or where payments were insufficient and those that do not comply with the terms of the Offer shall be rejected. Moreover, any acceptance or receipt of payment pursuant to the Application does not constitute approval or acceptance by the Company of the Application. An Application, when accepted, shall constitute an agreement between the Applicant and the Company for the subscription to the Preferred Shares at the time, in the manner and subject to terms and conditions set forth in the Application to Purchase and those described in this Prospectus. Notwithstanding the acceptance of any Application by the Company, the actual subscription by the Applicant for the Preferred Shares will become effective only upon listing of the Preferred Shares on the PSE and upon the obligations of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners under the Underwriting Agreement becoming unconditional and not being suspended, terminated or cancelled, on or before the Listing Date, in accordance with the provision of the said agreement. If such conditions have not been fulfilled on or before the periods provided above, all Application payments will be returned to the Applicants without interest.

Refunds for Rejected Applications	In the event that the number of Preferred Shares to be allotted to an Applicant, as confirmed by a Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner or Selling Agent, is less than the number covered by its Application, or if an Application is wholly or partially rejected by the Company, then the Company shall refund, without interest, within five Banking Days from the end of the Offer Period, all or the portion of the payment corresponding to the number of Preferred Shares wholly or partially rejected. All refunds shall be made through the Joint Issue Manager, Joint Lead Underwriter and Joint Bookrunner or Selling Agent with whom the Applicant has filed the Application at the Applicant's risk.
Features of the Preferred Shares	
No Voting Rights	Holders of the Preferred Shares shall not be entitled to vote at the Company's stockholders' meetings, except as otherwise provided by law.
Non-Participating	Holders of the Preferred Shares shall not be entitled to participate in any other or future dividends beyond the dividends specifically payable on the Preferred Shares.
Non-Convertible	Holders of the Preferred Shares shall have no right to convert the Preferred Shares to any other preferred shares or Common Shares of the Company.
No Pre-emptive Rights	Holders of the Preferred Shares shall have no pre-emptive rights to subscribe to any shares (including, without limitation, Treasury Shares) that will be issued or sold by the Company.
Liquidation Rights	In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Preferred Shares shall enjoy preference in the payment, in full or, if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of Outstanding Preferred Shares, of the issue price of their Shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.
Other Terms of the Offer	
Offer Period	The Offer Period shall commence at 9:00 a.m. on February 16, 2015 and end at 5:00 p.m. on March 5, 2015. The Company and the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners reserve the right to

	extend or terminate the Offer Period with the approval of the SEC and the PSE.
Minimum Subscription to the Preferred Shares	Each application shall be for a minimum of fifty (50) Preferred Shares, and thereafter, in multiples of ten (10) Preferred Shares. No application for multiples of any other number of Preferred Shares will be considered.
Expected Timetable	The timetable of the Offer is expected to be as follows: Dividend Rate Setting…… February 11, 2015 Dividend Rate Announcement and Allocation of the Preferred Shares………… February 12, 2015 Offer Period………………. February 16 to March 5, 2015 PSE Trading Participants' Commitment Period…….. February 18, 2015 PSE Trading Participants' Allocation…………………. February 19, 2015 Settlement Date, Listing Date, and Commencement of Trading on the PSE…….. March 12, 2015 The dates included above are subject to the approval of the PSE and the SEC, market and other conditions, and may be changed.
Selling Agents	Trading Participants of the Philippine Stock Exchange
Depository Agent	Philippine Depository and Trust Corporation
Registrar and Paying Agent	SMC Stock Transfer Service Corporation
Counsel to the Issuer	Picazo Buyco Tan Fider & Santos
Counsel to the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	SyCip Salazar Hernandez & Gatmaitan

Description of the Preferred Shares

Set forth below is information relating to the Preferred Shares. This description is only a summary and is qualified by reference to Philippine law and San Miguel Pure Foods' Articles of Incorporation and By-laws, copies of which are available at the SEC.

San Miguel Pure Foods' Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

As of December 31, 2014, the Company had an authorized capital stock of Two Billion Four Hundred Sixty Million Pesos (₱2,460,000,000.00), divided into Two Hundred Six Million (206,000,000) Common Shares, with par value of Ten Pesos (₱10.00) each, of which One Hundred Sixty Six Million Six Hundred Sixty Seven Thousand Ninety Six (166,667,096) Shares were issued and outstanding, and Forty Million Preferred Shares (40,000,000), with par value of Ten Pesos (₱10.00) each, of which, Fifteen Million (15,000,000) Shares were issued and outstanding.

Following the Offer and redemption of the Outstanding Preferred Shares, the Company will have the following issued and Outstanding Shares:

(a) 166,667,096 Common Shares; and

(b) 10,000,000 Preferred Shares or 15,000,000 Preferred Shares if Oversubscription Option is availed.

The Preferred Shares

GENERAL FEATURES

The Preferred Shares have the following features, rights and privileges:

Offer Price

The Preferred Shares shall be offered at a price of ₱1,000.00 per share (the "Offer Price").

No Voting Rights

The Preferred Shares have no voting rights except as specifically provided by the Corporation Code. Thus, holders of the Preferred Shares are not eligible, for example, to vote for or elect the Company's Directors or to vote for or against the issuance of a stock dividend. Holders of Preferred Shares, however, may vote on matters which the Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the Articles of Incorporation. These acts, which require the approval of shareholders representing at least two-thirds of the issued and Outstanding Capital Stock of the Company in a meeting duly called for the purpose, are as follows:

- Amendment of the Company's Articles of Incorporation (including any increase or decrease of capital stock);
- Amendment of the Company's By-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or a substantial part of the Company's assets;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of the Company with another corporation or corporations;

- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the Company was organized; and
- Dissolution of the Company.

Entitled to cumulative preferential dividends at such rate as shall be determined by the Board of Directors

The declaration and payment of cash dividends on each Dividend Payment Date will be subject to the sole and absolute discretion of the Board of Directors to the extent permitted by applicable laws and regulations, and the covenants (financial or otherwise) in the agreements to which the Company is a party. As and if dividends are declared by the Board of Directors, cash dividends on the Series 2 Preferred Shares shall be at a fixed rate of 5.6569% calculated by reference to the Offer Price thereof.

Unless the Series 2 Preferred Shares shall have been redeemed by the Company on the Series 2 Step Up Date for the Series 2 Preferred Shares, the Initial Dividend Rate shall be adjusted on the relevant Step Up Date and Step Up Rate.

Cash Dividends on the Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a Dividend Payment Date) in accordance with the terms and conditions of the Preferred Shares, any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend period. The dividends on the Preferred Shares will be calculated on a 30/360-day basis. If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

The Board of Directors will not declare and pay dividends on any Dividend Payment Date where (a) payment of the Dividend would cause the Company to breach any of its financial covenants or (b) the profits available to the Company to distribute as dividends are not sufficient to enable the Company to pay in full both the dividends on the Preferred Shares and the dividends on all other classes of the Company's shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and that have an equal right to dividends as the Preferred Shares.

If the profits available to distribute as dividends are, in the Board's opinion, not sufficient to enable the Company to pay in full on the same date both dividends on the Preferred Shares and the dividends on other shares that are scheduled to be paid on or before the same date as the dividends on the Preferred Shares and have an equal right to dividends as the Preferred Shares, the Company is required first, to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that dividend payment date on any shares with a right to dividends ranking in priority to that of the Preferred Shares; and second, to pay dividends on the Preferred Shares and any other shares ranking equally with the Preferred Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Preferred Shares.

The profits available for distribution are, in general and with some adjustments, equal to the Company's accumulated realized profits less accumulated realized loss.

Dividends on the Preferred Shares will be cumulative. If for any reason the Company's Board does not declare a dividend on the Shares for a dividend period, the Company will not pay a dividend on the Dividend Payment Date for that dividend period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Shares must receive the dividends due them on such Dividend Payment Date as well as all dividends accrued and unpaid to the holders of the Shares prior to such Dividend Payment Date.

Holders of Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Shares.

Redeemable at the option of the Company under such terms as the Board of Directors may approve

As and if declared by the Board of Directors (or the Executive Committee), the Issuer may redeem in cash the Series 2 Preferred Shares on the 3rd anniversary of the Listing Date or on the last day of any Dividend Period thereafter, after giving not less than 30 nor more than 60 days' written notice prior to the intended date of redemption, at a redemption price equal to the offer Price of the Preferred Shares plus all dividends due them on the actual date of redemption as well as all accumulated dividends due and payable, or dividends in which the declaration and/or payment have been deferred, in respect of prior Dividend Periods. The notice to redeem shall be deemed irrevocable upon issuance thereof. The Issuer has the option to redeem, without preference or priority, in whole (not in part), the Series 2 Preferred Shares.

The Company is not legally required, has not established, and currently has no plans to establish, a sinking fund for the redemption of the Preferred Shares.

Upon listing on the PSE, the Company may purchase the Preferred Shares at any time in the open market or by public tender or by private contract at any price through the PSE without the obligation to purchase or redeem the other Preferred Shares. The Shares so purchased may either be redeemed (pursuant to the terms and conditions of the Preferred Shares) and cancelled or kept as Treasury Shares, as applicable.

Early Redemption due to Taxation

If dividend payments become subject to additional or higher withholding or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to the Company, the Company may redeem the Preferred Shares at any time in whole, but not in part, (having given not less than 30 nor more than 60 days' written notice prior to the intended date of redemption) at the Redemption Price.

Early Redemption due to an Accounting Event

If an opinion of a recognized accountancy firm authorized to perform accounting services in the Republic of the Philippines has been delivered to the Company stating that the Preferred Shares may no longer be recorded as equity in the audited consolidated financial statements of the Company prepared in accordance with PFRS, or such other accounting standards which succeeds PFRS as adopted by the Company for the preparation of its audited consolidated financial statements for the relevant financial year, and such event cannot be avoided by use of reasonable measures available to the Company even before the Optional Redemption Date, the Company may redeem the Preferred Shares at any time in whole, but not in part, (having given not less than 30 nor more than 60 days' written notice prior to the intended date of redemption) at the Redemption Price.

With preference over holders of common stock in the distribution of corporate assets in the event of dissolution and liquidation of the Company

In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Preferred Shares shall enjoy preference in the payment, in full or, if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of Outstanding Preferred Shares, of the issue price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.

No Pre-emptive Rights

The Preferred Shares shall have no pre-emptive rights to subscribe to any shares (including, without limitation, Treasury Shares) that will be issued or sold by the Company.

Not convertible into Common Shares

The Preferred Shares shall not be convertible into San Miguel Pure Foods' Common Shares.

Other Rights and Incidents Relating to the Preferred Shares

Following are other rights and incidents relating to the Preferred Shares, which may also apply to other classes of San Miguel Pure Foods' stock.

Appraisal Rights

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

In addition, the Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- An amendment of the Articles of Incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or shortening the term of corporate existence;

- The sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;

- The investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and

- A merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of the Company's shareholders, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

<u>Quorum</u>

The Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

<u>Voting</u>

At each shareholders' meeting, each shareholder shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The Company's By-laws provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than 10 trading days prior to the date of the stockholders' meeting.

Fixing Record Dates

The Board has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20 days preceding the date of any meeting of stockholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Risk Factors

Investment in the Preferred Shares involves a certain degree of risk. Prior to making any investment decision, prospective investors should carefully consider all of the information in this Prospectus, including the risks and uncertainties described below. The business, financial condition or results of operations of the Issuer could be materially adversely affected by any of these risks.

This Prospectus contains forward-looking statements that involve risks and uncertainties. San Miguel Pure Foods adopts what it considers conservative financial and operational controls and policies to manage its business risks. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. See section "Forward-Looking Statements" on page 7 of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of San Miguel Pure Foods, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

The means by which the Company intends to address the risk factors discussed herein are principally presented under "The Company - Competitive Strengths" beginning on page 62, "The Company - Business Strategies" beginning on page 65, "Management's Discussion and Analysis of Results of Operation and Financial Condition" beginning on page 119, "Corporate Governance" on page 108 and "Directors and Executive Officers" beginning on page 103 of this Prospectus.

Additional considerations and uncertainties not presently known to the Issuer or which the Issuer currently deems immaterial may also have an adverse effect on an investment in the Preferred Shares.

Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Preferred Shares. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risk factors.

General Risk Warning

The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Preferred Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the Company's business, financial condition, and results of operations and cause the market price of the Preferred Shares to decline. All or part of an investment in the Preferred Shares could be lost.

There is an extra risk of losing money when securities are issued by smaller companies.

Investors deal in a range of investments each of which may carry a different level of risk.

Prudence Required

The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Preferred Shares and the Company from the SEC and PSE.

Professional Advice

An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.

RISKS RELATING TO SAN MIGUEL PURE FOODS

Availability and prices of major raw materials

Many of San Miguel Pure Foods' products and businesses depend on raw materials, most of which are procured from third parties, including purchases of some critical raw materials from both within and outside of the Philippines. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, shipping and other transport-related factors, weather conditions and government regulations and controls.

San Miguel Pure Foods may also face disruptions in the supply of major raw materials. For example, there was insufficient local supply of cassava in 2012 due to adverse weather conditions in the Philippines in the latter part of 2011. As a result, San Miguel Pure Foods had to purchase and use a greater quantity of higher cost raw materials such as corn, which adversely affected profit margins in the first half of 2012. Another recent development is the global shortage of amino acids, such as threonine and methionine, owing to closure of production facilities in China and elsewhere.

Increased costs or shortages in supply of raw materials may also result from the imposition of new laws, regulations or policies. For example, in Mindanao in the southern part of the Philippines, where a significant portion of the population is Muslim, all of San Miguel Pure Foods' poultry processing plants are halal-certified. Legislation has been proposed to require additional halal certification for feedmills that supply poultry farms from which halal products are sourced. While the National Commission on Muslim Filipinos and IDCP appear to be implying this, there are no written requirements, coming from the Halal authorities. If this proposed legislation is enacted and implemented, certain raw materials may have to be eliminated from San Miguel Pure Foods' poultry feeds used in this region. This could increase the cost of poultry feeds and the cost of poultry production in the region, which could materially reduce profitability. Another example would be the recent port congestion in Manila and trucking constraints currently being experienced by local businesses which resulted in delays in the release and delivery of raw materials.

There is no assurance that raw materials will be supplied in adequate quantities or at the required quality to meet the needs of San Miguel Pure Foods, or that these raw materials will not be subject to significant price fluctuations in the future. While San Miguel Pure Foods may, in certain limited instances, be able to shift to alternative raw materials to produce its products, there is no assurance that it will be able to reduce its reliance on existing raw materials in the future. San Miguel Pure Foods may only have a limited ability to hedge against fluctuations in commodity prices and any hedging activities may not be as effective as planned. Moreover, market prices of raw materials could increase significantly if there are material shortages due to, among other things, competing usage, drastic changes in weather or natural disasters or shifts in demand from other countries such as China and India. There is no assurance that any increases in product costs will be passed on to consumers. As a result, any significant shortages or material increase in the market price of such raw materials could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

For more information on San Miguel Pure Foods' strategy to reduce risks relating to the availability and prices of raw materials, see "Business - Strategies - Improve Profitability Through Cost Leadership" on page 66.

Outbreak of diseases

San Miguel Pure Foods' fresh meats and poultry businesses are subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms it owns or contracted. The livestock industry in the Philippines has experienced outbreaks of disease in the past. In particular, an industry-wide Porcine

Epidemic Diarrhea (PED) that affected several of San Miguel Pure Foods' facilities in the second quarter of 2008 and the third quarter of 2010, and a Porcine Reproductive and Respiratory Syndrome (PRRS) outbreak at contract growing facilities in the second and third quarters of 2008 negatively affected revenue growth in San Miguel Pure Foods' fresh meats business during those periods.

In addition, any outbreak of a contagious disease in the Philippines, including bird flu or H1N1 influenza (or swine flu), could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations. In particular, any outbreak of a contagious disease could adversely affect San Miguel Pure Foods' ability to adequately staff its operations and the distribution networks for San Miguel Pure Foods' products, as well as the general level of economic activity in the Philippines. There is no assurance that any future outbreak of a contagious disease will not have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

There is no assurance that San Miguel Pure Foods' policies and controls will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting San Miguel Pure Foods' livestock production in the Philippines or elsewhere will not occur. Any occurrence of such events could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

To mitigate this risk, San Miguel Pure Foods has adopted strict bio-security measures in its facilities to prevent the outbreak or recurrence of diseases, including the separation of its hog breeding operations from nursery operations, bird proofing to prevent the entry of outside birds into its poultry farms and implementation of strict visitor screening and sanitation procedures for entrance to any of its poultry and hog facilities. However, San Miguel Pure Foods cannot assure prospective investors that its policies and controls will be successful in preventing disease outbreaks or recurrences. Any such outbreak or recurrence could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

Product liability claims

San Miguel Pure Foods' success depends largely upon consumers' perception of the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of San Miguel Pure Foods' products could materially reduce demand for its products. For example, a contamination of products by bacteria or other external agents, such as Listeria monocytogenes, Salmonella or E. coli, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. In particular, San Miguel Pure Foods has little, if any, control over handling procedures once its products have been dispatched for distribution and is, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closings by regulatory authorities, and adverse publicity, which could exacerbate the associated negative consumer reaction. While no material product liability claim has been filed against San Miguel Pure Foods, any such product liability claim, whether or not successful, could damage the reputation of San Miguel Pure Foods and its products, and could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

For more information on the Company's strategy to reduce risks relating to product liability claims, see discussion on "Quality Control, Health Safety and Environmental Matters" on page 86.

Change in consumer preferences or purchasing power

San Miguel Pure Foods' ability to successfully develop and launch new products, which is a key part of its strategy, as well as its ability to maintain or increase demand for existing products, depends on the acceptance of these products by consumers, as well as consumer purchasing power. Consumer preferences may shift for a variety of reasons, including changes in culinary, demographic and social trends, leisure activity patterns or consumer lifestyle choices.

Concerns about health effects due to negative publicity regarding negative dietary effects or other factors may also affect consumer purchasing patterns of food products. If San Miguel Pure Foods' marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, San Miguel Pure Foods' businesses and prospects could be materially and adversely affected.

In addition, demand for many of San Miguel Pure Foods' food products is closely linked to consumers' purchasing power and disposable income levels, which may be adversely affected by unfavorable economic developments in the Philippines. Any decrease in consumers' purchasing power and disposable income levels could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

For more information on the Company's efforts to address these risks, please refer to the discussion on "The Company - Business Strategies" on page 65 and "The Company - Competitive Strengths - Strong Commitment to Product Innovation" on page 64.

Competitive environment

The Philippine food industry is, in general, highly competitive. While San Miguel Pure Foods believes that it has the highest market share across several of its product categories, there is no assurance that it will be able to maintain or grow its current market share. In the food industry, competitive factors generally include price, product quality, brand awareness, distribution coverage, customer service and the ability to respond effectively to shifts in consumer tastes and preferences. Consolidation of San Miguel Pure Foods' competitors, the entry of new, larger competitors into the Philippine food market or irrational actions by San Miguel Pure Foods' competitors, such as irrational pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices or cause San Miguel Pure Foods' market share to decline. Any failure by San Miguel Pure Foods to successfully compete with its competitors or maintain market share could have a material adverse effect on its business, financial condition, results of operations and prospects.

San Miguel Pure Foods continues to actively invest in market research to mitigate this risk. For more information on the Company's efforts to address these risks, please refer to the discussion on "The Company - Business Strategies" on page 65 and "The Company - Competitive Strengths" on page 62.

Outsourcing to third parties

San Miguel Pure Foods outsources a substantial majority of its manufacturing, production and distribution operations to third party contractors. If one or more of San Miguel Pure Foods' contract manufacturers, facility operators or distributors fail to or are unable to manufacture, produce or distribute products in a timely manner, including as a result of labor disruptions or otherwise, in sufficient quantities or at satisfactory quality levels, or if San Miguel Pure Foods cannot successfully renew existing agreements with its contract manufacturers, its ability to bring products to the market and its reputation could suffer, which could have a material adverse effect on its businesses and financial performance, as well as its prospects. In addition, there is no assurance that San Miguel Pure Foods will continue to find sufficient new contract manufacturers, operators or distributors to meet increased customer demand in the future, which could materially and adversely affect San Miguel Pure Foods' businesses and prospects. Furthermore, San Miguel Pure Foods operates in an industry that is subject to many regulatory regimes, including but not limited to labor, safety, health, environmental and insolvency. Failure on the part of any significant third party contractor to comply with any of these regulatory regimes could materially and adversely affect San Miguel Pure Foods' business and prospects.

San Miguel Pure Foods continuously monitors the efficiency and manufacturing capabilities of its several contractors' production facilities (please see "The Company - Agro-Industrial Business Segment" on page 75). However, any of those contractors may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. If one or more of San Miguel Pure Foods' contract manufacturers or other contractors fails to or is unable to manufacture, package or distribute products for San Miguel Pure Foods in sufficient quantities or at satisfactory quality levels, or to perform its obligations in a timely manner, San Miguel Pure Foods' ability to bring products to the market and its reputation could suffer, which may have a material adverse effect on San Miguel Pure Foods' business, financial condition, results of operations and prospects.

Importation of lower-priced products

San Miguel Pure Foods may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements, including the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement and the ASEAN-India Free Trade Area Agreement, each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, as of January 1, 2010, import duties on certain value-added products, such as instant coffee, were reduced from 5% to zero for imports from other ASEAN countries. San Miguel Pure Foods has already experienced the effects of increased competition as a result of the elimination of these import duties, and expects that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, could give rise to increased competition for San Miguel Pure Foods' products. Furthermore, there were news reports and statements by Philippine livestock industry trade associations stating that some pork imports have been incorrectly declared for customs purposes, a practice that San Miguel Pure Foods believes escalated in the first half of 2012, with imported pork cuts such as shoulder and bellies misrepresented as offals, resulting in a tariff rate of 5% instead of either 30% or 40%. San Miguel Pure Foods believes these tariff avoidances led to substantially higher imports of frozen pork, contributing to an oversupply in the market, which resulted in lower selling prices. Moreover, imports of pork products from China into the Philippines are currently banned under phytosanitary restrictions. If this ban will be lifted in the future, San Miguel Pure Foods would face competition from lower-priced Chinese imports.

To mitigate this risk, the Company's business model allows us to take advantage of least cost production. If San Miguel Pure Foods is unable to compete effectively with lower-priced imports, its market share and sales may decrease, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

For more information on the Company's efforts to mitigate this risk, please see discussion on "The Company - Business Strategies - Improve profitability through cost leadership" on page 66.

Trademarks and proprietary rights

San Miguel Pure Foods owns and/or otherwise uses various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines, including *Purefoods, Tender Juicy, Magnolia, B-Meg, Monterey, Star, Dari Crème,* and *San Mig Coffee*. Protection of these brands and intellectual property rights is important to maintaining San Miguel Pure Foods' distinctive corporate and market identities. If third parties sell products that use counterfeit versions of San Miguel Pure Foods' brands or otherwise look like San Miguel Pure Foods' brands, consumers may confuse San Miguel Pure Foods' products with products that are inferior. This could negatively impact San Miguel Pure Foods' brand image and sales, particularly for its retail food products.

While San Miguel Pure Foods has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products, there can be no assurance that third parties will not challenge or infringe any existing or future trademarks issued to, or licensed by, San Miguel Pure Foods. Any failure to protect San Miguel Pure Foods' proprietary rights may significantly harm San Miguel Pure Foods' competitive position, which, in turn, could materially and adversely affect the Company's business, financial condition, results of operations and prospects, as well as San Miguel Pure Foods' reputation.

The Company is responsible for defending against any infringements on its brands or other proprietary rights. In this connection, San Miguel Pure Foods vigilantly monitors products released in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of its brands and other proprietary rights. San Miguel Pure Foods has also retained independent external counsels to alert the Company of any such attempts and to enjoin third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance or packaging of products, which may constitute trademark infringement and unfair competition. However, San Miguel Pure Foods cannot assure prospective investors that it will be successful in this regard. Any failure by the Company to protect its proprietary rights could have a material adverse effect on San Miguel Pure Foods' competitive position, results of operations and prospects.

Reliance on the "San Miguel" brand name

San Miguel Pure Foods believes the San Miguel brand is positively perceived by consumers in the Philippines as a result of its long presence in the Philippine market. San Miguel Pure Foods also believes the San Miguel brand name lends its own products an image of trust and quality. Although San Miguel Pure Foods relies significantly on the San Miguel brand name, it has little or no control over its use by other SMC group companies or any other third parties. Any decrease in the brand equity of the San Miguel brand name could materially and adversely affect San Miguel Pure Foods' reputation, business, financial condition, results of operations and prospects.

Largest shareholder influence on corporate actions

SMC is San Miguel Pure Foods' single largest shareholder and holds and controls 85.37% of San Miguel Pure Foods Common Shares and the corresponding voting rights immediately after the closing of the Offer, assuming no exercise of the Over-allotment Option.

As a result of this shareholding, SMC has effective control over San Miguel Pure Foods, including San Miguel Pure Foods' management, policies and business, through its ability to control actions that require majority shareholder approval and through its representatives on San Miguel Pure Foods' Board. The interests of SMC may differ from the interests of San Miguel Pure Foods' other shareholders. To the extent that there are conflicts of interest between SMC and San Miguel Pure Foods or its other shareholders, there can be no assurance that SMC will not choose to pursue strategic objectives that conflict with the interests of San Miguel Pure Foods or its other shareholders.

In addition, SMC has ownership interests in a number of companies in the Philippines, including companies that are involved in businesses related to San Miguel Pure Foods' businesses, or which have entered into, or may enter into, business transactions with San Miguel Pure Foods, such as transactions with San Miguel Yamamura Packaging Corporation for packaging materials. There can be no assurance that SMC or its officers or directors will make corporate opportunities available to San Miguel Pure Foods. For further information, see "Related Party Transactions" on page 114.

San Miguel Pure Foods strives to mitigate the foregoing risks through adherence to good governance principles and business practices. For more information on the Corporate Governance policies and procedures of the Company, please see "Directors and Executive Officers - Corporate Governance" on page 108.

Consolidation of major distribution channels

The Philippine retail market has historically been highly fragmented among numerous small neighborhood stores, groceries and traditional wet markets. Small neighborhood stores service limited geographical areas and purchase relatively small quantities of San Miguel Pure Foods' products from distributors and larger supermarkets. In recent years, larger supermarkets have begun to gain market share in the Philippines. There is a risk that San Miguel Pure Foods' business may become concentrated in fewer, larger customers, which could increase the relative bargaining power of these customers. There is no assurance that supermarkets or one of these larger customers will not exert downward pressure on wholesale prices of San Miguel Pure Foods' products, which could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

For more information on the efforts of the Company to mitigate this risk, please see "The Company - Business Strategies - Enhance product offering and distribution" on page 65.

Exposure to the credit risk of its customers

San Miguel Pure Foods is exposed to the credit risk of its customers, and defaults on material payments owed to San Miguel Pure Foods by customers could significantly reduce San Miguel Pure Foods' operating cash flows and liquidity, as well as have a material adverse effect on its financial condition and results of operations. Some of San Miguel Pure Foods' customers could also experience cash flow difficulties or become subject to liquidation, which could in turn lead to San Miguel Pure Foods being unable to collect payments or experiencing long delays in collection. Trade receivables are non-interest bearing and are generally on 30-day terms. As of September 30, 2014, about 60% of the trade receivables of San Miguel Pure Foods were due within 30 days. There is no assurance that San Miguel Pure Foods' exposure to the risk of delayed payments from its customers or defaults in payment by its customers will not increase, or that it will not experience losses or cash flow constraints as a result. If any of these events were to occur, these could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

To mitigate this risk, San Miguel Pure Foods requires its distributors to provide collateral in the amount equivalent to their credit line.

Short-term contracts

As is common in the industries in which it operates, San Miguel Pure Foods does not have long-term contracts with its customers and, consequently, its revenues are subject to short-term variability resulting from the seasonality of, and other fluctuations in, demand for its products. San Miguel Pure Foods' customers have no obligation to place new orders with the Company following the expiration of their current obligations, and may cancel, reduce or delay orders for a variety of reasons. The level and timing of orders placed by San Miguel Pure Foods' customers may vary due to a number of factors including: seasonality and other fluctuations in demand for San Miguel Pure Foods' products, the competitiveness of San Miguel Pure Foods' selling prices in the industry, customer satisfaction with the level of service San Miguel Pure Foods provides, and customers' inventory management.

San Miguel Pure Foods has experienced terminations of, and reductions and delays in, its customers' orders in the past. If San Miguel Pure Foods does not receive substitute orders, such events could lower its facility utilization rates, which could materially decrease San Miguel Pure Foods' revenues and profitability.

Labor disruptions

San Miguel Pure Foods is subject to a variety of national and local laws and regulations, including those relating to labor. As of September 30, 2014, San Miguel Pure Foods had 3,393 full-time employees, including 774 employees who are members of labor unions from the Company's Philippines, Vietnam and Indonesia businesses. San Miguel Pure Foods has in the past, and may in the future, be required to defend against labor claims. For example, in 2011, a labor dispute arose from a collective bargaining agreement deadlock at the Mabini Plant of San Miguel Mills, Inc. The case was settled after the Department of Labor and Employment issued an order to resolve the issue the following year and the Supreme Court denied the appeal made by the union president.

San Miguel Pure Foods generally considers its labor relations to be good. However, there can be no assurance that it will not experience future disruptions to its operations due to disputes or other issues with its employees, or any disruptions at any of its toller-operated plants. In addition, any changes in labor laws and regulations could result in San Miguel Pure Foods having to incur substantial additional costs to comply with increased minimum wage and other labor laws. Any of these events may materially and adversely affect San Miguel Pure Foods' business, financial condition and results of operations.

Compliance with environmental standards

San Miguel Pure Foods' businesses are subject to a variety of national and local laws, rules and regulations that impose limitations, prohibitions and standards with respect to health and safety, management of solid waste, water and air quality, as well as the use, discharge, emission, treatment, release, disposal and management of, regulated materials and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly more stringent in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties. For further information, see "Quality Control, Health, Safety and Environmental Matters" on page 86 and "Regulatory Framework" on page 162.

Furthermore, if the measures implemented by San Miguel Pure Foods to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose San Miguel Pure Foods to potential liabilities, including administrative penalties. If San Miguel Pure Foods fails to meet safety, health and environmental requirements, it may be subject to administrative, civil and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against San Miguel Pure Foods, as well as orders that could limit or affect its operations. There is no assurance that San Miguel Pure Foods will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and other proceedings could materially and adversely affect San Miguel Pure Foods' business, financial condition and results of operations.

Dependence on certain key personnel

San Miguel Pure Foods has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. Some members of San Miguel Pure Foods' management are leaders or members of certain key industry associations in the Philippines, and San Miguel Pure Foods believes it benefits from those relationships. If any of San Miguel Pure Foods' senior management are unable or unwilling to continue in their present positions, or if they join a competitor or form a competing business, San Miguel Pure Foods may not be able to replace them easily, and its business, financial condition, results of operations and prospects could be materially and adversely affected.

The Company's future success is dependent on the continued service of its key executives and employees. Thus, to mitigate this risk, the Company strives to strengthen the competencies of its employees, specifically those in the succession pipeline of key personnel, through initiatives such as the San Miguel Pure Foods University, and pursues strategic hiring for identified critical positions. However, the Company cannot assure potential investors that it will be able to retain these executives and employees.

Insurance coverage

San Miguel Pure Foods may not be fully insured against, and insurance may not be available for, losses caused by accidents, natural disasters, disease outbreaks, breakdown of major facilities or other events that could affect the facilities and processes used by its businesses. For example, San Miguel Pure Foods does not carry business interruption insurance for any of its domestic businesses. Any losses caused by events against which it is not fully insured could result in a decline in production, adverse publicity, and significant expenditure of resources to address such losses, and would as a result, have a material adverse effect on its business, financial condition and results of operations. Any accident at San Miguel Pure Foods' operations and facilities could result in significant losses. It could suffer a decline in production, receive adverse publicity and be forced to invest significant resources in addressing such losses, both in terms of time and money. There is no assurance that there will not be work-related or other accidents in the future. Furthermore, there is no assurance that amicable settlements will be secured in the event of accidents or that accidents will not result in litigation or regulatory action against San Miguel Pure Foods. Such events could materially and adversely affect its financial condition and results of operations. For further discussion, please refer to "The Company - Insurance" on page 86.

Disruptions in manufacturing operations

San Miguel Pure Foods' facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters and other unforeseen circumstances and problems. For example, San Miguel Pure Foods decided to cease operations at its Marikina plant after it was severely damaged as a result of Typhoon Ondoy affecting Metro Manila in September 2009. As a result of this closure, and the consequent transfer of production capacities to a Cavite plant and other third party contracted plants, San Miguel Pure Foods was unable to meet volume demand during the relevant period, and its revenues were adversely affected during the fourth quarter of 2009. San Miguel Pure Foods' business, financial condition and results of operations may be materially and adversely affected by any disruption of operations at its or its suppliers' facilities, including due to any of the events mentioned above.

San Miguel Pure Foods takes precaution to minimize risk of any significant operational problems at its facilities and continuously monitors the efficiency of manufacturing capabilities of its contractors' production facilities.

Possible disagreements among joint venture partners

The businesses of some of San Miguel Pure Foods' subsidiaries are conducted through joint ventures with other partners, including Hormel Netherlands B.V. for processed meats and Super Coffee Corporation Pte Ltd for coffee. Cooperation among the joint venture partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. Although San Miguel Pure Foods believes it maintains good relationships with its joint venture partners, there is no assurance that these relationships will be sustained in the future or that problems will not develop. For example, San Miguel Pure Foods' joint venture partners may be unable or unwilling to fulfill their obligations, take actions contrary to its policies or objectives, or may experience financial difficulties. If any of these events occur, the businesses of these joint ventures could be severely disrupted, which could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

Availability of financing

San Miguel Pure Foods' future business activities are expected to be funded through a combination of internally-generated funds and external fund-raising activities, including debt and equity financing. San Miguel Pure Foods' continued access to debt and equity financing as a source of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure (including single borrower limits) to a single borrower or related group of borrowers, (ii) San Miguel Pure Foods' compliance with existing debt covenants, (iii) the ability of San Miguel Pure Foods, its affiliates and its subsidiaries to service new debt, and (iv) perceptions in the capital markets regarding San Miguel Pure Foods and the industries in which it operates and other factors, some of which may be outside of its control, including general conditions in the debt and equity capital markets, political instability, an economic downturn, social unrest, changes in the Philippine regulatory environment or the bankruptcy of an unrelated company operating in one or more of the same industries as San Miguel Pure Foods, any of which could increase San Miguel Pure Foods' cost of borrowing or other financing or restrict its ability to obtain debt or equity financing. In addition, while there are growing signs of recovery from the current disruptions in global capital and credit markets, which began in the second half of 2007, such disruptions may recur, continue indefinitely or intensify, and such disruptions could adversely affect San Miguel Pure Foods' access to financing. There is no assurance that San Miguel Pure Foods will be able to arrange its required financing on acceptable terms, if at all. Any inability of San Miguel Pure Foods to obtain financing from banks and other financial institutions or from capital markets would adversely affect San Miguel Pure Foods' ability to execute its future business activities as well as its financial condition and prospects.

Price controls on certain products

Basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds may be made subject to price control by the national government of the Republic of the Philippines (the "Government"). Under the Philippine Republic Act No. 7581 (the "Price Act"), the President of the Philippines may impose a price ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels.

If the conditions specified under the Price Act occur, the President of the Philippines may exercise the price control powers provided in the Price Act and impose price ceilings on certain products of San Miguel Pure Foods that are considered basic necessities and prime commodities under the law. A ceiling imposed pursuant to the Price Act remains effective throughout the duration of the calamity, but in any case, may not exceed a period of 60 days. Any resulting price control may have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

In addition, traditional wet markets remain a major source of food products for many Philippine consumers. Because the Government may periodically move to protect consumers from rising prices, San Miguel Pure Foods may be constrained from passing on price increases to wet market retailers who sell its poultry, fresh meats and value-added meat products.

Increases in tax rates

San Miguel Pure Foods and its products are subject to various taxes, including value-added taxes ("VAT"), duties and tariffs. The increase in prices due to additional taxes may affect demand for San Miguel Pure Foods' products in the Philippines, as San Miguel Pure Foods' consumers are generally price sensitive. A decline in demand for San Miguel Pure Foods' products may adversely affect its business, financial condition and results of operations.

Implementation of expansion plans

San Miguel Pure Foods intends to expand its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings, as well as to continue sourcing potential acquisition targets in food or food-related businesses, including strategic acquisitions in fast-growing emerging Asian countries, as part of its growth strategy. These expansion plans are intended to result in the generation of cash, income or the reduction of risk or the creation of synergies. Acquisitions made as part of these expansion plans may be financed by additional borrowings or by the issuance of the common stock or other securities of San Miguel Pure Foods.

These transactions involve risks, and there can be no assurance that: implementation of any expansion plans would result in an increase in income; any acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into San Miguel Pure Foods' operations and internal controls; the due diligence prior to an acquisition, joint venture or other investment would uncover situations that could result in financial or legal exposure, or that San Miguel Pure Foods will appropriately quantify the exposure from known risks; use of cash for acquisitions would not adversely affect San Miguel Pure Foods' cash available for capital expenditures and other uses; any acquisitions, joint ventures, investments or integrations would not divert management resources; or any acquisitions, joint ventures, investments or integrations would not otherwise have a material adverse effect on San Miguel Pure Foods' liquidity, financial condition or results of operations.

Engagement in derivative and hedging transactions

San Miguel Pure Foods enters into various commodity derivative instruments, such as forward purchases, caps and collars for wheat and soybean meal, to manage its price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. As a policy, The Company endeavors to hedge up to 20% of its wheat and soybean meal requirements. As San Miguel Pure Foods' hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under its futures contracts, San Miguel Pure Foods' net income will be lower than it would have been if San Miguel Pure Foods had not engaged in such transactions. Consequently, the Company's financial performance could be adversely affected during periods in which prices of raw materials are volatile.

Risks Related to the Philippines

San Miguel Pure Foods' business and sales are concentrated in the Philippines

Historically, the Company's product demand and results of operations have generally been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. The Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations. Furthermore, a re-emergence of severe acute respiratory syndrome or avian influenza (commonly known as bird flu) or the emergence of another similar disease in the Philippines or other countries in Southeast Asia could adversely affect the Philippine and Malaysian economies, which could materially and adversely affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. The volatility in global financial markets has added to the uncertainty of the global economic outlook, and a number of countries are experiencing slowing economic activity. In the past, the Philippine economy and the securities of Philippine companies have been influenced, to varying degrees, by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions. The current uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate. Any downturn in the Philippine economy may negatively affect consumer sentiment and general business conditions in the Philippines which may lead to a reduction in demand for the Company's products and materially reduce the Company's revenues, profitability and cash flows. Moreover, there can be no assurance that current or future Philippine governmental policies will continue to be conducive to sustaining economic growth.

Political instability or acts of terrorism in the Philippines

The Philippines has from time to time experienced political and military instability. In the last few years, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. There can be no assurance that acts of election-related or other political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

The Philippines has also been subject to a number of terrorist attacks since 2000, and the Philippine armed forces have been in conflict with groups that have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. Political instability, acts of terrorism, violent crime and similar events could have a material adverse effect on the Company's business, financial condition, results of operations and prospects. There can be no assurance that the Philippines and the assets and operations of San Miguel Pure Foods will not be subject to further acts of terrorism in the future, which could have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations.

Credit rating of the Philippines

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as San Miguel Pure Foods. No assurance can be given that Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including San Miguel Pure Foods, to raise additional financing, and increase San Miguel Pure Foods' borrowing and other costs. These factors could have a material adverse effect on San Miguel Pure Foods' financial condition and results of operations.

Developments in other markets and countries

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, particularly other countries in Southeast Asia, as well as investors' responses to those conditions.

Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the recent economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in demand for, and the market price of, the Preferred Shares.

The occurrence of natural catastrophes and electricity blackouts

The Philippines has experienced a number of major natural catastrophes in recent years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may disrupt San Miguel Pure Foods' ability to produce or distribute its products and impair the economic conditions in affected areas, as well as the overall Philippine economy. For example, volume growth in San Miguel Pure Foods' poultry business decreased in 2006 after two major typhoons destroyed some of San Miguel Pure Foods' poultry facilities, killing over a million birds. Just recently, the broiler supply of our poultry business in the second half of 2014 was affected by Typhoon Glenda. The Philippines has also experienced electricity blackouts, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt San Miguel Pure Foods' business and operations, as well as have a material adverse effect on San Miguel Pure Foods' business, financial condition and results of operations. San Miguel Pure Foods has an all-risk policy that covers its facilities and inventories, other than livestock, against a variety of risks, including fire, lightning, catastrophic perils (such as typhoons, floods, earthquakes and volcanic eruptions), machinery breakdown, explosion, civil commotion, riot or strikes, malicious damage, and others. The Company has no business interruption insurance for its domestic production facilities, but it is covered by an "Increased Cost of Working" provision that compensates San Miguel Pure Foods for certain additional expenses incurred in continuing its operations following covered events. However, the Company cannot assure prospective investors that the insurance coverage it maintains for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes or blackouts, including possible business interruptions.

More recently, the Department of Energy has disclosed in news reports that an 800-megawatt power shortage is expected in the summer of 2015 due to the thinning hydropower capacity coupled with the increased demand for electricity.

Although the Company's power supply in its major production facilities is generally secured by long-term contracts with major Independent Power Producers, the Company may still be affected because many of its products require refrigeration and/or freezing. To minimize impact, daily delivery to smaller outlets is an option.

Nevertheless, there will be no material adverse impact from the possible power shortage on the income and operations of the Company including the operations of its contract growers.

San Miguel Pure Foods' investors may face difficulties enforcing judgments against the Company

The Company is organized under the laws of the Philippines and most of its assets are located in the Philippines. It may be difficult for investors to effect service of process outside the Philippines upon the Company with respect to claims pertaining to the Preferred Shares. Moreover, it may be difficult for investors to enforce in the Philippines judgments against the Company obtained outside the Philippines as applicable, in any actions pertaining to the Preferred Shares, particularly with respect to actions for claims to which the Company has not consented to service of process outside the Philippines, as the case may be.

In addition, substantially all of the directors and senior management of the Company are residents of the Philippines, and all or a substantial portion of the assets of these persons are or may be located in the Philippines. As a result, it may be difficult for investors outside of the Philippines to effect service of process upon such persons or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines.

The Philippines is not a party to any international treaty relating to the recognition or enforcement of foreign judgments. Philippine law provides that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if (i) the court rendering such judgment had jurisdiction in accordance with its jurisdictional rules, (ii) the other party had notice of the proceedings, (iii) such judgment was not obtained by collusion or fraud or based on a clear mistake of fact or law, and (iv) such judgment was not contrary to public policy or good morals in the Philippines.

Imposition of foreign exchange controls

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. The Monetary Board of the Bangko Sentral ng Pilipinas (the "BSP"), with the approval of the President of the Philippines, has statutory authority, in the imminence of or during a foreign exchange crisis or in times of national emergency, to: (i) suspend temporarily or restrict sales of foreign exchange, (ii) require licensing of foreign exchange transactions, or (iii) require delivery of foreign exchange to the BSP or its designee banks. The Philippine government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

San Miguel Pure Foods purchases certain critical raw materials, such as milk, wheat and soybean meal, from abroad and requires foreign currency to make these purchases. There can be no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency in the future. Any such restrictions imposed in the future could severely curtail San Miguel Pure Foods' ability to obtain raw materials from abroad or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

Management of risks related to the Philippines

The Company has been able to survive major economic and political crises brought about by domestic and international developments through the implementation of its core strategies, including least cost formulations, efficiencies improvement, market leadership, innovation and regional diversification. Constant monitoring of market allows the Company to detect risk exposures and react to the external environment appropriately. Although there is no assurance that the Company will be able to fully overcome the adverse effects of any or all crisis, it has in place a system of financial prudence and corporate governance that provides the foundation for its risk management initiatives.

Risks Related to the Preferred Shares

The Preferred Shares may not be a suitable investment for all investors

Each potential investor in the Preferred Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Preferred Shares, the merits and risks of investing in the Preferred Shares and the information contained in this Prospectus;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Preferred Shares and the impact the Preferred Shares will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Preferred Shares, including where the currency for principal or dividend payments is different from the potential investor's currency;

- understand thoroughly the terms of the Preferred Shares and be familiar with the behavior of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Preferred Shares are perpetual securities

The Preferred Shares are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Preferred Shares at any time and they can only be disposed of by sale in the secondary market. Holders who wish to sell their Preferred Shares may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Preferred Shares. Therefore, holders of the Preferred Shares should be aware that they may be required to bear the financial risks of an investment in the Preferred Shares for an indefinite period of time.

The market price of the Preferred Shares may be volatile

The market price of the Preferred Shares could be affected by various factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks, in general, and other food producer stocks, in particular;
- changes to Government policy, legislation or regulations, and
- general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Shares.

Additional Taxes

The sale, exchange or disposition of the Preferred Shares after the Offer Period, if made outside the facilities of the PSE is subject to capital gains tax and documentary stamp tax, and if made through the facilities of the PSE (except for a dealer in securities) is subject to stock transaction tax. Changes in laws, rules and regulations may result in additional taxes on the acquisition, disposition, or transfer of the Preferred Shares. For a discussion on the taxes currently imposed by the BIR, please refer to the section on "Taxation" on pages 148 to 153 of the Prospectus.

San Miguel Pure Foods depends mainly on dividends and royalties from its subsidiaries

San Miguel Pure Foods depends mainly on dividends and royalties from its subsidiaries for almost all of its cash flow. San Miguel Pure Foods currently conducts most of its operations through its subsidiaries. Most of San Miguel Pure Foods' assets are held by, and almost all of its earnings and cash flows are attributable to, those subsidiaries. San Miguel Pure Foods' liquidity, ability to pay interest and expenses, meet obligations, and provide funds to its subsidiaries, are dependent upon the flow of funds from those subsidiaries.

The ability of San Miguel Pure Foods' subsidiaries to provide funds, and declare dividends to San Miguel Pure Foods are dependent on their results of operations and financial position. Any deterioration in the financial position of any such subsidiaries may adversely affect the ability of subsidiaries to provide such funds or dividends. There can be no assurance that San Miguel Pure Foods' subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to it to enable it to meet its obligations under the Preferred Shares.

The ability of direct and indirect subsidiaries of San Miguel Pure Foods to pay dividends to their stockholders is subject to applicable law and restrictions contained in debt instruments of such subsidiaries and may also be subject to deduction of taxes. No assurance can be given that San Miguel Pure Foods will have sufficient cash flow from dividends to meet its obligations under the Preferred Shares. Any shortfall would have to be made up from other sources of funds available to San Miguel Pure Foods.

To maintain the strong results of operations and financial position of the Company, San Miguel Pure Foods continuously strengthens its strategic positions in its different business segments by capitalizing on its culture, financial resources, strong brands, and successful track record in introducing innovative products and services. Management also believes that its competitive strengths that include its strong financial profile and market positions, diversified portfolio of businesses, and more than 25 years of valuable business and management experience, enable it to achieve and sustain growth.

Holders may not receive dividend payments if the Company elects to defer dividend payments

Dividends on the Preferred Shares may not be paid in full, or at all. Under the terms and conditions governing the Preferred Shares, the Company may pay no dividends or less than full dividends on a Dividend Payment Date. Holders of the Preferred Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

If dividends on the Preferred Shares are not paid in full, or at all, the Preferred Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Preferred Shares during such a period by a holder of Preferred Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Preferred Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Preferred Shares may be more volatile than that of other securities that do not have these limitations.

Subordination to the Company's other indebtedness

San Miguel Pure Foods' obligations under the Preferred Shares will constitute unsecured and subordinated obligations of the Company, the rights and claims of holders of the Preferred Shares will (subject to extent permitted by law) rank senior to the holders of the Common Shares of the Company and *pari passu* with each other, but junior to the claims of all other creditors.

In the event of winding-up of the Company, there is a substantial risk that an investor in the Preferred Shares will lose all of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Preferred Shares.

There are no terms in the Preferred Shares that limit the Company's ability to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Preferred Shares.

Insufficient distributions upon liquidation

Under Philippine law, upon any voluntary or involuntary dissolution, liquidation or winding up of San Miguel Pure Foods, holders of Preferred Shares will be entitled only to the available assets of the Company remaining after the indebtedness of the Company is satisfied. If any such assets are insufficient to pay the amounts due on the Preferred Shares, then the holders of the Preferred Shares shall share ratably in any such distribution of assets in proportion to the amounts to which they would otherwise be respectively entitled. In the event of liquidation or winding-up, the unsubordinated obligations of the Company shall be preferred over the claims of holders of the Shares in respect of the Shares, which Shares shall rank *pari passu* with each other.

The ability of the Company to make payments under the Preferred Shares is limited by terms of San Miguel Pure Foods' other indebtedness

San Miguel Pure Foods' has and will continue to have a certain amount of outstanding indebtedness. The current terms of San Miguel Pure Foods' financing agreements contain provisions that could limit the ability of the Company to make payments on the Preferred Shares. Also, San Miguel Pure Foods may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Preferred Shares. There can be no assurance that existing or future financing arrangements will not adversely affect San Miguel Pure Foods' ability to make payments on the Preferred Shares.

Company has the sole right to redemption

Holders of the Preferred Shares have no right to require the Issuer to redeem the Preferred Shares. The Preferred Shares are only redeemable at the option of the Issuer on the Optional Redemption Date or any Dividend Payment Date thereafter. Accordingly, if a Preferred Shareholder wishes to obtain the cash value of the investment, the holder will have to sell the Preferred Shares in the secondary market.

Liquidity of the securities markets for the Preferred Shares

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Preferred Shares will always be active or liquid upon their listing on the PSE.

Trading market for the Preferred Shares

The Company and the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners are not obligated to create a trading market for the Preferred Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Preferred Shares will develop or if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Preferred Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Deferred payment of dividends

If dividends on the Preferred Shares are not paid in full, or at all, the Preferred Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Preferred Shares during such a period by a holder of Preferred Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Preferred Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Preferred Shares may be more volatile than that of other securities that do not have these limitations.

Holders of the Preferred Shares may not be able to reinvest at a similar return on investment

On the Optional Redemption Date of the Series 2 Preferred Shares, or at any time a Tax Event or an Accounting Event occurs, San Miguel Pure Foods may redeem the Preferred Shares for cash at the redemption price, as described in ''Description of the Preferred Shares'' on page 29. At the time of redemption, dividend rates may be lower than at the time of the issuance of the Preferred Shares and, consequently, the holders of the Preferred Shares may not be able to reinvest the proceeds at a comparable interest rate or purchase securities otherwise comparable to the Preferred Shares.

The Preferred Shares have no voting rights

Holders of Preferred Shares will not be entitled to elect the Directors of the Company. Except as provided by Philippine law, holders of Preferred Shares will have no voting rights (see ''Description of the Preferred Shares'' on page 29).

Use of Proceeds

The gross proceeds of the Offer will amount to ₽10 billion (assuming Oversubscription Option is not exercised). The Company estimates that the net proceeds of the Offer shall amount to approximately **₽9.91 billion**, after underwriting fees, commissions and expenses. Estimated fees, commissions and expenses relating to the Issue are as follows (assuming Oversubscription Option is not exercised):

Fees, Commissions and Expenses	In ₽ Millions
Gross Underwriting Fees for the Preferred Shares being sold by the Company	53.76
Taxes to be paid by the Company	0.50
Philippine SEC filing and legal research fee	3.09
Estimated PSE processing fee (exclusive of 12% VAT)	0.05
Estimated PSE listing fee (exclusive of 12% VAT)	10.00
Estimated legal and other professional fees	22.63
Estimated other expenses	1.50
TOTAL	**91.53**

Assuming full exercise of the Oversubscription Option, the Company estimates that the net proceeds from the Offer shall amount to approximately **₽14.87 billion**, after deducting the following fees, commissions and expenses:

Fees, Commissions and Expenses	In ₽ Millions
Gross Underwriting Fees for the Preferred Shares being sold by the Company	80.64
Taxes to be paid by the Company	0.75
Philippine SEC filing and legal research fee	4.36
Estimated PSE processing fee (exclusive of 12% VAT)	0.05
Estimated PSE listing fee (exclusive of 12% VAT)	15.00
Estimated legal and other professional fees	30.69
Estimated other expenses	1.50
TOTAL	**132.99**

The net proceeds of the Offer shall be used to refinance the issuer's ₽15.0 billion Outstanding Preferred Shares with Offer Price of ₽1,000.00 per preferred share which are callable starting on March 3, 2014 or any dividend payment date thereafter. Since redemption shall take place prior to the listing date and settlement date, the Company shall advance the redemption price from a combination of the existing cash balance of the Company and short-term borrowing out of existing credit facilities. As of December 31, 2014, available cash of the Company is at least ₽10.0 billion. The remaining ₽5.0 billion shall be sourced from existing credit facilities. In case the net proceeds of the Offer will not be sufficient to refinance the Outstanding Preferred Shares, the balance will be sourced from the Company's funds. The net proceeds shall not be used to discharge debt which has already been incurred by the Company.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

The Company undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed above.

In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC, PSE and the holders of the Shares in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments in the use of proceeds, as indicated above, should be approved by the Board and disclosed to the PSE. In addition, the Company shall submit via the PSE's Electronic Disclosure Generation Technology (EDGE), the following disclosures to ensure transparency in the use of proceeds:

(i) any disbursements made in connection with the planned use of proceeds from the Offer;

(ii) quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;

(iii) annual summary of the application of the proceeds on or before January 31 of the following year; and

(iv) approval by the Board of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least 30 days prior to the said actual disbursement or implementation.

The Company shall submit a certification by the Company's Treasurer and external auditor on the accuracy of the information reported by the Company to the PSE, as well as a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the Prospectus, if any, in the Company's quarterly and annual reports as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

₱15.0 billion Outstanding Preferred Shares

In January 2011, the SEC approved the Company's Registration Statement covering the registration of 15,000,000 preferred shares with a par value of ₱10.00 per share, and the PSE approved, subject to certain conditions, the application of the Company to list up to 15,000,000 preferred shares with a par value of ₱10.00 per share to cover the Company's follow-on preferred shares offering at an offer price of ₱1,000.00 per share. In February 2011, on the basis of the SEC order for the registration of the Company's 15,000,000 preferred shares with a par value of ₱10.00 per share and Certificate of Permit to Offer Securities for Sale, the Company offered for subscription by the public 15,000,000 preferred shares with 5-year maturity at an offer price of ₱1,000.00 per share.

The summary of the Terms of the Offer is set out below.

San Miguel Pure Foods, through underwriters and Selling Agents, offered 15,000,000 cumulative, non-voting, non-participating and non-convertible preferred shares at an offer price of ₱1,000.00 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 Board of Directors. The preferred shares are redeemable in whole or in part, in cash, at the sole option of the Company, 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). Unless the preferred shares are redeemed by the Company 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. The offering was fully subscribed and the 15,000,000 preferred shares were issued on March 3, 2011, its listing date on the PSE.

In June 2011, the SEC issued the Certificate of Filing of Amended Articles of Incorporation approving the additional redemption features of the preferred shares of San Miguel Pure Foods. Following this, the Company may also redeem the preferred shares on the 3rd anniversary from the issue date or on any dividend payment date thereafter, in whole but not in part, at the redemption price of ₱1,000.00 per share plus any and all accumulated unpaid cash dividends.

Proceeds from the Outstanding Preferred Shares issued in 2011 were used to pay SMC for the acquisition of certain major brands, related trademarks and other intellectual properties that San Miguel Pure Foods uses to prepare, package, advertise, distribute and sell its products, for the acquisition of SMC's 51%

interest in San Miguel Pure Foods Investment (BVI) Limited which owns 100% of San Miguel Hormel (Vn) Co., Ltd., the Company that operates the Vietnam food business, and for general corporate purposes.

Determination of Offer Price

The Offer Price of ₱1,000.00 is at a premium to the Preferred Share's par value per share of ₱10.00. The Offer Price was arrived at by dividing the desired gross proceeds of ₱15 billion, if the Oversubscription Option is fully exercised, by the amount of Preferred Shares allocated for this offering.

The Company's Outstanding Preferred Shares are listed and Traded on the PSE under the stock symbol "PFP". The closing Price of the Outstanding Preferred Shares as of February 11, 2015 is ₱1,011.00

Upon listing, the Series 2 Preferred Shares shall be traded under the symbol PFP2.

Dilution

The Preferred Shares will not have any dilutive effect on the rights of the holders of the Common Shares of the Company as these are non-voting, non-convertible and non-participating.

Plan of Distribution

San Miguel Pure Foods plans to issue the Preferred Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Joint Issue Managers, Joint Lead Underwriters and Joint Book Runners. The Offer does not include an international offering.

Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners

BPI Capital Corporation ("BPI Capital"), China Banking Corporation ("CBC"), RCBC Capital Corporation ("RCBC Capital"), SB Capital Investment Corporation ("SB Capital"), and Standard Chartered Bank ("SCB") have agreed to distribute and sell the Preferred Shares at the Issue Price, pursuant to an Underwriting Agreement to be entered into with San Miguel Pure Foods (the "Underwriting Agreement"). Subject to the fulfillment of the conditions provided in the Underwriting Agreement, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners have committed to underwrite the following amounts on a firm basis:

BPI Capital Corporation	**₱2 billion**
China Banking Corporation	**₱2 billion**
RCBC Capital Corporation	**₱2 billion**
SB Capital Investment Corporation	**₱2 billion**
Standard Chartered Bank	**₱2 billion**
TOTAL	**₱10 billion**

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to San Miguel Pure Foods of the net proceeds of the Preferred Shares.

The underwriting and selling fees to be paid by the Company in relation to the Offer shall be equivalent to 0.65% of the gross proceeds of the Offer. This shall be inclusive of fees to be paid to the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, and Other Underwriters, and commissions to be paid to the Selling Agents, which shall be equivalent to 0.15% of the total proceeds of the sale of Preferred Shares by such Trading Participant.

The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners are duly licensed by the SEC to engage in the underwriting or distribution of the Preferred Shares. The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, may, from time to time, engage in transactions with and perform services in the ordinary course of its business for San Miguel Pure Foods or any of its subsidiaries.

The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners have no direct relations with San Miguel Pure Foods in terms of ownership by either of their respective major stockholder/s, and have no right to designate or nominate any member of the Board of Directors of San Miguel Pure Foods.

The Joint Lead Underwriters have no contract or other arrangement with San Miguel Pure Foods by which it may return to San Miguel Pure Foods any unsold Preferred Shares.

BPI Capital Corporation ("BPI Capital") is a wholly-owned investment banking subsidiary of the Bank of the Philippine Islands. BPI Capital is an investment house focused on corporate finance and the securities distribution business. It began operations as an investment house in December 1994 and has grown to be one of the biggest investment banks in the country. As of September 30, 2014, BPI Capital had total assets of ₱4.84 billion and total capital funds of ₱4.74 billion.

China Banking Corporation ("CBC") has been in the business for over 90 years and has extensive operations in lending, treasury, trust, investment services and insurance. It has significant presence across corporate, commercial, middle and retail markets, and has a strong niche in the Chinese-Filipino commercial sector. CBC is a key player in major capital market transactions across various industries in the Philippines. CBC, through its Investment Banking Group, offers a wide array of advisory and capital-raising services to corporate clients. CBC's dedicated team of seasoned investment bankers develops tailor-made funding and liability management solutions for all types of corporations, and structures and carries out placements for the entire range of capital markets products.

RCBC Capital Corporation ("RCBC Capital") is a licensed investment house providing a complete range of capital-raising and financial advisory services. Established in 1974, RCBC Capital has over 40 years of experience in the underwriting of equity, quasi-equity and debt securities, as well as in managing and arranging the syndication of loans, and in financial advisory. RCBC Capital is a wholly-owned subsidiary of the Rizal Commercial Banking Corporation and a part of the Yuchengco Group of Companies, one of the country's largest fully integrated financial services conglomerates.

SB Capital Investment Corporation ("SB Capital") is a Philippine corporation organized in October 1995 as a wholly-owned subsidiary of Security Bank Corporation. It obtained its license to operate as an investment house in 1996 and is licensed by the SEC to engage in underwriting and distribution of securities to the public. SB Capital provides a wide range of investment banking services including financial advisory, underwriting of equity and debt securities, project finance, privatizations, mergers and acquisitions, loan syndications and corporate advisory services. SB Capital is also involved in equity trading through its wholly-owned stock brokerage subsidiary, SB Equities, Inc. Its senior executives have extensive experience in the capital markets and were involved in a lead role in a substantial number of major equity and debt issues, both locally and internationally.

Standard Chartered Bank ("SCB") is a banking corporation duly organized and incorporated in England with limited liability by Royal Charter in 1853, and licensed to act as a banking institution under and by virtue of the laws of the Republic of the Philippines through its branch office, with principal office in Makati City. It has operated for over 150 years in some of the world's most dynamic markets and earns more than 90% of its profits in Asia, Africa and the Middle East. Operating in the Philippines since 1872, SCB is a universal bank and is the longest established foreign bank in the country. The principal banking products include deposits, lending and related services, treasury and capital market operations, trade services, payments and cash management, credit cards, and custodial services. The bank also provides capital raising solutions such as local currency and G3 currency fixed income and loan syndications.

Sale and Distribution

The distribution and sale of the Preferred Shares shall be undertaken by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners who shall sell and distribute the Preferred Shares to third party buyers/investors. The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners are authorized to organize a syndicate of underwriters, soliciting dealers and/or selling agents for the purpose of the Offer. In connection with the foregoing, the Joint Lead Underwriters may enter into sub-underwriting agreements, participation agreements or like agreements with other underwriters (who may be named or have been named herein as Co-Lead Underwriters or Participating Underwriters), soliciting dealers and/or selling agents. As mentioned above, there is nothing in such agreements that allow the Joint Lead Underwriters to return to San Miguel Pure Foods any unsold Preferred Shares.

Of the 10,000,000 Preferred Shares to be offered, 80% or 8,000,000 Preferred Shares are being offered through the Joint Lead Underwriters for subscription and sale to Qualified Institutional Buyers and the general public. The Company plans to make available 20% or 2,000,000 Preferred Shares for distribution to the respective clients of the 132 Trading Participants of the PSE, acting as Selling Agents. Each Trading Participant shall be allocated 15,150 Preferred Shares (computed by dividing the Preferred Shares allocated to the Trading Participants by 132), subject to reallocation as may be determined by the PSE. Trading Participants may undertake to purchase more than their allocation of 15,150 Shares. Any requests for Shares in excess of 15,150 Shares may be satisfied via the reallocation of any Preferred Shares not taken up by other Trading Participants, or out of the Oversubscription Option, if exercised. The balance of 200 shares from the total allocation of the Trading Participants shall be allocated by the PSE to the Trading Participants.

The Company will not allocate any Preferred Shares for the Local Small Investors. As defined in the PSE Revised Listing Rules, a Local Small Investor is a share subscriber whose subscription does not exceed ₽25,000. The Offer will have a minimum subscription amount of ₽50,000, which is beyond the prescribed maximum subscription amount for Local Small Investors.

San Miguel Pure Foods shall notify holders of its Outstanding Preferred Shares of the intent to redeem the Outstanding Preferred Shares on March 3, 2015.

Prior to the close of the Offer Period, any Preferred Shares not taken up by the Trading Participants shall be distributed by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners directly to their clients and the general public. All Preferred Shares not taken up by the Trading Participants, general public and the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners' clients shall be purchased by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners pursuant to the terms and conditions of the Underwriting Agreement.

Prior to the close of the Offer Period, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners in consultation with the Issuer, reserve the right, but not the obligation, to increase the Offer size up to an additional 5,000,000 Preferred Shares, subject to the registration requirements of the SEC (the "Oversubscription Option").

The Oversubscription Option, to the extent not fully exercised by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners shall be deemed cancelled and the relevant filing fee therefor shall be deemed forfeited.

Term of Appointment

The engagement of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

Manner of Distribution

The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Preferred Shares shall be solicited, with the primary sale of the Preferred Shares to be effected only through the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners. The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners may appoint other entities, including Trading Participants, to sell on their behalf.

Offer Period

The Offer Period shall commence at 9:00 a.m. on February 16, 2015 and end at 5:00 p.m. on March 5, 2015, or such other date as may be mutually agreed between the Company and the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners subject to the approval of the PSE and SEC.

Application to Purchase

All applications to purchase the Preferred Shares shall be evidenced by a duly completed and signed application to purchase, together with two fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Preferred Shares applied for, by check or by the appropriate payment instruction, and the required documents which must be submitted to the Joint Lead Underwriters (which may be through Other Underwriters) and Selling Agents.

Corporate and institutional purchasers must also submit a copy of SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-laws, or such other relevant organizational or charter documents, and the original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Preferred Shares and designating the authorized signatory/ies therefor. Individual Applicants must also submit a photocopy of any one of the following identification cards ("ID"): passport/driver's license, company ID, SSS/GSIS ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the Registrar and Paying Agent.

An Applicant who is exempt from or is not subject to withholding tax or who claims reduced tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Lead Underwriter (which may be through the Other Underwriters) and Selling Agents (together with their applications) who shall then forward the same to the Registrar and Paying Agent, subject to acceptance by the Company as being sufficient in form and substance: (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the BIR on file with the Applicant as certified by its duly authorized officer, (ii) with respect to tax treaty relief, proofs to support applicability of reduced treaty rates, consularized proof of tax domicile issued by the relevant tax authority of the Preferred Shareholder, and original or SEC-certified true copy of the SEC confirmation that the relevant entity is not doing business in the Philippines, (iii) an original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Company and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Company, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, and (iv) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities.

The Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners shall be responsible for accepting or rejecting any application or scaling down the amount of Preferred Shares applied for. The application, once accepted, shall constitute the duly executed purchase agreement covering the amount of Preferred Shares so accepted and shall be valid and binding on the Company and the Applicant. On the Banking Day following the Closing Date, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners shall advise all the Co-Managers and selling agents of any Applications that were rejected and/or scaled down, with copy to the Company.

Minimum Purchase

A minimum purchase of 50 Shares shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of 10 Shares.

Refunds

In the event an application is rejected or the amount of Preferred Shares applied for is scaled down, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners, upon receipt of such rejected and/or scaled down applications, shall notify the Applicant concerned that his application has been rejected or the amount of Preferred Shares applied for is scaled down, and refund the amount paid by the Applicant with no interest thereon. With respect to an Applicant whose application was rejected, refund shall be made by the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners by making the check payment of the Applicant concerned available for his retrieval. With respect to an Applicant whose application has been scaled down, refund shall be made by the issuance by the concerned Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners of its own check payable to the order of the Applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted application. All checks shall be made available for pick up by the Applicants concerned at the office of the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners to whom the rejected or scaled down application was submitted within five (5) Banking Days after the last day of the Offer Period. The Company shall not be liable in any manner to the Applicant for any check payment corresponding to any rejected or scaled down application which is not returned by the relevant Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners; in which case, the relevant Joint Lead Underwriter shall be responsible directly to the Applicant for the return of the check or otherwise the refund of the payment.

Secondary Market

San Miguel Pure Foods may purchase the Preferred Shares at any time without any obligation to make *pro rata* purchases of Preferred Shares from all Shareholders.

Registry of Shareholders

The Preferred Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with PDTC as Depository Agent on Listing Date through PSE Trading Participants nominated by the Applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE Trading Participant under whose name their Shares will be registered.

Legal title to the Shares will be shown in an electronic register of shareholders (the "Registry of Shareholders") which shall be maintained by the Registrar. The Registrar shall send a Registry confirmation advice confirming every receipt or transfer of the Preferred Shares that is effected in the Registry of Shareholders (at the cost of the requesting Shareholder). The Registrar shall send (at the cost of the Company) at least once every year a Statement of Account to all Shareholders named in the Registry of Shareholders, except certificated Shareholders and Depository Participants, confirming the number of Shares held by each Shareholder on record in the Registry of Shareholders. Such Statement of Account shall serve as evidence of ownership of the relevant Shareholder as of a given date thereof. Any request by Shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Shareholder (please see "Amended Rule on Lodgment of Securities" on page 173).

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Joint Lead Underwriters in the negotiation and execution of the transaction will be for San Miguel Pure Foods' account irrespective of whether the Offer is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See "Use of Proceeds" on page 51 for details of expenses.

The Company

Business

OVERVIEW

San Miguel Pure Foods Company Inc. is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream, and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Super Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, customized and premixes, other flour-based products and grain terminal operations; and others include the dairy, spreads and oils, coffee, foodservice and franchising businesses and international operations.

In 2013 and for the nine months ended September 30, 2014, the contribution of each business segment to San Miguel Pure Foods' revenues was as follows: [1]

	Year Ended December 31, 2013		Nine Months Ended September 30, 2014	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
	(in millions, except %)			
Agro-industrial	64,383	64.5	50,089	67.3
Value-added meats	14,876	14.9	9,821	13.2
Milling	8,693	8.7	6,561	8.8
Others	11,821	11.9	7,944	10.7
Total	99,773	100.0	74,415	100.0

(1) *Represents segment's external revenues and excludes inter-segment revenues.*

The contribution of San Miguel Pure Foods' international operations to its total revenues was 2.4% in 2013 and 1.9% for the nine months ended September 30, 2014.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[(1)]

	Year Ended December 31, 2013		Nine Months Ended September 30, 2014	
	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results
	(in millions, except %)			
Agro-industrial	1,956	35.5	1,741	40.2
Value-added meats	990	18.0	481	11.1
Milling	2,021	36.7	1,720	39.8
Others	545	9.8	385	8.9
Eliminations[(2)]	(2)	(0.0)	0	0.0
Total	5,510	100.0	4,327	100.0

[(1)] Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 2014 condensed consolidated interim financial statements and Note 6 to the 2013 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the milling's grain terminal operations from the agro-industrial segment.

[(2)] Represents the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups - the food businesses of SMC and PFC. As of the date of this Prospectus, SMC owns 85.37% of San Miguel Pure Foods' Common Shares. Its revenues, gross profit, EBITDA and net income were ₱99,773 million, ₱20,188 million, ₱8,581 million and ₱4,084 million, respectively, for 2013, and ₱74,415 million, ₱14,347 million, ₱6,238 million and ₱2,722 million, respectively, for the nine months ended September 30, 2014.

San Miguel Pure Foods is listed on the PSE, with its Common Shares listed under the symbol "PF" and its Preferred Shares listed under the symbol "PFP."

Competitive Strengths

The Company believes that it has the following competitive strengths:

Portfolio of leading and highly recognized brands and highly diversified products

San Miguel Pure Foods has successfully developed a strong portfolio of well-recognized brands known for quality in the Philippines, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds. As a testament to the strength of its brands in the Philippines, San Miguel Pure Foods has established market-leading positions in several segments and product categories. Based on data from certain Philippine government agencies and internal assumptions and calculations made by the Company, San Miguel Pure Foods believes it had market shares of 40% for poultry and 40% for fresh meats (based on volume for large commercial farms), as of December 31, 2013, and 44% for animal feeds and 17% for flour as of September 30, 2014. According to Kantar Worldpanel, San Miguel Pure Foods had a market share of 66% for hotdogs sold in

Philippine supermarkets, 78% in the chicken nugget product category, and market shares of 46% for butter, and 96% for refrigerated margarine, in each case based on value as of September 30, 2014. According to Nielsen, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine as of July 2014. San Miguel Pure Foods has continuously enhanced brand recognition and trust with consumers by consistently maintaining high product quality, as well as through active and targeted marketing and promotional campaigns. Through these efforts, San Miguel Pure Foods has not only developed leading brands for traditionally branded food segments, but has also established successful branding for traditionally commoditized product segments such as *Magnolia* for poultry, *Monterey* for fresh meats, *B-Meg* for animal feeds, and *King and Queen* for flour. San Miguel Pure Foods believes that its well-recognized brands have allowed it to develop strong customer loyalty resulting in repeat purchases that provide it with greater pricing power relative to its competitors. In addition, San Miguel Pure Foods' multi-brand strategy allows it to broaden its product reach to customers more easily than its competitors given its significant brand recognition and reputation for quality.

As a result of its brand equity and high-quality products and in recognition of its products' leadership in their respective segments, San Miguel Pure Foods and its products have won a number of industry and consumer awards. The *Magnolia* chicken and *Monterey* brands were recipients of the *Platinum Reader's Digest Philippines Trusted Brands* award consistently for 2011, 2012, 2013, and 2014 and *Magnolia* chicken was awarded the 2011 *Asian Livestock Industry Award* by Asian Agribusiness Media Pte Ltd.

San Miguel Pure Foods boasts of having the most diversified portfolio in the country. This diversity provides a strong platform to tap growth opportunities both within and across various product categories. For every meal occasion, San Miguel Pure Foods has a solution for every customer generating greater brand loyalty.

In addition, San Miguel Pure Foods believes that its presence in multiple segments provides greater avenues for future growth, both within and across several product categories. San Miguel Pure Foods believes that, it is only present in more than one-third of the total packaged food industry (measured by value), thus presenting ample opportunity for San Miguel Pure Foods to expand into other packaged food categories that are adjacent and complementary to its existing categories.

Vertically-integrated meats business model allowing for higher efficiency, profitability and operational synergies

San Miguel Pure Foods operates a fully integrated business model for its meats operations that allows the Company to exert control and oversight in each stage of the production process from plantation to distribution, resulting in a competitive advantage by achieving least cost production. This starts at the plantations level, where the Company works with farmers through assemblers to ensure availability of sufficient, high quality raw materials. These raw materials are then utilized in the Company's feed milling facilities wherein approximately 46% of the output is for external customers and the remaining balance is for the internal requirements of the poultry and fresh meats businesses. For imported grains, the new grain terminal also serves both the feeds and flour operations that allows the Company to achieve cost efficiencies in terms of freight and handling costs.

San Miguel Pure Foods imports breeder animals from leading global suppliers to produce stock for animal raising. These animals (broilers and hogs) are raised by contract growers, who are paid fees based on set standards such as harvest recovery, average live weight and feed conversion ratio. At harvest, these animals are processed (dressed and slaughtered) for both retail and institutional sales, while some are further processed and converted into higher-margin products such as hotdogs, chicken nuggets, luncheon meat, etc.

The Company controls the branding and marketing of products to ensure the highest brand recognition and loyalty from customers for all brands. These are then distributed through all channels, namely, the modern trade, general trade via exclusive distributors, foodservice and the Company's own franchised outlets.

Extensive market penetration through multi-channel distribution network

The Philippines is the second largest archipelago in the world, with a population widely distributed over 7,100 islands, presenting significant logistical challenges for food and beverage companies trying to reach consumers nationwide and a barrier to entry for new market entrants. San Miguel Pure Foods operates and manages one of the most extensive distribution networks across the Philippines, with its products available in every major city, and it believes that this provides a significant competitive advantage.

To maximize market penetration, San Miguel Pure Foods has a multi-channel distribution network that supplies its products to supermarkets and traditional retail outlets, trade, foodservice channels and franchised stores. For the value-added meats business, the Company centrally manages sales and distribution through San Miguel Integrated Sales (SMIS), which is responsible for selling San Miguel Pure Foods value-added products directly to modern trade, such as major supermarket chains, hypermarkets, groceries, convenience stores, and general trade, such as market traders and "*sari-sari*" stores (small neighborhood stores) through exclusive distributors. San Miguel Pure Foods' Great Food Solutions (GFS), on the other hand, manages sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food and pizza chains. For its animal feeds, poultry, fresh meats and flour businesses, the Company also maintains business-specific sales forces to service trade channels and manage its distributors and dealers.

On top of this, San Miguel Pure Foods has developed innovative retail formats such as the *Monterey Meatshops*, *Magnolia Chicken Stations*, *Kambal Pandesal* bakery outlets and *San Mig Food Ave* in Petron stations which have expanded the opportunities for the Company. To date, there are almost 2,000 of these exclusive outlets nationwide.

San Miguel Pure Foods believes that its multi-channel distribution platform allows the Company to maximize customer reach and is one of the key factors to its success in maintaining and further strengthening its market-leading positions.

Strong commitment to product innovation

San Miguel Pure Foods continues to introduce new and innovative products and is very mindful of growing trends for more convenient and healthy foods.

Since 2013, San Miguel Pure Foods introduced more than 50 new products. More convenient options were offered to the market such as *Purefoods Crisp 'n Juicy Homestyle Fried Chicken, Purefoods Crisp n' Juicy Pork Tonkatsu* and *Purefoods Crisp 'n Juicy Wingers Soy Garlic*, which are all fully cooked and ready-to-eat products that only take a few minutes to heat and serve. The Company also introduced *Purefoods Tocino* and *Purefoods Longanisa* in pork and chicken variants. These products not only allow the Company to be a player in the huge native line segment of the semi-processed meats category but also maximize brand and supply synergies with Magnolia chicken and *Monterey* meats. The Company also introduced a health and wellness line with the launch of *Purefoods Sexy Chix* early this year, a ready-to-eat canned chicken line made with *Magnolia Fresh Chicken*. *Purefoods Thick Cut Bacon* in Honeycured, Honey Roast and Spicy BBQ flavors were also introduced to the market to expand usage occasion beyond breakfast. New flavors which strengthened the *Best of the Philippines* ice cream line were also launched featuring local delicacies such as Kesong Puti, Mais Con Hielo, Yema Pastel, Ginataang Monggo, and Peanut Kisses, as well as frozen novelties such as *K-Pop*. The *Magnolia All-Purpose Cream Original* was also re-launched to widen the Company's dairy products offering. These new products contributed a significant portion of San Miguel Pure Foods' incremental revenue and the Company projects that its innovation platform and entry into new categories will continue to drive the growth of its value-added segment.

Experienced management team

San Miguel Pure Foods has a strong management team with a proven track record and an average of more than 25 years of industry and management experience. The management team is well-accustomed to the Philippine operating environment and has effectively managed the Company both in times of strong economic growth, as well as through periods of economic downturn and political instability. The strength and depth of experience of the San Miguel Pure Foods' management team have been demonstrated by their successful implementation of a range of efficiency programs and product innovations, which has resulted in continued profitability and market leadership for San Miguel Pure Foods over the years.

San Miguel Pure Foods believes that members of its management team are highly regarded in the industry, and they hold a variety of leadership positions in food industry organizations, such as the Philippine Association of Feed Millers, the Philippine Association of Broiler Integrators, the Philippine Swine Producers Association, the Philippine Veterinary Drug Association, the Philippine Society of Animal Nutritionists, and the Philippine Chamber of Flour Millers. The management team's industry leadership positions also create a valuable local business network for San Miguel Pure Foods. To further strengthen the competencies of its employees and develop their leadership skills, San Miguel Pure Foods established the San Miguel Pure Foods Company University which provided a venue for higher learning, thus, helping its employees achieve professional excellence and further career development.

Business Strategies

San Miguel Pure Foods plans to maintain its market-leading position and expand its business operations by implementing the following three-pronged business strategy:

Enhance product offering and distribution

Focus on increasing stable-priced and value-added product offerings

San Miguel Pure Foods categorizes its product portfolio into three groups: (i) value-added products, (ii) stable-priced products, and (iii) basic food products. Value-added products include processed meats, dairy, bread spreads, oils, ice cream and coffee. These products are typically branded and command higher selling prices than stable-priced and basic food products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through the Company's differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, and (iii) non-branded customized products sold to foodservice clients. Basic food products include (i) animal feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and (iv) basic flour products.

San Miguel Pure Foods has limited pricing power for its basic food products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes, and/or (iii) sale through its branded distribution outlets (such as *Monterey Meatshops* and *Magnolia Chicken Stations*), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins. San Miguel Pure Foods has made a concerted effort to improve its product mix by moving more of basic food products, which generally have lower and more volatile margins, into value-added and stable-priced products, which it believes have higher and more consistent margins.

San Miguel Pure Foods has successfully implemented several initiatives to improve its product mix towards a higher percentage of stable-priced and value-added products and it plans to continue with these and new initiatives to further improve its product mix in this respect. Some of these initiatives include (i) the introduction of new and more innovative products, such as chicken nuggets and ready-to-cook and ready-to-eat offerings to take advantage of consumers' growing need for convenience, (ii) increased focus on selling a larger proportion of its fresh meats and poultry products through its branded distribution outlets, and (iii) expansion of its foodservice business by providing food solutions, which include menu analysis and planning, food safety training and recipe and product development, to its customers.

Through these initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past 10 years. In 2013, the contribution of value-added and stable-priced products already accounted for more than half of San Miguel Pure Foods' total revenues as compared to approximately one fourth in 2000.

To increase profitability and address the ongoing trend of consumers increasingly demanding greater product variety and sophistication, convenience and quality, San Miguel Pure Foods intends to continue increasing the proportion of stable-priced and value-added products that it sells through the continuation of the initiatives discussed above and potentially expanding into fast growing markets and product categories, both in the Philippines and other countries in Southeast Asia. Product and selling format innovation continues to be a key strength and San Miguel Pure Foods will continue to leverage on this strength to develop new products and services to address changing consumer needs and preferences.

Continuous investment in brand equity

Advertising and promotion costs accounted for an average of about 19% of San Miguel Pure Foods' total selling and administrative expenses from 2011 to 2013. The Company aims to continue building its brand equity through advertising and promotional activities.

San Miguel Pure Foods advertises on television, radio and billboards, as well as in print and on the web. In 2013, San Miguel Pure Foods launched an advertising campaign featuring well-respected Philippine chef endorsers for *Quickmelt*. This year, the company advertised through a television commercial which showcases *Tender Juicy* as an established, well-loved and versatile brand. To further build on *Tender Juicy's* brand equity of being omnipresent across all consumer touch points, the Company also has strategic alliances with institutions such as theme parks, event venues and schools, participates in fiestas and food fairs and is active in merchandising activities in supermarkets, wet markets and foodservice accounts. As part of its brand-building activities, the Company maintains a professional basketball team in the Philippine Basketball Association, the premiere basketball league in the country. In the past, the team carried the banners of *Purefoods Tender Juicy*, *B-Meg Llamados* and *San Mig Coffee Mixers*, among others. Currently, the team is called *Purefoods Star Hotshots* and the brand will benefit from the franchise's mass market appeal and the team's physical attributes to strengthen the "*Angat ka with Purefoods Star Hotdogs*" brand position.

Improve profitability through cost leadership

San Miguel Pure Foods believes that it can increase its margins by adopting a multi-faceted approach of managing input costs with respect to its raw materials and optimizing its production efficiency.

Continue sourcing alternative raw materials

The use of alternative raw materials for animal feed ingredients to alternative protein sources and flavors for processed meats is critical for cost management given the volatile nature of global commodity supply and prices.

San Miguel Pure Foods expects to continue to expand its raw material supply base and identify alternative raw materials that are critical to cost management. One key breakthrough is the use of cassava as a substitute for corn, a key feed ingredient. San Miguel Pure Foods has implemented a program to encourage farmers to plant cassava and other crops that can be used as animal feed ingredients. In 2013, San Miguel Pure Foods encouraged local farmers to develop approximately 50,000 hectares of cassava plantations, which satisfied about 85% of San Miguel Pure Foods' cassava requirements during the year. San Miguel Pure Foods will continue to focus on developing alternative raw materials to manage its cost base. Based on certain internal assumptions and calculations, San Miguel Pure Foods estimates that it realized cost avoidance of approximately ₱200 million in 2013, computed based on the cost differential between actual 2013 cassava costs and estimated 2013 corn costs, from the use of cassava as a substitute for corn.

San Miguel Pure Foods' strong research and development team is responsible for the continued effort in identifying cost improvements while maintaining product quality standards.

Focus on efficiency improvements and better product mix

San Miguel Pure Foods has been focused on increasing efficiency of existing operations. For example, the adoption of climate-controlled system for its poultry and hog farms has increased production cycles per farm per year, improved feeds-consumed-to-weight-gained ratio (FCR) and resulted in better harvest recovery. In addition, during the last quarter of 2013, the completion and start of operations of the Golden Bay Grain Terminal in Mabini, Batangas has allowed San Miguel Pure Foods to ship grains through larger vessels such as the panamax, resulting in lower freight costs.

In addition, San Miguel Pure Foods intends to continuously review its product portfolio to rationalize unprofitable products. Consistent with this, San Miguel Pure Foods aims to enhance the price stability of its revenue streams and margins by increasing the percentage of sales of products that have historically performed well.

Continue harvesting synergies through further integration of the businesses

San Miguel Pure Foods continues to maximize its vertically-integrated business model, simplify its organizational structure and standardize its business processes to achieve operational synergies and prepare for future growth. An example is the establishment of a shared service center for finance, which is able to serve all of San Miguel Pure Foods' business segments and perform transaction processing activities, thus reducing administrative expenses. The Company also continues to strive to have a world class supply chain that will reduce inventory days' level and improve service levels.

Explore additional growth opportunities

San Miguel Pure Foods believes the Philippine market is still underserved in certain product categories and there are growth opportunities to improve its distribution network, particularly in remote areas in the Visayas and Mindanao. It also intends to enter into new product categories and expand its existing production capabilities to support its growing range of product offerings, which will help enable the Company to meet the changing consumer needs.

San Miguel Pure Foods continues to explore new opportunities through acquisitions or greenfield and capacity expansion in food or food-related businesses. Recently, the Company signed an agreement to acquire the brand "*La Pacita*", a biscuit and baked goods brand.

CORPORATE HISTORY AND MILESTONES

San Miguel Pure Foods was formed in 2001 through the operational integration of two leading Philippine food groups - the food businesses of SMC and PFC.

The following timeline sets forth key events in the corporate history and business of San Miguel Pure Foods:

1925.......... SMC first entered the food industry with the introduction of the *Magnolia* ice cream brand

1953.......... SMC began producing animal feeds using protein-rich by-products from beer brewing

1956.......... PFC was established

1960.......... SMC and Nestlé S.A. established Nestlé Philippines, Inc. ("Nestlé")

1972.......... SMC launched its poultry operations through the acquisition of a breeding farm

1973.......... PFC listed its common shares on the Philippine Stock Exchange

1980s .... SMC formalized its long-standing partnership with New Zealand Dairy Board (now known as Fonterra) in the bread spreads category and established a 70-30 joint venture, the Philippine Dairy Products Corporation

1981 .... The Ayala group acquired an equity interest in PFC

1983 .... PFC diversified into poultry operations

1990s .... SMC acquired *Monterey* Farms and the *Star* and *Dari Crème* brands

1991 .... PFC diversified into the flour business

1993 .... SMC entered into a joint venture with Nestlé to produce and sell ice cream, frozen desserts and snacks, ready-to-drink milk and chocolate beverages, creams and other chilled foods

1995 .... PFC entered into a joint venture in Indonesia to produce and sell meat products

1996 .... PFC diversified into the foodservice business

1998 .... SMC divested its shares in Nestlé Philippines and agreed not to compete with Nestlé's milk and ice cream business for five years. Nestlé's license to use the *Magnolia* brand in the Philippines for ice cream, milk and chocolate beverages was extended until December 31, 2003

1999 .... PFC spun off its meats division into a joint venture with Hormel Netherlands B.V.

2001 .... SMC acquired the Ayala group's controlling equity interest in PFC and operationally integrated its food businesses with PFC's operations. PFC was renamed San Miguel Pure Foods Company Inc.

2002 .... San Miguel Pure Foods acquired the 30% equity interest in Philippine Dairy Products Corporation held by New Zealand Dairy Board and Philippine Dairy Products Corporation was renamed Magnolia, Inc.

2003 .... SMC acquired a hog farming and feeds business in Vietnam

2004 .... San Miguel Pure Foods re-launched its milk and ice cream businesses under the *Magnolia* brand

2005 .... San Miguel Pure Foods established a joint venture for its coffee business with Super Coffee Corporation Pte Ltd, its Singaporean partner

2006 .... SMC and Hormel Netherlands B.V. established a joint venture for their Vietnam business, which subsequently purchased a meat processing plant to enter into the processed meats market in Vietnam

2007 .... SMC completed consolidation of all of its domestic food subsidiaries under San Miguel Pure Foods

2010 .... San Miguel Pure Foods acquired intellectual property rights to its key brand names and a 51% equity interest in the Vietnam food business from SMC

2011……… San Miguel Pure Foods listed its 15,000,000 preferred shares on the Philippine Stock Exchange

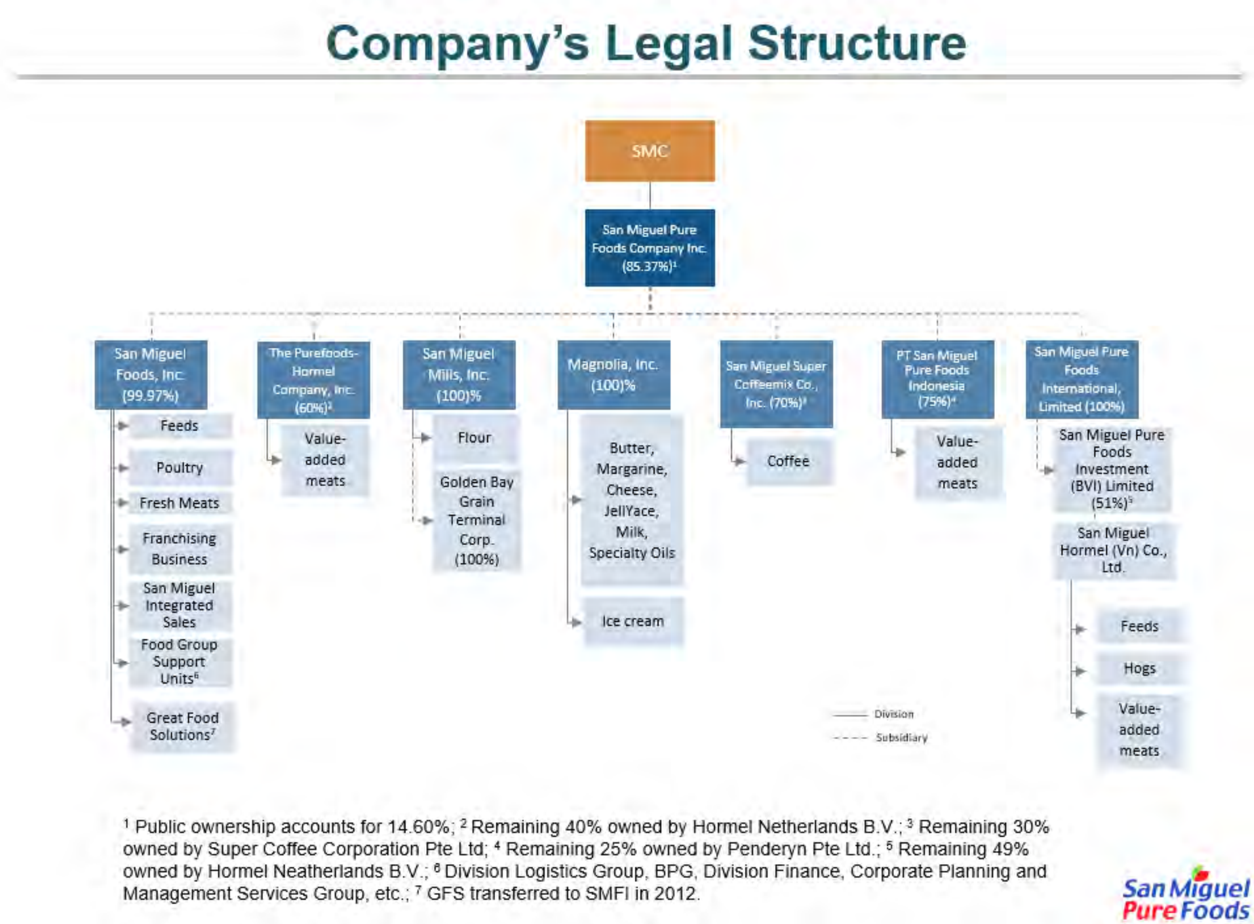
2012……… SMC completed the secondary offering of its 25,000,000 common shares in San Miguel Pure Foods following the crossing of such shares at the Philippine Stock Exchange

2013……… San Miguel Pure Foods completed and inaugurated the Golden Bay Grain Terminal in Mabini, Batangas

2014…….. San Miguel Pure Foods entered into an agreement to acquire the various La Pacita trademarks and other intangible assets

CORPORATE AND OWNERSHIP STRUCTURE

The chart below provides an overview of San Miguel Pure Foods' corporate structure as of September 30, 2014 including its major operating subsidiaries, directly and indirectly held, and businesses as of the date of this Prospectus.



The table below provides some details on San Miguel Pure Foods' major operating subsidiaries.

Name of Subsidiary	Place of Incorporation	Company's Interest	Principal Business
San Miguel Foods, Inc. (SMFI)	Philippines	99.97%	Operates the animal feeds, poultry and fresh meats and franchising businesses, the foodservice unit, the San Miguel Integrated Sales selling and distribution activities and Food Group Support Units.

Name of Subsidiary	Place of Incorporation	Company's Interest	Principal Business
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	60.00% (joint venture between San Miguel Pure Foods and Hormel Netherlands B.V.)	Produces and markets refrigerated processed meats (hotdogs, cold cuts, hams, bacons, nuggets and other ready-to-heat meat products) and canned meat products (corned beef, luncheon meat, sausages, meat spreads and canned viands).
San Miguel Mills, Inc. (SMMI)	Philippines	100.00%	Manufactures and distributes flour and premixes. Owns and operates Golden Bay Grain Terminal.
Magnolia, Inc. (Magnolia)	Philippines	100.00%	Manufactures and markets butter, margarine, cheese, milk and ice cream. Also sells and markets jellies and specialty oils.
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	70.00% (30.00% owned by Super Coffee Corporation Pte Ltd)	Imports, packages, markets and distributes coffee and coffee-related products in the Philippines.
PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah)	Indonesia	75.00% (25.00% owned by Penderyn Pte Ltd.)	Manufactures and distributes halal-certified processed meats in Indonesia.
San Miguel Hormel (Vn) Co., Ltd.	Vietnam	51.00% (49.00% owned by Hormel Netherlands B.V.)	Operates hog farming, feed milling and processed meats businesses in Vietnam.
San Miguel Pure Foods International, Limited	British Virgin Islands	100.00%	Investment holding company
RealSnacks Mfg. Corp.	Philippines	100.00%	The company has not started commercial operations.

PRODUCTS AND SERVICES

San Miguel Pure Foods produces a wide range of food products. It believes its brands include some of the most recognizable and well-regarded brands in the Philippines, such as *Magnolia*, *Monterey*, *Purefoods*, *Purefoods Tender Juicy, Purefoods Star, Star*, *Dari Crème*, *San Mig Coffee* and *B-Meg*. Its business is organized into the following segments: agro-industrial, value-added meats, milling and others.

The table below sets forth the major products and services of each business segment.

Business segment	Major Products and Services
Agro-industrial	
Feeds	Hog, poultry (layer/broiler), gamefowl, duck, aquatic and other customized animal feeds are primarily sold under the *B-Meg, B-Meg Premium, Integra, Expert, Dynamix, Essential, Pureblend, Bonanza,* and *Jumbo* brands.
Poultry	Branded products are sold under the *Magnolia Fresh Chicken* label and include fresh-chilled and frozen whole and cut-up chicken, easy-to-prepare chicken products, customized products for foodservice and export customers, supermarket house-brands and live chicken.
Fresh Meats	Branded fresh meats are sold under the *Monterey* brand and include pork and beef carcasses and cuts, lamb products, marinated meats and live hogs.
Value-added meats	Refrigerated processed meats, including hotdogs, nuggets, cold cuts, hams, bacon, and other ready-to-heat meal products, as well as canned meats, including corned beef and luncheon meats, sausages, spreads, sauces and viands are primarily sold under the *Purefoods*, *Purefoods Tender Juicy,* and *Purefoods Star* brands.
Milling	A full range of basic, specialty and customized flour and flour premixes are primarily sold under the *King and Queen*, *Emperor* and *Prince* brands. The Company's grain terminal operations are also under the Milling business segment.
Others	
Dairy, Spreads and Oils	Bread spreads, cheese, milk, ice cream, jelly-based snacks and cooking oils are primarily sold under the *Magnolia*, *Star* and *Dari Crème* brands.
Coffee	Coffee sold under the *San Mig Coffee* brand.
International Operations	Processed meats in Indonesia are sold under the *Farmhouse* and *Vida* brands, while processed meats in Vietnam are sold under the *Le Gourmet* brand. In addition, Vietnam also has feedmilling and hog raising operations.

Business segment	Major Products and Services
Other Businesses	Foodservice and franchising businesses.

San Miguel Pure Foods' products are produced using both company-owned and tolled facilities. As of December 31, 2013, San Miguel Pure Foods owns over 30 production facilities and has contracts with close to 2,000 tolled facilities and contract farms.

Major Suppliers as of December 31, 2013

Major suppliers of SMFI's Feeds business for its soybean meal requirements are Singapore-based Louis Dreyfus Commodities Asia and U.S.A.-based AG Processing, Inc. The business' feed wheat requirements, on the other hand, are imported from Australia-based Touton Far East PTE Ltd. and Grain Corp Operations Limited. Other raw materials are sourced from various local suppliers.

SMFI's Poultry business' breeder stocks are imported mostly from Aviagen and Cobb Vantress Inc., both are agribusiness firms based in U.S.A.

SMFI's Fresh Meats business imports more than 20% of its growing cattle requirements from Australia Rural Exports Pty. Ltd. based in Brisbane, Australia while majority of its breeding hogs are sourced locally from TOPIGS Philippines, Inc. and PIC Philippines, Inc.

The internal feeds and more than 20% of veterinary medicine requirements of SMFI's Poultry and Fresh Meats business are served by its Feeds business.

SMMI's Flour business imports more than 20% of its wheat requirements from Singapore-based Bunge Agribusiness Singapore Pte. Ltd. and U.S.A.-based Columbia Grains International.

PF-Hormel gets its pork requirements from various local suppliers and from affiliate, SMFI. On the other hand, India-based Allanasons Limited served as the major supplier of PF-Hormel's meat requirements.

Magnolia imports more than 20% of its major raw materials, such as cheese curds and anhydrous milk fat, from Fonterra (SEA) Pte. Ltd. based in Singapore while the bulk of its oil requirements are sourced from Tap Oil Manufacturing Corp., a domestic company.

SMSCCI imports its coffee mixes for repacking from SCCPL based in Singapore, SCML (Thailand) Company Ltd. and Super Coffeemix Vietnam Ltd. (SCVL).

Except for SMSCCI whose coffee mixes are provided solely by SCCPL, SCML and SCVL, the Company and its subsidiaries are not dependent on one or a limited number of suppliers for its essential raw materials and supplies, such that, operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

Regarding contract growers, please refer to Risks Relating to San Miguel Pure Foods Outsourcing to Third Parties on page 37 of the Prospectus.

The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated: [1]

	Years Ended December 31,						Nine Months Ended September 30,			
	2011		2012		2013		2013		2014	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
			(in millions, except %)					(in millions, except %)		
Agro-industrial	56,982	63.6	61,877	64.6	64,383	64.5	46,922	65.7	50,089	67.3
Value-added meats	12,103	13.5	13,665	14.3	14,876	14.9	9,721	13.6	9,821	13.2
Milling	8,354	9.3	8,425	8.8	8,693	8.7	6,350	8.9	6,561	8.8
Others	12,152	13.6	11,820	12.3	11,821	11.9	8,420	11.8	7,944	10.7
Total	89,591	100.0	95,787	100.0	99,773	100.0	71,413	100.0	74,415	100.0

(1) Represents segment's external revenues and excludes inter-segment revenues.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[1]

	Years Ended December 31,						Nine Months Ended September 30,			
	2011[2]		2012[2]		2013		2013		2014	
	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results
			(in millions, except %)					(in millions, except %)		
Agro-industrial	2,342	38.5	1,769	34.2	1,956	35.5	1,312	35.8	1,741	40.2
Value-added meats	1,017	16.7	1,163	22.5	990	18.0	623	17.0	481	11.1
Milling	1,820	29.9	1,860	35.9	2,021	36.7	1,392	38.0	1,720	39.8
Others	862	14.2	353	6.8	545	9.8	340	9.2	385	8.9
Eliminations[3]	39	0.7	32	0.6	(2)	(0.0)	-	-	0	0.0
Total	6,080	100.0	5,177	100.0	5,510	100.0	3,667	100.0	4,327	100.0

(1) Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 2014 condensed consolidated interim financial statements and Note 6 to the 2013 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the milling's grain terminal operations from the agro-industrial segment.

(2) As restated in accordance with PAS 19R.

(3) For 2011 and 2012, represents (i) the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary, and (ii) the deferred taxes set-up for PT San Miguel Pure Foods Indonesia. For 2013 and the nine months ended 2014, represents the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

No single customer has accounted for 5% or more of the total revenues of San Miguel Pure Foods for 2013 or for the nine months ended September 30, 2014. San Miguel Pure Foods believes it is not dependent on any single customer.

Agro-industrial Business Segment

San Miguel Pure Foods' agro-industrial business segment includes its animal feeds, poultry and fresh meats businesses.

Feeds

San Miguel Pure Foods' commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These animal feeds are sold and marketed under various brands including *B-Meg*, *B-Meg Premium, Integra, Expert, Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

The Philippine feeds industry comprises three segments of animal feed users: (i) the commercial segment, which comprises of small farms that purchase animal feeds from retail outlets supplied by commercial feed manufacturers as well as medium-to-large farms that purchase directly from these manufacturers, (ii) the intra-segment, which comprises large, integrated livestock and poultry farms that operate their own feedmills, and (iii) the homemix segment, which comprises small-to-medium farms producing their own animal feeds for self-use.

The Philippine feeds industry derives its sales mainly from hog and broiler producers. Many of these feed millers have evolved from merely selling feed products to offering total value service packages to customers, such as technical services and after-harvest payment schemes. The feedmilling industry is a commodity-based industry, with most of its major raw materials consisting of commodities, such as corn, soybean meal and feed wheat. Since most feed millers use imported raw materials, the industry is affected by foreign exchange fluctuations.

Based on data from the Philippine Bureau of Agricultural Statistics Growth Forecast and certain internal assumptions and calculations, San Miguel Pure Foods believes the Philippines' feeds market was approximately ₽160 billion in 2013, of which the commercial feeds segment accounted for approximately ₽46 billion.

Production and Raw Materials

Compound feeds are manufactured at seven company-owned facilities that are operated by third parties and 31 third party-owned and operated feed plants located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds and four plants have extrusion capabilities to produce aquatic floating feeds. San Miguel Pure Foods also maintains tolling arrangements for five rendering facilities that convert animal by-products used as raw materials in some feed types.

The largest single component of San Miguel Pure Foods' cost of sales for animal feeds is the cost of ingredients used to prepare nutritionally balanced feed, including: corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. The Company purchases corn locally from corn traders and occasionally from suppliers in the United States and Southeast Asia. Soybean meal is imported from Argentina, the United States and India, while other raw materials are purchased from various suppliers in North America, Asia, Europe and the Philippines. In 2013, San Miguel Pure Foods bought almost 63% of its total grain purchases in the domestic market and the rest from the United States, Southeast Asia and Argentina.

Raw materials used in San Miguel Pure Foods' animal feeds business are sourced through the San Miguel Pure Foods' Business Procurement Group (BPG). San Miguel Pure Foods also uses as raw materials, the by-products of San Miguel Brewery Inc. such as spent grain and yeast, and offals and feathers from San Miguel Pure Foods' poultry dressing plants.

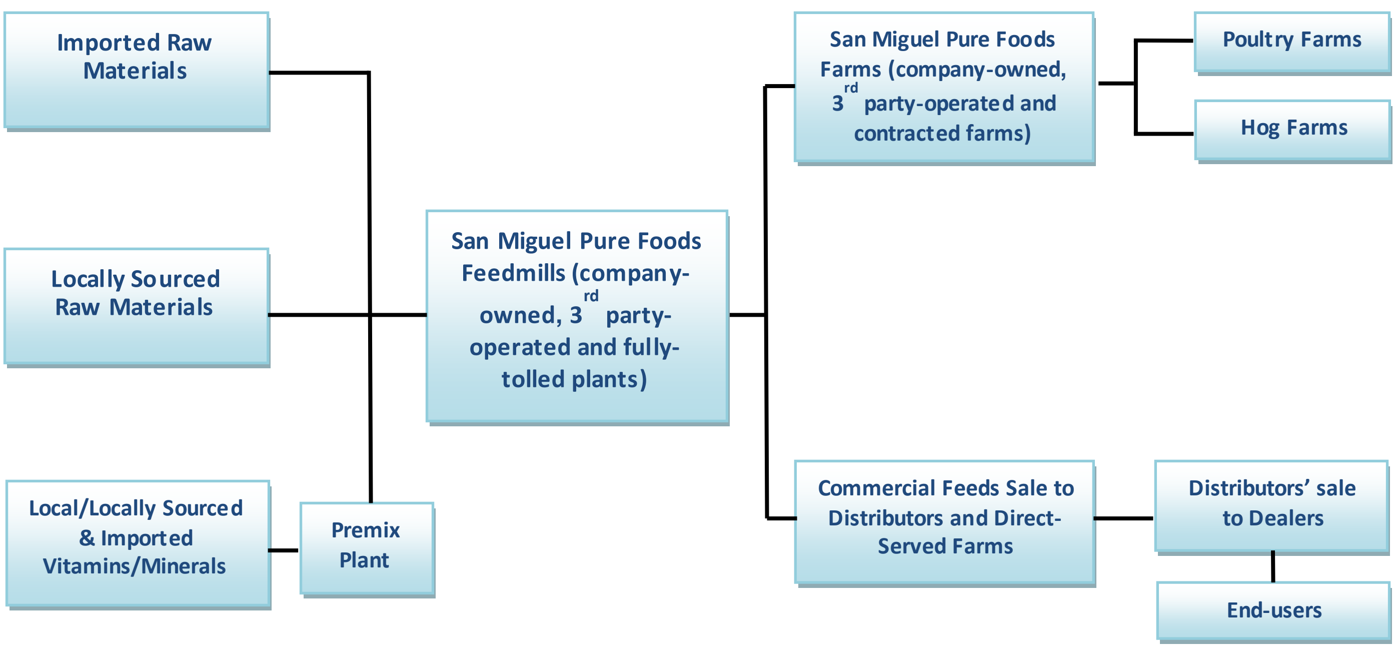
The price of raw materials used in the animal feeds business is subject to significant volatility resulting from weather, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. Please refer to the discussion on "Risk Factors - Risks Relating to San Miguel Pure Foods - Availability and prices of major raw materials" for a more detailed discussion. To minimize the adverse effects of unexpected price increases, San Miguel Pure Foods enters into hedging transactions to limit the effect of price fluctuations in certain imported raw materials, such as soybean meal, and maintains strategic buying programs for corn. Further, to reduce the potential adverse effect of grain price fluctuations, San Miguel Pure Foods has developed domestically produced cassava as a strategic alternative ingredient to corn in animal feeds. San Miguel Pure Foods adjusts the proportion of cassava used in its animal feeds depending on the relative price of corn and other feed ingredients. The price of cassava is typically lower than that of corn. To encourage the production of cassava to facilitate this substitution, San Miguel Pure Foods provides technical support to the cassava farmers. San Miguel Pure Foods also enters into production contracts with cassava assemblers that have purchase arrangements with cassava farmers. These cassava assemblers partly provide financing support to the cassava farmers. As of September 30, 2014, San Miguel Pure Foods was able to consolidate more than 150,000 metric tons of local cassava from assemblers, 73% higher than the same period in 2013.

Sales and Distribution

San Miguel Pure Foods produces animal feeds for (i) San Miguel Pure Foods' poultry business, (ii) San Miguel Pure Foods' fresh meats business, and (iii) the commercial feeds market, which accounted for 43%, 11% and 46%, respectively, of San Miguel Pure Foods' feeds business production volumes in 2013. Feeds supplied to the poultry and fresh meats businesses are not included in the feeds business' revenue or volume sold.

San Miguel Pure Foods sells its commercial feed products through several distribution channels, with 80% of products sold through authorized distributors within a defined territory and 20% sold directly to hog, poultry and aquatic farm operators. The commercial feeds business has 18 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

The feeds production and distribution process is illustrated below.



Competition

Based on data from the Philippine Bureau of Agricultural Statistics and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer of commercial feeds in the Philippines, with an estimated market share of approximately 44% of the commercial feeds market by volume as of September 30, 2014.

In its animal feeds business, San Miguel Pure Foods competes on quality, customer service, distribution network and price. San Miguel Pure Foods competes with major domestic producers such as Univet Nutrition and Animal Healthcare Company ("UNAHCO"), Universal Robina Corporation ("URC"), as well as numerous regional and local feedmills. It also faces increasing competition from foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

Poultry

In its poultry business, San Miguel Pure Foods breeds broilers and produces and markets chicken products, mostly for retail. San Miguel Pure Foods' broad range of chicken products is sold under the *Magnolia Fresh Chicken* brand. These products include fresh-chilled or frozen whole and cut-up products. Through its *Magnolia Chicken Stations*, San Miguel Pure Foods offers a wide variety of fresh and easy-to-cook products. San Miguel Pure Foods also sells customized products to foodservice and export clients, supplies supermarket house brands, and sells live chickens to dealers.

San Miguel Pure Foods' poultry business operates a vertically-integrated poultry production process that spans from breeding broilers to producing chickens and related products.

Traditionally, the Philippine poultry industry was highly fragmented. However, several major producers, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share and achieve economies of scale. Most of the major integrated producers employ contract-growing schemes for the production of live broilers, and also engage in contract breeding and toll dressing arrangements. The Philippine poultry industry is subject to volatility in demand and supply. Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods estimates the Philippine market for poultry was approximately ₱175 billion in 2013.

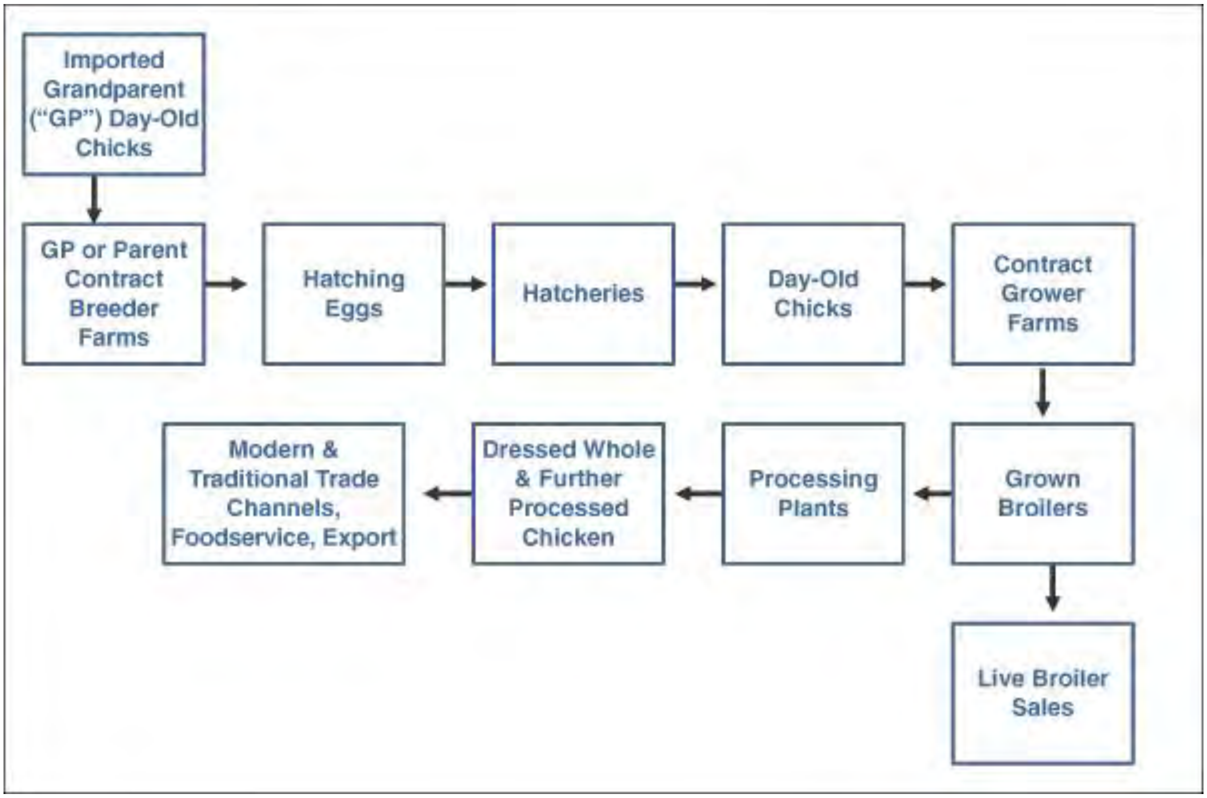
Production and Raw Materials

San Miguel Pure Foods primarily utilizes third party-owned facilities operated under tolling arrangements for its poultry production. Approximately 99% of its poultry growing output and 96% of its processing output come from tolled facilities, allowing San Miguel Pure Foods to outsource production at a lower cost and direct more resources toward improving its marketing, sales and distribution capabilities. Approximately 80% of these poultry growing facilities employ climate-controlled systems, which provide more comfortable and stable temperatures in growing facilities, thus, improving efficiency and reducing mortalities. San Miguel Pure Foods vertically controlled poultry operations also include two company-owned processing plants and 31 processing plants operated under tolling arrangements and utilizes an extensive network of third party cold storage warehouses and distribution facilities throughout the Philippines.

The primary raw materials used in San Miguel Pure Foods' chicken operations are live chickens raised primarily by independent contract growers. Breeder flocks (grandparents of birds that are ultimately sold) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds that are ultimately sold). Parent stock are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the chicks are sent to broiler farms. There, contract growers care for and raise the chicks according to the Company's standards, with feeds supplied by San Miguel Pure Foods' feeds business and given technical supervision by San Miguel Pure Foods' technical service personnel, until the chicks reach marketable weight. Grown chickens are transported to processing plants, where they are dressed and processed into finished products, which are then sent to distribution centers and sold to customers.

In 2013, feeds accounted for the majority of production costs for San Miguel Pure Foods' poultry business, representing approximately 65% of the cost of growing a live chicken.

The poultry production process is illustrated below.



Sales and Distribution

San Miguel Pure Foods sells its poultry products through a variety of channels, including, *Magnolia Chicken Stations*, supermarkets, convenience stores, warehouse clubs, institutional accounts such as quick service restaurants and hotels, export clients, wet market, commissaries, wholesalers, distributors, and buyers of live birds.

San Miguel Pure Foods' poultry business distributes to two market channel categories to maximize market penetration and optimize margins:

- commodity segment (including wet markets and supermarkets), which accounted for 52% and 51% of the poultry business' total revenues in 2013 and for the nine months ended September 30, 2014, respectively; and

- stable-priced segment (including *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients) accounted for 48% and 49% of the poultry business' total revenues in 2013 and for the nine months ended September 30, 2014, respectively.

In 2004, San Miguel Pure Foods began its "bringing the wet market to the supermarket" strategy, by introducing *Magnolia Chicken Stations* in supermarkets. These stations offer more choices of cuts and better customer service. As of September 30, 2014, approximately 36% of these *Magnolia Chicken Stations* are franchisee-owned and the rest are company-owned and third party-operated, with over 900 *Magnolia Chicken Stations* in operation. While wet markets remain the most popular source of chicken for consumers in the Philippines, San Miguel Pure Foods intends to focus on its *Magnolia Chicken Station* outlets in the coming years, as it looks to further build on its strong brand reputation, increase the contribution of the stable-priced product segment and further protect market share.

San Miguel Pure Foods distributes some of its products from processing plants located throughout the Philippines to cold storage facilities and warehouses. Majority are distributed directly from the plants to supermarkets and foodservice operations. For distribution, San Miguel Pure Foods engages various third party logistics providers for cold storage warehouse facilities throughout the Philippines and a large fleet of vehicles.

Competition

Based on data from the Philippine Bureau of Animal Industry and certain internal assumptions and calculations, San Miguel Pure Foods believes that it held an approximately 40% market share in the Philippine broiler market in 2013 based on volume sold, with the next player at approximately 18%.

In its poultry business, San Miguel Pure Foods competes on quality, distribution network and customer service. San Miguel Pure Foods' poultry business faces competition from large integrated producers such as Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp., Charoen Pokphand Group, as well as numerous smaller independent broiler producers from lower-priced imports from the United States, Canada and Brazil.

Fresh Meats

San Miguel Pure Foods' fresh meats business breeds, grows and processes hogs and cattle and produces and trades beef and pork products. Its operations include slaughtering live hogs and cattle and processing beef and pork carcasses into primal and sub-primal meat cuts, such as shoulder, leg, loin and belly, and case-ready products, such as steaks and chops. It sells a wide variety of products in the Philippines, including pork, beef and lamb retail cuts and marinated products, under the well-recognized *Monterey* brand name.

The Philippine fresh meats industry remains highly fragmented despite larger producers' attempts to modernize the industry. Consolidation of the fresh meats industry is expected to increase in the future as larger producers continue to invest in new technologies and processes.

Production and Raw Materials

San Miguel Pure Foods fresh meats business raises its hogs using a two-site system, which separates breeding from nursery and growing into isolated facilities to minimize the risk of disease.

San Miguel Pure Foods believes that it pioneered the use of the vertically controlled pork and beef production system in the Philippines, controlling the entire value chain including selection of genetic stocks, growing and processing of hogs and cattle and selling, mainly through its *Monterey Meatshop* operations. Approximately 57% of its hog production facilities are third party-owned and operated under tolling arrangements. As of September 30, 2014, approximately 49% of the Company's hog growing facilities employ climate-controlled and elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The primary raw materials for San Miguel Pure Foods' processing plants are live hogs and cattle. In 2013, San Miguel Pure Foods sourced all of its live hogs from its contract growing farms. With respect to sourcing beef supply in 2013, San Miguel Pure Foods imported all of its feeder cattle from Australia and its boxed beef from Australia, New Zealand and Brazil.

All of the feeds required by San Miguel Pure Foods' fresh meats business are supplied by San Miguel Pure Foods' feeds business.

Sales and Distribution

San Miguel Pure Foods' fresh meats business distributes its products through a variety of channels, including supermarket-based meat shops, *Monterey* neighborhood meat shops, wet markets, foodservice clients, membership shopping club outlets, and to the value-added meats business. Live hogs and cattle are also sold to dealers.

San Miguel Pure Foods adopted a strategy focusing on the supermarket-based modern trade market to accelerate pork sales by introducing a *Monty's* supermarket meat shop in 1990. In 1993, the fresh meats business introduced *Monterey* stand-alone neighborhood meat shops as part of the strategy to differentiate its products from those of its competitors by branding the selling outlets. Pork, beef and lamb retail cuts and marinated products are sold in *Monterey Meatshops* through franchisees.

As of September 30, 2014, more than 600 *Monterey Meatshops* selling San Miguel Pure Foods fresh meat products were in operation across the Philippines. As of the same date, approximately 81% of its meat shops were franchised operations and certain functions, such as inventory monitoring and staffing, were also undertaken by third party operators and franchisees. As part of its strategy to increase sales volumes and improve profitability and customer service in these shops, San Miguel Pure Foods' fresh meats business provides marketing support to franchisees and actively seeks entrepreneurs to set-up meat shops.

Competition

Based on data from the Philippine Swine Producers Association and certain internal assumptions and calculations, San Miguel Pure Foods believes that it holds the largest market share in the Philippine hogs industry among the large commercial farms in the Philippines.

In the fresh meats business, San Miguel Pure Foods competes on quality, distribution network and customer service. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who in turn supply hog and cattle carcasses to wet markets and supermarkets. While the majority of fresh meats sales in the Philippines continue to be made in the more traditional, outdoor wet markets, San Miguel Pure Foods considers supermarkets selling their own house-brand products as its main competitor.

Value-added Meats Business Segment

San Miguel Pure Foods' value-added meats business produces both refrigerated processed meats and canned meats. Its refrigerated processed meats include hotdogs, nuggets, bacon, hams, and a line of local Philippine products, which are sold under the *Purefoods, Purefoods Tender Juicy, Purefoods Star, Purefoods Beefies, Vida, Purefoods Fun Stuff Nuggets, Purefoods Crisp'n Juicy*, and *Monterey* brands. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands, are sold under the *Purefoods, Purefoods Star* and *Ulam King* brands.

Production and Raw Materials

San Miguel Pure Foods owns a value-added meats processing plant located in Cavite, Luzon. The Cavite plant manufactures hotdogs, nuggets, hams, bacon, sausages, meat toppings, cold cuts and sauces. The Company maintains toll-manufacturing agreements for halal-accredited facilities to augment its production capacity, meet periodic volume increases, and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

The primary raw materials used in San Miguel Pure Foods' value-added meats business are commodity-based raw materials, including chicken, beef and pork primal cuts. San Miguel Pure Foods' value-added meats business sources most of its raw materials through San Miguel Pure Foods' BPG, which strives to secure prices lower than prevailing market or published rates. BPG maintains a pool of San Miguel Pure Foods accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team. In 2013, San Miguel Pure Foods' value-added meats business sourced approximately 13% of its raw materials from San Miguel Pure Foods' other businesses and 87% from imports.

Sales and Distribution

San Miguel Pure Foods' value-added meats products are distributed locally by its integrated sales group (SMIS) and by its foodservice business (GFS). SMIS handles product distribution to supermarkets and traditional trade markets in the Philippines, such as groceries, convenience stores, wet markets and *"sari-sari"* stores. San Miguel Pure Foods' foodservice business distributes products to foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts. Domestic distribution is handled by the branded business' Supply Chain Group, which manages planning, technical logistics services, warehousing and transportation. The Company's International Business Group handles exports to Asia, North America, Middle East, and Europe, mainly to supply Filipino communities abroad.

Competition

The combined shares of its hotdog brands have positioned San Miguel Pure Foods as a market leader in the hotdogs category, with a market share of 66% for hotdogs sold in Philippine supermarkets. The Company also dominates the nuggets category with a market share of 78%. The Company also has a 68% market share in the premium segment of corned meats. All market shares are based on value as of September 30, 2014 and as reported by Kantar Worldpanel.

For the entire corned beef and luncheon meat categories, San Miguel Pure Foods has market shares of 15% and 4%, respectively, both based on value as of September 30, 2014 according to Kantar Worldpanel.

In the value-added meats business, San Miguel Pure Foods competes on quality, product innovation, distribution network and customer service. In recent years, the value-added meats business of San Miguel Pure Foods has faced increased competition both from established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. Competitors and competing brands in the value-added or processed meats business include Foodsphere, Inc. (*CDO*), Virginia Foods, Inc. (*Winner* and *Champion*), Century Pacific Food Inc. (*Swift, Argentina and 555*), Mekeni Food Corporation (*Mekeni*), Frabelle Food Corp. *(Bossing)* and the distributors of *Maling*. To maintain its leadership position, San Miguel Pure Foods has responded by maintaining high product quality, continuing innovation, increasing advertising and promotions, and by enhancing consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

Milling Business Segment

San Miguel Pure Foods offers a variety of flour products, including bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pandesal mix, and puto mix. San Miguel Pure Foods believes that it started the trend in the Philippines of using customized flours for specific applications, such as noodles and *pandesal*, a soft bread commonly eaten in the Philippines during breakfast. The flour products are sold under 17 brand names, and San Miguel Pure Foods believes that it enjoys strong brand loyalty among its institutional clients and other intermediaries, such as bakeries.

In 2012, San Miguel Pure Foods launched *Kambal Pandesal* bakery outlets, which is an innovative concept in the local baking industry. SMMI simplifies bakery operations for entrepreneurs, providing its proprietary bread premixes and technical assistance such as site search and training on bakery operations and management. SMMI also provides continuous product development and marketing support, thus, helping ensure the continuous introduction of high quality and innovative bread products to consumers. As of September 30, 2014, there are more than 300 *Kambal Pandesal* bakery outlets which are all third party-owned and operated. The Company has plans of franchising *Kambal Pandesal* starting 2015.

San Miguel Pure Foods believes that while rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years, which has helped drive growth in the Philippine flour industry. In addition, while the bread market is generally still dominated by traditional neighborhood bakeries, large bakery chains are expanding rapidly in the Philippines. San Miguel Pure Foods believes these larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher-margin flour products.

Production and Raw Materials

San Miguel Pure Foods believes it owns and operates the largest flour milling facilities in the Philippines based on aggregate annual rated milling capacity. It owns two flour mills, located in Mabini and Tabangao in Batangas, Luzon. San Miguel Pure Foods' milling facilities include two flour blending facilities in Mabini, which allow San Miguel Pure Foods to produce customized flours. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets. San Miguel Pure Foods' production capabilities are augmented by its Flour Technology Center, which it believes is the first of its kind in the Philippines. The Center develops customized flour blends and new flour-based products and is staffed with trained research and development personnel.

In the last quarter of 2013, San Miguel Pure Foods, through SMMI, inaugurated and commenced operations of the Golden Bay Grain Terminal in Mabini, Batangas which can accommodate panamax vessels. This facility has an estimated discharge rate of at least 10,000 metric tons per day. San Miguel Pure Foods believes that this new facility has provided it with a significant advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs. San Miguel Pure Foods believes that there will be savings in freight costs from the use of bigger vessels. This facility is adjacent to the Company's flour mill in Mabini and also services the grain handling requirements of its feeds business. The Company expects to service external customers such as commercial grains traders in the future.

The principal raw material used by San Miguel Pure Foods' flour business is wheat. Historically, more than 90% of the wheat requirements of the flour business are sourced from the United States and Canada with the remaining 10% sourced from various other countries. San Miguel Pure Foods monitors worldwide wheat prices daily to determine its long-term and short-term buying strategies to control costs in its flour business.

Sales and Distribution

San Miguel Pure Foods' marketing strategy for its milling business focuses on offering the widest array of differentiated flour products in the Philippine market. The flour business' sales team, supported by baking technicians, determines the specific flour product requirements of its various customers. In addition, the baking technicians conduct field baking tests of the products and demonstrate its application. For customized products, the research and development team and the sales team work with the customers to develop formulations specific to their requirements. San Miguel Pure Foods manages a nationwide distribution network that distributes flour and other bakery ingredients to major flour users, such as Gardenia Bakeries, the Jollibee group, KFC, Monde MY San and smaller users across the Philippines.

Competition

Based on data from the Philippine Association of Flour Millers and certain internal assumptions and calculations, San Miguel Pure Foods believes it is the largest producer, seller and distributor of flour in the Philippines, with a 17% market share based on volume sold in 2013.

San Miguel Pure Foods' flour business competes on price, quality, customer service and distribution. Its main competitors are Philippine Foremost Milling Corporation, Pilmico Foods Corporation and URC. Another large flour miller, Monde Nissin, produces flour exclusively for its internal requirements. Currently, most of the competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. San Miguel Pure Foods differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours. San Miguel Pure Foods expects to face increased competition in the lower priced and lower quality segments and from international and regional flour producers in the future.

Others Business Segment

San Miguel Pure Foods' others business segment is divided into the following businesses: dairy, spreads and oils, coffee, foodservice, franchising and international operations.

Dairy, Spreads and Oils

San Miguel Pure Foods' dairy, spreads and oils business manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids and cooking oils. Bread spreads make up the largest portion of the dairy, spreads and oils business and in the nine months ended September 30, 2014, accounted for approximately 71% of revenues from this category. San Miguel Pure Foods' bread spreads include butter, refrigerated and non-refrigerated margarines and cheeses sold primarily under its *Magnolia*, *Dari Crème*, *Star* and *Cheezee* brands. San Miguel Pure Foods' dairy products include ready-to-drink milk, ice cream and all-purpose cream all under the *Magnolia* brand. Jelly snacks and fruit jams are under the *Magnolia JellYace* brand while salad aids like mayonnaise and dressings are under the *Magnolia* brand. San Miguel Pure Foods' cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

Production and Raw Materials

San Miguel Pure Foods produces bread spread products at its own facility in Cavite, Luzon, through a process that includes pasteurization, blending, chilling and packing for bread spreads and cooking, filling, pre-packing and end-packing for cheeses. Ice cream is manufactured at San Miguel Pure Foods' facility in Santa Rosa, Laguna in Luzon. All of San Miguel Pure Foods' milk, jelly-based snacks and cooking oil products are manufactured in third party plants under tolling arrangements, each of which is required to meet San Miguel Pure Foods' quality standards.

All of the raw materials required by the dairy, spreads and oils business are sourced through San Miguel Pure Foods' BPG. Approximately 60% of dairy materials, such as cheese curds, rennet-casein and milk powders are imported from various suppliers in Oceania. Vegetable oils are sourced from various suppliers in Malaysia and in the Philippines.

Sales and Distribution

Supermarkets are the largest distribution channel for the dairy, spreads and oils business, and other channels include groceries, warehouse clubs, *"sari-sari"* stores, market stalls, bakeries, wholesale outlets and convenience stores. San Miguel Pure Foods' integrated sales group serves as the distribution arm of the dairy, spreads and oils business for both modern and general trade channels. Food chain and other institutional distribution channels for San Miguel Pure Foods' dairy, spreads and oils business include bakeshops, food manufacturing companies, quick service restaurants and hotels. The majority of the dairy, spreads and oils business' distribution channels are in the greater Manila and Luzon areas, which have seen substantial growth in consumption for these products. San Miguel Pure Foods' dairy, spreads and oils business is further developing regional distribution channels through exports primarily to Asia, the United States and the Middle East.

Competition

According to Kantar Worldpanel, as of September 30, 2014, San Miguel Pure Foods has a market share of 46% for butter, followed by Fonterra Brands Philippines Inc. and New Zealand Creamery, Inc. ("NZC"). San Miguel Pure Foods dominates the refrigerated margarine segment with a 96% share of the market. NZC and RFM Corporation also compete in this category.

According to Nielsen, as of July 2014, San Miguel Pure Foods has a 97% market share for non-refrigerated margarine with San Pablo Manufacturing and AD Gothong Manufacturing as its competitors. In the cheese category, Mondelez Philippines, Inc. ("Mondelez", formerly Kraft Foods

Philippines), is the leading player followed by Magnolia with a 19% market share. In the ice cream market, Unilever-RFM and Nestlé are the dominant players, while Magnolia ranks third with 8% market share.

Coffee

San Miguel Pure Foods' coffee business is a joint venture with a Singaporean partner, Super Coffee Corporation Pte Ltd, and is 70%-owned by San Miguel Pure Foods. The joint venture commenced operations in 2005 and sells coffeemix products under the *San Mig Coffee* brand. As of July 2014, according to Nielsen, San Miguel Pure Foods has a 3% market share for coffee based on value sold. Competitors in the coffeemix segment include Nestlé (Nescafe), Tridharma Marketing Corp. (Kopiko), URC (Great Taste), and Goldshine Pharmaceuticals, Inc. (Jimm's). All of the coffee business' raw materials procurement, manufacturing and pre-packing are handled by San Miguel Pure Foods' partner in Singapore and Thailand and San Miguel Pure Foods manages re-packing, marketing, selling and distribution in the Philippines.

International Operations

Vietnam

The Vietnam food business is a joint venture between San Miguel Pure Foods, which holds a 51% interest, and Hormel Netherlands B.V., which holds a 49% interest. San Miguel Pure Foods acquired its 51% equity interest in the Vietnam business from SMC in July 2010. The Vietnam food business primarily engages in live hog farming, feedmilling and the production and sale of processed meats, which are under the *Le Gourmet* brand.

Indonesia

San Miguel Pure Foods' business in Indonesia, which was founded in 1995, is a joint venture with Penderyn and produces a variety of halal-certified processed meats for the Indonesian market under the brands *Farmhouse* and *Vida*. The joint venture is 75%-owned by San Miguel Pure Foods. Its share of the Indonesian chilled processed meats market was approximately 47% by retail value in 2014, based on sell out data for top 10 stores for each chain in the second quarter of 2014.

Other Businesses

Foodservice

Great Food Solutions ("GFS"), the San Miguel Pure Foods' foodservice business, was established in 2002 and the Company believes it is the largest foodservice provider in the Philippines. It distributes and markets San Miguel Pure Foods' non-branded and customized foodservice products, including value-added meats, fresh meats, poultry, dairy, oils, flour, and coffee. GFS receives a development fee from San Miguel Pure Foods' subsidiaries for selling their products to foodservice institutional clients. The business' key strategies include selling customized solutions, direct marketing to its foodservice customers and focused relationship management.

Franchising

San Miguel Pure Foods has developed franchise models to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for San Miguel Pure Foods' products. These franchise models include roast chicken and rice toppings outlets under the *Hungry Juan* franchise, and convenience store outlets under the *San Mig Food Ave* franchise, most of which are located in Petron stations.

EMPLOYEES

As of September 30, 2014, San Miguel Pure Foods had 3,393 full-time employees and the number of the Company's employees in each of its business segments is set forth below.

	No. of Employees
Agro-industrial	1,337
Value-added meats	430
Milling	167
Others[(1)]	1,459
Total	3,393

[(1)] "Others" also includes employees of corporate service units such as office of the president, finance, human resources, legal, planning and management services, information technology, audit, and purchasing.

The table below sets forth the breakdown of the number of employees by geographical area as of September 30, 2014.

Country	No. of Employees
Philippines	2,863
Vietnam	378
Indonesia	152
Total	3,393

As of September 30, 2014, approximately 8.7% of San Miguel Pure Foods' domestic employees were parties to various collective bargaining agreements between San Miguel Pure Foods and a total of four labor unions representing employees of San Miguel Pure Foods' businesses. The two international businesses have one union each. Since 2011, San Miguel Pure Foods has not experienced any strikes or work stoppages. San Miguel Pure Foods considers its relationship with its employees to be good.

In addition to the statutory benefits, San Miguel Pure Foods provides insurance, vacation, sick and emergency leaves, transportation and communication allowances, and loan facilities to employees.

SMC has an Employee Stock Purchase Plan and a Long-Term Incentive Plan to provide incentives and rewards to eligible employees who contribute to the success of the SMC group, which includes San Miguel Pure Foods. All permanent Philippine-based employees in certain companies of the SMC group, including San Miguel Pure Foods, who have been employed for a continuous period of one year prior to the subscription period, are allowed to subscribe to the shares covered by the Employee Stock Purchase Plan at a 15.0% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions. SMC group executives are granted options to subscribe for SMC shares reserved for issuance under the Long-Term Incentive Plan, which is administered by the Executive Compensation Committee of the SMC board. A total of 54,244,905 shares are reserved for issuance under the plan at a price equivalent to the fair market value of the SMC shares as of the date of the grant, with adjustments depending on the average stock prices of the prior three months.

San Miguel Pure Foods has funded, noncontributory, defined benefit retirement plans covering all of its permanent employees. Retirement costs of San Miguel Pure Foods amounted to ₱102.2 million, ₱159.8 million and ₱192.4 million in 2011, 2012 and 2013, respectively.

HEDGING TRANSACTIONS

San Miguel Pure Foods enters into various hedging transactions to manage its price risks on strategic commodities, such as wheat and soybean meal. San Miguel Pure Foods' policy is to hedge up to 20% of its wheat and soybean requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosures about Market Risk - Commodity Price Risk” on page 143 of this Prospectus.

INSURANCE

San Miguel Pure Foods has an all-risk policy that covers its facilities and inventories, other than livestock, against a variety of risks, including fire, lightning, catastrophic perils (such as typhoons, floods, earthquakes and volcanic eruptions), machinery breakdown, explosion, civil commotion, riot or strikes, malicious damage, and others. San Miguel Pure Foods has no business interruption insurance for its domestic production facilities, but it is covered by an “Increased Cost of Working” provision that compensates San Miguel Pure Foods for certain additional expenses incurred in continuing its operations following covered events. San Miguel Pure Foods’ facilities and inventories are insured with Prudential Guarantee and Assurance Inc. with a total insured value of approximately US$372 million with a maximum recovery for any single loss amounting to US$250 million for each and every occurrence applied collectively to the SMC group.

San Miguel Pure Foods also covers its inventories under a separate “Industrial All-Risk” policy with a total insured value of approximately ₽14 billion located mostly in warehouses. In addition, it has a “Marine Cargo” insurance policy covering its domestic and international shipments of goods and equipment, a “Commercial General Liability” insurance policy that covers third party bodily injuries and property damages including sudden and accidental pollution, and a “Directors and Officers Liability” insurance policy. San Miguel Pure Foods’ insurance policies are secured from leading Philippine insurance companies that are generally reinsured with a panel of A-rated reinsurers.

QUALITY CONTROL, HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

San Miguel Pure Foods conforms to the statutory and regulatory requirements in relation to quality assurance and food safety. Compliance to Good Manufacturing Practice (“GMP”) is a mandatory requirement across all food businesses to ensure high quality and safe food products.

San Miguel Pure Foods is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odor emissions and the management and disposal of hazardous materials.

San Miguel Pure Foods applies its quality standards uniformly across all of its production facilities, whether company-owned or contracted, including through training it provides to its third party operators before they commence operations for the Company. San Miguel Pure Foods representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the third party operators’ management. San Miguel Pure Foods’ quality assurance personnel conducts periodic operational audits.

San Miguel Pure Foods seeks to reduce the risk of contamination of its products through strict sanitation procedures and constant monitoring and response. Consistent with the Hazard Analysis and Critical Control Points (“HACCP”) model, it has identified specific stages of processing where preventative measures such as equipment sterilization, hygiene, temperature control and regular equipment testing will greatly reduce risks and have designed its operations to reduce these risks. San Miguel Pure Foods follows GMP, which is a key factor to produce good quality, safe, and affordable products. San Miguel Pure Foods’ GMP is based on international hygiene standards, and promotes a quality approach to manufacturing.

San Miguel Pure Foods intends to continue to strengthen its commitment to food safety standards, including HACCP, GMP, ISO 22000, ISO 9001 and FSSC 22000 to comply with customers’ requirements. ISO 22000 is the global standard for food safety management systems. Effective GMP and HACCP implementation are prerequisites to successful implementation of ISO 22000. ISO 9001 institutionalizes the principles of quality management to ensure quality standards are consistently met.

San Miguel Pure Foods believes it is in material compliance with applicable health, safety and environmental laws. See “Regulatory Framework” on page 162 of this Prospectus for a more detailed discussion of applicable health, safety and environmental laws.

The Company and its subsidiaries incurred about P31.3 million in expenses for environmental compliance for the year 2013. On an annual basis, operating expenses incurred by the Group to comply with environment laws are not significant or material relative to the Company and its subsidiaries’ total cost and revenues.

INTELLECTUAL PROPERTY

Brands, trademarks, patents and other related intellectual property rights relating to San Miguel Pure Foods’ principal products are either registered or pending registration in the Philippines and the foreign countries in which San Miguel Pure Foods sells, or intends to sell, its products.

San Miguel Pure Foods owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *Purefoods Star*, *San Mig Coffee*, *B-Meg* and *Monterey*. These trademarks and other intellectual property rights are important in the aggregate because brand name recognition is a key factor in the success of many of San Miguel Pure Foods’ product lines. San Miguel Pure Foods regularly renews the registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms.

On November 19, 2014, the Company entered into an Intellectual Property Rights Transfer Agreement with Felicismo Martinez & Co., Inc. to acquire the trademarks, formulations, recipes, and other intangible properties with respect to *La Pacita* biscuit and its flour-based snack business which includes: Supreme Flakes, Raisin Cookies, Camachile Baby Finger Biscuits, Butter Cookies, and Club Crackers, among others. As of December 31, 2014, the agreement relating to the acquisition of the *La Pacita* intellectual properties has not yet been closed.

San Miguel Pure Foods has not had any significant disputes with respect to any of its trademarks.

RESEARCH AND DEVELOPMENT

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, San Miguel Pure Foods engages in research and development to identify cost improvements that can be made to its production processes. Among others, cost reductions have been achieved through the use of alternative raw materials, from grains and by-products used in San Miguel Pure Foods’ feeds products to alternative protein sources and flavors in processed meats.

San Miguel Pure Foods owns several research and development facilities that analyze average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to San Miguel Pure Foods’ commercial feed formulations to minimize costs and maximize animal growth. These research facilities include a bio assay-focused research facility, a metabolizable energy-focused research facility, a research facility for tilapia, three hog research farms, three broiler research farms, a fry production facility and various hatching facilities for tilapia breeding.

San Miguel Pure Foods also engages in the development, reformulation and testing of new products. It believes that its continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, San Miguel Pure Foods regularly conducts consumer surveys and has a Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

The total amount spent by the Company and its subsidiaries on research and development for the years 2013, 2012 and 2011 were P275.3 million, P195.0 million and P184.4 million, respectively. As a percentage of net sales revenues, spending on research and development for the years 2011 to 2013 barely ranged from 0.2% to 0.3%. The foregoing amounts are inclusive of the expenditures for products that are toll manufactured by third parties for the Company.

RECENT DEVELOPMENTS

On January 26, 2015, San Miguel Pure Foods International, Limited ("SMPFIL"), a 100%-owned subsidiary of San Miguel Pure Foods Company Inc. incorporated in the British Virgin Islands, signed an agreement for the purchase from Hormel Netherlands B.V. of the latter's 49% of the issued share capital of San Miguel Pure Foods Investment (BVI) Limited. ("SMPFIB"). SMPFIB is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam that engages in production of processed meats and owns assets in hog farming and feed milling. SMPFIB is now a wholly-owned subsidiary of SMPFIL.

On February 1, 2015, San Miguel Pure Foods completed the acquisition of the trademarks, formulations, recipes and other intangible properties relating to the *La Pacita* biscuit and flour-based snack business of Felicisimo Martinez & Co. Inc. San Miguel Pure Foods is currently licensing the trademarks to Magnolia, Inc.

Description of Property

The general asset description and locations of the various plants and farms owned and leased by the Company as of December 31, 2013 are set out below.

The Company owns most of its major facilities outside of the Agro-Industrial business (Feeds and Poultry and Fresh Meats), i.e., flour mills, meats processing, butter, margarine and cheese plant, and grain terminal.

Most of the facilities of the Agro-Industrial business are contracted from third parties. Only seven feedmills, two poultry processing plants, three poultry hatcheries, one broiler farm, two hog farms, three cattle farms and one hog/cattle slaughterhouse are company-owned, although all are operated by third parties.

The properties owned by the Company are not subject to any mortgage.

OWNED PROPERTIES	Address
MAIN OFFICE	
17^{th}, 18^{th}, 21^{st}, 22^{nd}, and 23^{rd} floors, JMT Corporate Condominium Building	ADB Avenue, Ortigas Center, Pasig City
ADMINISTRATION OFFICE	
Feeds, Poultry and Great Food Solutions Iloilo Office	Melliza St., Brgy. Zamora, Iloilo City
Sta. Maria Vetmed Office	Brgy. Guyong, Sta. Maria, Bulacan
MANUFACTURING PLANTS/ FACILITIES	
Processed Meats Cavite Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite
Mabini Flourmill	Brgy. Bulacan, Mabini, Batangas
Tabangao Flourmill	Brgy. Tabangao, Batangas City
Golden Bay Grain Terminal	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas
Cebu Poultry Dressing Plant	Brgy. Canduman, Mandaue City
Davao Poultry Dressing Plant	Brgy. Sirawan, Toril Davao City
Feeds Spent Drying Plant	SMC Complex, San Fernando, Pampanga
Feeds Spent Drying Plant	Mc Arthur Hi-way, Valenzuela City
Bulacan Feedmill	Brgy. Magmarale, San Miguel, Bulacan
Tarlac Feedmill	Luisita Industrial Park, San Miguel, Tarlac City
BMEG Pangasinan Feedmill	Km. 189, Brgy. Bued, Binalonan, Pangasinan
Isabela Feedmill	Brgy. Soyung, Echague, Isabela
Bataan Feedmill	Mindanao Avenue, corner 10th Avenue, BEZ, Mariveles, Bataan
Cagayan de Oro Feedmill (machineries and equipment only)	Brgy. Baloy, Tablon, Cagayan de Oro City
Bukidnon Feedmill	Milmar Compound, Impalutao, Impasug-ong, Bukidnon
Magnolia Plant	Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite
Magnolia Ice Cream Plant	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna
Monterey Meat Plant	Governor's Drive, Langkaan, Dasmariñas, Cavite
Processed Meats Indonesia Plant	Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Indonesia
Processed Meats Vietnam Plant	An Tay, Ben Cat, Binh Duong, Vietnam
FARMS/HATCHERIES/ WAREHOUSES	
Calamba Hatchery	Brgy. Licheria, Calamba City

Bulacan Hatchery	Km. 37, Pulong Buhangin, Sta. Maria, Bulacan
Grandparent Hatchery	Kapitan Bayong, Impasug-ong, Bukidnon
Orion Experimental Training Farm	Brgy. General Lim, Orion, Bataan
Calauan Experimental Farms	SMC Cmpd., Brgy. Mabacan, Calauan, Laguna
Isabela Cattle Farm	Bo. San Luis, Cauayan, Isabela
San Miguel Farm	Magmarale, San Miguel, Bulacan
Sumilao Farm	San Vicente, Sumilao, Bukidnon
Polomolok Cattle Farm 1	Matin-ao, Polomolok, South Cotabato
Bin Duong Feedmill and Farm	Cau Sat Hamlet, Lai Hung Village, Ben Cat, Binh Duong, Vietnam
Laguna Warehouse	Brgy. Malitlit, Sta. Rosa, Laguna
General Santos Warehouse	SMPFC Cmpd., Rivera St., Brgy. Calumpang, Gen. Santos City
Processed Meats Fairview Warehouse	Regalado Ave., Fairview, Quezon City
Otis Warehouse	Mendiola Ext., Otis, Pandacan, Manila
LAND	
Golden Avenue Corp.	San Miguel Ave., corner Tektite Road, Pasig City
LEASED PROPERTIES	**Address**
MANUFACTURING PLANTS/ FACILITIES/ FARMS/HATCHERIES/ WAREHOUSES	
Great Food Solutions Commissary	2 MIA Road, Tambo, Paranaque City
BMEG Pangasinan Feedmill (lot only)	Km. 189, Brgy. Bued, Binalonan, Pangasinan
Orion Experimental Training Farm (lot only)	Brgy. General Lim, Orion, Bataan
Bataan Feedmill (lot only)	Mindanao Avenue, corner 10th Avenue, BEZ, Mariveles, Bataan
Cagayan de Oro Feedmill (lot and warehouse only)	Brgy. Baloy, Tablon, Cagayan de Oro City
Golden Bay Grain Terminal (lot only)	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas
Magnolia Ice Cream Plant (lot only)	Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna
Polomolok Cattle Farm 2	Matin-ao, Polomolok, South Cotabato
FORESHORE	
Flour Mabini	Brgy. Bulacan, Mabini, Batangas
Flour Tabangao	Brgy. Tabangao, Batangas City
SALES AND ADMINISTRATION OFFICES/ WAREHOUSES	
Food Group Consolidated Warehouse	403 F. Legaspi Street, Maybunga, Pasig City
Food Group Admin Office	SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City
Food Group Purchasing Office	4F JMT Corp. Cond., ADB Avenue, Ortigas Center, Pasig City
Food Group Shared Services Center	10F Raffles Corporate Center, F. Ortigas Jr. Road, Ortigas Center, Pasig City
San Miguel Integrated Sales Office	El Magnifico Bldg., No. 19 General Atienza St., San Antonio Village, Pasig City
Bulacan Warehouse - Flour	Sta. Rita, Guiguinto, Bulacan
Pampanga - Poultry	RRK Building, Jose Abad Santos Ave., Dolores, City of San Fernando, Pampanga
Calamba - Poultry	3rd Flr Dencris Bus. Center, Brgy. Halang, Calamba City, Laguna
Parian Office - Poultry	Andenson Bldg. II, Parian, Calamba City, Laguna
Naga - Poultry	G9 DMG Bldg., Peñafrancia Ave., Naga City
Bohol - Poultry	Albur Dressing Plant, Eastern Poblacion,

	Alburquerque, Bohol
Bacolod - Poultry and Great Food Solutions	Door 3 & 4, VCY Center, Hilado Extension, Kamagong St., Bacolod City
Dumaguete - Poultry	2F THS Bldg., Real St., Brgy. 7, North Hi-way, Dumaguete Ciy, Negros Oriental
Tacloban - Poultry	Brgy. 79, Marasbaras, Tacloban, Leyte
Cebu - Poultry	6th Flr Clotilde Bldg., Casuntingan, Mandaue City
Ormoc - Poultry	Door 4, 2nd Flr Tan Bldg., Lilia Ave., Cogon, Ormoc
Davao - Poultry and Great Food Solutions	2nd Flr. ARC Bldg., cor Dakudao Ave. and Lakandula St., Agdao, Davao City
Zamboanga - Poultry	Door #2, Nuño Bldg, MCLL Highway, Guiwan, Zamboanga City
Cagayan de Oro - Poultry, Feeds and Great Food Solutions	3rd Flr, HBL Bldg., Gusa, Cagayan de Oro City
Bukidnon - Poultry	Gellor Bldg., Propia St., Malaybalay City
Ozamis - Poultry	Mailen, Clarin, Misamis Occidental
Butuan - Poultry	Km 9, Tag-ibo, Butuan City
Bulacan Sales Office - Feeds	Cabiawan St., Banga 1st, Plaridel, Bulacan
Cebu Office - Feeds	7F Cleotilde Bldg., Casuntingan, Mandaue City
Bacolod Sales Office - Feeds	JA Building, San Patricio, Brgy. Banago, Bacolod City
Tacoma - Feeds	Tacoma & 2nd St., Port Area, Manila
Chino Warehouse - Feeds	Chino Terminal 3385 Lubiran St. Bacood, Sta. Mesa
Namayan Warehouse - Feeds	979 C. Castaneda Street, Mandaluyong City Metro Manila
Baseco Warehouse - Feeds	Yard 2, Baseco Warehouse Engineering Compound, 2nd Street, Port Area, Manila
UTI Warehouse - Feeds	Lot 2C Access Rd., Multinational Village, Paranaque City
PNOC - Feeds	Mainaga, Mabini, Batangas
G1 Airmoving Logistics - Feeds	3270 Merville, MIA District, Brgy. 201, Pasay City
NFA Isabela - Feeds	Northern Philippine Grains Complex, Echague, Isabela
Fortune Warehouse - Feeds	Bacnotan, La Union
Poro Warehouse - Feeds	Port Area ,San Fernando Port, Poro Point Special Economic and Freeport Zone
Alejo Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan
William Sim - Feeds	Nancayasan, Urdaneta City, Pangasinan
UGMC Warehouse - Feeds	Cabatuan, Isabela
JNPL Morning Star Warehouse - Feeds	Brgy. Rizal, Moncada, Tarlac
YKK Warehouse - Feeds	Mabini, Moncada, Tarlac
Warensburg Warehouse - Feeds	Mariveles, Bataan
Wedison Warehouse - Feeds	Nungnungan II, Cauayan City, Isabela
CRM Warehouse - Feeds	San Fermin, Cauayan, Isabela
Paddad Warehouse - Feeds	Brgy. Victoria, Alicia, Isabela
Ramon Warehouse - Feeds	Bugallon Norte, Ramon, Isabela
MCAR Warehouse - Feeds	Bacnotan, La Union
Fieldman Warehouse - Feeds	Sta. Rita East, Agoo, La Union
Pozzorubio Warehouse - Feeds	Pozzurubio, Pangasinan
Marilao Warehouse - Feeds	Bo. Loma De Gato, Marilao, Bulacan
Coliat Warehouse - Feeds	Brgy. Tinga Labak, Batangas
CEC Warehouse - Feeds	San Jose, Batangas
PJ Chen Warehouse - Feeds	Brgy. San Jose, Batangas
Masaya Warehouse - Feeds	Brgy. Masaya, Rosario, Batangas
Malitlit Warehouse - Feeds	Brgy. Malitlit, Sta. Rosa, Laguna
Pili Isarog Warehouse - Feeds	National Hi-way, Pili, Camarines Sur
Pili- COSAY Warehouse - Feeds	Maharlika Hi-way, Santiago, Pili, Camarines Sur
PKS Shipping - Feeds	Sitio Tawagan, Tayud, Consolacion, Cebu

San Miguel Shipping and Lighterage - Feeds	Looc, Mandaue City, Cebu
Bassett Land, Inc. - Feeds	Sitio Tawagan, Tayud, Consolacion, Cebu
SIAIN Warehouse - Feeds	Brgy. Loboc, Lapaz, Iloilo City
LMDC Enterprises Co. - Feeds	Brgy. Guaan, Leganes, Iloilo City
CSU Warehouse - Feeds	Brgy. Pavia, Iloilo
KIMWA Warehouse - Feeds	KIMWA Cmpd., Baloy, Cagayan de Oro City
MITIMCO Warehouse - Feeds	Mitimco Cmpd., Baloy, Cagayan de Oro City
CATIMCO Warehouse - Feeds	Puntod, Cagayan de Oro City
Manzano Warehouse - Feeds	Puntod, Cagayan de Oro City
Tan Warehouse - Feeds	Lam-an, Ozamiz City
Blue 2 Warehouse - Feeds	Sasa, Davao City
Tan Warehouse - Feeds	Makar Highway, General Santos City
MIMIJOE - Feeds	Ladislawa Village, Buhangin, Davao City
LSL Multi-Serve Company - Feeds	Km 8 Pareñas Compound, Diversion Road, Buhangin, Davao City
Rich Winson Warehouse - Feeds	Diversion Road, Buhangin, Davao City
AFSI Warehouse - Feeds	1st Industrial Zone, Ecozone, Sitio San Ramon, Brgy. Talisayan, Zamboanga City
Continental Warehouse - Feeds	Old Airport Road, Sasa, Davao City
ANAKCIANO Warehouse - Feeds	Valencia City, Bukidnon
Tony Ko Warehouse - Feeds	National Highway, Koronadal City
GHMC Warehouse - Feeds	Culianan, Zamboanga
BOT - Fresh Meats	Mega Q Mart and Farmers Market, Quezon City
Pampanga Livestock Selling Station - Fresh Meats	Sta. Barbara, Bacolor, Pampanga
Padre Garcia Selling Station - Fresh Meats	Quilo-Quilo North, Padre Garcia, Batangas
Iloilo Office - Fresh Meats	F. Palmares St., Passi City, Iloilo
Bukidnon Live Operations Office - Fresh Meats	Gellor Bldg., Propia St., Malaybalay City, Bukidnon
Pampanga Office - San Miguel Integrated Sales	2F Rickshaw Arcade, Greenfield Square, Km. 76, Mc Arthur Highway, Sindalan, San Fernando City, Pampanga
Laguna Office - San Miguel Integrated Sales	Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna
Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay corner Araneta Sts., Singcang, Bacolod City
Iloilo Office - San Miguel Integrated Sales	YK Marine Bldg., Iloilo Fishing Port Complex, Brgy. Tanza, Bay-bay, Iloilo City
Mandaue Office - San Miguel Integrated Sales	2nd Flr. Planters Bldg., West Office, SMC Shipping & Lighterage Comp., Ouano Wharf, Mandaue City, Cebu
Cagayan de Oro Office - San Miguel Integrated Sales	Door 5, Banyan Place, Alwana Compound, Cugman, Cagayan de Oro City
Bandung Office - San Miguel Pure Foods Indonesia	3rd Flr Jl. Soekarno Hatta No. 606 Bandung
Surabaya Office - San Miguel Pure Foods Indonesia	Perumahan Citra Harmoni Block C1 No. 25 Trosobo Sidoarjo Jawa Timur, Indonesia
Yogyakarta Office & Warehouse - San Miguel Pure Foods Indonesia	Jl. Palagan Tentara Pelajar Gg. Gambir No. 100B, Sleaman-Yogyakarta, Indonesia
Medan Office - San Miguel Pure Foods Indonesia	Jl. Kenanga Raya No. 32 D, Kel. Tanjung Sari Kec. Medan Selayang, Medan, Indonesia
Makassar Office - San Miguel Pure Foods Indonesia	Komp. Bukit Nirwana 2B 16, Kel. Manggala Kec. Manggala, Makassar, Indonesia
Bali Office - San Miguel Pure Foods Indonesia	Jl. Cargo Taman III, Perum Jepun Kaja Blok D No. 10, Denpasar, Bali, Indonesia
Ho Chi Minh Admin Office - San Miguel Hormel Vietnam	6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City, Vietnam
Long An Sales Office - San Miguel Hormel Vietnam	High Way 1A, 1 Hamlet, My Yen, Ben Luc, Long An, Vietnam

Ho Chi Minh Sales Office - San Miguel Hormel Vietnam	Tan Thanh Tay, Cu Chi District, Ho Chi Minh City, Vietnam
Tay Ninh Sales Office - San Miguel Hormel Vietnam	Long Binh, Long Thanh Nam, Hoa Thanh, Tay Ninh, Vietnam
Chau Thanh Sales Office - San Miguel Hormel Vietnam	Phuoc Hoa, Phuoc Thanh, Chau Thanh, Tien Giang, Vietnam
Go Cong Tay Sales Office - San Miguel Hormel Vietnam	Tan Thanh, Thanh Nhut, Go Cong Tay, Tien Giang, Vietnam
Trang Bom Sales Office - San Miguel Hormel Vietnam	39/2 An Hoa, Tay Hoa, Trang Bom, Dong Nai, Vietnam
Xuan Loc District Sales Office - San Miguel Hormel Vietnam	Bao Hoa Village, Xuan Loc District, Dong Nai, Vietnam
Tan Phu Sales Office - San Miguel Hormel Vietnam	160 Tho Lam 2, Phu Xuan, Tan Phu, Dong Nai, Vietnam
Vinh Long Sales Office - San Miguel Hormel Vietnam	194/2 Pham Hung St., Ward 9, Vinh Long, Vietnam
Soc Trang Sales Office - San Miguel Hormel Vietnam	Dong Hai, Dai Hai, Ke Sach, Soc Trang, Vietnam
Tra Vinh Sales Office - San Miguel Hormel Vietnam	Xom Trang, Nguyet Hoa, Chau Thanh, Tra Vinh, Vietnam
Bac Ninh Sales Office - San Miguel Hormel Vietnam	Dinh Bang Village, Tu Son District, Bac Ninh, Vietnam
Bao Loc Sales Office - San Miguel Hormel Vietnam	1023 Tran Phu Road, Loc Tien, Bao Loc,Lam Dong, Vietnam
Duc Trong Sales Office - San Miguel Hormel Vietnam	5 Thon An Hiep I, Lien Hiep, Duc Trong, Lam Dong, Vietnam
Dak Lak Sales Office - San Miguel Hormel Vietnam	Tan Hoa Ward, Buon Ma Thuoc City, Dak Lak, Vietnam
Binh Dinh Sales Office - San Miguel Hormel Vietnam	150 Tran Phu Street, Tuy Phuoc Town, Tuy Phuoc District, Binh Dinh, Vietnam
Ben Tre Sales Office - San Miguel Hormel Vietnam	Phu Nhon, Thi Tran Chau Than, Cau Than, Ben Tre, Vietnam

COLD STORAGE/ REEFER VANS/DEPOTS

Vifel Ice Plant and Cold Storage Inc. - Poultry and Purefoods-Hormel	North Bay Blvd., Navotas, Metro Manila
Diaz Dressing Plant - Poultry	Km. 104, Brgy. Tabuating, San Leonardo, Nueva Ecija
San Vicente Dressing Plant - Poultry and Fresh Meats	Brgy. San Vicente, San Jacinto, Pangasinan
LDP Farms Food Corporation - Poultry	Brgy. Rabon, Rosario, La Union
Lolim Ice Plant and Cold Storage - Poultry	Mabilao, San Fabian, Pangasinan
ARS Dressing Plant - Poultry and Fresh Meats	Purok 5, Brgy. Rizal, Santiago City, Isabela
Aces AMC Integrated Poultry Processing Corporation - Poultry	Km. 342, Purok III, Garit Norte, Echague, Isabela
New Vreed Dressing Plant - Poultry	Brgy. Mangan-vaca, Subic, Zambales
Integrated Meat and Poultry Processing, Inc. - Poultry	Brgy. Tumalo, Hermosa, Bataan
557 Feather Meal Corporation - Poultry	Brgy. San Nicolas Balas, Concepcion, Tarlac
Adriano Dressing Plant - Poultry	95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan
Mayharvest Corp. - Poultry & Fresh Meats	Caysio, Sta. Maria, Bulacan
La Primera Pollo, Inc. - Poultry	111 Pulong Gubat, Balagtas, Bulacan
Poltyrade Sales and Services, Inc. - Poultry	Lagundi, Mexico, Pampanga and Sta. Rita Industrial Estate, San Jose, Pili, Camarines Sur
SG Farms - Poultry	San Simon, Pampanga
Estrella Ice Plant & Cold Storage Co. Inc. - Poultry	Lawang Bato, East Canumay, Valenzuela City

Inland Corporation - Poultry	114 East Science Drive, Laguna Technopark, Binan, Laguna
V & F Ice Plant and Cold Storage, Inc. - Poultry and Purefoods-Hormel	San Roque, Sto. Tomas, Batangas and Sumulong Highway, Brgy. Mambugan, Antipolo, Rizal
Johanna's Chicken Processing Center - Poultry	Brgy. Bocohan, Lucena City
Silangan Poultry Farms - Poultry	Brgy. Kayumangi, Lipa City, Batangas
Cariño & Sons Agri-Dev't Inc. - Poultry	Brgy. Aya, San Jose, Batangas
Asialink VAO Office - Poultry	San Roque, Sto. Tomas, Batangas
MKC Poultry Dressing Plant - Poultry	Brgy. Tagburos, Puerto Princesa City, Palawan
GMV Coldkeepers, Inc. - Poultry & Fresh Meats	Puerto Princesa, Palawan
Gallintina Industrial Corp. - Poultry	GIC Compound, Brgy. Tagbong, Pili, Camarines Sur
CCSO Tolling Services - Poultry	Brgy. Anislag, Daraga, Albay
Malogo Agri-ventures & Management Service Corporation - Poultry	Singko de Noviembre St., Silay City, Negros Occidental
First Farmers Food Corp. - Poultry	Brgy. Dos Hermanas, Talisay City, Negros Occidental
Corden Agro Industries - Poultry	Brgy. Tungay, Sta, Barbara, Iloilo
O-Star Foods Plant Corp. - Poultry	Brgy. Calabnugan, Sibulan, Negros Oriental
Agape R & R Foods - Poultry	Campaclan, Sibulan,Neg.Oriental
Quest Blast Freezing and Cold Storage Corp. - Poultry	Brgy. Canduman, Mandaue City, Cebu
3G Logistics and Storage, Inc. - Poultry and Fresh Meats	Hernan Cortes St., Tipolo, Mandaue City, Cebu
Cebu Sherilin Agro-Industrial Corp. - Poultry	Brgy. Pangdan, Naga City, Cebu
Pavia Warehouse - Poultry	19 B San Jose St., Cogon Dist., Tagbilaran City
Saligna Real Estate - Poultry	Robledo Compound, Real St., Brgy. Campitik, Palo, Leyte
San Roberto Development Corporation - Poultry	San Patricio, Banago, Bacolod City
St. Jude Dressing Plant - Poultry	Mohon, Tagoloan, Misamis Oriental
Elim Dressing Plant - Poultry	Mailen, Clarin, Misamis Occidental
Green Pine Dressing Plant - Poultry	Km. 9, Tag-ibo, Butuan City
Maharlika Agro Marine Ventures Corp. - Poultry	IP4 El Salvador, Misamis Oriental
Polar Bear Storage - Poultry	Daliao, Toril Davao City
Polar Bear Freezing & Storage - Poultry & Fresh Meats	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental
Koldstor Centre Philippines, Inc. - Poultry, Fresh Meats & Magnolia	Anabu Hills Industrial Estate, Anabu I-C, Imus, Cavite
METS Logistics, Inc. - Purefoods-Hormel	Governor's Drive, Bo. Bancal, Carmona, Cavite
Rombe Philippines, Inc. - Fresh Meats and Purefoods-Hormel	Dampol 1st, Pulilan, Bulacan
Icon Reefer Corp. - Fresh Meats	F. Palmares St., Passi City, Iloilo
San Juan Reefer Van - Fresh Meats	San Juan, La Union
San Simon Products Corp. - Fresh Meats	San Simon, Pampanga
Jentec Storage, Inc. - Poultry, Fresh Meats and Magnolia	JG Building, Raymundo Ave., Brgy. Rosario, Pasig City; Luisita Industrial Park San Miguel Tarlac City; Pili, Camarines Sur; Brgy 99. Diit, Maharlika Highway, Tacloban City; Brgy. Maliao, Pavia, Iloilo; G. Ouano St., Brgy. Opao Mnadaue City; Purok 9 K. 20 Tibungco Davao City; Brgy. Agusan, Cagayan De Oro City
Everest Cold Storage, Inc. - Poultry & Fresh Meats	Sambag, Jaro, Iloilo City
St. Jude Slaughterhouse - Fresh Meats	Sta. Ana, Tagoloan, Misamis Oriental
ECA Resources, Inc. - Poultry	Tumblir, Polomolok, South Cotabato

Royal Cargo Combined Logistics Inc. - Purefoods-Hormel	Sta. Aqueda Ave., Pascor Drive, Parañaque City
UTS Logistics & Distribution Co., Inc. - Purefoods-Hormel	New Cavite Industrial Center, Stateland Subd., Brgy. Manggahan Gen. Trias, Cavite
PT Haga Jaya Kemasindo Sarana - San Miguel Pure Foods Indonesia	Graha Cempaka, Mas Block C-28, Jl. Letjend Suprato, Jakarta Pusat, Indonesia
Tiga Raksa Satria - San Miguel Pure Foods Indonesia	3rd Flr. Jl. Soekarno Hatta No. 606 Bandung, Indonesia
PT. Sewu Segar Nusantara - San Miguel Pure Foods Indonesia	Jl. Beringin Bendo Kawasan Industri Ragam II Kav. 8 RT 06/08 Taman Sepayang Surabaya, Indonesia
Cebu - San Miguel Integrated Sales	SMC-SL Compound, Ouano Wharf, Brgy. Looc, Mandaue City

These leases will expire in various years. The annual rentals of the Company and its subsidiaries for properties leased amounted to ₱990.9 million on an aggregate basis for 2013. The breakdown per business in terms of lease payment is shown below:

	Lease Payments (in Million ₱)
Poultry……………………..	322.5
Feeds……………………..	242.4
Fresh Meats……………....	107.0
Value-added Meats……...	198.1
Flour……………………..	9.5
Dairy, Spreads and Oils…	47.5
Others*……………………	63.9
Total………………………	**990.9**

**Includes the leases of the integrated sales group of the Company (SMIS) of ₱47.3 million for various sales offices and warehouses.*

CONDITION OF PROPERTIES

The properties owned and leased by the Company are in good condition, ordinary wear and tear excepted, and are free from liens and encumbrances. Currently, the Company has no pending property acquisitions. However, the Company is continuously evaluating available properties for sale based on the needs of the Company's business. All of the Company's existing lease contracts contain a provision that the contract is renewable upon agreement by the parties.

Legal Proceedings

San Miguel Pure Foods and its subsidiaries are parties to a variety of legal proceedings arising out of the ordinary course of business, including legal proceedings with respect to labor and other matters. San Miguel Pure Foods and its subsidiaries are vigorously prosecuting and defending all litigation, filed by and/or pending against them. While the results of litigation cannot be predicted with certainty, San Miguel Pure Foods believes that the final outcome of these proceedings will not have a material adverse effect on its financial condition or results of operations.

Ownership and Capitalization

Share Capital

As of December 31, 2014, the Company had a total of 166,667,096 Common Shares and 15,000,000 Preferred Shares issued and outstanding. Following the Offer and the redemption of the Outstanding Preferred Shares, the Company will have (i) 166,667,096 Common Shares and (ii) 10,000,000 Preferred Shares or 15,000,000 Preferred Shares if Oversubscription Option is availed, issued and outstanding.

Ownership Structure

As of December 31, 2014, 142,279,267 Common Shares comprising 85.37% of the Outstanding Common Shares of the Company are held by SMC. The total number of shares owned by the public is 24,341,671 Common Shares.

The equity ownership of Filipinos and foreigners as of December 31, 2014 is as follows:

COMMON SHARES		
	No. of Shares	Percentage
Filipino	156,589,151	93.95%
Non-Filipino (Foreign)	10,077,945	6.05%

PREFERRED SHARES		
	No. of Shares	Percentage
Filipino	14,961,960	99.75%
Non-Filipino (Foreign)	38,040	0.25%

TOTAL CAPITAL STOCK		
	No. of Shares	Percentage
Filipino	171,551,111	94.43%
Non-Filipino (Foreign)	10,115,985	5.57%

Top 20 Stockholders - Common Shares (par value of ₱10.00/share)

Listed below are the top 20 stockholders of the Common Shares of the Company as of December 31, 2014:

	Stockholder Name	**No. of shares subscribed and paid up**	**% to Total**
1	San Miguel Corporation	142,279,267	85.3673
2	PCD Nominee Corporation (Filipino)	14,213,001	8.5278
3	PCD Nominee Corporation (Non-Filipino)	10,074,229	6.0445
4	PFC ESOP/ESOWN Account	27,110	0.0162
5	Cecille Y. Ortigas	22,861	0.0137
6	Ramon L. Chua	7,714	0.0046

7	Jorge Ramos	6,924	0.0041
8	Ana Maria De Olondriz Ortigas	5,531	0.0033
9	Pacifico de Ocampo	4,324	0.0025
10	William Pendarvis	2,937	0.0017
11	Teodoro Quijano	1,413	0.0008
12	Principe P. Reyes	1,413	0.0008
13	Maxima A. Senga	1,305	0.0007
14	Francis Fernan	1,224	0.0007
15	Honesto B. Buendia	1,176	0.0007
16	Roseller A. Mendoza	1,000	0.0006
17	Jose Avellana	980	0.0005
18	Peter F. Metcalf	741	0.0004
19	Elsa Fernandez Beltran	717	0.0004
20	Josefa L. Sucgang	670	0.0004

Top 20 Stockholders - Preferred Shares (par value of ₽10.00/share)

Listed below are the top 20 stockholders of the Preferred Shares of the Company as of December 31, 2014:

	Stockholder Name	**No. of shares subscribed and paid up**	**% to Total**
1	PCD Nominee Corporation (Filipino)	14,470,549	96.4703
2	San Miguel Corporation Retirement Plan - FIP	100,000	0.6666
3	San Miguel Foods Inc. - Retirement Plan	54,835	0.3655
4	M.A. Jimenez Enterprises Inc.	50,000	0.3333
5	First Life Financial Co., Inc.	40,000	0.2666
6	PCD Nominee Corporation (Non-Filipino)	38,040	0.2536
7	Republic Glass Holdings Corporation	16,000	0.1066
8	Francisco S. Alejo III	10,000	0.0666
9	FLG Management and Development Corporation	10,000	0.0666
10	Gervel, Inc.	10,000	0.0666
11	Carolina N. Dionisio	8,000	0.0533

12	Enrique LL Yusingco	5,100	0.0340
13	MRL Cybertec Corporation	5,000	0.0333
14	Safeway Customs Brokerage, Inc.	5,000	0.0333
15	Daisy Que Lim &/or Lolita Que Lim	5,000	0.0333
16	Andronica T. Roma	5,000	0.0333
17	Alexander T. Solis &/or Gina Sinfuego	5,000	0.0333
18	Will Te Go &/or Anita Ong Go	5,000	0.0333
19	Jocelyn Chan Go &/or George Hao Go	5,000	0.0333
20	Luciano Q. Puno or Imelda V. Puno	5,000	0.0333

Market Price of and Dividends on San Miguel Pure Foods' Equities and Related Stockholder Matters

Market Information

The registrant's equities are principally traded at the Philippine Stock Exchange. The high and low sales prices for each period are indicated in the table below:

	Common Shares		Preferred Shares	
Period	**High**	**Low**	**High**	**Low**
2014				
1st Quarter	275.00	216.00	1,068.00	1,030.00
2nd Quarter	267.60	210.00	1,060.00	1,000.00
3rd Quarter	235.20	220.00	1,037.00	997.00
2013				
1st Quarter	314.60	239.80	1,045.00	1,010.00
2nd Quarter	309.40	210.00	1,080.00	1,040.00
3rd Quarter	251.00	200.00	1,072.00	1,020.00
4th Quarter	246.40	214.00	1,060.00	1,035.00
2012				
1st Quarter	1,450.00	801.00	1,050.00	1,020.00
2nd Quarter	No trade for	the period	1,040.00	1,016.00
3rd Quarter	950.00	850.00	1,030.00	1,005.00
4th Quarter	750.00	240.00	1,030.00	1,005.00

The total number of common and preferred stockholders as of December 31, 2014 was 129 and 228, respectively. The closing price as of January 26, 2014 was ₱207.00 for Common Shares and ₱1,010.00 for Preferred Shares.

Dividends and Dividend Policy

Dividends may be declared at the discretion of the Board and will depend upon San Miguel Pure Foods' future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations both at the parent and subsidiary level and other factors the Board may deem relevant.

Since March 30, 2010, the cash dividend policy of San Miguel Pure Foods has been to distribute cash dividends to the holders of the Common Shares in an amount equivalent to approximately 70% of the prior year's recurring net income. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. San Miguel Pure Foods expects that the dividend distributions shall be made over the four quarters of the year, subject to the applicable laws and regulations and based on the recommendation of the Board. In considering dividend declarations for each quarter, the Board has in the past and will in the future, take into consideration dividend payments on the Preferred Shares, and other factors, such as the implementation of business plans, debt service requirements, debt covenant restrictions, funding of new investments, major capital expenditure requirements, appropriate reserves and working capital, among others.

On March 26, 2014, the Company's Board of Directors declared a ₱48.00 per share special cash dividend to all common shareholders of record as of April 11, 2014 and payable on May 12, 2014.

Except as aforementioned, the Company has distributed dividends within the last three years and the nine months ended September 30, 2014.

TYPE	YEAR	RATE (₱/share)
Common	2011	3.00
	2012	4.80
	2013	4.80
	2014	50.40
Preferred	2011	60.00
	2012	80.00
	2013	80.00
	2014	60.00

The following are the Dividend Policies of its subsidiaries as provided in their respective By-laws:

San Miguel Foods, Inc.

The Board has discretion to declare out of the surplus profits dividends to the outstanding subscribed capital stock in such amounts and upon such dates as the Board may prescribe, subject to the provisions of law.

The Purefoods-Hormel Company, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings of the Corporation to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine, in accordance with law. The stockholders are empowered to take necessary or appropriate action to ensure that excess retained earnings of the Corporation are distributed as dividends, after replenishing prior capital deficits and establishing reserves as may be required by its operations, expansion spending, law, loan covenants, and internal debt-to-equity ratio limit.

San Miguel Mills, Inc.

Dividends shall be declared and paid out of the unrestricted retained earnings to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

Magnolia, Inc.

Dividends shall be declared only from the unrestricted retained earnings of the Corporation and shall be payable at such times, manner, and amount determined by the Board of Directors. Dividends shall not be declared if it will impair the capital of the Corporation.

The following are the dividends declared for the past three (3) years for each subsidiary:

Subsidiary	2011	2012	2013	Nine Months Ended September 30, 2014
SMFI*	999,795,336.80	-	-	999,700,000.00
SMMI	1,000,000,000.00	1,000,000,000.00	1,000,000,000.00	1,000,000,000.00
PF-Hormel**	270,000,000.00	600,000,000.00	900,000,000.00	600,000,000.00
Magnolia	-	-	-	700,000,000.00

Note:
* Excluding the 0.03% share of the minority shareholders.
** Excluding the 40% share of the minority shareholders.

Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

The Company has not issued any equity securities within the last three years.

Directors and Executive Officers

Board of Directors

The table below sets forth each member of the Board of Directors of San Miguel Pure Foods as of the date of this Prospectus. A vacancy in the Board exists with the resignation of Angelina S. Gutierrez from the Board effective as of October 8, 2014.

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.	79	Filipino	Chairman
Ramon S. Ang	60	Filipino	Director
Francisco S. Alejo III	66	Filipino	Director
Menardo R. Jimenez	81	Filipino	Director
Mario C. Garcia	63	Filipino	Director
Carmelo L. Santiago	71	Filipino	Independent Director
Silvestre H. Bello III	70	Filipino	Independent Director
Edgardo P. Cruz	75	Filipino	Independent Director

Eduardo M. Cojuangco, Jr., Filipino, 79, is the Chairman and a non-executive director of the Company, a position he has held since May 22, 2001, and Chairman of the Company's Executive Committee (since April 25, 2002). He is also Chairman and Chief Executive Officer of San Miguel Corporation and Ginebra San Miguel, Inc. He is likewise the Chairman of ECJ and Sons Agricultural Enterprises, Inc. and the Eduardo Cojuangco, Jr. Foundation, Inc.; and a Director of Caiñaman Farms, Inc. and Petron Corporation. He was previously Director of Manila Electric Company (February 2009 to May 2009). Mr. Cojuangco attended the College of Agriculture, University of the Philippines, as well as California Polytechnic College in San Luis Obispo, U.S.A. Among others, he was conferred the Degree of Doctor of Economics *Honoris Causa* by the University of Mindanao and the Degree of Doctor of Agri-Business *Honoris Causa* by the Tarlac College of Agriculture.

Ramon S. Ang, Filipino, 60, is the Vice Chairman of the Company, a position he has held since May 13, 2011. He has been a Director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002) and Executive Compensation Committee (since November 7, 2013). He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of San Miguel Corporation; Chairman of San Miguel Brewery Inc., San Miguel Properties, Inc., San Miguel Yamamura Packaging Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Anchor Insurance Brokerage Corporation, San Miguel Brewery Hong Kong Limited and San Miguel Energy Corporation; and a Director of Ginebra San Miguel, Inc. and Top Frontier Investment Holdings Inc. He is also the Chairman and Chief Executive Officer of Petron Corporation and SMC Global Power Holdings Corp.; Chairman of Liberty Telecoms Holdings Inc., Philippine Diamond Hotel & Resort, Inc., Philippine Oriental Realty Development, Inc. and Atea Tierra Corporation. Mr. Ang holds a Bachelor's Degree in Mechanical Engineering from Far Eastern University.

Francisco S. Alejo III, Filipino, 66, is the President of the Company, a position he has held since May 20, 2005. He has been a Director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002) and Nominations and Hearing Committee (since May 20, 2005). He also holds the following positions: Chairman and President of Realsnacks Mfg. Corp.; Chairman of Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Hormel (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., and Philippine Prime Meat Marketing Corporation; Vice Chairman of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc., and Magnolia Inc.; Director of San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International, Limited (BVI); and President Commissioner of PT San Miguel Pure Foods Indonesia. Mr. Alejo holds a Bachelor's

Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

Menardo R. Jimenez, Filipino, 81, has been a Director of the Company since April 25, 2002. He is Chairman of the Company's Executive Compensation Committee (since May 12, 2006), and member of its Audit Committee (since June 27, 2008) and Nominations and Hearing Committee (since November 7, 2013). He is also a Director of San Miguel Corporation and Magnolia Inc. He likewise holds the following positions: Chairman and President of Majent Management and Development Corporation; Chairman of United Coconut Planters Bank and Meedson Properties Corporation; President and Chief Executive Officer of Albay-Agro Industrial Development Corporation; and a Director of Mabuhay Philippines Satellite Corporation, CBTL Holdings, Inc. and Pan-Phil Aqua Culture Corporation. Mr. Jimenez holds a Bachelor's Degree in Commerce from Far Eastern University and is a Certified Public Accountant. Among others, he was conferred Doctorates in Business Management *Honoris Causa* by University of Pangasinan and Pamantasan Ng Lungsod ng Maynila.

Mario C. Garcia, Filipino, 63, has been a Director of the Company since November 4, 2009. He is also a Director of San Miguel Properties, Inc.; Member of Board of Advisers of Freeport Service Corporation, International Reporters and Editors Association, USA; and Consultant of Radio Affairs, *Pulis Ng Bayan* (PNP). He was a former TV Host of *Kapihan Ng Bayan*, NBN-4 and *Comentaryo*, NBN-4, a Radio Host/Anchorman of *Uno Por Dos*, PBS *Radyo Ng Bayan*, Interim National President of KBP Society of Broadcast Journalists; and Director of the Subic Bay Metropolitan Authority. He was previously a Director and Vice Chairman of Quezon City Red Cross, Vice President for Programming and Operations and Station Manager of Radio Veritas. Mr. Garcia holds a Bachelor's Degree in Journalism from Lyceum of the Philippines.

Carmelo L. Santiago, Filipino, 71, has been an Independent Director of the Company since August 12, 2010. He is the Chairman of the Company's Nominations and Hearing Committee (since May 13, 2011) and Audit Committee (since November 7, 2013), and a member of the Company's Executive Compensation Committee (since June 27, 2008). He is an Independent Director of San Miguel Brewery Inc. and Liberty Telecoms Holdings, Inc.; and Director of Terbo Concept, Inc. He is also an Independent Non-Executive Director of San Miguel Brewery Hong Kong Limited. He was previously Independent Director of San Miguel Corporation, Ginebra San Miguel Inc., Anchor Insurance Brokerage Corporation and San Miguel Properties, Inc. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and the founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from University of the East.

Silvestre H. Bello III, Filipino, 70, has been an Independent Director of the Company since May 10, 2013. He was elected Representative of the Party List 1 BAP during the national elections held in May 2013. He is a Director of College Assurance Plan, Comprehensive Annuity Plan & Pension Corp., CAP Life Insurance Corp., CAP General Insurance Corp., Camp John Hay Development Corporation and CAP Realty, Inc. Atty. Bello is a Partner at Yulo Carpio & Bello Law Offices. He was previously Director of San Miguel Corporation (October 2006 to July 2009) and Red Eagle Lending Investors Corp. (2009). Atty. Bello also served as Secretary to the Cabinet, Office of the President from July 2008 to February 2010, and was Presidential Adviser for New Government Centers from July 2007 to July 2008. Mr. Bello holds a Bachelor of Arts Degree in Political Science from Manuel L. Quezon University and a Bachelor of Laws Degree from Ateneo de Manila University College of Law.

Edgardo P. Cruz, Filipino, 75, has been an Independent Director of San Miguel Pure Foods and a member of the Audit Committee since November 7, 2013. He is also an independent director of San Miguel Properties, Inc. He is a professorial lecturer at the Pamantasan ng Lungsod ng Maynila, Graduate School of Law (since June 2009) and Philippine Christian University College of Law (since November 2010), and a Member of the Philippine Judicial Academy, Department of Ethics and Judicial Conduct (since April 2004), a Member of the Board of Trustees, Society for Judicial Excellence (since April 2007), and a Member of the Screening Committee of the Awards for Judicial Excellence Foundation for Judicial Excellence (since 2010). He was previously a Consultant at the Philippine Amusement and Gaming Corporation (from July 2009 to June 2010) and an Associate Justice of the Court of Appeals (from May 1999 to May 2009). Justice Cruz holds a Bachelor of Laws Degree from University of the Philippines.

Senior Management

The table below sets forth San Miguel Pure Foods' executive officers as of the date of this Prospectus.

Name	Age	Citizenship	Position
Francisco S. Alejo III	66	Filipino	President
Zenaida M. Postrado	59	Filipino	Treasurer, Vice President and Chief Finance Officer
Ma. Soledad E. Olives	55	Filipino	Compliance Officer, Vice President and Corporate Planning and Management Services Group Manager
Jennifer T. Tan	52	Filipino	Vice President and BPG Head
Rodolfo M. Abaya	52	Filipino	Vice President and Division Human Resources Manager
Rita Imelda B. Palabyab	55	Filipino	President, San Miguel Foods, Inc.
Florentino C. Policarpio	64	Filipino	President, San Miguel Mills, Inc.
Raul B. Nazareno	59	Filipino	President, The Purefoods-Hormel Company, Inc.
Oscar R. Sañez	57	Filipino	Vice President, International Operations
Alexandra Bengson Trillana	41	Filipino	Corporate Secretary, Assistant Vice President and General Counsel

Francisco S. Alejo III, Filipino, 66, is the President of the Company, a position he has held since May 20, 2005. He has been a Director of the Company since May 22, 2001 and a member of the Company's Executive Committee (since April 25, 2002) and Nominations and Hearing Committee (since May 20, 2005). He also holds the following positions: Chairman and President of Realsnacks Mfg. Corp.; Chairman of Sugarland Corporation, Golden Food & Dairy Creamery Corporation, San Miguel Hormel (Vn) Co., Ltd., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., and Philippine Prime Meat Marketing Corporation; Vice Chairman of San Miguel Foods, Inc., San Miguel Mills, Inc., The Purefoods-Hormel Company, Inc., and Magnolia Inc.; Director of San Miguel Super Coffeemix Co., Inc., San Miguel Foods & Beverage International Limited (BVI), San Miguel Pure Foods Investment (BVI) Ltd. and San Miguel Pure Foods International, Limited (BVI); and President Commissioner of PT San Miguel Pure Foods Indonesia. Mr. Alejo holds a Bachelor's Degree in Business Administration from De La Salle University, and is a graduate of the Advanced Management Program of Harvard Business School.

Zenaida M. Postrado, Filipino, 59, is the Treasurer, Vice President and Chief Finance Officer of the Company (since May 2005). She also holds the following positions: Director and Treasurer of The Purefoods-Hormel Company, Inc., San Miguel Mills, Inc., Golden Bay Grain Terminal Corporation, Golden Avenue Corp., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, Realsnacks Mfg. Corp. and Philippine Prime Meat Marketing Corporation; Treasurer of San Miguel Foods, Inc., Magnolia Inc. and San Miguel Super Coffeemix Co., Inc.; and Commissioner of PT San Miguel Pure Foods Indonesia. Before joining the Company, Ms. Postrado was an auditor at SGV & Co. Ms. Postrado holds a Bachelor's Degree in Business Administration Major in Accountancy from University of the East.

Ma. Soledad E. Olives, Filipino, 55, is the Compliance Officer of the Company (since September 15, 2010). She is also Vice President and Corporate Planning & Management Services Group Manager of the Company; Director of The Purefoods-Hormel Company, Inc., San Miguel Mills, Inc., Golden Avenue Corp., Golden Food & Dairy Creamery Corporation, Sugarland Corporation, Realsnacks Mfg. Corp. and Philippine Prime Meat Marketing Corporation; and Commissioner of PT San Miguel Pure Foods Indonesia. She was a former Director of PT San Miguel Pure Foods Indonesia (from November 4, 2008 to November 19, 2009); and was previously Assistant Vice President and Planning, Projects & Management Group Services Manager of the Company (from May 16, 2005 to March 29, 2010). Ms. Olives holds a Bachelor's Degree in Industrial Management Engineering, minor in

Chemical Engineering, from De La Salle University, and completed the Management Development Program at Asian Institute of Management.

Jennifer T. Tan, Filipino, 52, is the Vice President and Business Procurement Group Head of the Company. She was previously Vice President and Senior Procurement Manager of the Company (from April 2008 to May 2012) and Assistant Vice President and Senior Procurement Manager of the Corporate Procurement Unit attached to the Office of the President and Chief Operating Officer of San Miguel Corporation (from November 2003 to March 2008). Ms. Tan holds a Bachelor's Degree in Commerce Major in Accounting from College of the Holy Spirit.

Rodolfo M. Abaya, Filipino, 52, is the Vice President and Division Human Resources Manager of the Company. Mr. Abaya joined the Company on September 1, 2014. Prior thereto, he held various HR positions in Procter & Gamble Philippines from 1987 to 2007 the last of which being P&G Global Business Services Asia HR Associate Director. He was also HR Partner Leader and Project Executive, Country HR Operations of IBM Global Process Services (from 2011 to 2014) and HR Leader of Concentrix Philippines (from February to July 2014). Mr. Abaya holds a Bachelor of Arts Degree in Economics from University of the Philippines.

Rita Imelda B. Palabyab, Filipino, 55, is the President of San Miguel Foods, Inc. and Head of the Agro-industrial and franchising business of the Company, which comprises the poultry, fresh meats and feeds businesses of San Miguel Foods, Inc. She is also Director of Golden Bay Grain Terminal Corporation. She was previously General Manager of San Miguel Foods, Inc.'s Poultry Business (from April 2004 to January 2010). Ms. Palabyab holds a Bachelor's Degree in Mathematics from University of the Philippines.

Florentino C. Policarpio, Filipino, 64, is the President and General Manager of San Miguel Mills, Inc. He is also the President of Golden Bay Grain Terminal Corporation and Golden Avenue Corp. He was previously General Manager of San Miguel Foods, Inc.'s Flour Business (2002-2005) and Group Manager of the Purchasing Department of the Company. Mr. Policarpio holds a Bachelor of Arts Degree Major in Economics and a Bachelor of Science Degree Major in Accountancy from De La Salle University.

Raul B. Nazareno, Filipino, 59, is the President of The Purefoods-Hormel Company, Inc., Magnolia, Inc., San Miguel Super Coffemix Co., Inc., Golden Food & Dairy Creamery Corporation and Sugarland Corporation. He is also Director of PT San Miguel Pure Foods Indonesia. He was previously General Manager of The Purefoods- Hormel Company, Inc. (from May 2010 to July 2012) and the President of the Philippine operations of Burger King. Mr. Nazareno holds a Bachelor's Degree in Agribusiness Management from University of the Philippines and a Master's Degree in Business Management from Asian Institute of Management.

Oscar R. Sañez, Filipino, 57, is the Vice President and head of the foreign operations and export business of the Company. He is Director of PT San Miguel Pure Foods Indonesia and San Miguel Hormel (Vn) Co., Ltd. He was previously President and Chief Executive Officer of the Business Process Association of the Philippines (from February 2007 to February 2011). Mr. Sañez holds a Bachelor's Degree in Business Administration Major in Marketing Management from University of the Philippines.

Alexandra Bengson Trillana, Filipino, 41, is the Corporate Secretary of the Company (since September 15, 2010). She is also Assistant Vice President and General Counsel of the Company; and Corporate Secretary of San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia, Inc., The Purefoods-Hormel Company, Inc., San Miguel Super Coffeemix Co., Inc., Sugarland Corporation, Golden Food & Dairy Creamery Corporation, Golden Bay Grain Terminal Corporation, Golden Avenue Corp., Realsnacks Mfg. Corp. and Philippine Prime Meat Marketing Corporation. She was previously Assistant Corporate Secretary of the Company (from April 26, 2004 to September 14, 2010); and Senior Manager - Commercial Transactions of San Miguel Corporation's Office of the General Counsel (from August 2005 to December 2009). Atty. Trillana holds a Bachelor's Degree in Commerce Major in Legal Management from De La Salle University and a Juris Doctor Degree from Ateneo de Manila University School of Law.

Board Committees

Executive Committee

The Executive Committee of San Miguel Pure Foods is currently composed of three Directors, which include the Chairman of the Board of Directors and the President. Mr. Eduardo M. Cojuangco, Jr. is the Chairman of the Executive Committee and the members are Mr. Ramon S. Ang and Mr. Francisco S. Alejo III. Justice Angelina S. Gutierrez sat in this Committee until her resignation from the Board effective October 8, 2014.

The Executive Committee is tasked to help and assist the officers of San Miguel Pure Foods in the management and direction of the affairs of San Miguel Pure Foods. The Board of Directors may delegate to the Executive Committee its powers, authority and duties, except as specifically limited by law.

Audit Committee

The Audit Committee of San Miguel Pure Foods is currently composed of five Directors, including two Independent Directors. Mr. Carmelo L. Santiago is the Chairman of the Audit Committee. The members are Mr. Menardo R. Jimenez, Justice Edgardo P. Cruz and Mr. Ferdinand K. Constantino as non-director member. Justice Angelina S. Gutierrez sat in this Committee until her resignation from the Board effective October 8, 2014.

The Audit Committee is responsible for assisting the Board of Directors in the performance of its oversight responsibility for financial reports and financial reporting process, internal control system, audit process and in monitoring and facilitating compliance with both the internal and financial management handbook and pertinent accounting standards, legal and regulatory requirements. It performs financial oversight management functions, specifically in the areas of managing credit, markets liquidity, operational, legal and other risks of San Miguel Pure Foods, and crisis management.

Nomination and Hearing Committee

The Nomination and Hearing Committee of San Miguel Pure Foods is composed of three voting directors and one non-voting member in the person of Ms. Ma. Cristina M. Menorca, SMC's Human Resources Head. Two voting directors, namely, Mr. Menardo R. Jimenez and Mr. Francisco S. Alejo III are presently members of this Committee. Independent Director Carmelo L. Santiago is the Chairman of the Committee.

The Nomination and Hearing Committee is responsible for making recommendations to the Board of Directors on matters relating to the Directors' appointment, election and succession, with the view of appointing individuals to the Board of Directors with the relevant experience and capabilities to maintain and improve the competitiveness of San Miguel Pure Foods and increase its value. It pre-screens and shortlists all nominees in accordance with the qualifications and disqualifications for Directors set out in the Manual.

Executive Compensation Committee

The Executive Compensation Committee of San Miguel Pure Foods is composed of four members, including Mr. Menardo R. Jimenez, Mr. Carmelo L. Santiago, Mr. Ramon S. Ang and Mr. Ferdinand K. Constantino as non-director member. Mr. Menardo R. Jimenez is the Chairman of the Committee.

The Executive Compensation Committee is responsible for advising and assisting the Board of Directors in the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of San Miguel Pure Foods' officers and Directors, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with San Miguel Pure Foods' culture, strategy and control environment. It designates the amount of remuneration, which shall be in a sufficient level to attract and retain Directors and officers who are needed to run San Miguel Pure Foods successfully.

Corporate Governance

San Miguel Pure Foods recognizes that good governance helps the business to deliver strategy, generate and sustain shareholder value and safeguard shareholders' rights and interests. The Company's Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

The Company's Board of Directors, led by its Chairman, Eduardo M. Cojuangco, Jr., believes in conducting its business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

Manual on Corporate Governance

The Manual on Corporate Governance (the "Manual") of San Miguel Pure Foods was first approved by the Board of Directors on August 16, 2002. The monitoring of the implementation of the evaluation system of San Miguel Pure Foods to measure and determine the level of compliance of the Board of Directors and top level management with the Manual is vested by the Board of Directors in the Compliance Officer.

Compliance and Monitoring System

To ensure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer for the Company, Ms. Ma. Soleded E. Olives. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of its Manual and the rules and regulations of the relevant regulatory agencies. The Compliance Officer holds the position of Vice President and has direct reporting responsibilities to the Chairman of the Board.

Amendments to the Company's Manual were approved by the Board on March 30, 2010 and August 12, 2011, in compliance with the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, Series of 2009.

On March 26, 2014, the Board of Directors approved further amendments to the Manual to align with recent SEC Memorandum Circulars issued, particularly SEC Memorandum Circular No. 1, series of 2014, SEC Memorandum Circular No. 20, series of 2013, and SEC Memorandum Circular No. 5, series of 2013. The said Manual, as amended, is uploaded in the Company's corporate website.

In August 2012, the Board approved the adoption by the Audit Committee, Nomination and Hearing Committee and Executive Compensation Committee, of their respective Charters, as reviewed and endorsed by each Committee. The Charters each outline the purpose, membership and qualifications, structure and operations, duties and responsibilities, reporting process and performance evaluation of the Audit Committee, Nomination and Hearing Committee and Executive Compensation Committee, as the case may be, and the procedures which shall guide the conduct of its functions, to ensure adherence by the Company to the best practices of good corporate governance. The full texts of said Charters may be viewed at the Company's corporate website.

On November 15, 2013, during the 12th Annual Working Session of the Institute of Corporate Directors with the theme "Mastering the ASEAN Corporate Governance Scorecard", the Company was recognized among the top 50 corporate governance practitioners in the Philippines.

The Company was a Silver Awardee in the 2011 Philippine Corporate Governance Scorecard process, with an average score of 92.28%, an improvement from its average score of 90.7% in the previous year.

In November 2012, SMC completed the secondary offering of a portion of its Common Shares in the Company following the crossing of the shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 Common Shares, inclusive of an over-allotment of 2,500,000 Common Shares, at a price of ₱240.00 per share. The completion of the secondary offering resulted in the increase of the Company's public float to more than 10%, in compliance with the minimum public ownership requirement of the PSE for listed companies.

In July 2013, the Company submitted to the SEC its first Annual Corporate Governance Report (ACGR) for the period ended December 31, 2012. The ACGR is for the purpose of meeting the requirements of the Revised Code of Corporate Governance, which the Company has adopted in its Manual, in compliance with SEC directives. The ACGR, signed under oath by the Chairman of the Board, President, Compliance Officer and two independent directors of the Company, is available for viewing and download at the Company's corporate website.

From time to time as necessary or appropriate, the Company has updated and will continue to update its ACGR with relevant information reported throughout the year in its Current Reports (SEC Form 17-C) and other letters filed with the SEC. All updates to the ACGR are posted in San Miguel Pure Foods' corporate website, for the guidance of the investing public.

Further, the Company, together with SMC and its other listed subsidiaries, regularly organizes a seminar or program on Corporate Governance for directors and key officers, in accordance with SEC regulations, the last of which was held in September 2014.

Pursuant to its commitment to good governance and business practice, San Miguel Pure Foods continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders.

Investor Relations

SMC has a Corporate Affairs Office, which has a Media Affairs Group that handles communication with media for the entire San Miguel Group. SMC likewise has an Investor Relations unit under the Office of the Chief Finance Officer, which handles regular communications with institutional investors for the entire San Miguel Group.

San Miguel Pure Foods' Corporate Planning and Management Services Group likewise exercises a Communications function, and has an Investor Relations team, which reviews and clears Company announcements up to the level of the President, before these are released. Major announcements, investor briefings and press releases are issued in coordination with SMC's Corporate Affairs Office, Investor Relations unit and Office of the President.

San Miguel Pure Foods' investor relations program is aligned with SMC's and aims to effectively communicate the Company's performance and plans to the capital market, as well as develop a long term relationship of trust with stakeholders, using the discipline in finance, communication and marketing, and manage the content and flow of the group's information and disclosures to the financial markets.

In addition to being the Compliance Officer of the Company, Ms. Ma. Soledad E. Olives is the Head of the Company's Investor Relations team. Her contact details are as follows:

Address	:	San Miguel Pure Foods Investor Relations 23rd Floor, The JMT Corporate Condominium ADB Avenue, Ortigas Center, Pasig City
Telephone	:	(632) 702-5000
Email	:	msolives@smg.sanmiguel.com.ph

The Company also communicates to its investors through quarterly briefings. Invitations to such briefings are disclosed through the PSE EDGE at least three trading days before the date of the briefing, and the materials on such briefings are disclosed through the PSE EDGE even while the briefings are ongoing. All interested persons may attend these briefings.

The Company keeps shareholders further informed through other timely disclosures via the PSE, filings with the SEC, Annual Reports, stockholder meetings, press releases and statements, its corporate website, emails and telephone calls. All disclosures and filings to the regulatory authorities are cleared by the Company's Chief Finance Officer and/or General Counsel and Corporate Secretary.

The Company's disclosures and other filings with the SEC and PSE, as well as Annual Reports and quarterly newsletters, are available for download from the Company's website.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

Involvement in Certain Legal Proceedings

For the past five years and up to the date of this Prospectus, the Company is not aware that anyone of the incumbent directors and executive officers have been the subject of bankruptcy petitions or pending criminal proceedings in court or have been by judgment or decree found to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities.

Compensation of Directors and Executive Officers

Standard Arrangements

San Miguel Pure Foods' Executive Officers are also regular employees of the Company and are similarly remunerated with a compensation package comprising of twelve (12) months base pay. They also receive whatever bonus the Board extends to the managerial, supervisory and technical employees of the Company.

The members of the Board of Directors who are not Executive Officers are elected for a term of one year. They receive per diems in the amount of ₱10,000.00 on a per meeting participation.

The aggregate compensation paid or incurred during the last two fiscal years and the estimate for the ensuing year are as follows (in Philippine Pesos):

NAME	YEAR	SALARY ₱	BONUS ₱	OTHERS ₱	TOTAL ₱
Total Compensation of the President (Francisco S. Alejo III) and Senior Executive Officers (Zenaida M. Postrado, Florentino C. Policarpio, Rita Imelda B. Palabyab and Ma. Soledad E. Olives)	2014 (estimated)	57.2 Million	5.9 Million	4.2 Million	67.3 Million
	2013	56.2 Million	8.8 Million	4.1 Million	69.1 Million
	2012	50.8 Million	16.4 Million	7.9 Million	75.1 Million
All other officers and directors as a group unnamed	2014 (estimated)	178.5 Million	65.2 Million	47.2 Million	290.9 Million
	2013	157.1 Million	40.9 Million	46.0 Million	244.0 Million
	2012	165.7 Million	55.9 Million	47.3 Million	268.9 Million

NAME	YEAR	SALARY ₱	BONUS ₱	OTHERS ₱	TOTAL ₱
TOTAL	2014 (estimated)	235.7 Million	71.1 Million	51.4 Million	358.2 Million
	2013	213.3 Million	49.7 Million	50.1 Million	313.1 Million
	2012	216.5 Million	72.3 Million	55.2 Million	344.0 Million

There are no compensatory plans or arrangements for Executive Officers resulting from resignation and other termination of employment with the Company or from a change in control of the Company or a change in an Executive Officer's responsibilities following a change in control of the Company.

Other Arrangements

There are no other arrangements for which the Directors are compensated by the Company for services other than those provided as a Director.

Employment Contract

In lieu of an employment contract, the Directors are elected at the annual meeting of stockholders for a one (1) year term. Any Director elected in the interim will serve for the remaining term until the next annual meeting.

Warrants or Options

There are no warrants or options held by Directors or Officers.

Security Ownership of Management and Certain Record and Beneficial Owners

Owners of record of more than 5% of the Company's voting[1] securities as of December 31, 2014 are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent %
Common	San Miguel Corporation SMC Head Office Complex 40 San Miguel Avenue, Mandaluyong City 1550, parent company of issuer	San Miguel Corporation	Filipino	142,279,267	85.3673

[1] *The holders of common shares have the right to vote on all matters requiring stockholders' approval. The holders of preferred shares shall not be entitled to vote except in matters provided for in the Corporation Code: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation; investment of corporate funds in another corporation or business; and dissolution.*

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent %
Common	PCD Nominee Corporation[2] 37th Floor, Tower One, Enterprise Center Ayala Ave. corner Paseo de Roxas Ave., Makati City, no relation to issuer	Various[3]	Filipino	14,213,001	8.5278
Common	PCD Nominee Corporation[4] 37th Floor, Tower One, Enterprise Center Ayala Ave. corner Paseo de Roxas Ave., Makati City, no relation to issuer	Various[5]	Non-Filipino	10,074,229	6.0445

The following are the number of shares of the Company's capital stock, all of which are voting shares with the exception of the Preferred Shares, owned of record by the directors and key officers of the Company as of December 31, 2014:

Title of Class	**Name of Owner**	**Amount and Nature of Ownership**	**Citizenship**	**Total No. of Shares**
Common	Eduardo M. Cojuangco, Jr.	1 (Direct)	Filipino	5,501 (0.00%)
Preferred		5,500 (Beneficial)		
Common	Ramon S. Ang	1 (Direct)	Filipino	1 (0.00%)
Common	Francisco S. Alejo III	43,001 (Direct)	Filipino	53,001 (0.03%)
Preferred		10,000 (Direct)		
Common	Menardo R. Jimenez	1 (Direct)	Filipino	1 (0.00%)
Common	Edgardo P. Cruz	1 (Direct)	Filipino	1 (0.00%)
Common	Mario C. Garcia	1 (Direct)	Filipino	1 (0.00%)
Common	Carmelo L. Santiago	1 (Direct)	Filipino	1 (0.00%)
Common	Silvestre H. Bello III	1 (Direct)	Filipino	1 (0.00%)
Preferred	Zenaida M. Postrado	7,000 (Beneficial)	Filipino	7,000 (0.00%)
Preferred	Ma. Soledad E. Olives	3,400 (Beneficial)	Filipino	3,400 (0.00%)
Preferred	Alexandra Bengson Trillana	500 (Beneficial)	Filipino	500 (0.00%)

The aggregate number of shares owned of record by the Chairman, President, key officers and directors as a group as of December 31, 2014 is 69,408 shares or approximately 0.0382% of the Company's Outstanding Capital Stock.

The aggregate number of shares owned by all officers and directors as a group as of December 31, 2014 is 76,458 shares or approximately 0.0421% of the Company's Outstanding Capital Stock.

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[2] Registered owner of shares held by participants in the Philippine Central Depository, Inc., a private company organized to implement an automated book entry of handling securities in the Philippines.
[3] None of the holders of the Company's common or preferred shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's shares.
[4] Registered owner of shares held by participants in the Philippine Central Depository, Inc., a private company organized to implement an automated book entry of handling securities in the Philippines.
[5] None of the holders of the Company's common or preferred shares registered under the name of PCD Nominee Corporation owns more than 5% of the Company's shares.

The foregoing beneficial or record owners have no right to acquire additional shares within thirty (30) days, from options, warrants, conversion privileges or similar obligations or otherwise.

Voting Trust Holders of 5% or more

None of the directors and officers owns 5% or more of the Outstanding Capital Stock of the Company. No person holds 5% or more of the Company's Outstanding Shares under voting trust agreement.

Changes in Control

There is no provision in the Company's Articles of Incorporation and By-laws which would delay, deter or prevent a change in control of the Company. There are no existing arrangements to which the Company is a party or which are otherwise known to the Company that may result in a change in control of the Company.

Certain Relationships and Related Transactions

Principal Shareholder

San Miguel Corporation ("SMC") is a corporation organized and existing under the laws of the Republic of the Philippines, with registered principal office address at No. 40 San Miguel Avenue, Mandaluyong City. SMC is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the PSE. SMC, together with its subsidiaries (the "SMC Group"), is the largest publicly listed food, beverage and packaging company in Southeast Asia. The SMC Group is also engaged in the management and development of real estate properties.

Established in 1890, La Fabrica de Cerveza de San Miguel, Southeast Asia's first brewery, produced and bottled what would eventually become one of the bestselling beers in the region. Within the span of a generation, San Miguel Beer had become an icon among beer drinkers.

Today, San Miguel Beer, SMC's flagship product, is one of the largest selling beers and among the top ten beer brands in the world. While brewing beer is SMC's heritage, the SMC Group has subsequently branched out into the food and packaging businesses.

Over recent decades, the SMC Group has diversified to produce a wide range of popular beverage, food and packaging products, which continue to cater to consumers' ever changing tastes.

The SMC Group's manufacturing and trading operations extend beyond the Philippines to Hong Kong, China, Indonesia, Vietnam, Thailand, Malaysia and Australia, and its products are exported to major markets around the world.

In the Philippines, the SMC Group's corporate strategy is aimed at capitalizing on new growth markets through acquisitions and further enhancing its competitive position by improving synergies across existing operational lines, shifting its focus from commodity goods to value-added and branded products to strengthen its domestic food business and improving its sales and distribution operations.

Following approval by its shareholders in 2007, SMC has diversified from its traditional core businesses and has since made investments in industries such as power, energy, telecommunications, mining and infrastructure.

The SMC Group is one of the Philippines' largest and most diversified conglomerates. In 2013, sales revenue of the San Miguel Group accounted for approximately 6.5% of the Philippine gross domestic product (GDP).

Related Party Transactions

San Miguel Pure Foods engages from time to time in a variety of transactions with related parties. Certain of these related party transactions are described below:

- The Company transferred to San Miguel Foods, Inc. ("SMFI"), a 99.97%-owned subsidiary of the Company, its franchising and foodservice businesses under its operating division, Great Food Solutions ("GFS"), in February and April 2012, respectively, for a total consideration of ₱ 303.0 million. Following the transfer to SMFI of GFS, San Miguel Pure Foods also transferred to SMFI the corresponding defined benefit retirement obligation and plan assets covering all employees previously under the Company's retirement plan. As such, as of December 31, 2013, the Company has no funded, non-contributory, defined benefit retirement plan.

- On December 28, 2004, SMC and Monterey Foods Corporation ("Monterey") executed a Trademark Licensing Agreement ("Agreement") with The Purefoods-Hormel Company, Inc. ("PF-Hormel") to license the *Monterey* trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the *Monterey* trademark. As a result of the merger of Monterey into SMFI effective September 1, 2010, with SMFI as the surviving corporation, all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI.

- In July 2010, SMC and San Miguel Pure Foods entered into an Intellectual Property Rights Transfer Agreement ("Agreement") for the transfer to San Miguel Pure Foods of SMC's food-related brands and intellectual property rights at a purchase price of ₽3.200.0 million. Pursuant to the terms of the Agreement, 10% of the purchase price was paid in July 2010 and the balance shall be payable: (i) upon change in controlling interest of San Miguel Pure Foods to any third person other than an affiliate, or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year PDST-F plus an agreed margin after one year, whichever comes first. In March 2011, San Miguel Pure Foods paid SMC the remaining 90% balance of the purchase price.

- In September 2013, San Miguel Pure Foods, together with SMC and SMC Global Power Holdings Corp., entered into a Share Purchase Agreement with JG Summit Holdings, Inc. for the sale of the Company's 59,090,909 shares of stock in Meralco for ₽13,886.4 million. Certain closing conditions covering the sale were satisfied by all of the parties in December 2013. A gain of ₽390.7 million was recognized by San Miguel Pure Foods and this is included as part of "Gain on sale of investment and property and equipment" account in the 2013 consolidated statement of income. In March 2014, San Miguel Pure Foods received the proceeds from the sale of Meralco shares.

San Miguel Pure Foods does not have transactions with its directors, executive officers, or any principal stockholders (owning at least 10% of the total Outstanding Shares of the Company) that are not in the regular course of business of the Company. There have been no complaints, disputes or problems regarding related party transactions of the Company. There were no related party transactions that can be classified as financial assistance granted by the Company to subsidiary or affiliate entities. The Company observes an arm's length policy in its dealings with related parties.

For further information on San Miguel Pure Foods' related party transactions, see Note 29 of San Miguel Pure Foods' audited consolidated financial statements as of and for the years ended December 31, 2011, 2012, and 2013 and Note 7 of its condensed consolidated interim financial statements as of and for the nine months ended September 30, 2014, contained elsewhere in this Prospectus.

Selected Financial Information and Other Data

Prospective investors should read the selected financial information presented below in conjunction with San Miguel Pure Foods' consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this Prospectus. Prospective investors should also read "Management's Discussion and Analysis of Financial Condition and Results of Operations".

San Miguel Pure Foods' selected financial and operating information presented below as of and for the years ended December 31, 2011, 2012 and 2013 were derived from San Miguel Pure Foods' consolidated financial statements, audited by R.G. Manabat & Co., a member firm of KPMG, and prepared in compliance with PFRS. San Miguel Pure Foods' summary of financial and operating information presented below as of and for the nine months ended September 30, 2013 and 2014 were derived from the condensed consolidated interim financial statements of San Miguel Pure Foods prepared in accordance with PAS 34, "Interim Financial Reporting" and reviewed by R.G. Manabat & Co. in accordance with PSRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

San Miguel Pure Foods' consolidated financial statements are reported in Pesos and are presented in accordance with PFRS.

The information below is not indicative of the results of future operations.

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2011[(1)]	2012[(1)]	2013	2013	2014
	₱	₱	₱	₱	₱
	(Audited)			(Unaudited)	
	(in thousands except per share figures or where otherwise indicated)				
Consolidated Statements of Income Data					
Revenues	89,591,080	95,787,365	99,772,930	71,412,982	74,415,441
Cost of sales	73,417,057	77,949,732	79,584,594	58,184,227	60,068,840
Gross profit	16,174,023	17,837,633	20,188,336	13,228,755	14,346,601
Selling and administrative expenses	(10,093,711)	(12,660,333)	(14,678,339)	(9,562,166)	(10,019,308)
Interest expense and other financing charges	(530,972)	(574,898)	(549,606)	(431,738)	(313,104)
Interest income	393,572	148,518	58,918	65,649	92,135
Equity in net earnings of an associate	270,478	884,884	714,946	714,946	-
Gain on sale of investment and property and equipment	6,708	115,097	394,579	3,982	95
Other income (charges) - net	(323,696)	56,800	(532,796)	(336,790)	(161,708)
Income before income tax	5,896,402	5,807,701	5,596,038	3,682,638	3,944,711
Income tax expense	1,725,794	1,545,135	1,512,203	990,259	1,222,227
Net income	4,170,608	4,262,566	4,083,835	2,692,379	2,722,484
Attributable to:					
Equity holders of the Parent Company	4,060,557	4,171,984	4,096,989	2,745,825	2,689,099
Non-controlling Interests	110,051	90,582	(13,154)	(53,446)	33,385
	4,170,608	4,262,566	4,083,835	2,692,379	2,722,484
Basic and diluted earnings per common share attributable to Equity Holders of the Parent Company	18.40	17.83	17.38	11.07	10.73

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2011[1]	2012[1]	2013	2013	2014
	₱	₱	₱	₱	₱
	(Audited)			(Unaudited)	
	(in thousands except per share figures or where otherwise indicated)				
Consolidated Statements of Financial Position Data					
Assets					
Current Assets					
Cash and cash equivalents	4,932,718	4,280,418	7,030,943		12,051,589
Trade and other receivables - net	8,700,217	11,143,836	25,662,903		9,834,731
Inventories	12,068,381	15,690,751	14,784,992		16,434,261
Biological assets	4,123,777	3,792,238	3,427,280		3,486,691
Derivative assets	31,869	38,934	4,621		2,889
Prepaid expenses and other current assets	1,968,552	2,319,986	2,772,354		2,397,701
Total Current Assets	31,825,514	37,266,163	53,683,093		44,207,862
Noncurrent Assets					
Investment	13,177,979	13,342,080	-		-
Investment properties - net	571,541	628,865	632,679		633,131
Property, plant and equipment - net	8,744,321	10,104,268	11,254,188		10,789,527
Biological assets - net of current portion	1,811,570	1,931,510	1,910,906		1,970,885
Other intangible assets - net	3,657,384	3,947,970	3,867,720		3,817,065
Goodwill - net	422,547	406,922	425,655		428,343
Deferred tax assets	622,360	690,238	840,422		840,036
Other noncurrent assets	254,591	253,571	229,617		213,778
Total Noncurrent Assets	29,262,293	31,305,424	19,161,187		18,692,765
Total Assets	61,087,807	68,571,587	72,844,280		62,900,627
Liabilities and Equity					
Current Liabilities					
Notes payable	4,987,929	7,351,040	8,647,785		6,940,811
Trade payables and other current liabilities	11,018,877	14,495,476	15,936,038		14,812,100
Current maturities of long-term debt	25,000	-	-		-
Income tax payable	305,012	387,487	387,664		266,275
Total Current Liabilities	16,336,818	22,234,003	24,971,487		22,019,186
Noncurrent Liabilities					
Long-term debt - net of current maturities and debt issue costs	4,646,449	4,475,318	4,483,300		4,489,532
Deferred tax liabilities	188,359	164,453	135,782		112,031
Other noncurrent liabilities	460,224	675,431	893,786		899,987
Total Noncurrent Liabilities	5,295,032	5,315,202	5,512,868		5,501,550
Equity					
Equity Attributable to Equity Holders of the Parent Company					
Capital stock	1,858,748	1,858,748	1,858,748		1,858,748
Additional paid-in capital	20,500,284	20,500,284	20,500,284		20,500,284
Revaluation surplus	18,219	18,219	18,219		18,219
Reserve for retirement plan	(169,651)	(290,506)	(434,714)		(434,714)
Cumulative translation adjustments	(85,766)	(253,275)	(248,738)		(251,215)
Retained earnings	14,410,560	16,582,541	18,679,528[6]		12,068,605
Treasury stock	(182,094)	(182,094)	(182,094)		(182,094)
	36,350,300	38,233,917	40,191,233		33,577,833
Non-controlling Interests	3,105,657	2,788,465	2,168,692[6]		1,802,058

	As of and for the years ended December 31,			As of and for the nine months ended September 30,	
	2011[1]	2012[1]	2013	2013	2014
	₱	₱	₱	₱	₱
	(Audited)			(Unaudited)	
	(in thousands except per share figures or where otherwise indicated)				
Total Equity	39,455,957	41,022,382	42,359,925		35,379,891
	61,087,807	68,571,587	72,844,280		62,900,627
Cash Flow Data					
Net cash provided by (used in):					
Operating activities	3,694,148	3,099,215	6,955,792	5,021,080	4,227,230
Investing activities	(18,873,563)	(3,569,826)	(2,898,728)	(1,950,311)	12,199,417
Financing activities	13,071,542	(191,724)	(1,310,978)	(1,944,159)	(11,405,075)
Effect of exchange rate changes in cash and cash equivalents	(754)	10,035	4,439	3,976	(926)
Net increase (decrease) in cash and cash equivalents	(2,108,627)	(652,300)	2,750,525	1,130,586	5,020,646
Cash and cash equivalents at beginning of year	7,041,345	4,932,718	4,280,418	4,280,418	7,030,943
Cash and cash equivalents at end of period	4,932,718	4,280,418	7,030,943	5,411,004	12,051,589
Other Financial and Operating Data					
EBITDA[2]	8,044,015	8,415,465	8,580,700	5,836,183	6,237,564
EBIT[2]	5,923,582	6,118, 265	5,941,617	3,916,419	4,155,393
Capital expenditure	597,806	1,957,476	1,977,893	1,481,138	461,726
Gross profit margin[3]	18.05%	18.62%	20.23%	18.52%	19.28%
EBITDA margin[4]	8.98%	8.79%	8.60%	8.17%	8.38%
EBIT margin[5]	6.61%	6.39%	5.96%	5.48%	5.58%

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Note:

[1] As restated in accordance with PAS 19R.

[2]EBIT and EBITDA are measures used by San Miguel Pure Foods' management to internally evaluate the performance of its businesses. EBIT is calculated as net income plus the following: income tax expense, net financing charges (interest expense and other financing charges net of interest income), foreign exchange losses (gains), equity in net losses (earnings) of an associate and cash dividends (including property dividends already sold and converted to cash) from an associate. EBITDA is calculated as EBIT plus depreciation and amortization. EBIT and EBITDA are not measures determined in accordance with PFRS, and prospective investors should not consider EBIT or EBITDA as an alternative to net income as a measure of operating performance or to cash flow as measure of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as interest payments, tax payments and capital expenditures. San Miguel Pure Foods' calculation of EBIT and EBITDA may be different from the calculations used by other companies, and, as a result, San Miguel Pure Foods' EBIT and EBITDA may not be comparable to other similarly titled measures of other companies.

[3]Calculated as Gross Profit divided by Revenues.

[4]Calculated as EBITDA divided by Revenues.

[5]Calculated as EBIT divided by Revenues.

[6] The retention of the appropriated retained earnings amounting to ₱1.2 billion was approved by the Board of Directors of The Purefoods-Hormel Company, Inc. on March 7, 2013.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Prospective investors should read the following discussion and analysis of San Miguel Pure Foods' consolidated financial condition and results of operations together with (i) San Miguel Pure Foods' condensed consolidated interim financial statements as of and for the nine months ended September 30, 2013 and 2014 (the "September 2014 condensed consolidated interim financial statements"), and (ii) San Miguel Pure Foods' consolidated financial statements as of and for the years ended December 31, 2011, 2012 and 2013 (the "2013 audited consolidated financial statements"), in each case including the notes relating thereto, included elsewhere in this Prospectus. The September 2014 condensed consolidated interim financial statements, and the 2013 audited consolidated financial statements are collectively referred to as the "consolidated financial statements." San Miguel Pure Foods' consolidated financial statements have been prepared in accordance with PFRS.

Certain statements set forth below constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and in "Risk Factors" and "Business." San Miguel Pure Foods' historical financial performance should not be considered as indicative of future financial performance.

OVERVIEW

San Miguel Pure Foods is a leading Philippine food company with market-leading positions in many key products and offers a broad range of high-quality food products and services to household, institutional and foodservice customers. San Miguel Pure Foods has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* for refrigerated processed meats and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee and *B-Meg* for animal feeds.

San Miguel Pure Foods organizes its operations into four business segments: agro-industrial, value-added meats, milling, and others. The agro-industrial business segment includes the animal feeds, poultry and fresh meats businesses; the value-added meats business segment includes the production of refrigerated processed meats and canned meats; the milling business segment includes the production of flour, premixes and other flour-based products and grain terminal operations; and others includes the dairy, spreads and oils, coffee, foodservice and franchising businesses and international operations.

The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated: (1)

	Years Ended December 31,						Nine Months Ended September 30,			
	2011		2012		2013		2013		2014	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
			(in millions, except %)					(in millions, except %)		
Agro-industrial	56,982	63.6	61,877	64.6	64,383	64.5	46,922	65.7	50,089	67.3
Value-added meats	12,103	13.5	13,665	14.3	14,876	14.9	9,721	13.6	9,821	13.2
Milling	8,354	9.3	8,425	8.8	8,693	8.7	6,350	8.9	6,561	8.8
Others	12,152	13.6	11,820	12.3	11,821	11.9	8,420	11.8	7,944	10.7
Total	89,591	100.0	95,787	100.0	99,773	100.0	71,413	100.0	74,415	100.0

(1) *Represents segment's external revenues and excludes inter-segment revenues.*

In addition to the Philippines, San Miguel Pure Foods also operates in Indonesia and Vietnam. The contribution of its international operations to its total revenues was 2.4% in 2013 and 1.9% for the nine months ended September 30, 2014.

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated: (1)

	Years Ended December 31,						Nine Months Ended September 30,			
	2011 (2)		2012 (2)		2013		2013		2014	
	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results
			(in millions, except %)					(in millions, except %)		
Agro-industrial	2,342	38.5	1,769	34.2	1,956	35.5	1,312	35.8	1,741	40.2
Value-added meats	1,017	16.7	1,163	22.5	990	18.0	623	17.0	481	11.1
Milling	1,820	29.9	1,860	35.9	2,021	36.7	1,392	38.0	1,720	39.8
Others	862	14.2	353	6.8	545	9.8	340	9.2	385	8.9
Eliminations (3)	39	0.7	32	0.6	(2)	(0.0)	-	-	0	0.0
Total	6,080	100.0	5,177	100.0	5,510	100.0	3,667	100.0	4,327	100.0

(1) *Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 3 to the September 2014 condensed consolidated interim financial statements and Note 6 to the 2013 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the milling's grain terminal operations from the agro-industrial segment.*

(2) *As restated in accordance with PAS 19R.*

(3) *For 2011 and 2012, represents (i) the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary, and (ii) the deferred taxes set-up for PT San Miguel Pure Foods Indonesia. For 2013 and the nine months ended 2014, represents the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.*

Recent Developments

On January 26, 2015, San Miguel Pure Foods International, Limited ("SMPFIL") a 100% owned subsidiary of San Miguel Pure Foods Company Inc. incorporated in the British Virgin Islands, signed an agreement for the purchase from Hormel Netherlands B.V., of the latter's 49% of the issued share capital of San Miguel Pure Foods Investment (BVI) Limited ("SMPFIB"). SMPFIB is the sole investor in San Miguel Hormel (Vn) Co., Ltd., a company incorporated in Vietnam that engages in production of processed meats and owns assets in hog farming and feed milling. SMPFIB is now a wholly-owned subsidiary of SMPFIL.

On February 1, 2015, San Miguel Pure Foods completed the acquisition of the trademarks, formulations, recipes and other intangible properties relating to the *La Pacita* biscuit and flour-based snack business of Felicisimo Martinez & Co. Inc. San Miguel Pure Foods is currently licensing the trademarks to Magnolia, Inc.

Factors Affecting Results of Operations

The following are the primary factors that affect San Miguel Pure Foods' results of operations:

Raw Materials Costs and Product Prices

San Miguel Pure Foods depends on raw materials, including certain critical raw materials, most of which are procured from third parties, from both within and outside the Philippines. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, shipping and other transport-related factors, weather conditions, and government regulations and controls. Prices of certain raw materials, such as corn and soybean meal for the animal feeds business and wheat for the milling business, are generally volatile. In addition, San Miguel Pure Foods' ability to obtain raw materials is affected by a number of factors beyond its control, including natural disasters, governmental laws and policies, and interruptions in production by suppliers.

Changes in the prices of raw materials will necessarily affect San Miguel Pure Foods' cost of sales and may affect pricing of San Miguel Pure Foods' products. Changes in prices may also affect consumer demand, as San Miguel Pure Foods' consumers are generally price sensitive. In addition, there is no assurance that any increases in cost of sales can be fully passed on to consumers. As a result, any material increase in the market price of raw materials could have a material adverse effect on San Miguel Pure Foods' operating margins, which may affect its financial position and operating performance.

Product Mix

San Miguel Pure Foods' profit margins and operational performance are affected by changes in its product mix. San Miguel Pure Foods categorizes its product portfolio into three groups: (i) value-added products, (ii) stable-priced products, and (iii) basic food products.

Value-added products include processed meats, dairy, bread spreads, oils, ice cream and coffee. These products are typically branded and command a higher selling price than stable-priced and basic food products. Stable-priced products include flour premixes and bakery ingredients and poultry and fresh meats products that are distributed through the Company's differentiated stable-priced sales channels. These products include (i) minimally processed branded products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, (ii) branded products that have undergone further processing, such as marinated meats, ready-to-cook and ready-to-eat products sold through *Magnolia Chicken Stations* and *Monterey Meatshops*, and (iii) non-branded customized products sold to foodservice clients. Basic food products include (i) animal feeds, (ii) live chickens and hogs, (iii) fresh-chilled and frozen whole chicken, and chicken, pork and beef cuts sold through wet markets and supermarkets, and (iv) basic flour products.

San Miguel Pure Foods has made a concerted effort to improve its product mix by shifting away from basic food products, which generally have lower and more volatile margins, and into value-added and stable-priced products, which it believes have higher and more consistent margins. San Miguel Pure Foods has limited pricing power for its basic food products due to the lack of product differentiation, while it believes that its stable-priced and value-added products are able to command higher and more stable prices and margins due to (i) strong brand equity with customers, (ii) processing or customization to cater to specific needs or tastes, and/or (iii) sale through its branded distribution outlets (such as *Monterey Meatshops* and *Magnolia Chicken Stations*), where cleanliness, convenience and quality assurance allow for premium pricing and higher margins.

Through a variety of initiatives, San Miguel Pure Foods has significantly increased the proportion of value-added and stable-priced products in its product offerings over the past 10 years. In 2013, the contribution of value-added and stable-priced products accounted for more than half of San Miguel Pure Foods' total revenues as compared to approximately one fourth in 2000.

Since value-added and stable-priced products generally have higher margins compared to basic food products, changes from period to period in San Miguel Pure Foods' product mix have a significant impact on trends in its profit margins and financial performance.

Taxes and Regulatory Environment

San Miguel Pure Foods and its products are subject to various taxes, including VAT, duties and tariffs. The increase in prices due to additional taxes may affect demand for San Miguel Pure Foods' products in the Philippines, as San Miguel Pure Foods' consumers are generally price sensitive. In turn, a decline in demand for San Miguel Pure Foods' products may adversely affect its business, financial condition and results of operations.

In addition, San Miguel Pure Foods is subject to a number of national and local laws, rules and regulations in the Philippines and other countries in which it operates. These include, among others, laws, rules and regulations relating to environmental protection, employee health and safety, food safety and product labeling requirements. Changes in laws, rules and regulations may result in substantial compliance costs and have material adverse effects on San Miguel Pure Foods' business and operations. See "Regulatory Framework" on page 162 and "Quality Control, Health, Safety and Environmental Matters" on page 86 of this Prospectus.

Competition

San Miguel Pure Foods faces competition in the Philippines as well as in the other countries in which it operates. It competes with a number of multi-national, national, regional and local competitors. Although certain San Miguel Pure Foods' products have significant market shares in the Philippines and in many cases are market leaders in their respective product categories, San Miguel Pure Foods expects to face increasing competition as it continues to grow its business across an increasing number of product areas in the Philippines. Competitive factors generally affecting San Miguel Pure Foods' businesses include price, product quality and availability, brand awareness and loyalty, distribution coverage, customer service and the ability to effectively respond to changes in the regulatory environment as well as to shifting consumer tastes and preferences.

Economic, Social and Political Conditions in the Philippines

While San Miguel Pure Foods has operations outside the Philippines, over 96% of San Miguel Pure Foods' assets as of September 30, 2014 were located in the Philippines, and over 98% of its revenues in the nine months ended September 30, 2014 were derived from its operations in the Philippines. As a result, San Miguel Pure Foods' business, financial condition, results of operations and prospects are substantially influenced by economic and political conditions in the Philippines. Although the Philippine economy has experienced stable growth in recent years, the Philippine economy has in the past experienced periods of slow or negative growth, high inflation, significant devaluation of the Peso, and has been significantly affected by economic volatilities in the Asia-Pacific region. Also, in the past, there have been periods of political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations.

Sales of most of San Miguel Pure Foods' products are directly related to the strength of the Philippine economy (including overall growth levels and interest rates) and tend to decline during economic downturns. Any deterioration in the Philippine economy, including a significant deterioration in the value of the Peso, may adversely affect consumer sentiment and lead to a reduction in demand for San Miguel Pure Foods' products.

Seasonality

San Miguel Pure Foods' sales are affected by seasonality in customer purchase patterns. In the Philippines, most food products, including those produced by San Miguel Pure Foods, experience increased sales during the Christmas season. Seasonality varies according to product type; in particular, dairy and value-added products experience a particularly high degree of seasonality, with increased sales during the fourth quarter of the year. In 2011, 2012 and 2013, on the average, 23.1% of San Miguel Pure Foods' net sales were in the first quarter of the year, 24.1% were in the second quarter, 24.7% were in the third quarter, and 28.1% were in the last quarter of the year. As a result of this pattern, seasonality could affect San Miguel Pure Foods' financial condition and results of operations from one quarter to another, particularly in relation to the fourth quarter of each year.

Introduction of New Products and Branding Initiatives

San Miguel Pure Foods believes that many consumer food products are impulse and discretionary purchases, which are particularly sensitive to competitive pressures. A key element in maintaining its market share in the highly competitive Philippine food market has been for San Miguel Pure Foods to continuously introduce new consumer food products and product extensions. As examples of this strategy, San Miguel Pure Foods introduced its *Purefoods* chicken nuggets line, establishing a market in the Philippines for frozen ready-to-heat chicken nuggets, and *Purefoods* drummets.

In addition to introducing new products, San Miguel Pure Foods has embarked on brand-building initiatives using advertising campaigns, such as television commercials, and radio and print advertisements, to differentiate its products and further increase market share. In 2011, 2012 and 2013, San Miguel Pure Foods' advertising and promotion costs accounted for a significant portion of its selling and administrative expenses at 14.7%, 20.3%, and 22.1%, respectively.

The development and introduction of new products and the use of branding initiatives can substantially increase San Miguel Pure Foods' operating costs, particularly advertising and promotions. Although San Miguel Pure Foods believes that these higher costs are justified by increased sales from new and existing products, there is typically a delay between the incurrence of these costs and any such sales. Furthermore, San Miguel Pure Foods cannot be assured of when, if ever, these expenditures will result in increased revenues.

CRITICAL ACCOUNTING POLICIES

The preparation of San Miguel Pure Foods' consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting policies are those that are both (i) relevant to the presentation of San Miguel Pure Foods' financial condition and results of operations, and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding of how San Miguel Pure Foods' management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different circumstances, San Miguel Pure Foods has identified the significant accounting judgments, estimates and assumptions discussed in Note 4 to the 2013 audited consolidated financial statements included elsewhere in this Prospectus. While San Miguel Pure Foods believes that all aspects of its consolidated financial statements, including the accounting policies discussed in Note 3 to the 2013 audited consolidated financial statements, should be studied and understood in assessing San Miguel Pure Foods' current and expected consolidated financial condition and results of operations, San Miguel Pure Foods believes that the significant accounting judgments, estimates and assumptions discussed in Note 4 to the 2013 audited consolidated financial statements warrant additional attention.

DESCRIPTION OF REVENUE AND COST ITEMS

The following discussion of San Miguel Pure Foods' results of operations with respect to the years ended December 31, 2011, 2012 and 2013 and the nine months ended September 30, 2013 and 2014 is based on, and should be read in conjunction with, San Miguel Pure Foods' consolidated financial statements and related notes included elsewhere in this Prospectus.

Revenues

San Miguel Pure Foods generates its revenues from its agro-industrial, value-added meats, milling and other businesses. In 2011, 2012 and 2013, San Miguel Pure Foods had revenues of ₽89,591 million, ₽95,787 million and ₽99,773 million, respectively, with revenues from operations in the Philippines accounting for over 95% of total revenues in each period. In the nine months ended September 30, 2013 and 2014, San Miguel Pure Foods had revenues of ₽71,413 million and ₽74,415 million, respectively, with revenues from operations in the Philippines accounting for over 97% of total revenues in each period. These revenues consist of sales of goods (excluding intercompany sales) in the course of ordinary activities measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and VAT. Fair valuation adjustments on agricultural produce also form part of revenues.

Cost of Sales

San Miguel Pure Foods' cost of sales consists primarily of:

- cost of raw materials and supplies;
- cost of contracted services such as tollers' fees and contract growers' fees;
- depreciation of property, plant and equipment related to production and amortization of breeding stocks;
- freight, trucking and handling costs relating to transfers of raw materials from warehouses to farms and manufacturing or production facilities;
- personnel expenses consisting of salaries, wages and related employee benefits for employees involved in San Miguel Pure Foods' manufacturing activities;
- repairs and maintenance costs relating to the upkeep of production equipment, buildings and other facilities;
- rental expenses attributable to production, such as rental cost of warehouses of raw materials and pallets; and
- other overhead costs attributable to production such as travel and transportation expenses, fuel costs, security expenses, communications, light and water costs.

In 2011, 2012 and 2013, San Miguel Pure Foods' cost of sales were ₽73,417 million, ₽77,950 million and ₽79,585 million, respectively. In the nine months ended September 30, 2013 and 2014, San Miguel Pure Foods' cost of sales were ₽58,184 million and ₽60,069 million, respectively.

Selling and Administrative Expenses

San Miguel Pure Foods' selling and administrative expenses consists primarily of:

- freight, trucking and handling expenses incurred in connection with the shipment and distribution of finished products;
- personnel expenses consisting of salaries, wages and employee benefits for administrative, sales and corporate support unit personnel;
- advertising and promotion expenses incurred in marketing San Miguel Pure Foods' products, including the cost of media advertisements, event sponsorships, billboards, trade shows, merchandising activities and other marketing and promotional activities;
- contracted services, which represent cost of services performed by outside contractors related to selling and administrative activities;
- rental expenses, which include, among others, rental of warehouses for finished goods, and rental of administrative and sales offices;
- depreciation of property, plant and equipment attributable to selling and administrative expenses; and
- other selling and administrative expenses, such as professional fees, taxes and licenses, supplies, travel and transportation, communications, light and water expenses, repairs and maintenance, and impairment losses on receivables.

In 2011, 2012 and 2013, selling and administrative expenses were ₽10,094 million, ₽12,660 million and ₽14,678 million, respectively. In the nine months ended September 30, 2013 and 2014, selling and administrative expenses were ₽9,562 million and ₽10,019 million, respectively.

Interest Expense and Other Financing Charges

San Miguel Pure Foods' interest expense and other financing charges primarily consists of:

- interest on notes payable, which mainly consist of unsecured Peso and foreign currency-denominated loans payable to local and foreign banks; and
- interest expense on unsecured Peso-denominated term notes.

In 2011, 2012 and 2013, San Miguel Pure Foods' interest expense and other financing charges were ₽531 million, ₽575 million and ₽550 million, respectively. In the nine months ended September 30, 2013 and 2014, San Miguel Pure Foods' interest expense and other financing charges were ₽432 million and ₽313 million, respectively.

Interest Income

San Miguel Pure Foods' interest income primarily consists of interest received on short-term investments, such as money market placements, and cash deposited with banks.

In 2011, 2012 and 2013, San Miguel Pure Foods' interest income were ₽394 million, ₽149 million and ₽59 million, respectively. In the nine months ended September 30, 2013 and 2014, San Miguel Pure Foods' interest income were ₽66 million and ₽92 million, respectively.

Equity in Net Earnings of an Associate

San Miguel Pure Foods' equity in net earnings of an associate represents San Miguel Pure Foods' share in the net profit of Meralco, following San Miguel Pure Foods' acquisition of a 5.2% equity interest in Meralco from SMC in August 2011.

In 2011, 2012 and 2013, San Miguel Pure Foods' equity in net earnings of an associate were ₽270 million, ₽885 million and ₽715 million, respectively. San Miguel Pure Foods sold its investment in Meralco in September 2013.

Gain on Sale of Investment and Property and Equipment

San Miguel Pure Foods' gain on sale of investment and property and equipment primarily consists of gain on sale of investment in an associate and gain on sale of machinery and equipment, tools and small equipment, office equipment, furniture and fixtures and transportation equipment.

In 2011, 2012 and 2013, gain on sale of investment and property and equipment were ₱7 million, ₱115 million and ₱395 million, respectively. In the nine months ended September 30, 2013 and 2014, gain on sale of property and equipment were ₱4 million and ₱0.1 million, respectively.

Other Income (Charges) - Net

San Miguel Pure Foods' other income consists primarily of:

- mark-to-market gains on derivatives;
- foreign exchange gains; and
- dividend income.

San Miguel Pure Foods' other charges consists primarily of:

- mark-to-market losses on derivatives;
- foreign exchange losses;
- losses on impairment of property, plant and equipment and idle machinery and equipment;
- maintenance cost and depreciation of idle production facilities; and
- other non-recurring, non-operating charges.

In 2011 and 2013, other charges - net were ₱324 million and ₱533 million, respectively, while in 2012, other income - net was ₱57 million. In the nine months ended September 30, 2013 and 2014, other charges - net were ₱337 million and ₱162 million, respectively.

Income Tax Expense

San Miguel Pure Foods' income tax expense consists primarily of:

- current income tax expense; and
- deferred income tax expense.

In 2011, 2012 and 2013, income tax expense were ₱1,726 million, ₱1,545 million and ₱1,512 million, respectively. In the nine months ended September 30, 2013 and 2014, income tax expense were ₱990 million and ₱1,222 million, respectively.

Segment Operating Results

San Miguel Pure Foods' segment operating results consist of the revenues (including the operating results from inter-segment transactions) from each of its reportable segments, namely, agro-industrial, value-added meats, milling and others, less (i) cost of sales, (ii) selling and administrative expenses, (iii) eliminations representing the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary, and (iv) eliminations representing the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Revenues

San Miguel Pure Foods' revenues increased by 4.2% from ₱71,413 million in the nine months ended September 30, 2013 to ₱74,415 million in the nine months ended September 30, 2014. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated: [(1)]

	Nine Months Ended September 30,			
	2013		2014	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
		(in millions, except %)		
Agro-industrial………..	46,922	65.7	50,089	67.3
Value-added meats….	9,721	13.6	9,821	13.2
Milling………………....	6,350	8.9	6,561	8.8
Others………………...	8,420	11.8	7,944	10.7
Total…………………..	**71,413**	**100.0**	**74,415**	**100.0**

[(1)] *Represents segment's external revenues and excludes inter-segment revenues.*

Agro-industrial. Agro-industrial revenues increased by 6.7% from ₱46,922 million in the nine months ended September 30, 2013 to ₱50,089 million in the nine months ended September 30, 2014.

- Feeds revenues increased by 5.4% from ₱16,691 million in the nine months ended September 30, 2013 to ₱17,593 million in the nine months ended September 30, 2014. This increase was primarily due to a 4% increase in feeds sales volume and higher average selling prices for feed products. Volume was driven by higher sales of broiler, gamefowl and duck feeds. However, hog feeds volume declined due to the prolonged contraction of the total hog industry. Higher average selling prices were primarily due to upward price adjustments in response to increases in the prices of major raw materials such as soybean meal, cassava and coco oil.

- Poultry and fresh meats revenues increased by 7.5% from ₱30,231 million in the nine months ended September 30, 2013 to ₱32,496 million in the nine months ended September 30, 2014 on account of higher volume and better selling prices. Notwithstanding the loss of broilers due to Typhoon Glenda, internal chicken supply remained sufficient as a result of the Company's expansion initiatives. The increase in sales volume was mainly driven by the double-digit growth of the stable-priced products sold through the *Magnolia Chicken Stations*, *Monterey Meatshops* and foodservice accounts.

Value-added Meats. Value-added meats revenues slightly increased from ₱9,721 million in the nine months ended September 30, 2013 to ₱9,821 million in the nine months ended September 30, 2014. The improvement in selling prices mitigated the decline in sales volume. For the first quarter of 2014, volume was lower due to high inventory levels in the trade at the beginning of the year. The seasonal sales upsurge expected last December 2013 did not fully materialize resulting in higher inventories in the trade which were carried over in the first quarter of 2014. Although sales volume started to post an improvement in April, the same was not sustained in the third quarter due to supply constraints caused by the port congestion in Manila, which affected the availability of key imported raw materials resulting in lost sales.

Milling. Milling revenues increased by 3.3% from ₱6,350 million in the nine months ended September 30, 2013 to ₱6,561 million in the nine months ended September 30, 2014, mainly driven by volume growth.

Others. Revenues from this segment decreased by 5.7% from ₽8,420 million in the nine months ended September 30, 2013 to ₽7,944 million in the nine months ended September 30, 2014. This was mainly due to the Vietnam operations' decline in revenues, partly cushioned by the growth in the dairy, spreads and oils business revenues.

Cost of Sales

Cost of sales increased by 3.2% from ₽58,184 million in the nine months ended September 30, 2013 to ₽60,069 million in the nine months ended September 30, 2014. This increase was primarily the result of increased sales volume, higher cost of some raw materials, and increase in freight, trucking and handling costs related to raw materials.

Gross Profit

As a result of the foregoing, gross profit increased by 8.5% from ₽13,229 million in the nine months ended September 30, 2013 to ₽14,347 million in the nine months ended September 30, 2014.

Selling and Administrative Expenses

Selling and administrative expenses increased by 4.8% from ₽9,562 million in the nine months ended September 30, 2013 to ₽10,019 million in the nine months ended September 30, 2014. This increase was the result of higher advertising and promotions spending on brand-building activities, increased rental, warehousing and third party services costs due to higher sales volume, and higher distribution and transportation costs from the increased trucking rates.

Interest Expense and Other Financing Charges

Interest expense and other financing charges decreased by 27.5% from ₽432 million in the nine months ended September 30, 2013 to ₽313 million in the nine months ended September 30, 2014. This decline was attributable to a lower average level of borrowings coupled with decreased average lending rates.

Interest Income

Interest income increased by 40.3% from ₽66 million in the nine months ended September 30, 2013 to ₽92 million in the nine months ended September 30, 2014, primarily due to the higher level of short-term money market placements resulting from the collection in March 2014 of the proceeds from the sale of Meralco shares.

Equity in Net Earnings of an Associate

The sale of San Miguel Pure Foods' investment in Meralco shares in September 2013 explains the 100% decline in equity in net earnings of an associate in the nine months ended September 30, 2014.

Gain on Sale of Property and Equipment

Gain on sale of property and equipment was ₽4 million in the nine months ended September 30, 2013 as compared to the ₽0.1 million in the nine months ended September 30, 2014 due to minimal disposal of property and equipment.

Other Charges - Net

San Miguel Pure Foods had other charges - net of ₽337 million in the nine months ended September 30, 2013 compared to other charges - net of ₽162 million in the nine months ended September 30, 2014. Other charges - net for the nine months ended September 30, 2014 was primarily attributable to (i) mark-to-market losses on wheat options, and (ii) calamity losses from Typhoon Glenda.

Income before Income Tax

As a result of the foregoing, income before income tax increased by 7.1% from ₱3,683 million in the nine months ended September 30, 2013 to ₱3,945 million in the nine months ended September 30, 2014.

Income Tax Expense

Income tax expense increased by 23.4% from ₱990 million in the nine months ended September 30, 2013 to ₱1,222 million in the nine months ended September 30, 2014. Most of the income in the first nine months of 2014 was subjected to the 30% regular income tax rate in contrast with that of the same period in 2013 where the equity in net earnings of an associate, which formed part of the income before income tax, is not subject to income tax.

Net Income

As a result of the foregoing, net income increased by 1.1% from ₱2,692 million in the nine months ended September 30, 2013 to ₱2,722 million in the nine months ended September 30, 2014.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated: [(1)]

	Nine Months Ended September 30			
	2013		2014	
	Operating Results ₱	% of Total Operating Results	Operating Results ₱	% of Total Operating Results
	(in millions, except %)			
Agro-industrial………..	1,312	35.8	1,741	40.2
Value-added meats….	623	17.0	481	11.1
Milling………………....	1,392	38.0	1,720	39.8
Others………………....	340	9.2	385	8.9
Eliminations [(2)]………..	-	0.0	0	0.0
Total……………………	**3,667**	**100.0**	**4,327**	**100.0**

[(1)] Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenues for each segment, see Note 3 to the September 2014 condensed consolidated interim financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the milling's grain terminal operations from the agro-industrial segment.
[(2)] Represents the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

Agro-industrial. Agro-industrial operating results increased by 32.7% from ₱1,312 million in the nine months ended September 30, 2013 to ₱1,741 million in the nine months ended September 30, 2014. This increase was primarily the result of higher volume and selling prices which offset the increase in raw material and production costs. Improving production efficiencies also partly compensated for the increase in feed cost.

Value-added Meats. Value-added meats operating results decreased by 22.8% from ₱623 million in the nine months ended September 30, 2013 to ₱481 million in the nine months ended September 30, 2014. The decline was mainly attributable to lower volume (as explained above in the *"Revenues"* section) and higher cost of raw materials partly affected by the port congestion in Manila. Other operating expenses also increased, such as logistics costs brought about by higher trucking rates and advertising and promotional expenses in support of the new products.

Milling. Milling operating results increased by 23.5% from ₱1,392 million in the nine months ended September 30, 2013 to ₱1,720 million in the nine months ended September 30, 2014. This increase was primarily the result of higher volume and the additional profit from the newly commissioned grain terminal.

Others. The operating results from this segment increased by 13.6% from ₱340 million in the nine months ended September 30, 2013 to ₱385 million in the nine months ended September 30, 2014. This increase was driven by the double-digit profit growth of the dairy, spreads and oils business on account of higher volume and better selling prices.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues

San Miguel Pure Foods' revenues increased by 4.2% from ₱95,787 million in 2012 to ₱99,773 million in 2013. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated: [(1)]

	Years Ended December 31,			
	2012		2013	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
	(in millions, except %)			
Agro-industrial………..	61,877	64.6	64,383	64.5
Value-added meats….	13,665	14.3	14,876	14.9
Milling………………....	8,425	8.8	8,693	8.7
Others………………...	11,820	12.3	11,821	11.9
Total…………………..	**95,787**	**100.0**	**99,773**	**100.0**

[(1)] *Represents segment's external revenues and excludes inter-segment revenues.*

Agro-industrial. Agro-industrial revenues increased by 4.0% from ₱61,877 million in 2012 to ₱64,383 million in 2013.

- Feeds revenues increased by 3.0% from ₱21,578 million in 2012 to ₱22,235 million in 2013. This increase was primarily due to higher average selling prices as higher-priced products constituted a higher proportion of the products sold. Gamefowl and aquatic feeds continued to deliver strong growth with a double-digit volume increase. This, however, was partly offset by the weak performance of hog feeds due to the continued contraction of the backyard hog segment and with some growers shifting to home-mixed feeds.

- Poultry and fresh meats revenues increased by 4.6% from ₱40,299 million in 2012 to ₱42,148 million in 2013. This increase was on account of poultry sales volume growth and increase in selling prices of fresh meats. Higher poultry sales volume was mainly attributable to the growth of the stable-priced segments such as *Magnolia Chicken Stations* and foodservice accounts.

Value-added Meats. Value-added meats revenues increased by 8.9% from ₱13,665 million in 2012 to ₱14,876 million in 2013 as volume and selling prices increased driven by the strong performance of its core brands as well as the contribution of the new products. The nugget products are among the new products that showed encouraging results and have contributed to the growth of the segment.

Milling. Milling revenues increased by 3.2% from ₱8,425 million in 2012 to ₱8,693 million in 2013. This increase was due to higher sales volume despite the increased availability of lower-priced imported flour and tight competition.

Others. Revenues from this segment was ₱11,820 million in 2012 and ₱11,821 million in 2013. The revenues of dairy and coffee increased, however, these were offset by the Vietnam operations' decrease in revenue due to the purposive depopulation of its sow level to minimize losses as prices of hogs in Vietnam remained depressed.

Cost of Sales

Cost of sales increased by 2.1% from ₱77,950 million in 2012 to ₱79,585 million in 2013 which was consistent with the increased sales volume over the period. The increase was mainly due to a 2.3% increase in inventories used from ₱69,740 million in 2012 to ₱71,335 million in 2013 mainly on account of higher volume. The impact of increases in prices of some major raw materials such as soybean meal, cassava, and imported beef was offset by the cost breaks in wheat and dairy raw materials as well as the improvement in production efficiencies.

Gross Profit

As a result of the foregoing, gross profit increased by 13.2% from ₱17,838 million in 2012 to ₱20,188 million in 2013.

Selling and Administrative Expenses

Selling and administrative expenses increased by 15.9% from ₱12,660 million in 2012 to ₱14,678 million in 2013 due to higher advertising and promotions spending to support new product launches and brand-building activities, higher distribution and transportation costs brought about by the increase in fuel prices, and higher rental, warehousing and other costs in support of increased sales volume.

Interest Expense and Other Financing Charges

Interest expense and other financing charges decreased by 4.4% from ₱575 million in 2012 to ₱550 million in 2013 primarily due to lower interest rates in 2013 as compared to 2012.

Interest Income

Interest income decreased by 60.3% from ₱149 million in 2012 to ₱59 million in 2013 due to lower average level of money market placements and substantial decline in interest rates.

Equity in Net Earnings of an Associate

Equity in net earnings of an associate decreased by 19.2% from ₱885 million in 2012 to ₱715 million in 2013 due to the sale of San Miguel Pure Foods' investment in Meralco in September 2013.

Gain on Sale of Investment and Property and Equipment

Gain on sale of investment and property and equipment was ₱115 million in 2012 compared to ₱395 million in 2013 as the Company recognized gain from the sale of Meralco shares in September 2013.

Other Income (Charges) - Net

San Miguel Pure Foods had other income - net of ₱57 million in 2012 compared to other charges - net of ₱533 million in 2013. This was due to mark-to-market loss on wheat options as market prices of wheat declined, and the depreciation of the Philippine Peso which affected the valuation of the Company's embedded third currency transactions.

Income before Income Tax

As a result of the foregoing, income before income tax decreased by 3.6% from ₱5,808 million in 2012 to ₱5,596 million in 2013.

Income Tax Expense

Income tax expense decreased by 2.1% from ₽1,545 million in 2012 to ₽1,512 million in 2013. The decline was primarily due to San Miguel Pure Foods' lower taxable income in 2013.

Net Income

As a result of the foregoing, net income decreased by 4.2% from ₽4,263 million in 2012 to ₽4,084 million in 2013.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated: (1)

	Years Ended December 31			
	2012(2)		2013	
	Operating Results ₽	% of Total Operating Results	Operating Results ₽	% of Total Operating Results
	(in millions, except %)			
Agro-industrial………..	1,769	34.2	1,956	35.5
Value-added meats….	1,163	22.5	990	18.0
Milling………………....	1,860	35.9	2,021	36.7
Others………………...	353	6.8	545	9.8
Eliminations (3)……….	32	0.6	(2)	(0.0)
Total…………………..	**5,177**	**100.0**	**5,510**	**100.0**

(1) Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenues for each segment, see Note 6 to the 2013 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment, and (iv) service revenue of the milling's grain terminal operations from the agro-industrial segment in 2013.

(2) As restated in accordance with PAS 19R.

(3) For 2012, represents (i) the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary, and (ii) the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

Agro-industrial. Agro-industrial operating results increased by 10.6% from ₽1,769 million in 2012 to ₽1,956 million in 2013 driven by the strong performance of the feeds business and the turnaround of fresh meats operations. Higher selling prices of fresh meats, improved availability of cheaper alternative raw materials and better farm efficiencies negated the impact of lower selling prices of chicken and higher operating costs such as freight, trucking and handling, and warehousing expenses.

Value-added Meats. Value-added Meats operating results decreased by 14.9% from ₽1,163 million in 2012 to ₽990 million in 2013 due to higher operating expenses, particularly advertising and promotions in support of the Company's core brands and new products. The Company also increased its research and development cost in line with its strategy to aggressively grow its branded value-added products. Other operating costs also increased, in particular, warehouse rental, freight, trucking and handling, and merchandising costs in support of its distribution expansion.

Milling. Milling operating results increased by 8.6% from ₽1,860 million in 2012 to ₽2,021 million in 2013. This increase was primarily the result of higher volume and better margins as the Company continued its drive to increase its more profitable product offerings such as customized premixes.

Others. The operating results from this segment significantly increased by 54.2% from ₽353 million in 2012 to ₽545 million in 2013 primarily due to the strong performance of the dairy, spreads and oils business coming from its revenue growth and breaks in raw material prices. This was partially offset by the weak performance of the Vietnam operations as well as increased advertising and promotions expenses for the Coffee business to support new products.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

San Miguel Pure Foods' revenues increased by 6.9% from ₱89,591 million in 2011 to ₱95,787 million in 2012. The following table sets forth San Miguel Pure Foods' revenues by business segment for the periods indicated: [1]

	Years Ended December 31,			
	2011[2]		2012[2]	
	Revenues ₱	% of Revenues	Revenues ₱	% of Revenues
	(in millions, except %)			
Agro-industrial………..	56,982	63.6	61,877	64.6
Value-added meats….	12,103	13.5	13,665	14.3
Milling………………....	8,354	9.3	8,425	8.8
Others………………...	12,152	13.6	11,820	12.3
Total…………………..	**89,591**	**100.0**	**95,787**	**100.0**

(1) Represents segment's external revenues and excludes inter-segment revenues.
(2) As restated in accordance with PAS 19R.

Agro-industrial. Agro-industrial revenues increased by 8.6% from ₱56,982 million in 2011 to ₱61,877 million in 2012. This increase was primarily due to increases in feeds, poultry and fresh meats revenues. In particular:

- Feeds revenues increased by 8.8% from ₱19,838 million in 2011 to ₱21,578 million in 2012. This increase was due to the strong volume growth of layer, gamefowl and aquatic feeds which grew by 19%, as well as the strong market acceptance of new product launches. However, volume of hog feeds, which comprised majority of the feeds business, declined because of the hog industry contraction.

- Poultry and fresh meats revenues increased by 8.5% from ₱37,144 million in 2011 to ₱40,299 million in 2012 largely due to higher volume driven by sales to *Magnolia Chicken Stations*, *Monterey Meatshops* and foodservice accounts. This was partially offset by lower selling prices of fresh meats due to the influx of cheap imported frozen pork into the country.

Value-added Meats. Value-added meats revenues increased by 12.9% from ₱12,103 million in 2011 to ₱13,665 million in 2012, due to higher volume and better selling prices. The volume growth came from the strong sales of the business' flagship brands, *Purefoods* and *Star*. Double-digit sales growth in nuggets and Christmas hams also contributed significantly to the improvement in revenues.

Milling. Milling revenues slightly increased from ₱8,354 million in 2011 to ₱8,425 million in 2012 due to higher volume, tempered by lower selling prices following the drop in wheat costs as well as stiff competition from lower-priced imported flour.

Others. Revenues from this segment declined by 2.7% from ₱12,152 million in 2011 to ₱11,820 million in 2012, primarily brought about by the decline in revenues of the international operations. Selling prices of hogs in Vietnam significantly dropped as a result of an oversupply situation. Similarly, revenues of the Company's Indonesia operations declined due to lower sales volume as a result of limited beef supply caused by the imposition of certain import restrictions.

Cost of Sales

Cost of sales increased by 6.2% from ₽73,417 million in 2011 to ₽77,950 million in 2012. This increase was primarily due higher volume as well as increased costs of raw materials and some operating expenses.

The limited availability of cassava partly caused the increase in the cost to produce as the Company had to use more expensive corn and other raw material substitutes. This was tempered by cost breaks in dairy ingredients. Other production-related operating expenses also increased, in particular tolling fees and contracted services, in support of increased volume. Freight, trucking and handling increased largely due to higher fuel costs.

Gross Profit

As a result of the foregoing, gross profit increased by 10.3% from ₽16,174 million in 2011 to ₽17,838 million in 2012.

Selling and Administrative Expenses

Selling and administrative expenses increased by 25.4% from ₽10,094 million in 2011 to ₽12,660 million in 2012, mainly due to increased spending on advertising and promotions, freight, trucking and handling, rental and contracted services. The significant increase in advertising and promotions expenses was mainly due to higher spending on brand-building and expenses related to the launch of new products and new variants. The increase in freight, trucking and handling expenses was primarily due to the expansion of distribution coverage, increased volumes and higher shipping and hauling costs. The increase in rental expenses and contracted services was due to increased volumes.

Interest Expense and Other Financing Charges

Interest expense and other financing charges increased by 8.3% from ₽531 million in 2011 to ₽575 million in 2012. This increase was attributable to higher borrowings to partly finance expansion projects.

Interest Income

Interest income decreased in 2012 as 2011's income included interest earned from short-term placements of net proceeds from San Miguel Pure Foods' ₽15 billion worth of Preferred Shares offering in March 2011. These funds were subsequently used to fully settle the remaining balance of the Vietnam food business acquisition and purchase of Meralco shares from SMC in May and August 2011, respectively.

Equity in Net Earnings of an Associate

Equity in net earnings of an associate increased three folds from ₽270 million in 2011 to ₽885 million in 2012 due to the full year impact of the equity in net earnings of Meralco in 2012 as compared to only five months in 2011.

Gain on Sale of Investment and Property and Equipment

Gain on sale of investment and property and equipment increased significantly from ₽7 million in 2011 to ₽115 million in 2012. This increase was attributable to the gain on sale of Rockwell Land Corporation (Rockwell Land) shares which were received as property dividend from Meralco in the early part of 2012.

Other Income (Charges) - Net

San Miguel Pure Foods had other charges - net of ₽324 million in 2011 as opposed to other income - net of ₽57 million in 2012. Other income - net in 2012 mainly consists of mark-to-market gains recognized from valuation of embedded third currency transactions due to Philippine Peso appreciation and mark-to-market gains on wheat options. In contrast, the Company recognized in 2011 mark-to-market losses on wheat options and valuation of embedded third currency transactions.

Income before Income Tax

As a result of the foregoing, income before income tax decreased by 1.5% from ₽5,896 million in 2011 to ₽5,808 million in 2012.

Income Tax Expense

Income tax expense decreased by 10.5% from ₽1,726 million in 2011 to ₽1,545 million in 2012 due to lower taxable income.

Net Income

As a result of the foregoing, net income increased by 2.2% from ₽4,171 million in 2011 to ₽4,263 million in 2012.

Segment Operating Results

The following table sets forth San Miguel Pure Foods' operating results by business segment for the periods indicated:[(1)]

	Years Ended December 31			
	2011[(2)]		2012[(2)]	
	Operating Results ₽	% of Total Operating Results	Operating Results ₽	% of Total Operating Results
	(in millions, except %)			
Agro-industrial…………	2,342	38.5	1,769	34.2
Value-added meats……	1,017	16.7	1,163	22.5
Milling……………….…...	1,820	29.9	1,860	35.9
Others………………..….	862	14.2	353	6.8
Eliminations [(3)]…………	39	0.7	32	0.6
Total……………………	**6,080**	**100.0**	**5,177**	**100.0**

[(1)] Includes operating results from inter-segment revenues. For information concerning the amount of inter-segment revenue for each segment, see Note 6 to the 2013 audited consolidated financial statements. Inter-segment revenues represent primarily (i) sales of pollard from the milling segment to the agro-industrial segment, (ii) sales of poultry and fresh meats from the agro-industrial segment to the value-added meats segment, and (iii) sales of dairy products, specifically cheese, oil and margarine, from the others segment to the value-added meats segment.
[(2)] As restated in accordance with PAS 19R.
[(3)] Represents (i) the unrealized profit component of inventories remaining at the end of each period transferred from one San Miguel Pure Foods subsidiary to another subsidiary, and (ii) the deferred taxes set-up for PT San Miguel Pure Foods Indonesia.

Agro-industrial. Agro-industrial operating results decreased by 24.5% from ₽2,342 million in 2011 to ₽1,769 million in 2012. The decline was due to higher cost of major raw materials, cassava supply shortage and lower selling prices of hogs due to the influx of cheap imported frozen pork in the first quarter of 2012. The Company started recovering in the second quarter of 2012 as it increased usage of available lower-priced raw material substitutes and moved volumes to the more stable-priced segments. Also, prices of certain raw material softened and selling prices improved in the second half of 2012.

These, however, were not sufficient to offset the unfavorable results in the first quarter of 2012.

Value-added Meats. Value-added Meats operating results increased by 14.3% from ₱1,017 million in 2011 to ₱1,163 million in 2012. This improvement was primarily the result of higher volume and improved margins due to better sales mix and higher selling prices.

Milling. Milling operating results increased by 2.2% from ₱1,820 million in 2011 to ₱1,860 million in 2012. This was primarily the result of higher volume and lower wheat costs offset in part by an increase in selling and administrative expenses.

Others. The operating results from this segment decreased by 59.0% from ₱862 million in 2011 to ₱353 million in 2012. This decrease was primarily the result of lower revenues as discussed above, and a substantial increase in selling and administrative expenses, which were partly cushioned by the lower cost of raw materials purchased for the dairy, spreads and oils business.

The increase in selling and administrative expenses was primarily due to (i) higher spending on advertising and promotions to support the launch of new dairy and coffee products, and (ii) higher freight, trucking and handling and warehousing costs, resulting from higher volumes for dairy, spreads and coffee products.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table sets forth San Miguel Pure Foods' cash flows for the periods indicated:

	Years Ended December 31			Nine Months Ended September 30	
	2011[(1)]	2012[(1)]	2013	2013	2014
			(in millions, except %)		
Net cash flows provided by operating activities....	3,694	3,099	6,956	5,021	4,227
Net cash flows provided by (used in) investing activities...	(18,873)	(3,570)	(2,899)	(1,950)	12,200
Net cash flows provided by (used in) financing activities	13,072	(192)	(1,311)	(1,944)	(11,405)
Effect of exchange rate changes in cash and cash equivalents	(1)	10	5	4	(1)
Net increase (decrease) in cash and cash equivalents...	(2,108)	(653)	2,751	1,131	5,021
Cash and cash equivalents at beginning of year...	7,041	4,933	4,280	4,280	7,031
Cash and cash equivalents at end of period........	**4,933**	**4,280**	**7,031**	**5,411**	**12,052**

(1) *As restated in accordance with PAS 19R.*

Net Cash Flows Provided by Operating Activities

January to September 2014

Net cash flows provided by operating activities for the nine months ended September 30, 2014 was ₱4,227 million. This primarily resulted from income before tax of ₱3,945 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₱2,082 million, a net increase in working capital of ₱650 million, income taxes paid of ₱1,376 million and interest paid of ₱315 million. The increase in working capital was primarily due to (i) an increase in inventories of ₱2,043 million due to higher raw materials costs and increased level of input materials for animal feeds, and (ii) decrease in trade payables and other current liabilities of ₱811 million primarily due to payments made related to the construction of the grain terminal. These were partially offset by (i) a decrease in trade and other receivables of ₽1,898 million due to the collection of peak season sales made in December 2013, and (ii) a decrease in prepaid expenses and other current assets of ₽367 million due to lower creditable input tax.

January to December 2013

Net cash flows provided by operating activities in 2013 was ₽6,956 million. This primarily resulted from income before tax of ₽5,596 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₽2,639 million, a net decrease in working capital of ₽931 million, income taxes paid of ₽1,630 million and interest paid of ₽541 million. The decrease in working capital was primarily due to (i) an increase in trade payables and other current liabilities of ₽1,197 million due to payables related to the construction of the grain terminal and delayed billings of some third party suppliers, (ii) a decrease in inventories of ₽555 million due to reduced purchases of soybean meal, delayed arrival of wheat shipment, and lower inventory of corn, and (iii) a decrease in biological assets of ₽342 million as the Company reduced the sow level of its Vietnam operations and discontinued some inefficient and non-compliant farms in the Philippines. These were partially offset by (i) an increase of ₽701 million in trade and other receivables in line with the increase in revenue, and (ii) an increase in prepaid expenses and other current assets of ₽461 million due to higher level of input and creditable withholding taxes.

January to December 2012

Net cash flows provided by operating activities in 2012 was ₽3,099 million. This primarily resulted from income before tax of ₽5,808 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₽2,297 million, a net increase in working capital of ₽2,532 million, income taxes paid of ₽1,503 million and interest paid of ₽665 million. The increase in working capital was primarily due to (i) an increase in trade and other receivables of ₽2,431 million in line with the increase in revenue and delays in collection brought about by the Company’s migration to an upgraded software system in November 2012, (ii) an increase in inventories of ₽3,755 million due to the purposive buying of inventories of major feeds raw materials such as corn, coco oil, pollard and other feed ingredients to take advantage of favorable prices, as well as additional inventory of the coffee business' new variants, and (iii) an increase in prepaid expenses and other current assets of ₽355 million due to higher creditable withholding taxes. These were partially offset by (i) an increase in trade payables and other current liabilities of ₽3,646 million primarily due to higher inventory purchases, and (ii) a decrease in biological assets of ₽364 million resulting from the rationalization of contract breeders.

January to December 2011

Net cash flows provided by operating activities in 2011 was ₽3,694 million. This primarily resulted from income before tax of ₽5,896 million, adjusted for non-cash items and changes in working capital, including depreciation and amortization expenses of ₽2,120 million and a net increase in working capital of ₽2,684 million. The increase in working capital was primarily due to (i) an increase in trade and other receivables of ₽891 million, in line with the increase in revenue, (ii) an increase in biological assets of ₽858 million due to higher feed costs and higher volume of growing livestock, and (iii) a decrease of ₽643 million in trade payables and other current liabilities due to full payment of the remaining balance of the brands and intellectual property rights and the Vietnam food business acquisitions from SMC, and payments made by the Company to suppliers.

Net Cash Flows Provided by (Used in) Investing Activities

January to September 2014

Net cash flows provided by investing activities for the nine months ended September 30, 2014 was ₽12,200 million and primarily consisted of ₽13,887 million proceeds from sale of investment in Meralco which was partly offset by (i) ₽1,161 million for additions to noncurrent biological assets and other noncurrent assets, and (ii) ₽462 million for additions to property, plant and equipment, including the purchase of land in Tabangao, Batangas for future expansion, and capital expenditures on capacity expansion, major replacements and operations improvements.

January to December 2013

Net cash flows used in investing activities was ₱2,899 million in 2013 and primarily consisted of (i) ₱1,978 million for the acquisition of property, plant and equipment, including the construction of a bulk grain handling and storage terminal in Mabini, Batangas, and (ii) ₱1,489 million for additions to noncurrent biological assets and other noncurrent assets.

January to December 2012

Net cash flows used in investing activities was ₱3,570 million in 2012 and primarily consisted of (i) ₱1,957 million for the acquisition of property, plant and equipment, including the construction of a bulk grain handling and storage terminal in Mabini, Batangas, and (ii) ₱1,771 million for additions to noncurrent biological assets and other noncurrent assets.

January to December 2011

Net cash flows used in investing activities was ₱18,873 million in 2011 and primarily consisted of (i) ₱13,000 million for the acquisition of a 5.2% equity interest in Meralco from SMC, (ii) ₱2,880 million for the payment of the 90% balance of the purchase price for the brands and intellectual property rights transferred by SMC to San Miguel Pure Foods, and (iii) ₱1,429 million for additions to noncurrent biological assets and other noncurrent assets.

Net Cash Flows Provided by (Used in) Financing Activities

January to September 2014

Net cash flows used in financing activities for the nine months ended September 30, 2014 was ₱11,405 million. The main components of these were (i) the payment of ₱9,696 million cash dividends to holders of the Common and Preferred Shares, and (ii) the net payment of short-term loans of ₱1,709 million.

January to December 2013

Net cash flows used in financing activities was ₱1,311 million in 2013. This reflected the payment of ₱2,599 million cash dividends to holders of the Common and Preferred Shares which was partly offset by the ₱1,288 million proceeds from short-term loans.

January to December 2012

Net cash flows used in financing activities was ₱192 million in 2012. This reflected the payments of ₱2,400 million cash dividends to holders of the Common and Preferred Shares and ₱204 million long-term loans, which were offset in large part by the ₱2,412 million proceeds from short-term loans.

January to December 2011

Net cash flows provided by financing activities was ₱13,072 million in 2011. The main component of this was the net proceeds of ₱14,829 million from the issuance of 15 million Preferred Shares in March 2011, which was partly reduced by the subsequent payment of cash dividends of ₱1,580 million to holders of the Common and Preferred Shares.

Key Performance Indicators

As of and for the period ended September 30, 2014

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

KPI	Unaudited September 2014	Audited December 2013
Liquidity: Current Ratio	2.01	2.15
Solvency: Debt to Equity Ratio	0.78	0.72
Asset to Equity Ratio	1.78	1.72
Profitability: Return on Average Equity Attributable to Equity Holders of the Parent Company	10.82%	11.88%
Interest Rate Coverage Ratio	19.92	15.61

KPI	Unaudited Period Ended September 2014	Unaudited Period Ended September 2013
Operating Efficiency: Volume Growth	1.14%	0.44%
Revenue Growth	4.20%	2.97%
Operating Margin	5.82%	5.13%

As of and for the year ended December 31, 2013

KPI	December 2013	December 2012
Liquidity: Current Ratio	2.15	1.68
Solvency: Debt to Equity Ratio	0.72	0.67
Asset to Equity Ratio	1.72	1.67
Profitability: Return on Average Equity Attributable to Equity Holders of the Parent Company	11.88%	13.23%
Interest Rate Coverage Ratio	15.61	14.64

KPI	As at December 2013	As at December 2012
Operating Efficiency: Volume Growth	2.44%	4.74%
Revenue Growth	4.16%	6.92%
Operating Margin	5.52%	5.40%

The manner by which San Miguel Pure Foods calculates the above indicators is as follows:

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

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

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

Liquidity and Indebtedness

In the nine months ended September 30, 2014, San Miguel Pure Foods' main sources of liquidity were the proceeds from the sale of Meralco shares and cash from operations. In 2013, the principal source of liquidity was cash from operations. San Miguel Pure Foods expects to meet its working capital, capital expenditures, dividend payments and investment requirements for the remainder of 2014 primarily from cash flows from operating and financing activities. San Miguel Pure Foods may seek other sources of funding for working capital, expansion programs and other business opportunities, which may include debt or equity financing, depending on its financing needs and market conditions.

Contractual Obligations

The following table summarizes the maturity profile of San Miguel Pure Foods' contractual obligations as of September 30, 2014:

	Carrying Amount ₱	Contractual Cash Flow ₱	1 year or Less ₱	> 1 year - 2 years ₱	> 2 years - 5 years ₱	Over 5 years ₱
Notes payable…………………………..	6,941	6,954	6,954	-	-	-
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)……………………..	13,816	13,816	13,816	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)……...	111	111	111	-	-	-
Long-term debt - net of debt issue costs…………………………………….	4,490	4,732	195	4,538	-	-
Other noncurrent liabilities (excluding retirement liability)…………………….	0	0	-	0	-	-
Total	**25,358**	**25,613**	**21,076**	**4,538**	**-**	**-**

Capital Resources

As of September 30, 2014, San Miguel Pure Foods had cash and cash equivalents of ₽12,052 million and total notes payable of ₽6,941 million. As of the same date, the interest rate for San Miguel Pure Foods' Peso-denominated and foreign currency-denominated loans ranged from 1.75% to 2.50% and 8.0% to 13.4%, respectively. All of San Miguel Pure Foods' short-term loans are unsecured.

As of September 30, 2014, San Miguel Pure Foods had total long-term debt (net of debt issue costs) of ₽4,490 million, of which (i) ₽3,692 million relates to San Miguel Foods, Inc.'s ₽3,700 million floating rate note due in December 2015 and, (ii) ₽798 million relates to San Miguel Foods, Inc.'s ₽800 million fixed rate note due also in December 2015.

The terms of both the ₽3,700 million floating rate note and the ₽800 million fixed rate note due in December 2015 include covenants that, among other things: require San Miguel Foods, Inc. to maintain a "Total Debt" to "Net Worth" ratio of 3.5:1, calculated in the manner provided in the terms of the floating rate note, or the fixed rate note, as applicable, prohibit the making of certain restricted payments, and prohibit the disposal of assets except under specified conditions.

As of the date of this Prospectus, San Miguel Pure Foods is in compliance with the covenants in its long-term debt agreements.

As of September 30, 2014, San Miguel Pure Foods had current assets of ₽44,208 million and current liabilities of ₽22,019 million. As of the same date, San Miguel Pure Foods' working capital (current assets minus current liabilities) was ₽22,189 million.

As of September 30, 2014, San Miguel Pure Foods had 15,000,000 Preferred Shares issued and outstanding. The Preferred Shares, all of which were issued and sold in March 2011 for an aggregate issue price of ₽15,000 million, are non-voting, non-participating and non-convertible, with a par value of ₽10.00 per share. They have a cumulative fixed cash dividend rate of 8% of the issue price of ₽1,000.00 per annum payable at the discretion of the Board, subject to the existence of unrestricted retained earnings. The Preferred Shares are redeemable in whole or in part at the option of San Miguel Pure Foods at the end of five years from the issue date or on any dividend payment date thereafter at a per share price equal to the issue price of ₽1,000.00 plus any accumulated and unpaid cash dividends. In the event that the Preferred Shares are not redeemed by San Miguel Pure Foods at the end of five years from the issue date, there will be a step up in the dividend rate to the higher of (i) 8% or (ii) the ten-year Philippine Dealing System Treasury Fixing ("PDST-F") rate plus a spread of 3.33% per annum. For more information on the dividends declared and paid on the Preferred Shares, see "Dividends and Dividend Policy" on page 100.

Capital Expenditures

San Miguel Pure Foods' capital expenditures were ₽598 million, ₽1,957 million and ₽1,978 million in 2011, 2012 and 2013, respectively. These were primarily attributable to the construction of the grain terminal in Mabini, Batangas and the expansion of San Miguel Pure Foods' production and distribution facilities to increase production capacities and improve operational efficiencies.

In the nine months ended September 30, 2014, San Miguel Pure Foods' capital expenditures was ₽462 million, of which approximately ₽160 million was attributable to the purchase of land in Tabangao, Batangas that will be used for future expansion. The remaining amounts were attributable to the expansion of production facilities, major repairs of existing facilities and operational improvements across San Miguel Pure Foods' businesses.

Off-Balance Sheet Arrangements

San Miguel Pure Foods does not have any material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered into by the Company as of and for the period ended September 30, 2014. San Miguel Pure Foods uses derivative financial instruments to manage its exposures to currency exchange rates, interest rates and fluctuating basic food prices. See Note 12 to San Miguel Pure Foods' September 2014 condensed consolidated interim financial statements included elsewhere in this Prospectus for more detailed information.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management Objectives and Policies

Objectives and Policies

San Miguel Pure Foods has significant exposure to the following market risks primarily from its use of financial instruments:

- interest rate risk;
- foreign currency risk;
- commodity price risk;
- liquidity risk; and
- credit risk.

Interest Rate Risk

San Miguel Pure Foods' exposure to changes in interest rates primarily relates to San Miguel Pure Foods' long-term borrowings. San Miguel Pure Foods manages its interest cost by using a combination of fixed and variable rate debt instruments. San Miguel Pure Foods monitors 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. As of December 31, 2013 and September 30, 2014, San Miguel Pure Foods' fixed rate long-term borrowings accounted for 17.8% of its total long-term indebtedness.

Foreign Currency Risk

San Miguel Pure Foods' exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of San Miguel Pure Foods. San Miguel Pure Foods' risk management objective, with respect to foreign currency risk, is to reduce or eliminate earnings volatility and any adverse impact on equity. San Miguel Pure Foods enters into foreign currency hedges using non-derivative instruments to manage its foreign currency risk exposure.

The following table sets forth San Miguel Pure Foods' foreign currency-denominated monetary assets and monetary liabilities and their Philippine Peso equivalents as of the dates indicated:

	As of December 31,		As of September 30,			
	2013		2013		2014	
	US$(1)	₱ Equivalent (2)	US$(1)	₱ Equivalent(3)	US$(1)	₱ Equivalent(4)
			(in millions)			
Assets						
Cash and cash equivalents…	6	284	3	131	9	396
Trade and other receivables..	9	384	9	375	25	1,140
	15	668	12	506	34	1,536
Liabilities						
Notes payables……….………	14	629	14	627	9	411
Trade payables and other current liabilities…………......	14	629	12	512	8	337
Other noncurrent liabilities…..	0	0	0	0	0	0
	28	1,258	26	1,139	17	748
Net foreign currency-denominated monetary assets (liabilities)…..…...	**(13)**	**(590)**	**(14)**	**(633)**	**17**	**788**

(1) *Amounts in currencies other than U.S. dollars have been translated into U.S. dollars at the relevant period-end exchange rate.*
(2) *U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱44.395.*
(3) *U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱43.540.*
(4) *U.S. dollar amounts have been translated into Pesos based on an exchange rate of US$1.00 = ₱44.875.*

Commodity Price Risk

San Miguel Pure Foods' commodity price risk exposure results primarily from the use of commodities as raw materials in its production processes. San Miguel Pure Foods enters into various commodity derivative instruments, such as commodity futures, swaps and options for wheat and soybean meal, 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 San Miguel Pure Foods, thus, protecting raw material costs 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. As a policy, San Miguel Pure Foods endeavors to hedge up to 20% of its wheat and soybean meal requirements.

SMC has a risk management team that executes commodity derivative transactions on behalf of its subsidiaries and associates, including San Miguel Pure Foods, to reduce cost by optimizing purchasing synergies and managing inventory levels of common materials. Although SMC is the entity that executes these derivative transactions and purchases, San Miguel Pure Foods negotiates and decides on the contracts to be entered into, and gains and losses on the derivative transactions are booked for the Company's, and not SMC's, account.

Liquidity Risk

San Miguel Pure Foods is exposed to the possibility that adverse changes in the business environment or its operations could result in substantially higher working capital requirements and consequently, a difficulty in financing additional working capital. San Miguel Pure Foods manages its liquidity risk by monitoring its cash position and maintaining credit lines from financial institutions that exceed projected financing requirements for working capital. For more information regarding the maturity of San Miguel Pure Foods' financial assets and liabilities, see Note 11 to the September 2014 condensed consolidated interim financial statements and Note 32 to the 2013 audited consolidated financial statements included elsewhere in this Prospectus.

Credit Risk

San Miguel Pure Foods' exposure to credit risk primarily relates to its trade and other receivables.

Generally, San Miguel Pure Foods' maximum credit risk exposure, in the event of customers' and counterparties' failure to perform their obligations, is the total carrying amount of the financial assets as shown on the statement of financial position. San Miguel Pure Foods has no significant concentration of credit risk since it deals with a large number of trade customers. In order to minimize its credit risk, San Miguel Pure Foods measures, monitors and manages the risk for each customer and counterparty based on established credit policies, guidelines and credit verification procedures. For more information regarding San Miguel Pure Foods' credit risk exposure, see Note 11 to the September 2014 condensed consolidated interim financial statements and Note 32 to the 2013 audited consolidated financial statements included elsewhere in this Prospectus.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on Accounting and Financial Disclosure.

Interest of Named Experts and Counsel

Legal Matters

All legal opinion/matters in connection with the issuance of the Preferred Shares which are subject of this Offer will be passed upon by Picazo Buyco Tan Fider & Santos Law Offices ("Picazo Law") for the Company and Sycip Salazar Hernandez and Gatmaitan ("Sycip Law") for the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners. Picazo Law and Sycip Law have no direct interest in the Company. Picazo Law and Sycip Law may from time to time, be engaged by the Company to advise in its transactions and perform legal services on the same basis that Picazo Law and Sycip Law provides such services to its other clients.

Independent Auditors

The consolidated financial statements of the Company as at and for the years ended December 31, 2011, 2012, and 2013 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus. The condensed consolidated interim financial statements as at and for the nine months ended September 30, 2014 have been reviewed by R.G. Manabat & Co., in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The Audit Committee of the Company, pursuant to its mandate to assist the Board of Directors in the performance of its oversight responsibility for financial reports and financial reporting process, internal control system, audit process and in monitoring and facilitating compliance with both the internal financial management handbook and pertinent accounting standards, legal and regulatory requirements, performs the following duties and responsibilities relating to the services of the Company's external auditors:

- Prior to the commencement of the audit, discuss and review all audit plans, scope and audit resources/expenses of the external auditors;
- Perform oversight functions with respect to the internal and external auditors of the Company, ensuring the independence of one from the other, freedom from interference from outside parties, and their unrestricted access to such records, properties and personnel of the Company necessary to enable them to perform their respective audit functions; and review the reports submitted by them;
- Evaluate and determine any non-audit work performed by the external auditors, including the fees therefor, and ensure that such work will not conflict with the external auditors' duties as such or threaten its independence;
- Review all interim and annual financial statements before submission to the Board of Directors for approval, with particular focus on the following:
    - changes in accounting policies and practices;
    - major judgmental areas;
    - significant adjustments resulting from audit;
    - going concern assumptions;
    - compliance with accounting standards; and
    - compliance with tax, legal and regulatory requirements.

The Audit Committee reviews and approves the scope of audit work of the independent auditors and the amount of audit fees for a given year. The Company's audit fees for the professional services rendered by the external auditor for each of the last two fiscal years 2012 and 2013 was Php1.2 million.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Taxation

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Preferred Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Preferred Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Preferred Shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Preferred Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment applicable to a holder of the Preferred Shares may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Preferred Shares.

PROSPECTIVE PURCHASERS OF THE PREFERRED SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE PREFERRED SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines." A non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines. The term "dividends" under this section refers to cash or property dividends. "Tax Code" means the Philippine National Internal Revenue of 1997, as amended.

Taxes on Dividends on the Preferred Shares

Individual Philippine citizens and resident aliens are subject to a final tax on dividends derived from the Preferred Shares at the rate of 10%, which tax shall be withheld by the Company.

Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from the Shares at the rate of 20% on the gross amount thereof, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual. A non-resident alien individual not engaged in trade or business in the Philippines is subject to a final withholding tax on dividends derived from the Shares at the rate of 25% of the gross amount, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile or residence of such non-resident alien individual.

The term "non-resident holder" means a holder of the Shares:

- who is an individual who is neither a citizen nor a resident of the Philippines or an entity which is a foreign corporation not engaged in trade or business in the Philippines; and
- should a tax treaty be applicable, whose ownership of the Shares is not effectively connected with a fixed base or a permanent establishment in the Philippines.

Dividends derived by domestic corporations (i.e., corporations created or organized in the Philippines or under its laws) and resident foreign corporations from the Shares shall not be subject to tax.

Dividends received from a domestic corporation by a non-resident foreign corporation are generally subject to final withholding tax at the rate of 30%, subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of such non-resident foreign corporation. The 30% rate for dividends paid to non-resident foreign corporations with countries of domicile having no tax treaty with the Philippines may be reduced to a special 15% rate if:

- the country in which the non-resident foreign corporation is domiciled imposes no taxes on foreign sourced dividends; or
- the country in which the non-resident foreign corporation is domiciled allows a credit against the tax due from the non-resident foreign corporation for taxes deemed to have been paid in the Philippines equivalent to 15%.

The BIR has prescribed, through an administrative issuance, procedures for the availment of tax treaty relief. The application for tax treaty relief has to be filed with the BIR by the non-resident holder of the Shares (or its duly authorized representative) at least 15 calendar days (Revenue Memorandum Order 1-2000) prior to the first taxable event, or prior to the first and only time the income tax payor is required to withhold the tax thereon or should have withheld taxes thereon had the transaction been subject to tax.

The requirements for a tax treaty relief application in respect of dividends are set out in the applicable tax treaty and BIR Form No. 0901-D. These include proof of tax residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the non-resident holder of Shares which states that the non-resident holder is a tax resident of such country under the applicable tax treaty. If the non-resident holder of Shares is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

If tax at the regular rate is withheld by the Company instead of the reduced rates applicable under a treaty, the non-resident holder of the Shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue obtaining such a refund. Moreover, in view of the requirement of the BIR that an application for tax treaty relief be filed prior to the first taxable event as previously stated, the non-resident holder of the Shares may not be able to successfully pursue a claim for refund if such an application is not filed before such deadline.

Stock dividends distributed pro rata to any holder of shares are not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as share dividends by the holder is subject to either capital gains tax and documentary stamp tax or stock transaction tax.

Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	Dividends (%)	Capital Gains Tax Due on Disposition of Shares Outside the PSE (%)
Canada	25[a]	Exempt[h]
France	15[b]	Exempt[h]
Germany	15[c]	5/10[i]
Japan	15[d]	Exempt[h]
Singapore	25[e]	Exempt[h]
United Kingdom	25[f]	Exempt[j]
United States	25[g]	Exempt[h]

Notes:

(a) *15% if the recipient company controls at least 10% of the voting power of the company paying the dividends.*

(b) *10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends.*

(c) *10% if the recipient company (excluding a partnership) owns directly at least 25% of the capital of the company paying the dividends.*

(d) *10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends.*

(e) *15% if during the part of the paying company's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any) at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company.*

(f) *15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends.*

(g) *20% if during the part of the paying corporation's taxable year which precedes the date of payment of dividends and during the whole of its prior taxable year (if any), at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation. Notwithstanding the rates provided under the Republic of the Philippines-United States Treaty, residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause[6] of the Tax Code provided certain conditions are met.*

(h) *Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.*

(i) *Under the tax treaty between the Philippines and Germany, capital gains from the alienation of shares of a Philippine corporation may be taxed in the Philippines irrespective of the nature of the assets of the Philippine corporation. Tax rates are 5% on the net capital gains realized during the taxable year not in excess of ₱100,000 and 10% on the net capital gains realized during the taxable year in excess of ₱100,000.*

(j) *Under the tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.*

[6] *The tax-sparing clause of the Tax Code may also apply to countries other than the United States, i.e. Switzerland.*

In order for an exemption under a tax treaty to be recognized, an application for tax treaty relief on capital gains tax on the sale of shares must be filed by the income recipient before the deadline for the filing of the documentary stamp tax return, which is the fifth day from the end of the month when the document transferring ownership was executed.

The requirements for a tax treaty relief application in respect of capital gains tax on the sale of shares are set out in the applicable tax treaty and BIR Form No. 0901-C. These include proof of residence in the country that is a party to the tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

Sale, Exchange or Disposition of Shares after the Offer Period

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless an applicable treaty exempts such gains from tax or provides for preferential rates, are subject to tax as follows: 5.0% on gains not exceeding ₱100,000 and 10.0% on gains over ₱100,000. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities to obtain an exemption under a tax treaty. Such application must be filed before the deadline for the filing of the documentary stamp tax return − otherwise, the tax treaty exemption cannot be availed of. The transfer of shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

The transfer of the Shares shall not be recorded in the books of the Company unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Taxes on transfer of shares listed and traded at the PSE

A sale or other disposition of shares through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.5% of the gross selling price or gross value in money of the shares sold or otherwise disposed, unless an applicable treaty exempts such sale from said tax. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain tax treaties, the exemptions from capital gains tax discussed herein may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client.

Prospective purchasers of the Preferred Shares should obtain their own tax advice in respect of their investment in relation to these developments.

Documentary Stamp Taxes on Shares

The original issue of shares is subject to documentary stamp tax of ₱1.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of ₱0.75 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the Shares.

However, the sale, barter or exchange of Preferred Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

In addition, the borrowing and lending of securities executed under the securities borrowing and lending program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority, are likewise exempt from documentary stamp tax. However, the securities borrowing and lending agreement should be duly covered by a master securities borrowing and lending agreement acceptable to the appropriate regulatory authority, and should be duly registered and approved by the BIR.

Estate and Gift Taxes

The transfer of the Preferred Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, will be subject to Philippine estate tax at progressive rates ranging from 5% to 20% if the net estate is over ₱200,000.00.

Individual registered holders, whether or not citizens or residents of the Philippines, who transfer shares by way of gift or donation, will be liable for Philippine donor's tax on such transfers at progressive rates ranging from 2% to 15% if the total net gifts made during the calendar year exceed ₱100,000.00. The rate of tax with respect to net gifts made to a stranger (one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a flat rate of 30%. Corporate registered holders are also liable for Philippine donor's tax on such transfers, but the rate of tax with respect to net gifts made by corporate registered holders is always at a flat rate of 30%.

Estate and gift taxes will not be collected in respect of intangible personal property, such as shares, (1) if the deceased at the time of death, or the donor at the time of donation, was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (2) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allow a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Corporate Income Tax

In general, a tax of 30% is imposed upon the taxable net income of a domestic corporation from all sources (within and outside the Philippines) pursuant to R.A. 9337, except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds, and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 7.5% of such income.

An MCIT of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when MCIT is greater than the ordinary income tax for the taxable year.

Nevertheless, any excess of the MCIT over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the MCIT may be suspended with respect to a corporation which suffers losses on account of a prolonged labor dispute, force majeure, or legitimate business reverses.

Industry Overview

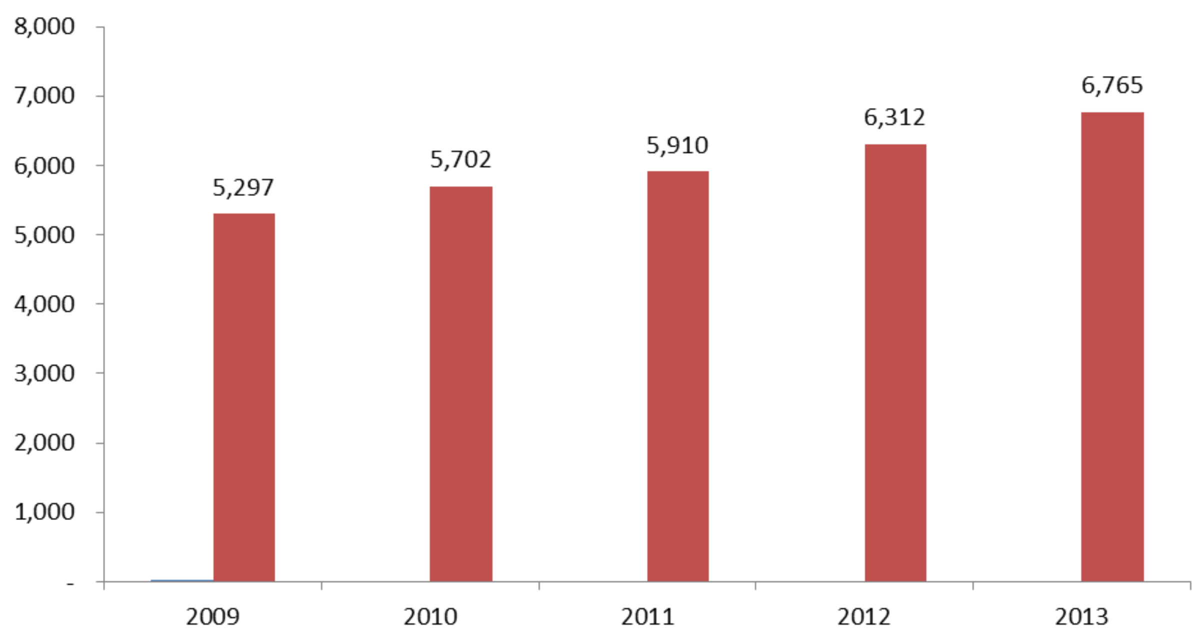
San Miguel Pure Foods primarily operates in the Philippine food industry. The performance of the food industry in the Philippines is closely correlated to Philippines' economic growth, as well as to trends and developments in each of the segments within the industry.

Overview of the Philippine Economy

GDP growth

The Philippine economy performed strongly over the past five years. Based on official data from the Philippine Statistical Authority (PSA), real GDP grew from ₱5,297 billion in 2009 to ₱6,765 billion in 2013 reflecting a CAGR of 6.3% over the period. Economic growth during the period was primarily driven by the renewed vigor of the manufacturing sector, increased construction activities related to government pump-priming activities and public-private sector projects as well as the sustained strength of services industries such as Business Process Outsourcing (BPO), real estate and financial services. As such, the Philippine economy was among the fastest growing economies in Asia. Attesting to the country's strong economic fundamentals, major international rating agencies such as S&P, Fitch, Moody's, R&I and JCRA granted the Philippines an investment grade in 2013. The chart below shows the annual real GDP for the Philippines from 2009 to 2013.

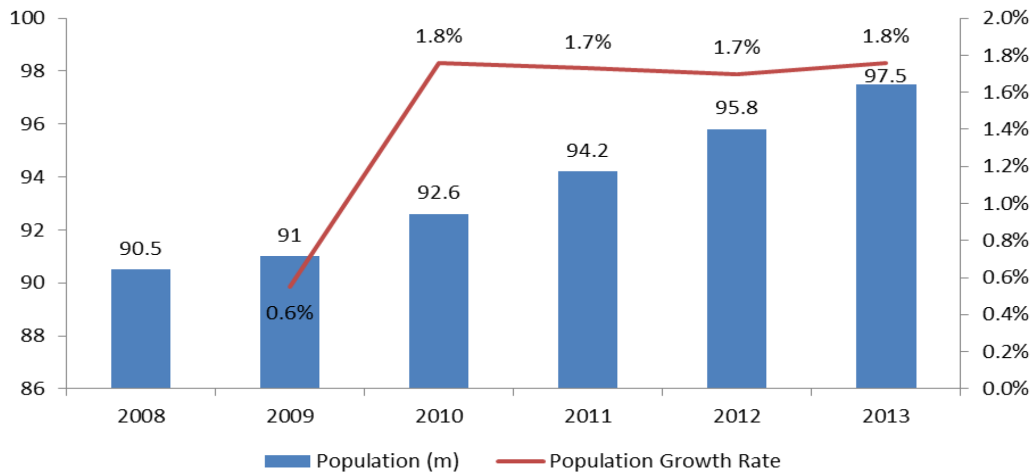
Philippine Real GDP (2009-2013)



Source: Philippine Statistical Authority (PSA)

Philippine population has seen steady growth rate since 2009. According to the International Monetary Fund (IMF), the country's population grew at a CAGR of 1.9% from 91 million in 2009 to approximately 97 million by 2013. The chart below shows Philippine population and population growth rates for the period.

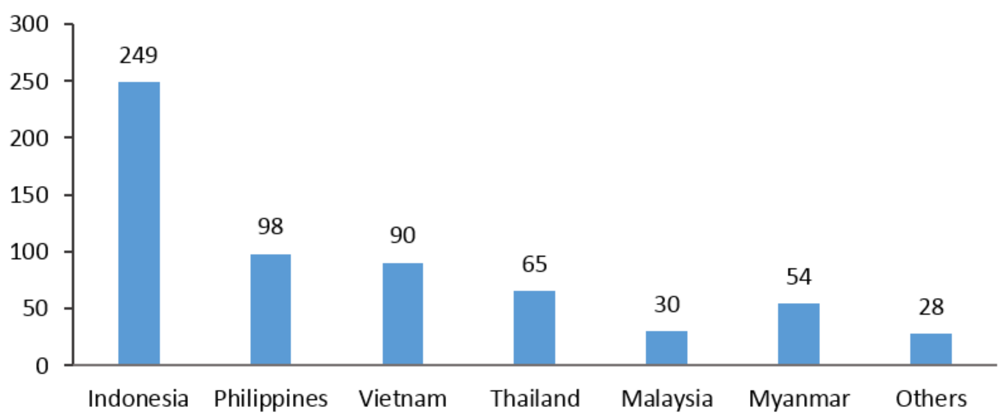
Philippine Population (2008-2013)



Source: International Monetary Fund (IMF)

According to the Asian Development Bank, the Philippines is the second most populous country in Southeast Asia. The chart below shows Philippine population relative to other Southeast Asian countries.

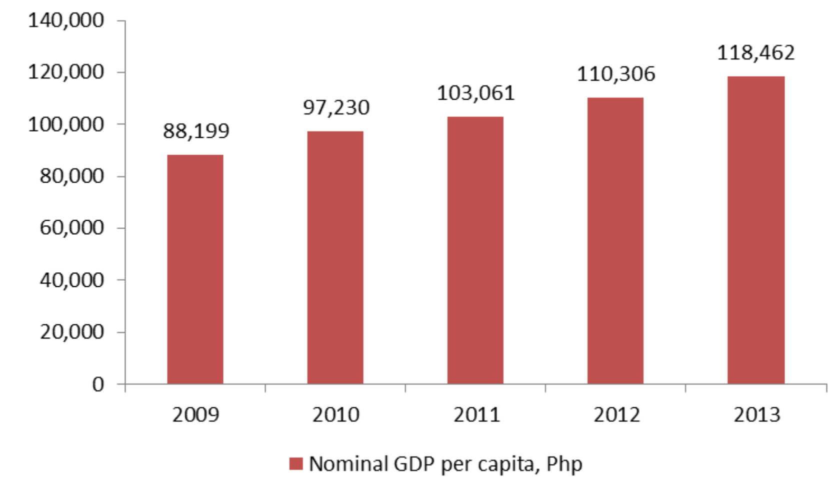
Population in Mil in Southeast Asia Countries (2014)



Note: Others include Timor-Leste, Cambodia, Laos, Brunei and Singapore
Source: Asian Development Bank

Due to the improving economy, nominal per capita income increased by almost 8% from ₱88,199 in 2009 to ₱118,462 in 2013.

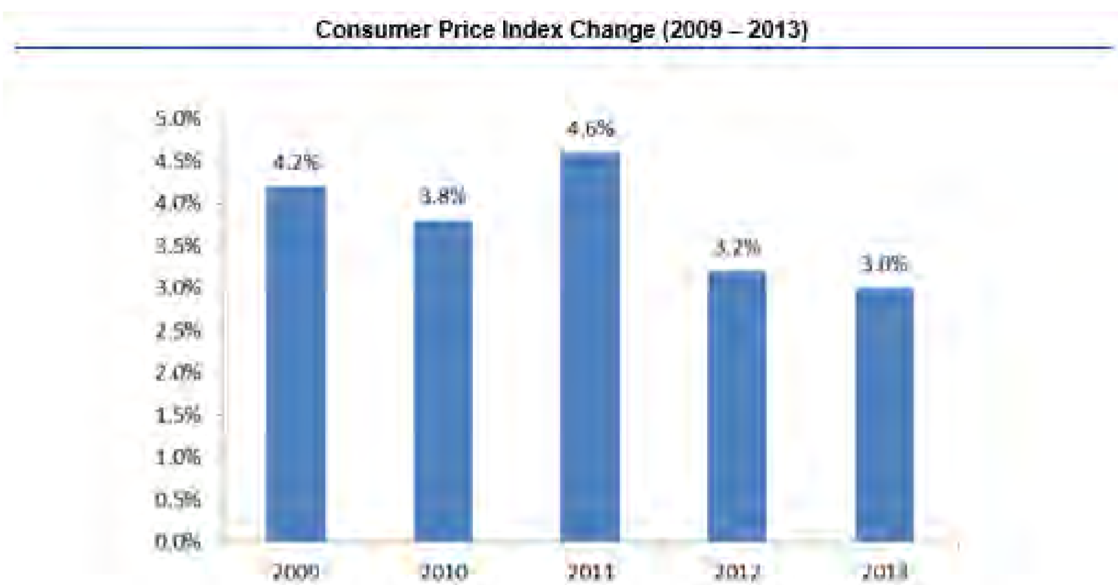
Philippines Nominal GDP Per Capita (2009 - 2013)



Source: IMF

Inflation

Changes in the Philippine consumer price index were relatively stable and remained at single digit levels between 2009 and 2013 owing to slower growth of food prices. The chart below shows the change in consumer price index in the Philippines from 2009 to 2013.

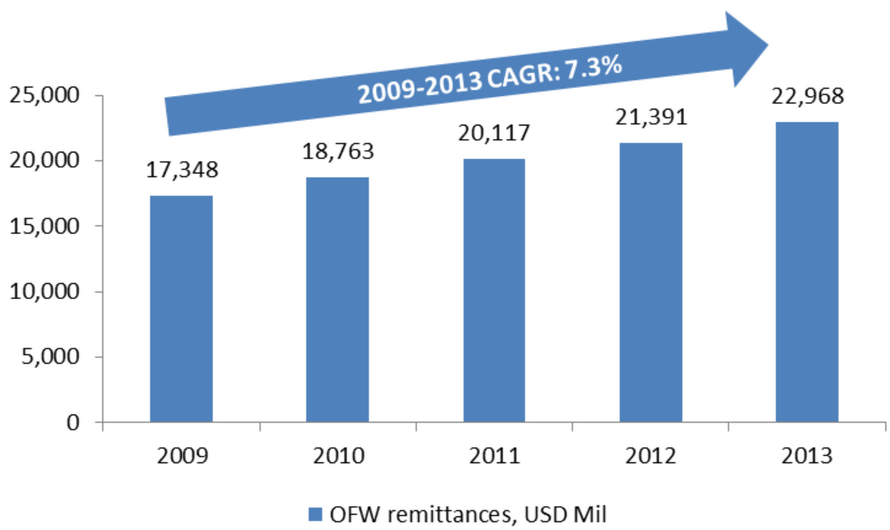


Source: PSA

Household consumption expenditure

Household consumption expenditure remained strong buoyed by sustained flows of remittances from overseas Filipino workers (OFWs). For the past several years, OFW remittances have been a source of strength and resilience for the Philippine economy. To date, there are approximately 10 million Filipinos deployed all over the world and in recent years, have been landing in higher skilled, hence higher paying jobs. In 2013, OFW remittances reached almost US$ 23 billion.

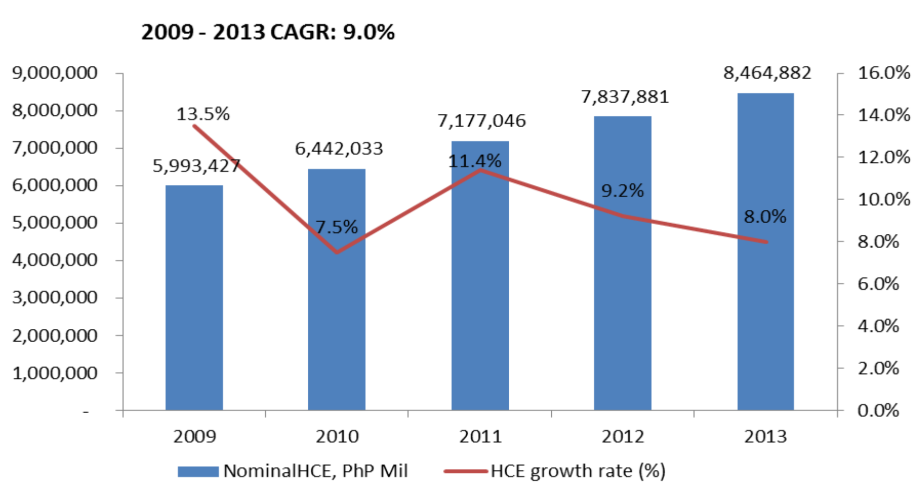
Remittances of Overseas Filipino Workers (2009 - 2013)



Source: Bangko Sentral ng Pilipinas

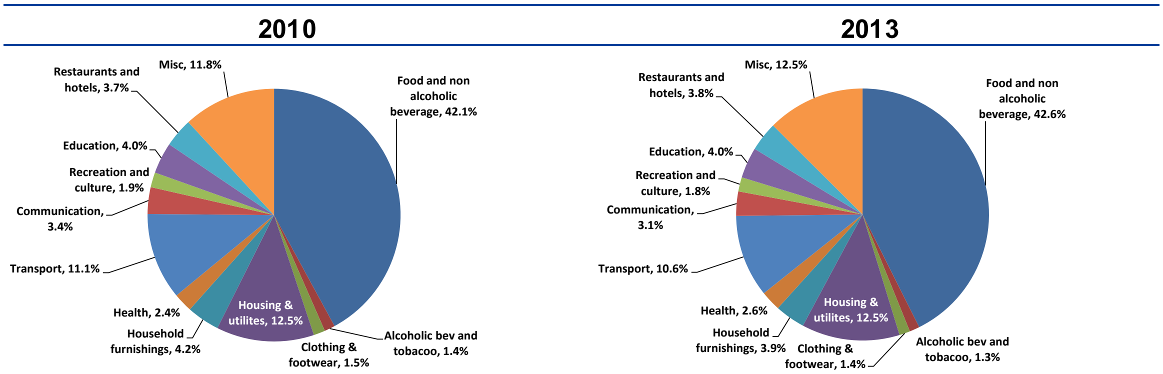
On the domestic front, additional income coming from increased BPO, construction and manufacturing activities have also provided support to household consumption. Between 2009 and 2013, nominal household consumption expenditures grew by a CAGR of 9.0% from ₱5,993 billion to ₱8,465 billion according to PSA. The following chart shows household consumption expenditures in the Philippines from 2009 to 2013.

Philippine Household Consumption Expenditure (2009-2013)



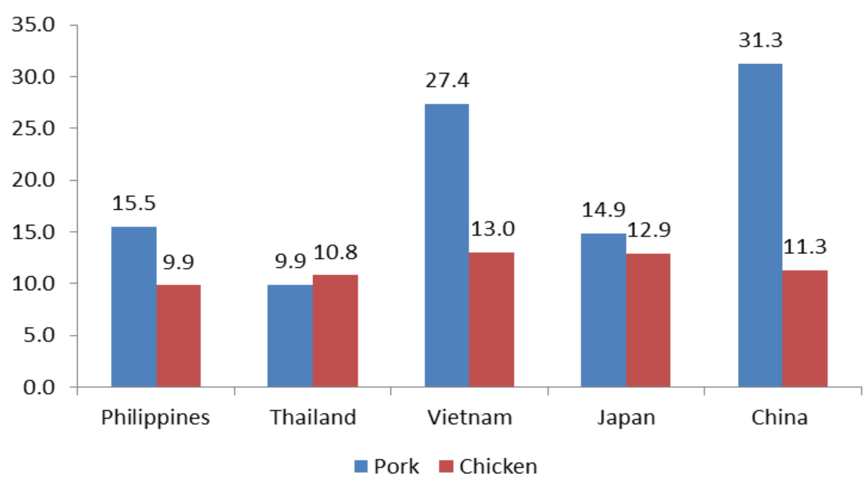
Source: PSA

Food expenditure continues to account for the largest percentage of household consumption in the Philippines. Over the past five years, food and non-alcoholic beverage as a percentage of total household consumption expenditure remained steady at 42.1% and 42.6% in 2010 and 2013, respectively as illustrated in the charts below. Likewise, the share of spending on restaurants and hotels remained stable during the same period, indicative of the growing trend of eating out.



Per capita pork and chicken consumption in the Philippines continues to lag behind that of most regional peers, indicating more room for growth. According to estimates from the *Organisation for Economic Co-operation and Development and the Food and Agricultural Organization (OECD-FAO)*, the Philippine population consumes approximately 15.5 kilograms and 9.9 kilograms per capita annually of pork and chicken, respectively.

2013 Per Capita Pork and Chicken Consumption



Source: OECD-FAO

Change in Philippine Consumer Preferences

Over the years, more Filipinos are adopting healthier lifestyles as the Philippine Department of Health together with other health advocates continue to initiate health and wellness information campaigns. These campaigns are targeted to increase awareness on lifestyle-related diseases such as high blood pressure, high cholesterol, diabetes and cancer that are increasingly affecting a significant number of Filipinos. Exposure to various forms of media have likewise heightened Filipino consumers' consciousness on such issues. Consumers deciding to improve their overall health have thus created a higher demand for healthier food products believing that there is a direct connection between food intake and physical health. This transition in consumer preferences has resulted in the development of more fortified food products and healthier alternatives to existing packaged food in the market.

AGRO-INDUSTRIAL

Poultry

The broiler industry in the Philippines was estimated to be a ₽175 billion market in 2013. The Philippine poultry industry had traditionally been highly fragmented. However, several major players, including San Miguel Pure Foods, have been successful in introducing modern technologies and processes to the industry, allowing them to consolidate market share to achieve economies of scale.

Feeds

The Philippine feeds industry is comprised of three segments, namely the “homemix” segment, the “intra” segment and the commercial segment. The homemix segment is comprised of small to medium-scale farms that are producing their own feeds. The intra segment includes the large, integrated livestock and poultry farms, which are also producing their own feeds. The commercial segment produces branded feeds for use by third parties.

In 2013, the total feeds industry in the Philippines is estimated to be a ₽160 billion market, of which the commercial feeds segment is around ₽46 billion. Much like the poultry industry, the Philippine feeds industry has been transformed from a fragmented, backyard market into a more concentrated and efficient industry by a small number of feedmillers who now dominate the Philippine feeds market.

Fresh Meats

The fresh meats industry in the Philippines remains highly fragmented. While a number of players in the industry have made attempts to modernize the fresh meats market, they have yet to achieve sufficient scale or consolidation for those efforts to succeed. Consolidation of the fresh meats industry is expected to increase in the future as larger players continue to invest in new technologies.

The Philippine hog industry, which is the primary source of fresh meats in the Philippines, was valued at approximately ₽192 billion in 2013 and ranks among the top ten producers in the world with 1.54 million sows, of which approximately 65% are classified as “backyard” in scale. Almost all Philippine hog producers sell only live hogs to traders.

VALUE-ADDED MEATS

San Miguel Pure Foods' value-added meats business is a key player in the Philippine processed meats industry. According to Kantar Worldpanel, hotdogs, the largest segment, had an estimated value of ₽10 billion in the twelve-month period ended September 2014. The combined shares of its various hotdog brands have positioned San Miguel Pure Foods' value-added meats business as the market leader, with a market share of 66% for hotdogs sold in Philippine supermarkets. In the same period, the nuggets segment had an estimated value of ₽408 million with San Miguel Pure Foods as the market leader at 78% market share. The other two segments, corned meat and luncheon meat, had an estimated value of

₱8 billion and ₱5 billion, respectively. For these segments, Kantar Worldpanel estimated San Miguel Pure Foods' shares in the same period to be 15% for corned meat and 4% for luncheon meat.

In recent years, San Miguel Pure Foods' value-added meats business has faced increased competition from both established local players, which are employing aggressive pricing and promotion schemes, and from new entrants to the market. San Miguel Pure Foods has responded to this competition by increasing its below-the-line spending on promotions for its value-added meats businesses, as well as introducing new product lines. The value-added meats business has employed a strategy of launching fighter brands and engaging in extensive advertising and promotion for its key brands to maintain its leadership position. It continues to innovate and launch new brands to sustain its market position.

MILLING

Flour

While rice has traditionally been the primary source of carbohydrates in the Philippines, bread and noodles have become increasingly popular alternatives in recent years. This helped drive growth in the Philippine flour industry. In addition, large bakery chains are expanding rapidly in the Philippines at the expense of smaller, more traditional neighborhood bakeries. These larger chains often place greater emphasis on the quality of the flour they use, providing an opportunity for flour producers to sell customized, higher margin flour products.

OTHERS

Dairy, Spreads and Oils

The retail bread spreads market in the Philippines has witnessed declines in recent years as a result of the economic downturn and its effects on consumer spending patterns.

Consumers in the Philippines have historically consumed powdered milk. Recently, consumers have become increasingly aware of other forms of milk, such as the ready-to-drink milk products that San Miguel Pure Foods offers. According to Nielsen, the Philippine ready-to-drink milk market was approximately 83 million liters in 2013.

In 2013, Nielsen estimated the Philippine ice cream market volume at approximately 9 million gallons. The Philippine ice cream industry is dominated by Selecta and Nestlé, who hold a combined market share of approximately 87%. *Magnolia* is currently the third largest brand in the Philippine ice cream industry with 10% market share.

Growth in the Philippine jelly-based snacks market has slowed in recent years, as more varieties of alternative snack products have become available.

San Miguel Pure Foods believes the value of the Philippine edible oil industry was approximately ₱5 billion in 2013 but is facing threats from growing unbranded products.

Coffee

According to Nielsen, coffee is one of the most consumed beverages in the Philippines. The total retail coffee market in the Philippines had revenues of approximately ₱29 billion in 2013. The popularization of coffee shop chains, such as Starbucks and Coffee Bean & Tea Leaf, has greatly influenced coffee consumption among Philippine consumers, particularly among the younger generation.

Foodservice

The country's foodservice industry continues to benefit from the strong economic performance of the country as well as its growing population. According to TNS (Taylor Nelson Sofres), the industry is estimated to be about ₱319 billion in size in 2014. While the industry continues to be dominated by long-established fast food chains such as Jollibee and McDonald's, there have been a number of new entrants in the market which include international Asian and Western restaurant chains.

REGIONAL

Vietnam

Vietnam's food processing industry is highly fragmented and dominated by relatively small domestic operators. Although the consumption of processed meats remains fairly low in Vietnam, it has been increasing, particularly in the main population centers of Ho Chi Minh City and Hanoi, as economic development has led to increased demand for processed meats.

Indonesia

As the fourth most populous nation in Asia with about 249 million people, Indonesia's annual per capita meat consumption still remains one of the lowest in the region but one that has shown a strong market potential in the recent years. Other than beef, chicken, fish and soybean-based foods, processed meat products has established its position as an increasing alternative protein source for over 50 percent of the Indonesian population, particularly among middle and lower income consumers.

Regulatory Framework

Various laws and government agencies in the Philippines regulate the manufacturing, processing, sale and distribution aspects of the San Miguel Pure Foods' businesses.

The Food Safety Act

In 2013, Republic Act No. 10611 (Food Safety Act of 2013) (the "Food and Safety Act") was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the Department of Agriculture and the Department of Health, their pertinent bureaus, and the local government units.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The Department of Agriculture and the Department of Health are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) Imported foods shall undergo cargo inspection and clearance procedures by the Department of Agriculture and the Department of Health at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on food business operators: (a) food business operators shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a food business operator considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) food business operators shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

The final implementing rules and regulations of the Food and Safety Act to be issued by the Department of Agriculture and the Department of Health has not yet been made available.

The Food, Drugs and Devices, and Cosmetics Act

The Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the "FDDC Act"), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The Food and Drug Administration (previously referred to as the Bureau of Food and Drugs) (the "FDA") is the governmental agency under the Department of Health ("DOH") tasked to implement and enforce the FDDC Act.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution or transfer, non-consumer use, promotion, advertisement or sponsorship food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food product by any person or entity without a license to operate from the FDA. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

San Miguel Pure Foods and its subsidiaries have "Licenses To Operate" from the FDA, which are renewable every year.

The Consumer Act

The Consumer Act of the Philippines (the "Consumer Act") establishes quality and safety standards with respect to the composition, contents, packaging, labeling and advertisement of food products. The DOH (which includes the FDA) is the government agency tasked to implement the Consumer Act with respect to food products.

The Consumer Act prohibits the manufacture for sale, offer for sale, distribution, or importation of food products which are not in conformity with applicable consumer product quality or safety standards promulgated thereunder. Like the FDDC Act, the Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabeled. In connection therewith, the Consumer Act provides for minimum labeling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public. In addition, the Consumer Act prohibits the false, deceptive or misleading advertisements and sales promotions and deceptive sales acts and practices in connection with food products. Any person found in violation of the provisions of the Consumer Act shall be subject to administrative penalties or imprisonment or both. Under the Consumer Act, The DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

The Livestock and Poultry Feeds Act

The Livestock and Poultry Feeds Act and its implementing rules and regulations (the "Livestock and Poultry Feeds Act"), regulates and controls the manufacture, importation, labeling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the "BAI") is the governmental office under the Department of Agriculture ("DA") tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis.

The Livestock and Poultry Feeds Act also provides branding, labeling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

San Miguel Pure Foods' feedmills, whether Company-owned and tolled, are all registered with the BAI and San Miguel Pure Foods pays monthly inspection fees based on the number of metric tons of feeds produced. San Miguel Pure Foods also seeks approval from the BAI for brand names and registers every new product prior to market launch. To obtain the brand name approval and product registration, San Miguel Pure Foods submits a notarized Application for Feed Product Registration, Certificate of Analysis and three copies of feed tags to be inserted in the packaging of the new product. Based on this information, the BAI makes a determination as to whether the new product is within its specifications.

The Meat Inspection Code

The Meat Inspection Code of the Philippines (the "Meat Inspection Code") establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labeling, packaging, branding and importation of meat (including, but not limited to, pork, beef and chicken meat) and meat products. The National Meat Inspection Service ("NMIS"), a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

The Meat Inspection Code provides for labeling, branding and packaging requirements for meat and meat products to enable consumers to obtain accurate information and ensure product traceability. Said Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

San Miguel Pure Foods' poultry processing plants and livestock slaughter plants, both Company-owned and tolled, are all accredited by NMIS. San Miguel Pure Foods' plants have all been categorized by NMIS as either "AA" or "AAA" grade, which qualifies products from those plants for distribution to any location throughout the Philippines or for export. Plant accreditations are renewed annually following inspection by NMIS for compliance with the Good Manufacturing Practices, Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Points. NMIS inspectors are also stationed at each of San Miguel Pure Foods' poultry processing plants and livestock slaughter plants on a daily basis and issue certifications for each batch of products that is shipped from any of those plants.

The Price Act

The Price Act (the "Price Act") covers basic necessities such as fresh pork, beef and poultry meat, milk, coffee and cooking oil, and prime commodities such as flour, dried, processed and canned pork, beef and poultry meat, other dairy products and swine and poultry feeds. It is primarily enforced and implemented by the DA and Department of Trade and Industry.

Under the Price Act, the prices of basic commodities may be automatically frozen in areas declared as disaster areas, under emergency or martial law or in a state or rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. The Price Act prohibits and penalizes illegal price manipulation through cartels, hoarding or profiteering. Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

The Philippine Food Fortification Act

The Philippine Food Fortification Act of 2000 (the "PFF Act") provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and foodservice establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

All Magnolia-branded products are compliant with the PFF Act. For example, San Miguel Pure Foods uses iodized salt in its Magnolia products to comply with Republic Act No. 8172 (An Act for Salt Iodization Nationwide).

For wheat flour, the addition of Vitamin A and Iron are mandated under standards set by the DOH. San Miguel Pure Foods' flour business has been compliant with the requirements of the PFF Act since 2004.

Bangko Sentral ng Pilipinas

The Bangko Sentral ng Pilipinas ("BSP") is the central bank of the Republic of the Philippines. It was rechartered on July 3, 1993, pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP was established on January 3, 1949, as the country's central monetary authority. Among its functions is the management of foreign currency reserves, by maintaining sufficient international reserves to meet any foreseeable net demands for foreign currencies in order to preserve the international stability and convertibility of the Philippine peso.

Department of Trade and Industry

The Department of Trade and Industry ("DTI") is the primary government agency with the dual mission of facilitating the creation of a business environment wherein participants could compete, flourish, and succeed and, at the same time, ensuring consumer welfare. It is the enforcement of laws to protect and educate consumers that becomes the driving factor in the relationship of DTI and manufacturers, such as San Miguel Pure Foods.

Department of Labor and Employment

Department of Labor and Employment stands as the national government agency mandated to formulate policies, implement programs and services, and serve as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The Department has exclusive authority in the administration and enforcement of labor and employment laws and such other laws as specifically assigned to it or to the Secretary of Labor and Employment.

Social Security System and PhilHealth

An employer is required under the Social Security Act of 1997 (RA 8282), as amended, ensure coverage of its employees following procedures set out by the law and the Social Security System ("SSS"). San Miguel Pure Foods, as employer, must deduct from its employees their monthly contributions based on a given schedule, pay its share of contribution and remit these to the SSS within a period set by law and SSS regulations.

Philippine Health Insurance Corporation (or "PhilHealth") is a government corporation attached to the DOH, that ensures sustainable, affordable and progressive social health insurance pursuant to the provisions of RA 7875 or the National Health Insurance Act of 1995, as amended. Employers are required to ensure enrollment of its employees in the National Health Program being administered by the PhilHealth.

ENVIRONMENTAL MATTERS

The operations of San Miguel Pure Foods' businesses are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

Environmental Impact Statement System Law

The Philippine Environmental Impact Statement System (the "EISS Law"), which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (a) classified as environmentally critical or (b) is situated in an environmentally critical area. It requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement ("EIS") which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an Environmental Compliance Certificate ("ECC"). An ECC is a government certification that the proposed project or undertaking will not cause significant negative environmental impact; that the proponent has complied with all the requirements of the EISS in connection with said project; and that the proponent is committed to implement its approved Environmental Management Plan in the EIS. In general, only projects that pose potential significant impact on the environment shall be required to secure an ECC. The proponent of a project for which an ECC is issued and determined by the DENR to pose a significant public risk or necessitate rehabilitation or restoration shall be required to establish an Environmental Guarantee Fund. Said Fund is intended to meet any damage caused by, as well as any rehabilitation and restoration measures in connection with, the said project.

Clean Water Act

The Philippine Clean Water Act of 2004 (the "Clean Water Act") and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the country's water resources. Said Act require owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes said owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Water Act.

Clean Air Act

The Philippine Clean Air Act of 1999 (the "Clean Air Act") provides for air quality standards and regulations against air pollution. It provides that the DENR shall have authority to issue permits as it may determine necessary for the prevention and abatement of air pollution. Said permits shall cover emission limitations for regulated air pollutants to help attain and maintain the ambient air quality standards. Under the implementing rules and regulations of the Clean Air Act, all sources of air pollution are required to obtain a valid Permit to Operate while new or modified sources must first obtain an Authority to Construct. The DENR, together with other government agencies and the different local government units, are tasked to implement the Clean Water Act.

Local Government Code

The Local Government Code ("LGC") establishes the system and powers of provincial, city, municipal, and *barangay* governments in the country. The LGC general welfare clause states that every local government unit ("LGU") shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

LGUs exercise police power through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

Other Relevant Tax-Related Regulations

On July 21, 2014, the Food and Drug Administration issued FDA Circular No. 2014-017 which prescribed the procedure for the issuance of the Food and Drug Administration Certification for Animal Feeds and Products. The FDA issued the circular pursuant to BIR Revenue Memorandum Circular No. 55-2014 which required FDA certification that imported livestock and poultry feeds or ingredients thereof are not fit for human consumption before the same would be considered exempt from VAT.

Other Laws

Other regulatory environmental laws and regulations applicable the San Miguel Pure Foods' businesses include the following:

The Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990 regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. Said Act is implemented by the DENR.

The Ecological Solid Waste Management Act of 2000 provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. Said Act prohibits, among others, the transporting and dumping of collected solid wastes in areas other than such centers and facilities prescribed thereunder. The National Solid Waste Management Commission, together with other government agencies and the different local government units, are responsible for the implementation and enforcement of the said law.

The Sanitation Code provides for sanitary and structural requirements in connection with the operation of certain establishments such as food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. Said Code is implemented by the DOH.

The Philippine Stock Market

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company, the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners or any of their respective subsidiaries, affiliates or advisors in connection with the offer and sale of the Shares.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system, which integrates all bid, and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of 97.8 million shares, of which 61,058,726 shares are subscribed and fully paid-up as of the date of this Prospectus. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a “Trading Participant Certificate” was immediately conferred on each member broker allowing the use of the PSE’s trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE’s Main Board or the Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component shares. The PSE has an index, referred to as the PHISIX, which as at the date thereof reflects the price movements of selected shares listed on the PSE, based on traded prices of shares from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006, simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of shares of 30 selected companies listed on the PSE.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The table below sets out movements in the composite index as of the last business day of each calendar year from 1995 to 2013 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₽ billions)	Combined Value of Turnover (in ₽ billions)
1995	2,594.2	205	1,545.7	379.0
1996…………………………..	3,170.6	216	2,121.1	668.8
1997…………………………..	1,869.2	221	1,251.3	586.2
1998…………………………..	1,968.8	222	1,373.7	408.7
1999…………………………..	2,142.9	225	1,936.5	781.0
2000…………………………..	1,494.5	229	2,576.5	357.7
2001…………………………..	1,168.1	231	2,141.4	159.6
2002…………………………..	1,018.4	234	2,083.2	159.7
2003…………………………..	1,442.4	236	2,973.8	145.4
2004…………………………..	1,822.8	235	4,766.3	206.6
2005…………………………..	2,096.0	237	5,948.4	383.5
2006…………………………..	2,982.5	239	7,173.2	572.6
2007…………………………..	3,621.6	244	7,977.6	1,338.3
2008…………………………..	1,872.9	246	4,069.2	763.9
2009…………………………..	3,052.7	248	6,029.1	994.2
2010…………………………..	4,201.1	253	8,866.1	1,207.4
2011…………………………..	4,372.0	245	8,697.0	1,422.6
2012…………………………..	5,812.7	254	10,952.7	1,771.7
2013…………………………..	5,889.8	257	11,931.3	2,546.3

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Beginning January 2, 2012, trading on the PSE starts at 9:30 a.m. until 12:00 p.m., when there will be a one and a half hour lunch break. In the afternoon, trading resumes at 1:30 p.m. and ends at 3:30 p.m., with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from five to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 50% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If the issuer fails to submit such explanation, a trading halt is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three trading days after transaction date ("T+3"). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book-entry system of the PDTC. Each PSE Broker maintains a Cash Settlement Account with one of the five existing Settlement Banks of SCCP, which are Banco de Oro Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, Deutsche Bank and Unionbank of the Philippines. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scripless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Banco de Oro Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank and Trust Company, Deutsche Bank and Unionbank of the Philippines.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("PCD Nominee"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current “de facto” custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in the amended rule on Lodgment of Securities of the PSE.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on listing date.

- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company’s registry as of confirmation date.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company’s transfer agent.

Appendix

A. Reviewed Unaudited Condensed Consolidated Interim Financial Statements as at and for the nine months ended September 30, 2014.

B. Audited Consolidated Financial Statements as at and for the years ended December 31, 2013, 2012 and 2011.

A. Reviewed Unaudited Condensed Consolidated Interim Financial Statements as at and for the nine months ended September 30, 2014

SAN MIGUEL PURE FOODS COMPANY INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2014 and December 31, 2013

KPMG

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REPORT OF INDEPENDENT AUDITORS ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Stockholders and Board of Directors
San Miguel Pure Foods Company Inc.

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of San Miguel Pure Foods Company Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at September 30, 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013, and selected notes. The 2013 consolidated financial statements (not presented herein) from which the accompanying consolidated statement of financial position as at December 31, 2013 was derived, were audited by us, for which we expressed an unqualified opinion in our report dated March 26, 2014. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements do not present fairly, in all material respects, the financial position of San Miguel Pure Foods Company Inc. and Subsidiaries as at September 30, 2014, and its financial performance and its cash flows for the nine months ended September 30, 2014 and 2013, in accordance with PAS 34, *Interim Financial Reporting*.

R.G. MANABAT & CO.

John Molina

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BIR Accreditation No. 08-001987-23-2014
Issued January 22, 2014; valid until January 21, 2017
PTR No. 4225136MC
Issued January 2, 2014 at Makati City

November 5, 2014
Makati City, Metro Manila

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

	Note	September 30 2014 Unaudited	December 31 2013 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	*11, 12*	**P12,051,589**	P7,030,943
Trade and other receivables - net	*7, 11, 12*	**9,834,731**	25,662,903
Inventories	*4*	**16,434,261**	14,784,992
Biological assets		**3,486,691**	3,427,280
Derivative assets	*11, 12*	**2,889**	4,621
Prepaid expenses and other current assets		**2,397,701**	2,772,354
Total Current Assets		**44,207,862**	53,683,093
Noncurrent Assets			
Investment properties - net		**633,131**	632,679
Property, plant and equipment - net	*6*	**10,789,527**	11,254,188
Biological assets - net of current portion		**1,970,885**	1,910,906
Other intangible assets - net		**3,817,065**	3,867,720
Goodwill - net		**428,343**	425,655
Deferred tax assets		**840,036**	840,422
Other noncurrent assets	*7, 11, 12*	**213,778**	229,617
Total Noncurrent Assets		**18,692,765**	19,161,187
		P62,900,627	P72,844,280
LIABILITIES AND EQUITY			
Current Liabilities			
Notes payable	*11, 12*	**P6,940,811**	P8,647,785
Trade payables and other current liabilities	*7, 11, 12*	**14,812,100**	15,936,038
Income tax payable		**266,275**	387,664
Total Current Liabilities		**22,019,186**	24,971,487
Noncurrent Liabilities			
Long-term debt - net of debt issue costs	*11, 12*	**4,489,532**	4,483,300
Deferred tax liabilities		**112,031**	135,782
Other noncurrent liabilities	*11, 12*	**899,987**	893,786
Total Noncurrent Liabilities		**5,501,550**	5,512,868
Equity			
Equity Attributable to Equity Holders of the Parent Company	*8*		
Capital stock		**1,858,748**	1,858,748
Additional paid-in capital		**20,500,284**	20,500,284
Revaluation surplus		**18,219**	18,219
Reserve for retirement plan		**(434,714)**	(434,714)
Cumulative translation adjustments		**(251,215)**	(248,738)
Retained earnings			
Appropriated		**1,200,000**	750,000
Unappropriated		**10,868,605**	17,929,528
Treasury stock		**(182,094)**	(182,094)
		33,577,833	40,191,233
Non-controlling Interests		**1,802,058**	2,168,692
Total Equity		**35,379,891**	42,359,925
		P62,900,627	P72,844,280

See Selected Notes to the Consolidated Financial Statements.

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

		For the Nine Months Ended		For the Three Months Ended	
	Note	September 30 2014	September 30 2013	September 30 2014	September 30 2013
REVENUES	*7*	**P74,415,441**	P71,412,982	**P25,239,157**	P24,331,797
COST OF SALES	*7*	**60,068,840**	58,184,227	**20,187,445**	20,277,164
GROSS PROFIT		**14,346,601**	13,228,755	**5,051,712**	4,054,633
SELLING AND ADMINISTRATIVE EXPENSES	*7*	**(10,019,308)**	(9,562,166)	**(3,421,339)**	(2,786,930)
INTEREST EXPENSE AND OTHER FINANCING CHARGES		**(313,104)**	(431,738)	**(98,280)**	(128,194)
INTEREST INCOME		**92,135**	65,649	**38,128**	20,333
EQUITY IN NET EARNINGS OF AN ASSOCIATE		**-**	714,946	**-**	220,238
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT		**95**	3,982	**(53)**	304
OTHER CHARGES - Net		**(161,708)**	(336,790)	**(191,499)**	(78,267)
INCOME BEFORE INCOME TAX		**3,944,711**	3,682,638	**1,378,669**	1,302,117
INCOME TAX EXPENSE		**1,222,227**	990,259	**399,903**	366,406
NET INCOME		**P2,722,484**	P2,692,379	**P978,766**	P935,711
Attributable to:					
Equity holders of the Parent Company		**P2,689,099**	P2,745,825	**P938,586**	P940,685
Non-controlling interests		**33,385**	(53,446)	**40,180**	(4,974)
		P2,722,484	P2,692,379	**P978,766**	P935,711
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*10*	**P10.73**	P11.07	**P3.83**	P3.84

See Selected Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(In Thousands)

	For the Nine Months Ended		For the Three Months Ended	
	September 30 2014	September 30 2013	**September 30 2014**	September 30 2013
NET INCOME	**P2,722,484**	P2,692,379	**P978,766**	P935,711
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss				
Share in other comprehensive income (loss) of an associate - net	**-**	17,554	**-**	(11,633)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations	**(2,168)**	7,620	**(329)**	(13,958)
Net gain (loss) on available-for-sale financial assets	**(31)**	-	**36**	-
Income tax benefit (expense)	**3**	-	**(4)**	-
	(2,196)	7,620	**(297)**	(13,958)
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	**(2,196)**	25,174	**(297)**	(25,591)
TOTAL COMPREHENSIVE INCOME - Net of tax	**P2,720,288**	P2,717,553	**P978,469**	P910,120
Attributable to:				
Equity holders of the Parent Company	**P2,686,622**	P2,774,509	**P938,114**	P919,292
Non-controlling interests	**33,666**	(56,956)	**40,355**	(9,172)
	P2,720,288	P2,717,553	**P978,469**	P910,120

See Selected Notes to the Consolidated Financial Statements.

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					
	Note	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)		P1,858,748	P20,500,284	P18,219	(P434,714)	(P251,603)	P2,865	P750,000	P17,929,528	(P182,094)	P40,191,233	P2,168,692	P42,359,925
Net gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	(2,449)	-	-	-	-	(2,449)	281	(2,168)
Net loss on available-for-sale financial assets, net of tax		-	-	-	-	-	(28)	-	-	-	(28)	-	(28)
Other comprehensive income (loss)		-	-	-	-	(2,449)	(28)	-	-	-	(2,477)	281	(2,196)
Net income for the period		-	-	-	-	-	-	-	2,689,099	-	2,689,099	33,385	2,722,484
Total comprehensive income (loss) for the period		-	-	-	-	(2,449)	(28)	-	2,689,099	-	2,686,622	33,666	2,720,288
Appropriations		-	-	-	-	-	-	450,000	(450,000)	-	-	-	-
Cash dividends	*9*	-	-	-	-	-	-	-	(9,300,022)	-	(9,300,022)	(400,300)	(9,700,322)
As at September 30, 2014 (Unaudited)		P1,858,748	P20,500,284	P18,219	(P434,714)	(P254,052)	P2,837	P1,200,000	P10,868,605	(P182,094)	P33,577,833	P1,802,058	P35,379,891

Forward

		Attributable to Equity Holders of the Parent Company											
						Cumulative Translation Adjustments		Retained Earnings					
	Note	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, 2012 (Audited)		P1,858,748	P20,500,284	P18,219	(P290,506)	(P257,418)	P4,143	P750,000	P15,832,541	(P182,094)	P38,233,917	P2,788,465	P41,022,382
Net gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	11,130	-	-	-	-	11,130	(3,510)	7,620
Share in other comprehensive income of an associate - net		-	-	-	-	-	17,554	-	-	-	17,554	-	17,554
Other comprehensive income (loss)		-	-	-	-	11,130	17,554	-	-	-	28,684	(3,510)	25,174
Net income (loss) for the period		-	-	-	-	-	-	-	2,745,825	-	2,745,825	(53,446)	2,692,379
Total comprehensive income (loss) for the period		-	-	-	-	11,130	17,554	-	2,745,825	-	2,774,509	(56,956)	2,717,553
Cash dividends	9	-	-	-	-	-	-	-	(1,500,001)	-	(1,500,001)	(600,000)	(2,100,001)
As at September 30, 2013 (Unaudited)		P1,858,748	P20,500,284	P18,219	(P290,506)	(P246,288)	P21,697	P750,000	P17,078,365	(P182,094)	P39,508,425	P2,131,509	P41,639,934

See Selected Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In Thousands)

	Note	For the Nine Months Ended September 30 2014	September 30 2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P3,944,711**	P3,682,638
Adjustments for:			
Depreciation and amortization		**2,082,171**	1,919,764
Allowance for impairment losses on receivables and inventory losses		**371,940**	137,323
Interest expense and other financing charges		**313,104**	431,738
Other charges (income) net of loss (gain) on derivative transactions		**(148,596)**	253,145
Interest income		**(92,135)**	(65,649)
Gain on sale of property and equipment		**(95)**	(3,982)
Equity in net earnings of an associate		**-**	(714,946)
Operating income before working capital changes		**6,471,100**	5,640,031
Decrease (increase) in:			
Trade and other receivables		**1,897,637**	2,080,474
Inventories		**(2,043,209)**	(479,561)
Biological assets		**(60,425)**	(46,031)
Prepaid expenses and other current assets		**366,845**	(162,518)
Decrease in trade payables and other current liabilities		**(810,675)**	(522,251)
Cash generated from operations		**5,821,273**	6,510,144
Interest paid		**(315,246)**	(425,805)
Income taxes paid		**(1,376,489)**	(1,119,911)
Interest received		**97,692**	56,652
Net cash flows provided by operating activities		**4,227,230**	5,021,080
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment and property and equipment	*5*	**13,886,871**	7,883
Increase in other noncurrent liabilities		**6,201**	85,531
Increase in biological assets and other noncurrent assets		**(1,160,995)**	(1,126,579)
Acquisitions of property, plant and equipment	*6*	**(461,726)**	(1,481,138)
Acquisitions of intangible assets		**(70,934)**	(38,735)
Dividends received from an associate		**-**	602,727
Net cash flows provided by (used in) investing activities		**12,199,417**	(1,950,311)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of notes payable		**(1,709,089)**	155,182
Cash dividends paid	9	**(9,695,986)**	(2,099,341)
Net cash flows used in financing activities		**(11,405,075)**	(1,944,159)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(926)**	3,976
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,020,646**	1,130,586
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**7,030,943**	4,280,418
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**P12,051,589**	P5,411,004

See Selected Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY INC. AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Unless Otherwise Indicated)

1. Reporting Entity

San Miguel Pure Foods Company Inc. ("SMPFC" or the "Company"), a subsidiary of San Miguel Corporation ("SMC" or the "Parent Company"), was incorporated in the Philippines. 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 Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE).

The 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, and importation and marketing of coffee and coffee-related products.

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Accounting

The Group prepared its interim consolidated financial statements as at and for the period ended September 30, 2014 and comparative financial statements for the same period in 2013 following the 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 (P000), 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.

Adoption of New Standards, Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of new or revised standards, amendments to standards and interpretations [based on International Financial Reporting Interpretation Committee (IFRIC) Interpretations] as part of PFRS.

Amendments to Standard and Interpretations Adopted in 2014

The Group has adopted the following PFRS starting January 1, 2014 and accordingly, changed its accounting policies in the following areas:

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32, Financial Instruments Presentation).* The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, *Income Taxes*, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- Novation of Derivatives and Continuation of Hedge Accounting *(Amendments to PAS 39, Financial Instruments: Recognition and Measurement).* The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted. However, if an entity applies the amendments for an earlier period, then it should disclose that fact. Although the amendments are applied retrospectively, if an entity had previously discontinued hedge accounting as a result of a novation, then the previous hedge accounting for that relationship cannot be reinstated.

Except as otherwise indicated, the adoption of these foregoing amendments to standards and Philippine Interpretations of IFRIC did not have a material effect on the interim consolidated financial statements.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing the interim consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements of the Group. The Group does not plan to adopt these standards early.

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates:

- Defined Benefit Plans: Employee Contributions (*Amendments to PAS 19, Employee Benefits*). The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e., employee contributions that are calculated according to a fixed percentage of salary). The amendment is required to be retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

- *Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013* contain 11 changes to nine standards with consequential amendments to other standards and interpretations.

  - Definition relating to vesting condition *(Amendment to PFRS 2, Share-based Payment).* The amendment provided for the separate definitions of a 'performance condition' and a 'service condition' from the definition of a 'vesting condition' and thus made the description of each condition clearer. Performance condition and service condition are defined in order to clarify various issues, including the following: (a) a performance condition must contain a service condition; (b) a performance target must be met while the counterparty is rendering service; (c) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (d) a performance condition may be a market or non-market condition and; (e) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment is required to be prospectively applied to share-based payment transactions with a grant date on or after July 1, 2014.

  - Accounting for contingent consideration in a business combination *(Amendment to PFRS 3, Business Combinations).* The amendment clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of *PFRS 9, Financial Instruments*. The amendment is required to be prospectively applied to business combination for which the acquisition date is on or after July 1, 2014.

  - Disclosures on the aggregation of operating segments *(Amendment to PFRS 8, Operating Segments).* The amendment explicitly requires the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (a) a brief description of the operating segments that have been aggregated; and (b) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, this amendment clarifies 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. The amendment is required to be retrospectively applied for annual periods beginning July 1, 2014.

- Short-term receivables and payables *(Amendment to PFRS 13, Fair Value Measurement)* clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial. The amendment is required to be applied for annual periods beginning July 1, 2014.

- Key management personnel *(Amendment to PAS 24, Related Parties)*. The amendment clarifies that a management entity - an entity that provides key management personnel services - is a related party subject to the related party disclosures. In addition, an entity that uses management entity is required to disclose the expenses incurred for management services. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Scope exceptions for joint ventures *(Amendment to PFRS 3)*. The amendment clarifies that: (a) joint arrangements are outside the scope of PFRS 3, not just joint ventures and; (b) the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Scope paragraph 52 (portfolio exception) *(Amendment to PFRS 13)*. The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Restatement of accumulated depreciation (amortization) on revaluation *(Amendments to PAS 16, Property, Plant and Equipment,* and *PAS 38, Intangible Assets)*. The amendments clarify the requirements of the revaluation model in PAS 16 and PAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset. PAS 16 and PAS 38 have been amended to clarify that, at the date of revaluation: (a) The gross carrying amount: (i) is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset - e.g. restated in proportion to the change in the carrying amount or by reference to observable market data; and (ii) the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; and (b) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset. The amendments are required to be retrospectively applied for annual periods beginning July 1, 2014.

- Clarifying the interrelationship of PFRS 3 and PAS 40, *Investment Property,* when classifying property as investment property or owner-occupied property. The amendment clarifies that the description of ancillary services in PAS 40 differentiates between investment property and owner-occupied property. PFRS 3 is used to determine if the transaction is the purchase of an asset or a business combination. The amendment is required to be prospectively applied for annual periods beginning July 1, 2014.

- Clarification of acceptable methods of depreciation and amortization *(Amendments to PAS 16 and PAS 38)*. The amendments are the following: (a) 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: (i) revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated'; or (ii) when the intangible asset is expressed as a measure of revenue; and (b) 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 effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. Early application is permitted.

- PFRS 9, *Financial Instruments*, 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, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduce significant improvements by aligning the accounting more closely with risk management.

  The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

- PFRS 15, *Revenue from Contracts with Customers*, replaces most of the detailed guidance on revenue recognition that currently exists under PFRS. The core principle of PFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will apply a five-step model to determine when to recognize revenue, and at what amount. The new standard provides application guidance on numerous topics, including warranties and licenses. It also provides guidance on when to capitalize costs of obtaining or fulfilling a contract that are not addressed in other accounting standards.

  PFRS 15 is effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted under PFRS. The standard may be adopted retrospectively, or as of the application date by adjusting retained earnings at that date and disclosing the effect of adoption on each line of profit or loss (the 'cumulative effect approach'). Practical expedients are available to those taking a retrospective approach.

3. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the 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 refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes and flour-based products, and is engaged in grain terminal handling.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oils, 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 Nine Months Ended September 30, 2014						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Others	Eliminations	Consolidated
Revenues							
External	P50,088,658	P9,821,322	P6,561,161	P66,471,141	P7,944,300	P -	P74,415,441
Inter-segment	990,260	27,757	773,482	1,791,499	169,577	(1,961,076)	-
Total Revenues	P51,078,918	P9,849,079	P7,334,643	P68,262,640	P8,113,877	(P1,961,076)	P74,415,441
Result							
Segment operating results	P1,741,377	P480,972	P1,719,468	P3,941,817	P385,295	P181	P4,327,293
Interest expense and other financing charges	(180,175)	(38,275)	(25,606)	(244,056)	(93,737)	24,689	(313,104)
Interest income	1,272	25,664	6,993	33,929	82,895	(24,689)	92,135
Gain (loss) on sale of property and equipment	1	(42)	138	97	(2)	-	95
Other income (charges) - net	(148,274)	(7,447)	8,019	(147,702)	(14,006)	-	(161,708)
Income tax benefit (expense)	(413,476)	(138,298)	(500,346)	(1,052,120)	(179,391)	9,284	(1,222,227)
Net Income	P1,000,725	P322,574	P1,208,666	P2,531,965	P181,054	P9,465	P2,722,484

	For the Nine Months Ended September 30, 2013						
	Agro-Industrial	Value-Added Meats	Milling	Total Reportable Segments	Others	Eliminations	Consolidated
Revenues							
External	P46,921,718	P9,720,931	P6,349,795	P62,992,444	P8,420,538	P -	P71,412,982
Inter-segment	775,863	44,204	488,842	1,308,909	203,424	(1,512,333)	-
Total Revenues	P47,697,581	P9,765,135	P6,838,637	P64,301,353	P8,623,962	(P1,512,333)	P71,412,982
Result							
Segment operating results	P1,312,048	P623,080	P1,392,174	P3,327,302	P339,287	P -	P3,666,589
Interest expense and other financing charges	(268,521)	(37,832)	(6,911)	(313,264)	(118,474)	-	(431,738)
Interest income	5,328	19,227	3,657	28,212	37,437	-	65,649
Equity in net earnings of an associate	-	-	-	-	714,946	-	714,946
Gain on sale of property and equipment	248	-	1,859	2,107	1,875	-	3,982
Other charges - net	(67,181)	(57,409)	(171,916)	(296,506)	(40,284)	-	(336,790)
Income tax benefit (expense)	(288,839)	(164,149)	(373,643)	(826,631)	(168,635)	5,007	(990,259)
Net Income	P693,083	P382,917	P845,220	P1,921,220	P766,152	P5,007	P2,692,379

4. Inventories

The carrying amounts of inventories as at September 30, 2014 and December 31, 2013 amounted to P16,434.3 million and P14,785.0 million, respectively.

The cost of finished goods and goods in process amounted to P5,150.6 million and P5,303.2 million as at September 30, 2014 and December 31, 2013, respectively. The cost of raw materials, feeds and feed ingredients amounted to P11,629.8 million and P9,501.7 million as at September 30, 2014 and December 31, 2013, respectively.

The write-down of inventories amounted to P447.0 million and P270.2 million as at September 30, 2014 and December 31, 2013, respectively.

5. Investment

In September 2013, SMPFC, together with SMC and SMC Global Power Holdings Corp., entered into a Share Purchase Agreement with JG Summit Holdings, Inc. for the sale of the Company's 59,090,909 shares of stock in Manila Electric Company (Meralco) for P13,886.4 million. Certain closing conditions covering the sale were satisfied by all of the parties in December 2013.

In March 2014, SMPFC received the proceeds from the sale of Meralco shares.

6. Property, Plant and Equipment

This account consists of:

	September 30, 2014					
	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost						
December 31, 2013	P2,323,925	P7,364,208	P10,530,509	P427,180	P11,432	P20,657,254
Additions	175,211	20,757	185,722	-	80,036	461,726
Disposals	-	-	(4,466)	(2,368)	-	(6,834)
Transfers/reclassifications	(14,530)	51,015	(178,090)	6,468	(78,353)	(213,490)
Currency translation adjustments	208	4,173	2,876	245	52	7,554
September 30, 2014	2,484,814	7,440,153	10,536,551	431,525	13,167	20,906,210
Accumulated Depreciation						
December 31, 2013	328,302	2,473,221	6,190,524	411,019	-	9,403,066
Additions	14,724	217,450	521,132	3,495	-	756,801
Disposals	-	-	(4,152)	(2,269)	-	(6,421)
Transfers/reclassifications	-	(14,498)	(34,005)	6,369	-	(42,134)
Currency translation adjustments	-	2,695	2,433	243	-	5,371
September 30, 2014	343,026	2,678,868	6,675,932	418,857	-	10,116,683
Carrying Amount at September 30, 2014	P2,141,788	P4,761,285	P3,860,619	P12,668	P13,167	P10,789,527

	September 30, 2013					
	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost						
December 31, 2012	P2,299,736	P5,471,355	P8,808,029	P423,531	P1,669,506	P18,672,157
Additions	17,391	32,778	271,441	9,399	1,150,129	1,481,138
Disposals	-	-	(100,193)	(5,307)	-	(105,500)
Transfers/reclassifications	3,575	160,297	410,199	(88)	(594,893)	(20,910)
Currency translation adjustments	(3,479)	51,999	11,051	(1,460)	(533)	57,578
September 30, 2013	2,317,223	5,716,429	9,400,527	426,075	2,224,209	20,084,463
Accumulated Depreciation						
December 31, 2012	308,335	2,211,939	5,636,743	410,872	-	8,567,889
Additions	15,044	156,899	466,432	5,292	-	643,667
Disposals	-	-	(96,292)	(5,307)	-	(101,599)
Transfers/reclassifications	-	-	(4,304)	-	-	(4,304)
Currency translation adjustments	-	27,477	9,788	(1,505)	-	35,760
September 30, 2013	323,379	2,396,315	6,012,367	409,352	-	9,141,413
Carrying Amount at September 30, 2013	P1,993,844	P3,320,114	P3,388,160	P16,723	P2,224,209	P10,943,050

Depreciation recognized in profit or loss amounted to P756.8 million and P643.7 million for the nine months period ended September 30, 2014 and 2013, respectively.

7. Related Party Disclosures

The Company and certain subsidiaries and their shareholders 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
Ultimate Parent Company	December 31, 2013	P -	P -	P117	P -	On demand; non-interest bearing	Unsecured; no impairment
Parent Company	September 30, 2014	2,026	426,575	4,099	386,373	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2013	9,658	760,202	24,558	685,654		
Affiliates*	September 30, 2014	109,029	2,753,161	114,820	732,900	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2013	92,179	2,813,671	100,456	754,340		
Shareholder in Subsidiaries	September 30, 2014	-	-	19,511	-	On demand; non-interest bearing	Unsecured; no impairment
	December 31, 2013	-	-	26,007	55,887		
Total	**September 30, 2014**	**P111,055**	**P3,179,736**	**P138,430**	**P1,119,273**		
Total	December 31, 2013	P101,837	P3,573,873	P151,138	P1,495,881		

** Affiliates refer to companies owned by SMC and Top Frontier. Amounts owed by affiliates as at September 30, 2014 and December 31, 2013 amounting to P1,313 and P1,684, respectively, is included under "Other noncurrent assets" account.*

Amounts owed by related parties consist mainly of trade and non-trade receivables.

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

8. Equity

The Company's capital stock, at P10 par value, consists of the following number of shares as at September 30, 2014 and December 31, 2013:

Authorized shares:	
Common	**206,000,000**
Preferred	**40,000,000**
	246,000,000
Issued shares:	
Common	**170,874,854**
Preferred	**15,000,000**
	185,874,854

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 the Company, 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). Unless the preferred shares are redeemed by the Company 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.

Treasury shares, totaling 4,207,758 common shares as at September 30, 2014 and December 31, 2013, are carried at cost.

As at September 30, 2014, the Company has a total of 124 and 230 common and preferred stockholders, respectively.

9. Dividends

Cash dividends declared by the Board of Directors (BOD) of the Company to common shareholders amounted to P50.40 and P3.60 per share for the periods ended September 30, 2014 and 2013, respectively.

Cash dividends declared by the BOD of the Company to preferred shareholders amounted to P60.00 per share for the periods ended September 30, 2014 and 2013.

10. 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 Niue Months Ended	
	September 30 2014	September 30 2013
Net income attributable to equity holders of the Parent Company	**P2,689,099**	P2,745,825
Dividends on preferred shares for the period	**900,000**	900,000
Net income attributable to common shareholders of the Parent Company (a)	**P1,789,099**	P1,845,825
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)	**P10.73**	P11.07

As at September 30, 2014 and 2013, the Group has no dilutive equity instruments.

11. Financial Risk 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, the 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 and financing 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 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 enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

The accounting policies in relation to derivatives are set out in Note 12 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.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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 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 P37.0 million for the period ending September 30, 2014 and for the year ending December 31, 2013. 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 September 30, 2014 and December 31, 2013, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

September 30, 2014	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**Total**
Fixed rate					
Philippine peso-denominated	**P -**	**P800,000**	**P -**	**P -**	**P800,000**
Interest rate		**5.4885%**			
Floating rate					
Philippine peso-denominated	**-**	**3,700,000**	**-**	**-**	**3,700,000**
Interest rate		**3-month PDST-F plus margin**			
	P -	**P4,500,000**	**P -**	**P -**	**P4,500,000**

December 31, 2013	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	Total
Fixed rate					
Philippine peso-denominated	P -	P800,000	P -	P -	P800,000
Interest rate		5.4885%			
Floating rate					
Philippine peso-denominated	-	3,700,000	-	-	3,700,000
Interest rate		3-month PDST-F plus margin			
	P -	P4,500,000	P -	P -	P4,500,000

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:

	September 30, 2014		December 31, 2013	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US$8,826	P396,067	US$6,403	P284,261
Trade and other receivables	25,414	1,140,453	8,652	384,106
	34,240	1,536,520	15,055	668,367
Liabilities				
Notes payable	9,168	411,414	14,163	628,766
Trade payables and other current liabilities	7,501	336,607	14,182	629,610
Other noncurrent liabilities	1	45	1	44
	16,670	748,066	28,346	1,258,420
Net foreign currency-denominated monetary assets (liabilities)	US$17,570	P788,454	(US$13,291)	(P590,053)

The Group reported net foreign exchange gains of P10.3 million and P20.1 million for the periods ended September 30, 2014 and 2013, 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
September 30, 2014	44.875
December 31, 2013	44.395
September 30, 2013	43.540
December 31, 2012	41.050

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 equity (due to translation of results and financial position of foreign operations) as at September 30, 2014 and December 31, 2013.

	September 30, 2014			
	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
	Effect on Income before Income Tax	**Effect on Eqnity (Net of Tax)**	**Effect on Income before Income Tax**	**Effect on Equity (Net of Tax)**
Cash and cash equivalents	**(P6,309)**	**(P6,933)**	**P6,309**	**P6,933**
Trade and other receivables	**(18,505)**	**(19,862)**	**18,505**	**19,862**
	(24,814)	**(26,795)**	**24,814**	**26,795**
Notes payable	**-**	**9,168**	**-**	**(9,168)**
Trade payables and other current liabilities	**327**	**7,403**	**(327)**	**(7,403)**
Other noncurrent liabilities	**-**	**1**	**-**	**(1)**
	327	**16,572**	**(327)**	**(16,572)**
	(P24,487)	**(P10,223)**	**P24,487**	**P10,223**

	December 31, 2013			
	P1 Decrease in the US Dollar Exchange Rate		P1 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	(P884)	(P6,138)	P884	P6,138
Trade and other receivables	(3,156)	(7,705)	3,156	7,705
	(4,040)	(13,843)	4,040	13,843
Notes payable	-	14,163	-	(14,163)
Trade payables and other current liabilities	4,588	12,805	(4,588)	(12,805)
Other noncurrent liabilities	-	1	-	(1)
	4,588	26,969	(4,588)	(26,969)
	P548	P13,126	(P548)	(P13,126)

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 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 and wheat.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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 or 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 payments used for liquidity management as at September 30, 2014 and December 31, 2013:

	September 30, 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	**P12,051,589**	**P12,051,589**	**P12,051,589**	**P -**	**P -**	**P -**
Trade and other receivables - net	**9,834,731**	**9,834,731**	**9,834,731**	**-**	**-**	**-**
Derivative assets	**2,889**	**2,889**	**2,889**	**-**	**-**	**-**
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**9,397**	**9,397**	**-**	**-**	**-**	**9,397**
Financial Liabilities						
Notes payable	**6,940,811**	**6,953,858**	**6,953,858**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**13,815,871**	**13,815,871**	**13,815,871**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**111,219**	**111,219**	**111,219**	**-**	**-**	**-**
Long-term debt - net of debt issue costs	**4,489,532**	**4,732,422**	**194,573**	**4,537,849**	**-**	**-**
Other noncurrent liabilities (excluding retirement liability)	**41**	**41**	**-**	**41**	**-**	**-**

	December 31, 2013					
	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	P7,030,943	P7,030,943	P7,030,943	P -	P -	P -
Trade and other receivables - net	25,662,903	25,662,903	25,662,903	-	-	-
Derivative assets	4,621	4,621	4,621	-	-	-
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	9,416	9,416	-	-	-	9,416
Financial Liabilities						
Notes payable	8,647,785	8,668,590	8,668,590	-	-	-
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	14,343,256	14,343,256	14,343,256	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	249,772	249,772	249,772	-	-	-
Long-term debt - net of debt issue costs	4,483,300	4,877,952	194,573	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 trade 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. The Group has no siguificant concentration of the credit risk with any counterparty.

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 that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are 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 provision for 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 September 30, 2014 and December 31, 2013, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	September 30 2014	December 31 2013
Cash and cash equivalents	**P12,051,589**	P7,030,943
Trade and other receivables - net	**9,834,731**	25,662,903
Derivative assets	**2,889**	4,621
AFS financial assets	**9,397**	9,416
	P21,898,606	P32,707,883

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 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 trade customers. 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 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 primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

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. Other components of equity such as treasury stock and cumulative translation adjustments 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 monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

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

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12. 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 a 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 at fair value through profit or loss (FVPL), includes transaction costs.

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

'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.

<u>*Financial Assets*</u>

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 value in accordance with the documented risk management or investment strategy. 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 11).

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 change in value.

The Group's cash and cash equivalents and trade and other receivables are included under this category (Note 11).

HTM Investments. HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments 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 the HTM investments are derecognized or impaired.

The Group has no investments accounted for under this category as at September 30 and June 30, 2014 and December 31, 2013.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or are 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 11).

Financial Liabilities

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 11).

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 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 11).

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.

Impairment of Financial Assets

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 shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be 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 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 using its historical effective rate of return on the asset.

<u>Classification of Financial Instruments between Debt and Equity</u>
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.

<u>Debt Issue Costs</u>
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.

<u>Offsetting Financial Instruments</u>
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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated 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 September 30, 2014 and December 31, 2013:

	September 30, 2014		December 31, 2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P12,051,589**	**P12,051,589**	P7,030,943	P7,030,943
Trade and other receivables - net	**9,834,731**	**9,834,731**	25,662,903	25,662,903
Derivative assets	**2,889**	**2,889**	4,621	4,621
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**9,397**	**9,397**	9,416	9,416
Financial Liabilities				
Notes payable	**6,940,811**	**6,940,811**	8,647,785	8,647,785
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**13,815,871**	**13,815,871**	14,343,256	14,343,256
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**111,219**	**111,219**	249,772	249,772
Long-term debt - net of debt issue costs	**4,489,532**	**4,521,312**	4,483,300	4,533,089
Other noncurrent liabilities (excluding retirement liability)	**41**	**41**	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 their respective 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. As at September 30, 2014 and December 31, 2013, discount rates used range from 1.77% to 2.35% and 0.47% to 2.48%, respectively. 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 September 30 and June 30, 2014 and December 31, 2013.

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 September 30 and June 30, 2014 and December 31, 2013.

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 September 30 and June 30, 2014 and December 31, 2013.

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 September 30 and June 30, 2014 and December 31, 2013 of 9,525, 36,469 and 174,248 metric tons, respectively. These options can be exercised at various calculation dates in 2014 with specified quantities on each calculation date. As at September 30 and June 30, 2014 and December 31, 2013, the net negative fair value of these options amounted to P23.3 million, P29.5 million and P185.9 million, respectively.

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.

The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at September 30 and June 30, 2014 and December 31, 2013, the total outstanding notional amount of such embedded currency forwards amounted to US$77.4 million, US$68.6 million and US$52.0 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 September 30 and June 30, 2014 and December 31, 2013, the net positive (negative) fair value of these embedded currency forwards amounted to (P85.0 million), P11.9 million and (P59.2 million), respectively.

For the periods ended September 30, 2014 and 2013 and June 30, 2014 and 2013, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (P47.2 million), (P289.5 million), P69.7 million and (P259.4 million), respectively.

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

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

	September 30, 2014		
	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P -**	**P2,889**	**P2,889**
AFS financial assets	**8,297**	**1,100**	**9,397**
Financial Liabilities			
Derivative liabilities	**-**	**111,219**	**111,219**

	December 31, 2013		
	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P4,621	P4,621
AFS financial assets	8,312	1,104	9,416
Financial Liabilities			
Derivative liabilities	-	249,772	249,772

As at September 30, 2014 and December 31, 2013, 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 and out of Level 3 fair value measurements.

13. Other Matters

a. On November 5, 2014, the Company's BOD declared cash dividends to all preferred and common shareholders of record as at November 19, 2014 amounting to P20.00 and P1.20 per share, respectively, payable on December 3, 2014.

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 changes in prior period's amounts were due to reclassifications for consistency with the current period presentation. These reclassifications had no effect on the reported financial position and 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 consolidated statements of financial position date, except for Note 35 (b) of the 2013 Audited Consolidated Financial Statements that remain outstanding as at September 30, 2014. 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 September 30, 2014.

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 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 September 30, 2014. These consist mainly of expansion-related projects and fixed asset acquisitions. Also included are the upgrades, 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 loans.

B. Audited Consolidated Financial Statements as at and for the years ended December 31, 2013, 2012 and 2011

SAN MIGUEL PURE FOODS COMPANY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
San Miguel Pure Foods Company, Inc.
23rd Floor, The JMT Corporate Condominium
ADB Avenue, Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of San Miguel Pure Foods Company, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

PRC-BOA Registration No. 0003, valid until December 31, 2016
SEC Accreditation No. 0004-FR-3, Group A, valid until November 22, 2014
IC Accreditation No. F-0040-R, Group A, valid until September 11, 2014
BSP Accredited, Category A, valid until December 17, 2014

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of San Miguel Pure Foods Company, Inc. and Subsidiaries as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

R.G. MANABAT & CO.

John Molina

JOHN MOLINA
Partner
CPA License No. 0092632
SEC Accreditation No. 1101-AR-1, Group A, valid until March 25, 2017
Tax Identification No. 109-916-107
BIR Accreditation No. 08-001987-23-2014
Issued January 22, 2014; valid until January 21, 2017
PTR No. 4225136MC
Issued January 2, 2014 at Makati City

March 26, 2014
Makati City, Metro Manila

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

		December 31		January 1
			2012	2012
			As restated	As restated
	Note	**2013**	(Note 3)	(Note 3)
ASSETS				
Current Assets				
Cash and cash equivalents	*7, 32, 33*	**P7,030,943**	P4,280,418	P4,932,718
Trade and other receivables - net	*4, 8, 12, 29, 32, 33*	**25,662,903**	11,143,836	8,700,217
Inventories	*4, 9*	**14,784,992**	15,690,751	12,068,381
Biological assets	*10*	**3,427,280**	3,792,238	4,123,777
Derivative assets	*32, 33*	**4,621**	38,934	31,869
Prepaid expenses and other current assets	*11*	**2,772,354**	2,319,986	1,968,552
Total Current Assets		**53,683,093**	37,266,163	31,825,514
Noncurrent Assets				
Investment	*4, 8, 12*	**-**	13,342,080	13,177,979
Investment properties - net	*4, 13, 14*	**632,679**	628,865	571,541
Property, plant and equipment - net	*4, 14*	**11,254,188**	10,104,268	8,744,321
Biological assets - net of current portion	*4, 10*	**1,910,906**	1,931,510	1,811,570
Other intangible assets - net	*4, 15*	**3,867,720**	3,947,970	3,657,384
Goodwill - net	*4, 16*	**425,655**	406,922	422,547
Deferred tax assets	*4, 27*	**840,422**	690,238	622,360
Other noncurrent assets	*4, 14, 28, 29, 32, 33*	**229,617**	253,571	254,591
Total Noncurrent Assets		**19,161,187**	31,305,424	29,262,293
		P72,844,280	P68,571,587	P61,087,807
LIABILITIES AND EQUITY				
Current Liabilities				
Notes payable	*17, 32, 33*	**P8,647,785**	P7,351,040	P4,987,929
Trade payables and other current liabilities	*18, 29, 32, 33*	**15,936,038**	14,495,476	11,018,877
Current maturities of long-term debt	*19*	**-**	-	25,000
Income tax payable		**387,664**	387,487	305,012
Total Current Liabilities		**24,971,487**	22,234,003	16,336,818
Noncurrent Liabilities				
Long-term debt - net of current maturities and debt issue costs	*19, 32, 33*	**4,483,300**	4,475,318	4,646,449
Deferred tax liabilities	*27*	**135,782**	164,453	188,359
Other noncurrent liabilities	*4, 28, 32, 33*	**893,786**	675,431	460,224
Total Noncurrent Liabilities		**5,512,868**	5,315,202	5,295,032
Equity	*20*			
Equity Attributable to Equity Holders of the Parent Company				
Capital stock		**1,858,748**	1,858,748	1,858,748
Additional paid-in capital		**20,500,284**	20,500,284	20,500,284
Revaluation surplus		**18,219**	18,219	18,219
Reserve for retirement plan		**(434,714)**	(290,506)	(169,651)
Cumulative translation adjustments		**(248,738)**	(253,275)	(85,766)
Retained earnings				
Appropriated		**750,000**	750,000	750,000
Unappropriated		**17,929,528**	15,832,541	13,660,560
Treasury stock		**(182,094)**	(182,094)	(182,094)
		40,191,233	38,233,917	36,350,300
Non-controlling Interests		**2,168,692**	2,788,465	3,105,657
Total Equity		**42,359,925**	41,022,382	39,455,957
		P72,844,280	P68,571,587	P61,087,807

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(In Thousands, Except Per Share Data)

	Note	**2013**	2012 As restated (Note 3)	2011 As restated (Note 3)
REVENUES	*21, 29*	**P99,772,930**	P95,787,365	P89,591,080
COST OF SALES	*22, 29, 35*	**79,584,594**	77,949,732	73,417,057
GROSS PROFIT		**20,188,336**	17,837,633	16,174,023
SELLING AND ADMINISTRATIVE EXPENSES	*23, 29*	**(14,678,339)**	(12,660,333)	(10,093,711)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*17, 19, 26*	**(549,606)**	(574,898)	(530,972)
INTEREST INCOME	*7, 26*	**58,918**	148,518	393,572
EQUITY IN NET EARNINGS OF AN ASSOCIATE	*12*	**714,946**	884,884	270,478
GAIN ON SALE OF INVESTMENT AND PROPERTY AND EQUIPMENT	*12*	**394,579**	115,097	6,708
OTHER INCOME (CHARGES) - Net	*26*	**(532,796)**	56,800	(323,696)
INCOME BEFORE INCOME TAX		**5,596,038**	5,807,701	5,896,402
INCOME TAX EXPENSE	*27*	**1,512,203**	1,545,135	1,725,794
NET INCOME		**P4,083,835**	P4,262,566	P4,170,608
Attributable to:				
Equity holders of the Parent Company		**P4,096,989**	P4,171,984	P4,060,557
Non-controlling interests		**(13,154)**	90,582	110,051
		P4,083,835	P4,262,566	P4,170,608
Basic and Diluted Earnings Per Common Share Attributable to Equity Holders of the Parent Company	*30*	**P17.38**	P17.83	P18.40

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(In Thousands)

	Note	**2013**	2012 As restated (Note 3)	2011 As restated (Note 3)
NET INCOME		**P4,083,835**	P4,262,566	P4,170,608
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	*3, 28*	**(210,550)**	(178,659)	(472,075)
Income tax benefit		**63,896**	54,108	140,881
Share in other comprehensive income (loss) of an associate - net	*12*	**(1,144)**	988	156
		(147,798)	(123,563)	(331,038)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		**1,642**	(173,989)	7,676
Net gain (loss) on available-for-sale financial assets		**(149)**	1,571	(2,250)
Income tax benefit (expense)		**15**	(157)	225
		1,508	(172,575)	5,651
OTHER COMPREHENSIVE LOSS - Net of tax		**(146,290)**	(296,138)	(325,387)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P3,937,545**	P3,966,428	P3,845,221
Attributable to				
Equity holders of the Parent Company		**P3,957,318**	P3,883,620	P3,740,612
Non-controlling interests		**(19,773)**	82,808	104,609
		P3,937,545	P3,966,428	P3,845,221

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(In Thousands)

		Attributable to Equity Holders of the Parent Company											
						Cumulative Translation Adjustments		**Retained Earnings** (Note 20)					
	Note	**Capital Stock** (Note 20)	**Additional Paid-in Capital** (Note 20)	**Revaluation Surplus**	**Reserve for Retirement Plan**	**Translation Reserve**	**Fair Value Reserve**	**Appro-priated**	**Unappro-priated**	**Treasury Stock** (Note 20)	**Total**	**Non-controlling Interests**	**Total Equity**
As at January 1, 2013, As previously reported		**P1,858,748**	**P20,500,284**	**P18,219**	**P -**	**(P252,569)**	**P4,143**	**P750,000**	**P15,950,249**	**(P182,094)**	**P38,646,980**	**P2,789,065**	**P41,436,045**
Adjustments due to Amended Philippine Accounting Standards (PAS) 19	*3*	-	-	-	(290,506)	(4,849)	-	-	(117,708)	-	(413,063)	(600)	(413,663)
As at January 1, 2013, As restated		1,858,748	20,500,284	18,219	(290,506)	(257,418)	4,143	750,000	15,832,541	(182,094)	38,233,917	2,788,465	41,022,382
Net gain (loss) on exchange differences on translation of foreign operations		-	-	-	-	5,815	-	-	-	-	5,815	(4,173)	1,642
Net loss on available-for-sale financial assets, net of tax		-	-	-	-	-	(134)	-	-	-	(134)	-	(134)
Equity reserve for retirement plan, net of tax		-	-	-	(144,208)	-	-	-	-	-	(144,208)	(2,446)	(146,654)
Share in other comprehensive loss of an associate - net	*12*	-	-	-	-	-	(1,144)	-	-	-	(1,144)	-	(1,144)
Other comprehensive income (loss)		-	-	-	(144,208)	5,815	(1,278)	-	-	-	(139,671)	(6,619)	(146,290)
Net income (loss)		-	-	-	-	-	-	-	4,096,989	-	4,096,989	(13,154)	4,083,835
Total comprehensive income (loss)		-	-	-	(144,208)	5,815	(1,278)	-	4,096,989	-	3,957,318	(19,773)	3,937,545
Cash dividends		-	-	-	-	-	-	-	(2,000,002)	-	(2,000,002)	(600,000)	(2,600,002)
As at December 31, 2013		**P1,858,748**	**P20,500,284**	**P18,219**	**(P434,714)**	**(P251,603)**	**P2,865**	**P750,000**	**P17,929,528**	**(P182,094)**	**P40,191,233**	**P2,168,692**	**P42,359,925**

Forward

		Attributable to Equity Holders of the Parent Company											
						Cumulative Translation Adjustments		**Retained Earnings** (Note 20)					
	Note	**Capital Stock** (Note 20)	**Additional Paid-in Capital** (Note 20)	**Revaluation Surplus**	**Reserve for Retirement Plan**	**Translation Reserve**	**Fair Value Reserve**	**Appro-priated**	**Unappro-priated**	**Treasury Stock** (Note 20)	**Total**	**Non-controlling Interests**	**Total Equity**
As at January 1, 2012, As previously reported		P1,858,748	P20,500,284	P18,219	P -	(P86,675)	P1,741	P750,000	P13,725,689	(P182,094)	P36,585,912	P3,101,169	P39,687,081
Adjustments due to Amended PAS 19	*3*	-	-	-	(169,651)	(832)	-	-	(65,129)	-	(235,612)	4,488	(231,124)
As at January 1, 2012, As restated		1,858,748	20,500,284	18,219	(169,651)	(87,507)	1,741	750,000	13,660,560	(182,094)	36,350,300	3,105,657	39,455,957
Net loss on exchange differences on translation of foreign operations		-	-	-	-	(169,911)	-	-	-	-	(169,911)	(4,078)	(173,989)
Net gain on available-for-sale financial assets, net of tax		-	-	-	-	-	1,414	-	-	-	1,414	-	1,414
Equity reserve for retirement plan, net of tax		-	-	-	(120,855)	-	-	-	-	-	(120,855)	(3,696)	(124,551)
Share in other comprehensive income of an associate	*12*	-	-	-	-	-	988	-	-	-	988	-	988
Other comprehensive income (loss)		-	-	-	(120,855)	(169,911)	2,402	-	-	-	(288,364)	(7,774)	(296,138)
Net income		-	-	-	-	-	-	-	4,171,984	-	4,171,984	90,582	4,262,566
Total comprehensive income (loss)		-	-	-	(120,855)	(169,911)	2,402	-	4,171,984	-	3,883,620	82,808	3,966,428
Cash dividends		-	-	-	-	-	-	-	(2,000,003)	-	(2,000,003)	(400,000)	(2,400,003)
As at December 31, 2012		P1,858,748	P20,500,284	P18,219	(P290,506)	(P257,418)	P4,143	P750,000	P15,832,541	(P182,094)	P38,233,917	P2,788,465	P41,022,382

Forward

	Attributable to Equity Holders of the Parent Company											
					Cumulative Translation Adjustments		Retained Earnings (Note 20)					
	Capital Stock (Note 20)	**Additional Paid-in Capital** (Note 20)	**Revaluation Surplus**	**Reserve for Retirement Plan**	**Translation Reserve**	**Fair Value Reserve**	**Appro-priated**	**Unappro-priated**	**Treasury Stock** (Note 20)	**Total**	**Non-controlling Interests**	**Total Equity**
As at January 1, 2011, As previously reported	P1,708,748	P5,821,288	P18,219	P -	(P96,102)	P3,610	P750,000	P11,023,185	(P182,094)	P19,046,854	P3,171,144	P22,217,998
Adjustments due to Amended PAS 19	-	-	-	157,020	-	-	-	(23,181)	-	133,839	10,061	143,900
As at January 1, 2011, As restated	1,708,748	5,821,288	18,219	157,020	(96,102)	3,610	750,000	11,000,004	(182,094)	19,180,693	3,181,205	22,361,898
Net gain (loss) on exchange differences on translation of foreign operations	-	-	-	-	8,595	-	-	-	-	8,595	(919)	7,676
Net loss on available-for-sale financial assets, net of tax	-	-	-	-	-	(2,025)	-	-	-	(2,025)	-	(2,025)
Equity reserve for retirement plan, net of tax	-	-	-	(326,671)	-	-	-	-	-	(326,671)	(4,523)	(331,194)
Share in other comprehensive income of an associate	-	-	-	-	-	156	-	-	-	156	-	156
Other comprehensive income (loss)	-	-	-	(326,671)	8,595	(1,869)	-	-	-	(319,945)	(5,442)	(325,387)
Net income	-	-	-	-	-	-	-	4,060,557	-	4,060,557	110,051	4,170,608
Total comprehensive income (loss)	-	-	-	(326,671)	8,595	(1,869)	-	4,060,557	-	3,740,612	104,609	3,845,221
Issuance of preferred shares	150,000	14,678,996	-	-	-	-	-	-	-	14,828,996	-	14,828,996
Cash dividends	-	-	-	-	-	-	-	(1,400,001)	-	(1,400,001)	(180,157)	(1,580,158)
As at December 31, 2011	P1,858,748	P20,500,284	P18,219	(P169,651)	(P87,507)	P1,741	P750,000	P13,660,560	(P182,094)	P36,350,300	P3,105,657	P39,455,957

See Notes to the Consolidated Financial Statements.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(In Thousands)

	Note	**2013**	2012 As restated (Note 3)	2011 As restated (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P5,596,038**	P5,807,701	P5,896,402
Adjustments for:				
Depreciation and amortization	*24*	**2,639,083**	2,297,200	2,120,433
Allowance for impairment losses on receivables and inventory losses		**258,961**	127,065	177,005
Interest expense and other financing charges	*26*	**549,606**	574,898	530,972
Other charges net of gain on derivative transactions		**249,566**	10,426	69,986
Interest income	*26*	**(58,918)**	(148,518)	(393,572)
Equity in net earnings of an associate	*12*	**(714,946)**	(884,884)	(270,478)
Impairment loss on property and equipment and idle assets	*26*	**-**	19,455	5,800
Gain on sale of investment, property and equipment, investment properties and idle assets	*12*	**(394,579)**	(115,097)	(6,708)
Operating income before working capital changes		**8,124,811**	7,688,246	8,129,840
Decrease (increase) in:				
Trade and other receivables		**(701,164)**	(2,431,495)	(891,484)
Inventories		**555,116**	(3,755,137)	(117,118)
Biological assets		**341,719**	363,550	(857,731)
Prepaid expenses and other current assets		**(461,339)**	(355,108)	(174,466)
Increase (decrease) in trade payables and other current liabilities		**1,196,834**	3,646,158	(643,149)
Cash generated from operations		**9,055,977**	5,156,214	5,445,892
Interest paid		**(540,730)**	(664,911)	(468,266)
Income taxes paid		**(1,630,355)**	(1,503,206)	(1,594,143)
Interest received		**70,900**	111,118	310,665
Net cash flows provided by operating activities		**6,955,792**	3,099,215	3,694,148
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property, plant and equipment	*14*	**(1,977,893)**	(1,957,476)	(597,806)
Increase in biological assets and other noncurrent assets		**(1,488,512)**	(1,770,628)	(1,429,029)
Acquisitions of intangible assets	*15*	**(42,784)**	(332,259)	(3,128,805)
Acquisition of a subsidiary net of cash received	*5*	**-**	(357,705)	(97,878)
Dividends received from associate	*12*	**602,727**	478,636	-
Proceeds from sale of investment and property and equipment	*12*	**7,734**	369,606	7,905
Net addition to investment	*12*	**-**	-	(12,907,345)
Additional investment in subsidiary	*5*	**-**	-	(720,605)
Net cash flows used in investing activities		**(2,898,728)**	(3,569,826)	(18,873,563)

Forward

	2013	2012 As restated (Note 3)	2011 As restated (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net availments (payments) of notes payable	**P1,288,011**	P2,411,615	(P170,848)
Cash dividends paid	**(2,598,989)**	(2,399,589)	(1,580,015)
Payments of long-term debt	**-**	(203,750)	(6,591)
Proceeds from issuance of preferred shares	**-**	-	14,828,996
Net cash flows provided by (used in) financing activities	**(1,310,978)**	(191,724)	13,071,542
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,439**	10,035	(754)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,750,525**	(652,300)	(2,108,627)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,280,418**	4,932,718	7,041,345
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P7,030,943**	P4,280,418	P4,932,718

See Notes to the Consolidated Financial Statements.

1. Reporting Entity

San Miguel Pure Foods Company, Inc. ("SMPFC" or the "Company"), a subsidiary of San Miguel Corporation ("SMC" or the "Parent Company"), was incorporated in the Philippines. 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 Company and its Subsidiaries (collectively referred to as the "Group"). The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed in the Philippine Stock Exchange (PSE).

The 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, and importation and marketing of coffee and coffee-related products.

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

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 26, 2014.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	Fair value
Available-for-sale (AFS) financial assets	Fair value
Defined benefit retirement asset (obligation)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency
The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. All values are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation
The consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	Percentage of Ownership	
		2013	2012
San Miguel Mills, Inc. and subsidiaries (SMMI) [(a)]	Philippines	**100.00**	100.00
Magnolia, Inc. and subsidiaries (Magnolia) [(b)]	Philippines	**100.00**	100.00
San Miguel Foods, Inc. (SMFI)	Philippines	**99.97**	99.97
PT San Miguel Pure Foods Indonesia (PTSMPFI)	Indonesia	**75.00**	75.00
San Miguel Super Coffeemix Co., Inc. (SMSCCI)	Philippines	**70.00**	70.00
The Purefoods-Hormel Company, Inc. (PF-Hormel)	Philippines	**60.00**	60.00
RealSnacks Mfg. Corp. (RealSnacks) [(c)]	Philippines	**100.00**	100.00
San Miguel Pure Foods International, Limited (SMPFIL) [including San Miguel Pure Foods Investment (BVI) Limited (SMPFI Limited) and subsidiary, San Miguel Hormel (Vn) Co., Ltd. (SMHVN, formerly San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN))]	British Virgin Islands	**100.00**	100.00

(a) SMMI acquired 100% equity interest in Golden Avenue Corp. (GAC), formerly Cobertson Realty Corporation (CRC), in June 2012 (Note 5).
Golden Bay Grain Terminal Corporation (GBGTC) was incorporated as a wholly-owned subsidiary of SMMI in November 2011 and has started commercial operations in September 2013 (Note 5).
(b) Magnolia acquired 100% equity interest in Golden Food & Dairy Creamery Corporation (GFDCC) in September 2011 (Note 5).
(c) Incorporated in April 2004 and has not yet started commercial operations.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with the other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements are prepared for the same reporting period as the Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests represent the interests not held by the Parent Company in SMFI, PTSMPFI, SMSCCI, PF-Hormel and SMPFI Limited in 2013 and 2012 (Note 5).

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and, (iii) reclassify the Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations
The FRSC approved the adoption of a number of new or revised standards, amendments to standards and interpretations as part of PFRS.

The Group has adopted the following PFRS effective January 1, 2013, and accordingly, changed its accounting policies in the following areas:

- Presentation of Items of Other Comprehensive Income (*Amendments to PAS 1, Presentation of Financial Statements).* The amendments: (a) require that an entity presents separately the items of other comprehensive income that would be reclassified to profit or loss in the future, if certain conditions are met, from those that would not be reclassified to profit or loss; (b) do not change the existing option to present profit or loss and other comprehensive income in two statements; and (c) change the title of the consolidated statements of comprehensive income to consolidated statements of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other PFRS continue to apply in this regard.

  As a result of the adoption of the amendments to PAS 1, the Group has modified the presentation of items comprising other comprehensive income in the consolidated statements of comprehensive income. Items that may be reclassified to profit or loss subsequently are presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position and performance. Comparative information has been re-presented accordingly.

- Disclosures: Offsetting Financial Assets and Financial Liabilities *(Amendments to PFRS 7, Financial Instruments: Disclosures)*. The amendments include minimum disclosure requirements related to financial assets and financial liabilities that are: (a) offset in the consolidated statements of financial position; or (b) subject to enforceable master netting arrangements or similar agreements. They include a tabular reconciliation of gross and net amounts of financial assets and financial liabilities, separately showing amounts offset and not offset in the consolidated statements of financial position.

  The adoption of these amendments did not have an effect on the consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements*, introduces a new approach in determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it has power over an investee; (b) it is exposed or has rights to variable returns from its involvement with that investee; and (c) it has the ability to affect those returns through its power over that investee. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008), *Consolidated and Separate Financial Statements*, and Philippine Interpretation Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities.*

  As a result of the adoption of PFRS 10, the Group reassessed control over its investees based on the new control model effective January 1, 2013. The adoption of these amendments did not have an effect on the consolidated financial statements.

- PFRS 11, *Joint Arrangements,* focuses on the rights and obligations of joint arrangements, rather than the legal form. The new standard: (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) eliminates the option of using the equity method or proportionate consolidation for jointly controlled entities that are now called joint ventures, and only requires the use of equity method. PFRS 11 supersedes PAS 31, *Interests in Joint Ventures,* and Philippine Interpretation SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.*

  The adoption of these amendments did not have an effect on the consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities,* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. The new standard provides information that enables users to evaluate: (a) the nature of, and risks associated with, an entity's interests in other entities; and (b) the effects of those interests on the entity's financial position, financial performance and cash flows.

  As a result of the adoption of PFRS 12, the Group has expanded the disclosures on its interests in other entities.

- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to PFRS 10, PFRS 11, and PFRS 12).* The amendments simplify the process of adopting PFRS 10, PFRS 11, and PFRS 12 and provide a relief from the disclosures in respect of unconsolidated structured entities. Depending on the extent of comparative information provided in the consolidated financial statements, the amendments simplify the transition and provide additional relief from the disclosures that could have been onerous. The amendments limit the restatement of comparatives to the immediately preceding period; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged. In addition, the date of initial application is now defined in PFRS 10 as the beginning of the annual reporting period in which the standard is applied for the first time. At this date, an entity tests whether there is a change in the consolidation conclusion for its investees.

  The Group has applied the transitional provision of the amendments to PFRS 10, PFRS 11 and PFRS 12.

- PFRS 13, *Fair Value Measurement*, replaces the fair value measurement guidance contained in individual PFRS with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRS. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

  The adoption of the new standard did not have a significant effect on the measurement of the Group's assets and liabilities. Additional disclosures are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

- PAS 19, *Employee Benefits* (Amended 2011). The amendments include the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change removes the corridor method and eliminates the ability of entities to recognize all changes in the defined benefit retirement obligation and plan assets in profit or loss; and (b) interest income on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit retirement obligation.

  As a result of the adoption of the amendments to PAS 19, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit retirement plan. Actuarial gains and losses are recognized immediately in other comprehensive income and the corridor method was eliminated. Also, the interest income on plan assets recognized in profit or loss is now calculated based on the rate used to discount the defined benefit retirement obligation.

- PAS 28, *Investments in Associates and Joint Ventures* (2011), supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations,* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or *vice versa*, the entity does not remeasure the retained interest.

The adoption of these amendments did not have an effect on the consolidated financial statements.

- *Improvements to PFRS 2009-2011* contain amendments to 5 standards with consequential amendments to other standards and interpretations.

  - Comparative Information beyond Minimum Requirements *(Amendments to PAS 1)*. The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of consolidated financial statements. On the other hand, supporting notes for the third consolidated statement of financial position (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the consolidated financial statements) are not required.

    As a result of the adoption of the amendments to PAS 1, the Group has not included comparative information in the notes to the consolidated financial statements in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments only affect presentation and have no impact on the consolidated financial statements.

  - Presentation of the Opening Statement of Financial Position and Related Notes *(Amendments to PAS 1)*. The amendments clarify that: (a) the opening consolidated statement of financial position is required only if there is: (i) a change in accounting policy; (ii) a retrospective restatement; or (iii) a reclassification which has a material effect upon the information in the consolidated statement of financial position; (b) except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, notes related to the opening consolidated statement of financial position are no longer required; and (c) the appropriate date for the opening consolidated statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented. This is regardless of whether an entity provides additional comparative information beyond the minimum comparative information requirements. The amendments explain that the requirements for the presentation of notes related to the additional comparative information and those related to the opening consolidated statement of financial position are different, because the underlying objectives are different.

    As a result of the adoption of the amendments to PAS 1, the Group has not included comparative information in the notes to the consolidated financial statements in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments only affect presentation and have no impact on the consolidated financial statements.

- Classification of Servicing Equipment (*Amendments to PAS 16, Property, Plant and Equipment).* The amendments clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of property, plant and equipment in PAS 16 is now considered in determining whether these items should be accounted for under this standard. If these items do not meet the definition, then they are accounted for using PAS 2, *Inventories*.

  The adoption of these amendments did not have an effect on the consolidated financial statements.

- Income Tax Consequences of Distributions *(Amendments to PAS 32, Financial Instruments Presentation)*. The amendments clarify that PAS 12, *Income Taxes* applies to the accounting for income taxes relating to: (a) distributions to holders of an equity instrument; and (b) transaction costs of an equity transaction. The amendments remove the perceived inconsistency between PAS 32 and PAS 12. Before the amendment, PAS 32 indicated that distributions to holders of an equity instrument are recognized directly in equity, net of any related income tax. However, PAS 12 generally requires the tax consequences of dividends to be recognized in profit or loss. A similar consequential amendment has also been made to Philippine Interpretation IFRIC 2, *Members' Share in Co-operative Entities and Similar Instruments.*

  The adoption of these amendments did not have an effect on the consolidated financial statements.

- Segment Assets and Liabilities (*Amendments to PAS 34)*. This is amended to align the disclosure requirements for segment assets and segment liabilities in the interim consolidated financial statements with those in PFRS 8, *Operating Segments*. PAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when: (a) the amount is regularly provided to the chief operating decision maker; and (b) there has been a material change from the amount disclosed in the last annual consolidated financial statements for that reportable segment.

  The adoption of these amendments did not have an effect on the consolidated financial statements.

Additional disclosures required by the new or revised standards, amendments to standards and interpretations were included in the consolidated financial statements, where applicable.

The following table summarizes the impact of the adoption of the changes in accounting policy related to defined benefit retirement obligation on the Group's consolidated financial position, consolidated financial performance and consolidated cash flows.

Consolidated Statements of Financial Position Accounts

	December 31, 2012			January 1, 2012		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
ASSETS						
Deferred tax assets	P506,226	P184,012	P690,238	P502,677	P119,683	P622,360
Other noncurrent assets	691,323	(1,138)	690,185	676,051	15,154	691,205
LIABILITIES						
Deferred tax liabilities	155,617	8,836	164,453	166,572	21,787	188,359
Other noncurrent liabilities	87,730	587,701	675,431	116,050	344,174	460,224
EQUITY						
Reserve for retirement plan	-	(290,506)	(290,506)	-	(169,651)	(169,651)
Cumulative translation adjustment	(248,426)	(4,849)	(253,275)	(84,934)	(832)	(85,766)
Unappropriated retained earnings	15,950,249	(117,708)	15,832,541	13,725,689	(65,129)	13,660,560
Non-controlling interests	2,789,065	(600)	2,788,465	3,101,169	4,488	3,105,657

Consolidated Statements of Income Accounts

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Selling and administrative expenses	P12,583,192	P77,141	P12,660,333	P10,032,129	P61,582	P10,093,711
Income tax expense	1,568,306	(23,171)	1,545,135	1,744,378	(18,584)	1,725,794
Net Income Attributable to:						
Equity holders of the Parent Company	4,224,562	(52,578)	4,171,984	4,102,505	(41,948)	4,060,557
Non-controlling interests	91,974	(1,392)	90,582	111,101	(1,050)	110,051
Basic and Diluted Earnings per Common Share Attributable to Equity holders of the Parent Company	P18.15	(P0.32)	P17.83	P18.65	(P0.25)	P18.40

Consolidated Statements of Comprehensive Income Accounts

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Net income	P4,316,536	(P53,970)	P4,262,566	P4,213,606	(P42,998)	P4,170,608
Item that will not be reclassified to profit or loss						
Reserve for retirement plan	-	(178,659)	(178,659)	-	(472,075)	(472,075)
Income tax benefit	-	54,108	54,108	-	140,881	140,881
	P -	(P124,551)	(P124,551)	P -	(P331,194)	(P331,194)

Consolidated Statements of Cash Flows Accounts

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
Net cash flows provided by operating activities	P3,176,356	(P77,141)	P3,099,215	P3,755,730	(P61,582)	P3,694,148
Net cash flows used in investing activities	(3,646,967)	77,141	(3,569,826)	(18,935,145)	61,582	(18,873,563)

The impact of the adoption of PAS 19 for the current year is as follows: increase in other comprehensive loss by P146.7 million, increase in retirement expense by P67.6 million and decrease in income tax expense by P20.3 million.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing the consolidated financial statements. Except as otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new or revised standards, amendments to standards and interpretations on the respective effective dates:

- Recoverable Amount Disclosures for Non-financial Assets (*Amendments to PAS 36, Impairment of Assets*). The amendments clarify that the recoverable amount disclosure only applies to impaired assets (or cash-generating unit) and require additional disclosures to be made on fair value measurement on impaired assets when the recoverable amount is based on fair value less costs of disposal. The amendments harmonize the disclosure requirement for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.

- Offsetting Financial Assets and Financial Liabilities *(Amendments to PAS 32).* The amendments clarify that: (a) an entity currently has a legally enforceable right to set-off if that right is: (i) not contingent on a future event; and (ii) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and (b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that: (i) eliminate or result in insignificant credit and liquidity risk; and (ii) process receivables and payables in a single settlement process or cycle. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not plan to adopt these amendments early.

- Philippine Interpretation IFRIC 21, *Levies*. The interpretation provides guidance on accounting for levies in accordance with the requirements of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation confirms that an entity recognizes a liability for a levy when, and only when, the triggering event specified in the legislation occurs. An entity does not recognize a liability at an earlier date even if it has no realistic opportunity to avoid the triggering event. Other standards should be applied to determine whether the debit side is an asset or expense. Outflows within the scope of PAS 12, fines and penalties and liabilities arising from emission trading schemes are explicitly excluded from the scope. The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The Group does not plan to adopt these amendments early.

- Novation of Derivatives and Continuation of Hedge Accounting *(Amendments to PAS 39, Financial Instruments: Recognition and Measurement).* The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted. However, if an entity applies the amendments for an earlier period, then it should disclose that fact. Although the amendments are applied retrospectively, if an entity had previously discontinued hedge accounting as a result of a novation, then the previous hedge accounting for that relationship cannot be reinstated.

- Defined Benefit Plans: Employee Contributions (*Amendments to PAS 19*). The amendments apply to contributions from employees or third parties to the defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service (i.e. employee contributions that are calculated according to a fixed percentage of salary). The adoption of the amendments is required to be retrospectively applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Group does not plan to adopt these amendments early.

- PFRS 9, *Financial Instruments (2009, 2010 and 2013).* PFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under PFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. PFRS 9 (2010) introduces additions relating to financial liabilities. PFRS 9 (2013) introduces the following amendments: (a) a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the consolidated financial statements; (b) changes to address the so-called 'own credit' issue that were already included in PFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and (c) removes the January 1, 2015 mandatory effective date of PFRS 9, to provide sufficient time for the companies to make the transition to the new requirements. The IASB is currently discussing some limited amendments to the classification and measurement requirements and the expected credit loss impairment model to be included. Once the deliberations are complete, the IASB expects to publish a final version of the standard that will include all of the phases: (a) Classification and Measurement, (b) Impairment, and (c) Hedge Accounting. That version of the standard will include a new mandatory effective date. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will potentially have no impact on the classification and measurement of financial liabilities. The Group does not plan to adopt this standard early.

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 a 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.

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

'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

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 value in accordance with the Group's documented risk management or investment strategy. 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 (Notes 32 and 33).

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 change in value.

The Group's cash and cash equivalents and trade and other receivables are included under this category (Notes 7, 8, 32 and 33).

HTM Investments. HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Any interest earned on the HTM investments 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 the HTM investments are derecognized or impaired.

The Group has no investments accounted for under this category as at December 31, 2013 and 2012.

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 (Notes 32 and 33).

Financial Liabilities

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 (Notes 18, 32 and 33).

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 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 (Notes 17, 18, 19, 32 and 33).

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 December 31, 2013 and 2012.

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 December 31, 2013 and 2012.

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 December 31, 2013 and 2012.

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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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 shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be 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 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 using the historical effective rate of return on the asset.

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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories
Finished goods, goods in process and materials and supplies are valued at the lower of cost and net realizable value.

Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

Finished goods and goods in process	-	at cost, using the moving average method; includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce
Raw materials, feeds, feed ingredients, factory supplies and others	-	at cost, using the moving average method

Net realizable value of finished goods is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

Net realizable value of raw materials, feeds, feed ingredients, factory supplies and others is the current replacement cost.

Biological Assets and Agricultural Produce

The Group's biological assets include breeding stocks, growing poultry livestock, hogs and cattle, and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing poultry livestock, hogs and cattle, and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets prior to point of harvest are available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs and cattle harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs and cattle, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers, hogs and cattle or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	Amortization Period
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Cattle	2.5 - 3 years
Poultry breeding stock	40 - 44 weeks

Business Combination
Business combinations are accounted for using the acquisition method as at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair values and any resulting gain or loss is recognized in profit or loss.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss. Costs related to acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

- *Goodwill in a Business Combination*
  Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

- *Intangible Assets Acquired in a Business Combination*
  The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

  Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

  An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in profit or loss.

Transactions under Common Control
Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly-controlled entities are accounted for using the book value accounting.

Non-controlling Interests
The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

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

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

The Group's investment in an associate is accounted for using the equity method.

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

The Group's share in profit or loss of an associate is recognized as "Equity in net earnings (losses) of an associate" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Group's share of those changes is recognized as "Share in other comprehensive income (losses) of an associate" account in the consolidated statements of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. Such impairment loss is recognized as part of "Equity in net earnings (losses) of an associate" account in the consolidated statements of income.

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

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

<u>Property, Plant and Equipment</u>
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO) and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Construction in progress (CIP) represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation, which commences when the assets are available for their intended use, is computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Land improvements	5 - 10
Buildings and improvements	5 - 50
Machinery and equipment	5 - 20
Office furniture and equipment	3 - 5
Transportation equipment	5
Factory furniture, equipment and others	2 - 5

The remaining useful lives, residual values and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use.

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement or disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal.

Investment Properties

Investment properties consist of properties held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment properties, except for land, are measured at cost, including transaction costs, less accumulated depreciation and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is stated at cost less any impairment in value.

Depreciation of buildings and improvements is computed using the straight-line method over the estimated useful life of 20 to 40 years.

The useful lives, residual values and method of depreciation are reviewed and adjusted if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the retirement or disposal of investment property is recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally-generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of 2 to 8 years.

The Group assessed the useful life of trademarks and brand names, and formulas and recipes to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Trademarks and brand names, and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset, is derecognized.

Impairment of Non-financial Assets

The carrying amounts of investments, property, plant and equipment, investment properties, biological assets - net of current portion, other intangible assets with finite useful lives and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Trademarks and brand names, and formulas and recipes with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 economic best 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 purposes of the fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

<u>Provisions</u>
Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

<u>Share Capital</u>
Common Shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Preferred Shares
Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company’s option, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Company.

Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Treasury Shares
Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from Sale of Goods
Revenue from sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery and the amount of revenue can be measured reliably.

Revenue from Agricultural Produce
Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

Revenue from Terminal Handling
Revenue from terminal fees is recognized based on the quantity of items declared by vessels entering the port multiplied by a predetermined rate.

Revenue from usage fees is recognized based on the gross weight of vessels entering the port multiplied by a predetermined rate.

Others
Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

Rent income from investment properties is recognized on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Gain or loss on sale of investments in shares of stock is recognized if the Group disposes of its investment in a subsidiary, associate, AFS financial assets and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Cost and Expense Recognition
Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

Share-based Payment Transactions

Under SMC's Employee Stock Purchase Plan (ESPP), employees of the Group receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of SMC. Such transactions are handled centrally by SMC.

Share-based payment transactions in which SMC grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions. SMC charges the Group for the costs related to such transactions with its employees. The amount is recognized in profit or loss by the Group.

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expense recognized for share-based payment transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d), and at the date of renewal or extension period for scenario (b) above.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Retirement Costs

The Company and majority of its subsidiaries have separate funded, noncontributory retirement plans, administered by the respective trustees, covering their respective permanent employees. The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

The net defined benefit retirement obligation or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of economic benefits available in the form of reductions in future contributions to the plan.

Defined benefit costs comprise of the following:

- Service costs
- Net interest on the net defined benefit retirement obligation or asset
- Remeasurements of net defined benefit retirement obligation or asset

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

Net interest on the net defined benefit retirement obligation or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the net defined benefit retirement obligation or asset. Net interest on the net defined benefit retirement obligation or asset is recognized as expense or income in profit or loss.

Remeasurements of net defined benefit retirement obligation or asset comprising actuarial gains and losses, return on plan assets, and the effect of the asset ceiling (excluding net interest) are recognized immediately in other comprehensive income in the period in which they arise.

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

Foreign Currency

Foreign Currency Translations

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of AFS financial assets, a financial liability designated as a hedge of the net investment in a foreign operation that is effective, or qualifying cash flow hedges, which are recognized in other comprehensive income.

Foreign Operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Philippine peso at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade payables and other current liabilities" and "Income tax payable" accounts in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS 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.

Diluted EPS is computed in the same manner, adjusted for the effects of the shares issuable to employees and executives under the Long-term Incentive Plan for Stock Options of SMC which are assumed to be exercised at the date of grant.

Where the effect of the assumed conversion of shares issuable to employees and executives under the stock purchase and option plans of SMC would be anti-dilutive, diluted EPS is not presented.

As at December 31, 2013, 2012 and 2011, the Group has no dilutive equity instruments.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the "chief operating decision maker") reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between operating segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

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

Operating Lease Commitments - Group as Lessee. The Group has entered into various lease agreements as a lessee. The Group has determined that the lessor retains all the significant risks and rewards of ownership of the properties leased from third parties under operating lease arrangements.

Rent expense recognized in the consolidated statements of income amounted to P1,470.4 million, P1,153.4 million and P824.1 million in 2013, 2012 and 2011, respectively (Notes 22, 23 and 31).

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its consolidated financial position and consolidated financial performance. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. No accruals were made in relation to these proceedings (Note 35).

<u>Estimates and Assumptions</u>
The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 9, 13, 28 and 33.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded selling and administrative expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P504.1 million and P495.4 million as at December 31, 2013 and 2012, respectively.

The carrying amounts of trade and other receivables amounted to P25,662.9 million and P11,143.8 million as at December 31, 2013 and 2012, respectively (Note 8).

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P270.2 million and P143.4 million as at December 31, 2013 and 2012, respectively.

The carrying amounts of inventories amounted to P14,785.0 million and P15,690.8 million as at December 31, 2013 and 2012, respectively (Note 9).

Impairment of AFS Financial Assets. AFS financial assets are assessed as impaired when there has been a significant or prolonged decline in the fair value below cost or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities, and the future cash flows and the discount factors for unquoted equities.

The carrying amounts of AFS financial assets amounted to P9.4 million and P9.5 million as at December 31, 2013 and 2012, respectively (Notes 32 and 33).

Estimated Useful Lives of Property, Plant and Equipment and Investment Properties. The Group estimates the useful lives of property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation, amounted to P11,254.2 million and P10,104.3 million as at December 31, 2013 and 2012, respectively. Accumulated depreciation of property, plant and equipment amounted to P9,403.1 million and P8,567.9 million as at December 31, 2013 and 2012, respectively (Note 14).

Investment properties, net of accumulated depreciation and impairment losses, amounted to P632.7 million and P628.9 million as at December 31, 2013 and 2012, respectively. Accumulated depreciation and impairment losses of investment properties amounted to P11.5 million and P10.8 million as at December 31, 2013 and 2012, respectively (Note 13).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful life amounted to P509.6 million and P594.3 million as at December 31, 2013 and 2012, respectively (Note 15).

Impairment of Goodwill, Trademarks and Brand Names, and Formulas and Recipes with Indefinite Useful Lives. The Group determines whether goodwill, trademarks and brand names, and formulas and recipes are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the trademarks and brand names, and formulas and recipes. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the trademarks and brand names, and formulas and recipes and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill as at December 31, 2013 and 2012 amounted to P425.7 million and P406.9 million, respectively (Note 16).

The carrying amounts of trademarks and brand names, and formulas and recipes amounted to P3,358.1 million and P3,353.7 million as at December 31, 2013 and 2012, respectively (Note 15).

Acquisition Accounting. The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date. The Group's acquisitions have resulted in the recognition of goodwill and other intangible assets with indefinite lives.

The combined carrying amounts of goodwill and other intangible assets with indefinite lives arising from business combinations amounted to P493.7 million and P470.4 million as at December 31, 2013 and 2012, respectively (Notes 15 and 16).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carry forward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P840.4 million and P690.2 million as at December 31, 2013 and 2012, respectively (Note 27).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments, property, plant and equipment, investment properties, biological assets - net of current portion, other intangible assets with finite useful lives and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on investment properties and idle assets amounted to P86.9 million as at December 31, 2013 and 2012 (Notes 13 and 14).

The aggregate amount of biological assets - net of current portion, investments, investment properties, property, plant and equipment, goodwill and other intangible assets, and idle assets amounted to P18,181.1 million and P30,455.2 million as at December 31, 2013 and 2012, respectively (Notes 10, 12, 13, 14, 15 and 16).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 28 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit retirement obligation.

The present value of defined benefit retirement obligation amounted to P3,108.4 million and P3,145.5 million as at December 31, 2013 and 2012, respectively (Note 28).

Asset Retirement Obligation. Determining the ARO requires estimation of the costs of dismantling, installing and restoring the leased properties to their original condition. The Group determined that there are no significant asset retirement obligations as at December 31, 2013 and 2012.

5. Investments in Subsidiaries

The following are the developments relating to the Company's investments in subsidiaries in 2013 and 2012:

a) SMMI

i. In June 2012, following the approval of its BOD, SMMI, a wholly-owned subsidiary of the Company, acquired from CRC's individual stockholders the subscribed capital stock of CRC equivalent to 25,000 shares for P357.7 million. As such, CRC became a subsidiary of SMMI and was consolidated into SMPFC through SMMI. CRC is a Philippine company engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at acquisition date:

	Note	
Assets		
Cash		**P10**
Property, plant and equipment	*14*	**399,990**
Liabilities		
Advances from shareholders		**(42,285)**
Total identifiable net assets at fair value		**P357,715**

Subsequently, SMMI subscribed to an additional 45,000 CRC shares with a par value of P1,000.00 per share and paid P45.0 million.

In December 2012, following the approval of the BOD and stockholders of CRC to change the latter's corporate name, the Securities and Exchange Commission (SEC) issued the Certificates of Filing of Amended Articles of Incorporation and Amended By-laws reflecting the change in the corporate name of CRC to Golden Avenue Corp. (GAC).

ii. In September 2011, SMMI formed GBGTC, a wholly-owned subsidiary with an authorized capital stock of P2,000.0 million. GBGTC is a Philippine company with the primary purpose of providing and rendering general services connected with and incidental to the operation and management of port terminals engaged in handling and/or trading of grains, among others. In November 2011, following the approval by the SEC of the incorporation of GBGTC, SMMI subscribed to 5,000,000 GBGTC shares with a par value of P100.00 per share for a total subscription value of P500.0 million. SMMI paid an initial consideration amounting to P125.0 million. In February and April 2012, SMMI paid in full the remaining balance of the subscription value amounting to an aggregate of P375.0 million.

In July 2012, SMMI subscribed to an additional 7,000,000 GBGTC shares for a total subscription value of P700.0 million. Total payment made by SMMI for the additional subscription amounted to P500.0 million as at December 31, 2013.

GBGTC started its commercial operations in September 2013. Total cost incurred for the construction of the grain terminal amounted to P2,605.2 million.

b) SMFI and Monterey Foods Corporation (Monterey)

In August 2010, the SEC approved the merger of Monterey into SMFI, with SMFI as the surviving corporation, following the approvals of the merger by the respective BOD and stockholders of Monterey and SMFI in June 2010 and July 2010, respectively. The merger became effective on September 1, 2010. SMFI's request for confirmation of the tax-free merger, filed in September 2010, is still pending with the Bureau of Internal Revenue (BIR) as at March 26, 2014.

c) Magnolia

In September 2011, Magnolia, a wholly-owned subsidiary of SMPFC, acquired the subscription rights of certain individuals in GFDCC, a Philippine company engaged in the toll manufacturing of ice cream products. As such, GFDCC became a subsidiary of Magnolia and was consolidated into SMPFC through Magnolia.

The following summarizes the recognized amounts of assets acquired, liabilities assumed and goodwill recognized at acquisition date:

	Note	
Assets		
Cash and cash equivalents		**P6,997**
Trade and other receivables and other current assets		**61,679**
Property, plant and equipment - net and other noncurrent assets		**308,611**
Liabilities		
Trade payables and other current liabilities		**(22,367)**
Current maturities of long-term debt		**(25,000)**
Long-term debt - net of current maturities and other noncurrent liabilities		**(231,282)**
Total identifiable net assets at fair value		**98,638**
Goodwill arising on acquisition	*16*	**6,237**
Total cash consideration transferred		**P104,875**

Trade and other receivables with fair value of P25.3 million was collected in 2012.

d) SMPFIL

In July 2010, the Company, through its wholly-owned subsidiary, SMPFIL, acquired SMC's 51% interest (through San Miguel Foods and Beverage International Limited [SMFBIL]) in SMPFI Limited for US$18.6 million. SMPFI Limited owns 100% of San Miguel Pure Foods (Vn) Co. Ltd. (SMPFVN). Pursuant to the Sale and Purchase Agreement between SMFBIL and SMPFIL, 10% of the purchase price was paid in July 2010 and the balance of US$16.8 million (P734.3 million as at December 31, 2010) shall be payable: (i) upon change in controlling interest of SMPFIL to any third person other than an affiliate, or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year LIBOR plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties.

In May 2011, SMPFC increased its investment in SMPFIL by an amount equivalent to the 90% balance of the purchase price of SMPFVN acquired by SMPFIL from SMFBIL. Subsequently, SMPFIL paid the remaining balance of the purchase price of the Vietnam food business amounting to US$16.8 million.

As approved by the State Securities Commission of Vietnam on September 30, 2011, SMPFVN was renamed to San Miguel Hormel (Vn) Co., Ltd.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2013				December 31, 2012			
	PF-HORMEL	**SMSCCI**	**SMHVN***	**PTSMPFI**	PF-HORMEL	SMSCCI	SMHVN*	PTSMPFI
Percentage of non-controlling interests:	**40%**	**30%**	**49%**	**25%**	40%	30%	49%	25%
Carrying amount of non-controlling interests	**P1,962,997**	**P16,113**	**P153,172**	**P34,090**	P2,303,393	P62,638	P381,932	P38,426
Net income (loss) attributable to non-controlling interests	**P264,817**	**(P46,590)**	**(P228,759)**	**(P2,905)**	P315,677	P455	(P215,746)	(P10,115)
Other comprehensive income (loss) attributable to non-controlling interests	**(P4,808)**	**(P227)**	**P -**	**(P2,029)**	(P405)	P292	P -	(P3,288)
Dividends paid to non-controlling interests	**P600,000**	**P -**	**P -**	**P -**	P400,000	P -	P -	P -

Summarized financial information of investments in subsidiaries with material non-controlling interest:

	December 31, 2013				December 31, 2012			
	PF-HORMEL	**SMSCCI**	**SMHVN***	**PTSMPFI**	PF-HORMEL	SMSCCI	SMHVN*	PTSMPFI
Current assets	**P5,289,447**	**P686,005**	**P800,583**	**P253,533**	P5,480,995	P728,039	P919,255	P249,277
Noncurrent assets	**3,865,733**	**82,305**	**976,644**	**71,447**	3,547,914	9,289	1,120,796	75,193
Current liabilities	**(4,214,661)**	**(713,721)**	**(1,501,112)**	**(200,879)**	(3,252,620)	(524,021)	(1,480,640)	(169,534)
Noncurrent liabilities	**(33,030)**	**(877)**	**(159,881)**	**(33,232)**	(17,800)	(1,627)	(199)	(41,181)
Net assets	**P4,907,489**	**P53,712**	**P116,234**	**P90,869**	P5,758,489	P211,680	P559,212	P113,755
Revenues	**P14,932,779**	**P1,126,035**	**P1,723,136**	**P683,432**	P13,684,722	P952,751	P2,140,385	P692,807
Net income (loss)	**P662,033**	**(P158,185)**	**(P238,096)**	**(P11,620)**	P789,442	P4,404	(P224,552)	(P40,462)
Other comprehensive income (loss)	**(13,033)**	**217**	**-**	**-**	(13,764)	(243)	-	-
Total comprehensive income (loss)	**P649,000**	**(P157,968)**	**(P238,096)**	**(P11,620)**	P775,678	P4,161	(P224,552)	(P40,462)
Cash flows provided by (used in) operating activities	**P1,412,540**	**(P155,089)**	**P24,071**	**P14,396**	P994,085	(P426,639)	(P234,944)	P13,169
Cash flows from (used in) investing activities	**(627,701)**	**(780)**	**94,507**	**(9,510)**	(518,536)	(438)	129,127	(5,806)
Cash flows from (used in) financial activities	**(819,364)**	**160,333**	**69,180**	**(1,104)**	(509,300)	273,600	(100,529)	3,063
Effects of exchange rate changes on cash and cash equivalents	**-**	**(3,459)**	**(4,439)**	**(3,035)**	-	(255)	10,035	(1,377)
Net increase (decrease) in cash and cash equivalents	**(P34,525)**	**P1,005**	**P183,319**	**P747**	(P33,751)	(P153,732)	(P196,311)	P9,049

**see Note 5d*

6. 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 refrigerated and canned meat products.

The Milling segment is into manufacturing and marketing of flour products, premixes and flour-based products, and is engaged in grain terminal handling.

The non-reportable operating segments of the Group include dairy-based products, breadfill, desserts, cooking oils, 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.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of trade payables and other current liabilities, and other noncurrent liabilities, excluding interest and dividends payable. Segment assets and liabilities do not include deferred income taxes.

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.

Operating Segments

Financial information about reportable segments follows:

	Agro-Industrial			Value-Added Meats			Milling			Total Reportable Segments			Others			Eliminations			Consolidated		
	2013	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*
											(In Millions)										
Revenues																					
External	**P64,383**	P61,877	P56,982	**P14,876**	P13,665	P12,103	**P8,693**	P8,425	P8,354	**P87,952**	P83,967	P77,439	**P11,821**	P11,820	P12,152	**P -**	P -	P -	**P99,773**	P95,787	P89,591
Inter-segment	**1,137**	1,031	870	**57**	20	9	**751**	697	641	**1,945**	1,748	1,520	**269**	271	155	**(2,214)**	(2,019)	(1,675)	**-**	-	-
Total revenues	**P65,520**	P62,908	P57,852	**P14,933**	P13,685	P12,112	**P9,444**	P9,122	P8,995	**P89,897**	P85,715	P78,959	**P12,090**	P12,091	P12,307	**(P2,214)**	(P2,019)	(P1,675)	**P99,773**	P95,787	P89,591
Result																					
Segment operating result	**P1,956**	P1,769	P2,342	**P990**	P1,163	P1,017	**P2,021**	P1,860	P1,820	**P4,967**	P4,792	P5,179	**P545**	P353	P862	**(P2)**	P32	P39	**P5,510**	P5,177	P6,080
Interest expense and other financing charges	**(345)**	(327)	(364)	**(61)**	(87)	(21)	**(10)**	(4)	(4)	**(416)**	(418)	(389)	**(157)**	(157)	(142)	**23**	-	-	**(550)**	(575)	(531)
Interest income	**6**	42	118	**26**	23	7	**6**	24	11	**38**	89	136	**44**	60	258	**(23)**	-	-	**59**	149	394
Equity in net earnings of an associate	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**715**	885	271	**-**	-	-	**715**	885	271
Gain on sale of property and equipment	**-**	22	7	**-**	-	-	**2**	-	-	**2**	22	7	**2**	2	-	**-**	-	-	**4**	24	7
Other income (charges) - net	**(161)**	(22)	(92)	**(10)**	28	(4)	**(321)**	73	(15)	**(492)**	79	(111)	**350**	69	(213)	**-**	-	-	**(142)**	148	(324)
Income tax expense	**(415)**	(486)	(601)	**(284)**	(339)	(285)	**(515)**	(586)	(543)	**(1,214)**	(1,411)	(1,429)	**(301)**	(145)	(297)	**3**	11	-	**(1,512)**	(1,545)	(1,726)
Net income	**P1,041**	P998	P1,410	**P661**	P788	P714	**P1,183**	P1,367	P1,269	**P2,885**	P3,153	P3,393	**P1,198**	P1,067	P739	**P1**	P43	P39	**P4,084**	P4,263	P4,171
Attributable to:																					
Equity holders of the Parent Company																			**P4,097**	P4,172	P4,061
Non-controlling interests																			**(13)**	91	110
Net income																			**P4,084**	P4,263	P4,171
Other Information																					
Segment assets	**P25,176**	P26,160	P22,046	**P8,930**	P8,731	P8,448	**P6,923**	P4,836	P4,219	**P41,029**	P39,727	P34,713	**P31,993**	P14,985	P14,225	**(P5,312)**	(P4,527)	(P5,730)	**P67,710**	P50,185	P43,208
Investments	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	13,342	13,178	**-**	-	-	**-**	13,342	13,178
Goodwill	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**1,622**	1,603	1,619	**(1,196)**	(1,196)	(1,196)	**426**	407	423
Other intangible assets - net	**61**	35	254	**239**	243	257	**-**	-	-	**300**	278	511	**3,690**	3,792	3,268	**(122)**	(122)	(122)	**3,868**	3,948	3,657
Deferred tax assets	**361**	169	156	**58**	16	21	**135**	89	78	**554**	274	255	**229**	359	306	**57**	57	61	**840**	690	622
Consolidated total assets																			**P72,844**	P68,572	P61,088
Segment liabilities	**P9,414**	P9,182	P6,211	**P2,071**	P1,702	P1,674	**P1,533**	P806	P828	**P13,018**	P11,690	P8,713	**P9,152**	P8,037	P8,404	**(P5,362)**	(P4,575)	(P5,725)	**P16,808**	P15,152	P11,392
Interest and dividends payable	**17**	16	18	**2**	2	2	**-**	-	-	**19**	18	20	**2**	2	93	**-**	-	-	**21**	20	113
Notes payable	**3,785**	4,460	3,273	**2,085**	1,405	914	**1,535**	314	-	**7,405**	6,179	4,187	**1,243**	1,172	801	**-**	-	-	**8,648**	7,351	4,988
Income tax payable	**-**	-	-	**155**	115	134	**171**	151	167	**326**	266	301	**62**	121	4	**-**	-	-	**388**	387	305
Deferred tax liabilities	**17**	33	28	**5**	8	19	**63**	72	84	**85**	113	131	**19**	20	17	**32**	31	40	**136**	164	188
Long-term debt (including current maturities) - net of debt issue costs	**4,483**	4,475	4,468	**-**	-	-	**-**	-	-	**4,483**	4,475	4,468	**-**	-	178	**-**	-	-	**4,483**	4,475	4,646
Consolidated total liabilities																			**P30,484**	P27,549	P21,632
Capital expenditures	**P69**	P117	P79	**P109**	P541	P172	**P1,591**	P1,153	P78	**P1,769**	P1,811	P329	**P209**	P146	P269	**P -**	P -	P -	**P1,978**	P1,957	P598
Depreciation and amortization	**1,772**	1,537	1,413	**338**	303	280	**124**	100	111	**2,234**	1,940	1,804	**405**	357	316	**-**	-	-	**2,639**	2,297	2,120
Impairment loss	**-**	-	6	**-**	-	-	**-**	19	-	**-**	19	6	**-**	-	-	**-**	-	-	**-**	19	6

**As restated (Note 3)*

7. Cash and Cash Equivalents

This account consists of:

	2013	2012
Cash on hand and in banks	**P2,010,284**	P1,289,831
Short-term investments	**5,020,659**	2,990,587
	P7,030,943	P4,280,418

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

8. Trade and Other Receivables

This account consists of:

	Note	**2013**	2012
Trade receivables		**P10,336,911**	P9,527,662
Amounts owed by related parties	*29*	**149,454**	153,582
Insurance claims		**37,140**	122,584
Tax certificates receivables		**104,151**	68,481
Others		**15,539,298**	1,766,967
		26,166,954	11,639,276
Less allowance for impairment losses	*4*	**504,051**	495,440
		P25,662,903	P11,143,836

Trade receivables are non-interest bearing and are generally on a 30-day term.

Insurance claims pertain to the value of certain inventories and property, plant and equipment damaged by typhoons.

"Others" include receivable from the Company's sale of investment in an associate amounting to P13,886.4 million (Note 12). Also included in "Others" are the following: advances to suppliers, contract growers and breeders, receivables from employees, truckers and toll partners, and deposits.

The movements in the allowance for impairment losses follow:

	2013	2012
Balance at beginning of year	**P495,440**	P522,367
Charges for the year	**44,341**	39,587
Amounts written off	**(35,730)**	(66,514)
Balance at end of year	**P504,051**	P495,440

As at December 31, 2013 and 2012, the aging of receivables is as follows:

2013	**Trade Receivables**	**Amounts Owed by Related Parties**	**Insurance Claims**	**Tax Certificates Receivables**	**Others**	**Total**
Current	**P5,624,188**	**P87,057**	**P31,136**	**P14,855**	**P13,629,857**	**P19,387,093**
Past due						
1-30 days	**3,146,262**	**24,459**	**373**	**19,228**	**94,693**	**3,285,015**
31-60 days	**579,029**	**4,456**	**3,276**	**26,294**	**104,608**	**717,663**
61-90 days	**125,377**	**321**	**2,355**	**11,043**	**45,728**	**184,824**
Over 90 days	**862,055**	**33,161**	**-**	**32,731**	**1,664,412**	**2,592,359**
	P10,336,911	**P149,454**	**P37,140**	**P104,151**	**P15,539,298**	**P26,166,954**

2012	Trade Receivables	Amounts Owed by Related Parties	Insurance Claims	Tax Certificates Receivables	Others	Total
Current	P5,189,748	P34,576	P -	P17,237	P621,959	P5,863,520
Past due						
1-30 days	1,993,047	44,732	-	16,809	178,769	2,233,357
31-60 days	1,199,637	10,238	20,552	17,575	59,622	1,307,624
61-90 days	385,218	2,447	-	8,605	115,809	512,079
Over 90 days	760,012	61,589	102,032	8,255	790,808	1,722,696
	P9,527,662	P153,582	P122,584	P68,481	P1,766,967	P11,639,276

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historical payment behavior and extensive analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

9. Inventories

This account consists of:

	2013	2012
Finished goods and goods in process	**P5,068,567**	P4,483,460
Raw materials, feeds and feed ingredients	**9,466,160**	11,008,606
Factory supplies and others	**128,087**	99,923
Materials in transit	**122,178**	98,762
	P14,784,992	P15,690,751

The cost of finished goods and goods in process amounted to P5,303.2 million and P4,580.2 million as at December 31, 2013 and 2012, respectively. The cost of raw materials, feeds and feed ingredients amounted to P9,501.7 million and P11,055.2 million as at December 31, 2013 and 2012, respectively.

The fair values of marketable hogs and cattle, and grown broilers, which comprised the Group’s agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs and cattle; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The fair value of agricultural produce less costs to sell, which formed part of finished goods inventory, amounted to P812.9 million and P549.9 million as at December 31, 2013 and 2012, respectively, with corresponding costs at point of harvest amounting to P653.9 million and P460.6 million, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P159.0 million and P89.3 million as at December 31, 2013 and 2012, respectively.

10. Biological Assets

This account consists of:

	2013	2012
Current:		
Growing stocks	**P3,085,854**	P3,501,706
Goods in process	**341,426**	290,532
	3,427,280	3,792,238
Noncurrent:		
Breeding stocks - net	**1,910,906**	1,931,510
	P5,338,186	P5,723,748

The amortization of breeding stocks recognized in profit or loss amounted to P1,523.5 million, P1,311.1 million and P1,186.4 million in 2013, 2012 and 2011, respectively (Note 24).

Growing stocks pertain to growing broilers, hogs and cattle, and goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	Note	**2013**	2012
Cost			
Balance at beginning of year		**P6,213,091**	P6,294,778
Increase (decrease) due to:			
Production		**38,170,094**	37,093,097
Purchases		**996,311**	812,164
Mortality		**(656,723)**	(740,178)
Sales		**(5,185,744)**	(5,849,506)
Harvest		**(32,252,433)**	(30,194,550)
Reclassifications		**(1,287,871)**	(1,084,651)
Currency translation adjustments		**39,746**	(118,063)
Balance at end of year		**6,036,471**	6,213,091
Accumulated Amortization			
Balance at beginning of year		**489,343**	359,431
Additions	*24*	**1,523,536**	1,311,085
Disposals		**(26,089)**	(91,228)
Reclassifications		**(1,287,871)**	(1,084,651)
Currency translation adjustments		**(634)**	(5,294)
Balance at end of year		**698,285**	489,343
Carrying amount		**P5,338,186**	P5,723,748

The Group harvested approximately 472.5 million and 443.5 million kilograms of grown broilers in 2013 and 2012, respectively, and 0.86 million and 0.97 million heads of marketable hogs and cattle in 2013 and 2012, respectively.

11. Prepaid Expenses and Other Current Assets

This account consists of:

	2013	2012
Prepaid income tax	**P1,145,241**	P764,145
Input tax	**1,314,893**	1,211,985
Others	**312,220**	343,856
	P2,772,354	P2,319,986

"Others" include prepaid insurance, advance payments and deposits, and prepayments for various operating expenses.

12. Investment

This account consists of:

	2013	2012
Investment in an associate - at equity		
Acquisition cost:		
Balance at beginning of year	**P13,007,800**	P13,007,800
Disposal	**(13,007,800)**	-
	-	13,007,800
Accumulated equity in net earnings:		
Balance at beginning of year	**334,280**	170,179
Equity in net earnings during the year	**714,946**	884,884
Dividends	**(602,727)**	(721,771)
Disposal	**(445,355)**	-
Share in other comprehensive income (loss)	**(1,144)**	988
Balance at end of year	**-**	334,280
	P -	P13,342,080

In August 2011, SMPFC entered into a Share Purchase Agreement (SPA) with SMC covering the sale by the latter of its 5.2% shareholdings in Manila Electric Company (Meralco) comprising of 59,090,909 common shares for a total consideration of P13,000.0 million. Capitalized transaction costs related to the acquisition of Meralco shares by SMPFC amounted to P7.8 million.

In May 2012, SMPFC received the stock certificate for the property dividend from Meralco consisting of 166,530,579 common shares of stock of Rockwell Land Corporation (Rockwell Land) with a book value of P243.1 million. In July 2012, SMPFC sold, through the PSE, its Rockwell Land shares at P2.01 per share and recognized a gain of P91.2 million, included as part of "Gain on sale of investment and property and equipment" account in the 2012 consolidated statement of income.

The Company has determined that it has obtained significant influence over the financial and operating policies of Meralco in conjunction with SMC and subsidiaries' ownership of 32.04% interest in Meralco. Accordingly, the Company applied the equity method of accounting on its investment in shares of stock of Meralco.

In March and September 2013, SMPFC received cash dividends from Meralco amounting to P360.4 million and P242.3 million, respectively.

In September 2013, SMPFC, together with SMC and SMC Global Power Holdings Corp., entered into an SPA with JG Summit Holdings, Inc. for the sale of the Company's 59,090,909 shares of stock in Meralco for P13,886.4 million. Certain closing conditions covering the sale were satisfied by all of the parties in December 2013.

A gain of P390.7 million was recognized by SMPFC and this is included as part of "Gain on sale of investment and property and equipment" account in the 2013 consolidated statement of income.

As at December 31, 2013, the sale of SMPFC's shares of stock in Meralco is included as part of "Others" under "Trade and other receivables " account in the 2013 consolidated statement of financial position (Note 8).

The following table summarizes the financial information on the investment in an associate which is accounted for using the equity method.

	December 31, 2012*
	Meralco
Country of incorporation	Philippines
Percentage of ownership	5.2%
Current assets	P92,243
Noncurrent assets	124,830
Current liabilities	(59,518)
Noncurrent liabilities	(89,828)
Net assets	P67,727
Sales	P285,270
Net income	P17,158
Other comprehensive income	26
Total comprehensive income	P17,184

**Amounts in Millions*

13. Investment Properties

The movements in investment properties are as follow:

	Land and Land Improvements	**Buildings and Improvements**	**Total**
Cost			
December 31, 2011	P579,039	P2,865	P581,904
Additions	41,275	1,606	42,881
Reclassifications	5,100	9,806	14,906
December 31, 2012	625,414	14,277	639,691
Additions	3,201	1,300	4,501
December 31, 2013	628,615	15,577	644,192
Accumulated Depreciation			
December 31, 2011	-	1,890	1,890
Additions	-	463	463
December 31, 2012	-	2,353	2,353
Additions	-	687	687
December 31, 2013	-	3,040	3,040
Accumulated Impairment Losses			
December 31, 2011, 2012 and 2013	8,473	-	8,473
Carrying Amount			
December 31, 2012	P616,941	P11,924	P628,865
December 31, 2013	**P620,142**	**P12,537**	**P632,679**

No impairment loss was recognized in 2013, 2012 and 2011.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2013, 2012 and 2011.

The fair value of investment properties was determined either by an external independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, or by the credit management group of the Company. The independent appraisers or the credit management group of the Company provide the fair value of the Group's investment properties annually.

<u>Valuation Technique and Significant Unobservable Inputs</u>
The valuation of investment property applied one or more or a combination of the three approaches below:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. The property being valued is then compared with sales of similar property that have been transacted in the market. Listings and offerings may also be considered. The observable inputs to determine the market value of the property are the following: location characteristics, size, time element, quality and prospective use, bargaining allowance and marketability.

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

The fair value of investment properties amounting to P848.4 million and P831.3 million as at December 31, 2013 and 2012, respectively, has been categorized as Level 2 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

14. Property, Plant and Equipment

This account consists of:

	Note	Land and Land Improvements	Buildings and Improvements	Machinery Equipment, Furniture and Others	Transportation Equipment	Construction in Progress	Total
Cost							
December 31, 2011		P1,943,751	P6,008,481	P9,367,314	P458,474	P131,523	P17,909,543
GAC balance as at June 30, 2012	*5*	399,990	-	-	-	-	399,990
Additions		1,911	12,154	196,771	983	1,745,657	1,957,476
Disposals		(35,350)	(379,369)	(792,739)	(27,443)	-	(1,234,901)
Transfers, reclassifications and others		(7,408)	(81,236)	91,803	(3,975)	(206,910)	(207,726)
Currency translation adjustments		(3,158)	(88,675)	(55,120)	(4,508)	(764)	(152,225)
December 31, 2012		2,299,736	5,471,355	8,808,029	423,531	1,669,506	18,672,157
Additions		21,807	54,173	379,576	10,681	1,511,656	1,977,893
Disposals		-	-	(100,350)	(5,507)	-	(105,857)
Transfers, reclassifications and others		6,537	1,762,651	1,423,312	(88)	(3,169,094)	23,318
Currency translation adjustments		(4,155)	76,029	19,942	(1,437)	(636)	89,743
December 31, 2013		2,323,925	7,364,208	10,530,509	427,180	11,432	20,657,254
Accumulated Depreciation							
December 31, 2011		325,210	2,465,511	5,938,393	436,108	-	9,165,222
Additions	*24*	25,127	217,331	584,753	8,888	-	836,099
Disposals		(33,626)	(376,654)	(786,417)	(26,829)	-	(1,223,526)
Transfers, reclassifications and others		(8,376)	(51,537)	(55,319)	(2,825)	-	(118,057)
Currency translation adjustments		-	(42,712)	(44,667)	(4,470)	-	(91,849)
December 31, 2012		308,335	2,211,939	5,636,743	410,872	-	8,567,889
Additions	*24*	19,967	220,502	637,100	7,153	-	884,722
Disposals		-	-	(96,527)	(5,506)	-	(102,033)
Transfers, reclassifications and others		-	-	(4,305)	-	-	(4,305)
Currency translation adjustments		-	40,780	17,513	(1,500)	-	56,793
December 31, 2013		328,302	2,473,221	6,190,524	411,019	-	9,403,066
Carrying Amount							
December 31, 2012		P1,991,401	P3,259,416	P3,171,286	P12,659	P1,669,506	P10,104,268
December 31, 2013		**P1,995,623**	**P4,890,987**	**P4,339,985**	**P16,161**	**P11,432**	**P11,254,188**

Depreciation recognized in profit or loss amounted to P884.7 million in 2013, P836.1 million in 2012 and P846.8 million in 2011 (Note 24). These amounts include annual amortizations of capitalized interest amounting to P0.7 million in 2013, P0.9 million in 2012 and P1.1 million in 2011.

The Group has interest amounting to P10.4 million and P2.9 million which were capitalized in 2013 and 2012, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranges from 0.63% to 2.63% in 2013 and 3.25% to 4.88% in 2012. Unamortized balance of capitalized interest as at December 31, 2013, 2012 and 2011 amounted to P35.0 million, P25.3 million and P23.3 million, respectively.

Certain parcels of land with carrying amount of P436.6 million were reclassified to "Investment properties" in 2011 following the change in management's intention on these assets.

Idle assets, net of accumulated depreciation and impairment losses, amounted to P89.9 million and P93.6 million as at December 31, 2013 and 2012, respectively.

Land and land improvements include a 144-hectare property in Sumilao, Bukidnon, acquired by SMFI in 2002, which later became the subject of a petition for revocation of conversion order filed by MAPALAD, a group of Sumilao farmers, with the Department of Agrarian Reform (DAR), and appealed to the Office of the President (OP). Total acquisition and development costs amounted to P37.4 million.

To settle the land dispute, a Memorandum of Agreement (MOA) was executed among SMFI, MAPALAD, OP and DAR on March 29, 2008. The MOA provided for the release of a 50-hectare portion of the property to qualified farmer-beneficiaries, and the transfer of additional 94 hectares outside of the property to be negotiated with other Sumilao landowners. Under the MOA, SMFI shall retain ownership and title to the remaining portion of the property for the completion and pursuit of the hog farm expansion.

SMFI fully complied with all the provisions of the MOA in the last quarter of 2010. To formally close the pending cases filed by MAPALAD with the Supreme Court (SC) and OP, SMFI forwarded in November 2010 to the Sumilao farmers' counsels the draft of the Joint Manifestation and Motion for Dismissal of the cases pending with the SC and the OP for their concurrence. Pursuant to the Joint Manifestation and Motion for Dismissal dated March 3, 2011 filed by SMFI and NQSR Management and Development Corporation, the original owner of the Sumilao property, the SC and the OP, in a Resolution dated March 15, 2011 and in an Order dated April 6, 2011, respectively, dismissed the appeal of MAPALAD on the DAR's denial of their petition for the revocation of the conversion order. The allowance period for MAPALAD to appeal the decision of the OP and the SC has prescribed as at March 26, 2014.

15. Other Intangible Assets

This account consists of:

	2013	2012
Trademarks and brand names	**P3,300,557**	P3,296,062
Formulas and recipes	**57,591**	57,591
Computer software and licenses - net	**509,572**	594,317
	P3,867,720	P3,947,970

The movements in other intangible assets are as follows:

	Trademarks and Brand Names	Others	Total
Cost			
December 31, 2011	P3,299,938	P487,772	P3,787,710
Additions	-	332,259	332,259
Reclassifications	-	(2,132)	(2,132)
Currency translation adjustments	(3,876)	-	(3,876)
December 31, 2012	3,296,062	817,899	4,113,961
Additions	-	42,784	42,784
Reclassifications	-	3,951	3,951
Currency translation adjustments	4,495	(1,141)	3,354
December 31, 2013	3,300,557	863,493	P4,164,050
Accumulated Depreciation			
December 31, 2011	-	130,326	130,326
Additions	-	63,183	63,183
Reclassifications	-	(27,518)	(27,518)
December 31, 2012	-	165,991	165,991
Additions	-	126,694	126,694
Reclassifications	-	4,341	4,341
Currency translation adjustments	-	(696)	(696)
December 31, 2013	-	296,330	296,330
Carrying Amount			
December 31, 2012	P3,296,062	P651,908	P3,947,970
December 31, 2013	**P3,300,557**	**P567,163**	**P3,867,720**

In July 2010, SMC and SMPFC entered into an Intellectual Property Rights Transfer Agreement (Agreement) for the transfer to SMPFC of SMC's food-related brands and intellectual property rights at a purchase price of P3,200.0 million. Pursuant to the Agreement, 10% of the purchase price was paid in July 2010 and the balance shall be payable: (i) upon change in controlling interest of SMPFC to any third person other than an affiliate, or (ii) two years from July 30, 2010, subject to floating interest rate based on one-year PDST-F plus an agreed margin after one year, whichever comes first. The balance was recognized as part of the Company's payable to related parties as at December 31, 2010. On March 8, 2011, the Company paid SMC the amount of P2,880.0 million representing the 90% balance of the purchase price of the food-related brands and intellectual property rights.

SMC and SMPFC engaged the services of Fortman Cline Capital Markets Limited (FCCM) as financial adviser to perform a third party valuation of the food-related brands. The purchase price was arrived at after taking into account the result of the independent valuation study and analysis of FCCM.

The recoverable amount of the trademarks and brand names was determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The range of growth rates is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections was 12% in 2013 and 2012.

Management assessed that there is no impairment loss on the value of trademarks and brand names in 2013, 2012 and 2011.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of trademarks and brand names is based would not cause its carrying amount to exceed its recoverable amount.

The Company used the weighted average cost of capital as the discount rate, which reflected management's estimate of the risk. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

16. Goodwill

The movements in goodwill are as follows:

	2013	2012
Balance at beginning of year	**P406,922**	P422,547
Currency translation adjustments	**18,733**	(15,625)
Balance at end of year	**P425,655**	P406,922

The recoverable amount of goodwill has been determined based on a valuation using cash flow projections covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit. This growth rate is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections ranged from 12% to 14% for 2013 and 2012. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium.

Management assessed that there is no impairment loss on the value of goodwill in 2013, 2012 and 2011.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of goodwill is based would not cause its carrying amount to exceed its recoverable amount.

The calculations of value in use are most sensitive to the following assumptions:

- *Gross Margins*. Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

- *Discount Rates*. The Group uses the weighted average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investments proposals.

- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

17. Notes Payable

This account consists of:

	Note	2013	2012
Peso-denominated		**P8,019,036**	P6,637,900
Foreign currency-denominated		**628,749**	713,140
	32, 33	**P8,647,785**	P7,351,040

Notes payable mainly represent unsecured peso and foreign currency-denominated amounts payable to local and foreign banks. Interest rates for peso-denominated loans range from 0.50% to 4.50% and 3.25% to 4.40% in 2013 and 2012, respectively. Interest rates for foreign currency-denominated loans range from 9.00% to 13.78% and 4.65% to 14.19% in 2013 and 2012, respectively.

Notes payable of the Group are not subject to covenants and warranties.

18. Trade Payables and Other Current Liabilities

This account consists of:

	Note	2013	2012
Trade payables		**P6,357,842**	P5,541,189
Amounts owed to related parties	*29*	**1,495,881**	1,456,782
Non-trade payables		**6,081,128**	5,997,761
Others		**2,001,187**	1,499,744
		P15,936,038	P14,495,476

Trade payables are non-interest bearing and are generally on a 30 to 45-day term.

Non-trade payables consist of freight payable, contract growers/breeders' fees, tolling fees, guarantee deposits, gift certificates payable and expenses payable.

"Others" include tax-related and payroll-related accruals, accrued interest payable, dividends payable and derivative liabilities.

Derivative liabilities included under "Others" amounted to P249.8 million and P58.8 million as at December 31, 2013 and 2012, respectively (Notes 32 and 33).

19. Long-term Debt

This account consists of the following unsecured peso-denominated term notes:

	2013	2012
Floating interest rate based on 3-month PDST-F plus margin maturing in 2015	**P3,686,303**	P3,679,740
Fixed interest rate of 5.4885% maturing in 2015	**796,997**	795,578
	P4,483,300	P4,475,318

In December 2010, SMFI offered for sale and subscription to the public Philippine peso-denominated fixed rate and floating rate notes with principal amounts of P800.0 million and P3,700.0 million, respectively. Both types of notes have a term of five years and one day beginning on December 10, 2010 and ending on December 11, 2015. The fixed rate note has a fixed interest rate of 5.4885% per annum while the floating rate note has a floating interest rate based on 3-month PDST-F plus an agreed margin. Proceeds from the issuance of the notes were used to fund expansion and investment in new businesses by SMFI and for other general corporate purposes.

The movements in debt issue costs relative to the issuance of the unsecured peso-denominated floating and fixed term notes by SMFI are as follows:

	Note	2013	2012
Balance at beginning of year		**P24,682**	P32,301
Amortizations	*26*	**(7,982)**	(7,619)
Balance at end of year		**P16,700**	P24,682

The debt agreements contain, among others, covenants relating to the maintenance of certain financial ratios, usage of proceeds, significant change in the nature of the business, restrictions on loans and guarantees, disposal of a substantial portion of assets, merger and consolidation, and payment of interests.

As at December 31, 2013 and 2012, the Group is in compliance with the covenants of the debt agreements.

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 32.

20. Equity

The Company's capital stock, at P10 par value, consists of the following number of shares as at December 31, 2013 and 2012:

Authorized shares:	
Common	**206,000,000**
Preferred	**40,000,000**
	246,000,000
Issued shares:	
Common	**170,874,854**
Preferred	**15,000,000**
	185,874,854

On March 3, June 3, September 3, and December 3, 2012, cash dividends of P1.20 per share were paid to all common shareholders of record as of February 21, May 22, August 29, and November 19, 2012, respectively.

On March 3, June 3, September 3, and December 3, 2012, cash dividends of P20.00 per share were paid to all preferred shareholders of record as of February 21, May 22, August 29, and November 19, 2012, respectively.

On November 23, 2012, SMC completed the secondary offering of a portion of its common shares of stock in SMPFC following the crossing of such shares at the PSE on November 21, 2012. The offer consisted of 25,000,000 common shares, inclusive of an over-allotment of 2,500,000 common shares at a price of P240.00 per share. The completion of the secondary offering resulted in the increase of SMPFC's public ownership from 0.08% to 15.08% of its outstanding common shares.

On March 3, June 3, September 3, and December 3, 2013, cash dividends of P1.20 per share were paid to all common shareholders of record as of February 20, May 23, August 27, and November 21, 2013, respectively.

On March 3, June 3, September 3, and December 3, 2013, cash dividends of P20.00 per share were paid to all preferred shareholders of record as of February 20, May 23, August 27, and November 21, 2013, respectively.

Treasury shares, totaling 4,207,758 common shares in 2013 and 2012, are carried at cost.

As at December 31, 2013, the Company has a total of 121 and 231 common and preferred stockholders, respectively.

The Group's unappropriated retained earnings include the Company's accumulated earnings in subsidiaries and equity in net earnings of an associate amounting to P7,962.2 million, P7,403.4 million and P5,898.0 million in 2013, 2012 and 2011, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's retained earnings as at December 31, 2013 and 2012 is restricted in the amount of P182.1 million representing the cost of shares held in treasury.

The BOD of PF-Hormel approved the retention of the appropriated retained earnings as at December 31, 2013 and 2012 to finance future capital expenditure projects expected to be completed within two years.

21. Revenues

Revenue account consists of sales of goods and fair valuation adjustments on agricultural produce. Total sales of goods amounted to P99,609.9 million, P95,698.1 million and P89,522.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P35,461.3 million, P33,840.1 million and P31,719.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Service revenue from the grain terminal operations amounted to P0.5 million in 2013.

22. Cost of Sales

This account consists of:

	Note	**2013**	2012	2011
Inventories used	*35*	**P71,335,212**	P69,740,162	P65,416,641
Freight, trucking and handling		**2,493,461**	2,700,307	2,521,354
Depreciation and amortization	*24*	**2,251,686**	1,992,331	1,896,970
Communication, light and water		**1,265,047**	1,183,209	1,090,978
Personnel expenses	*25*	**667,601**	646,824	759,079
Repairs and maintenance		**387,613**	390,868	400,274
Rentals	*31*	**148,912**	197,034	184,537
Others		**1,035,062**	1,098,997	1,147,224
		P79,584,594	P77,949,732	P73,417,057

23. Selling and Administrative Expenses

This account consists of:

	Note	**2013**	2012*	2011*
Freight, trucking and handling		**P3,483,438**	P2,944,715	P2,603,459
Advertising and promotions		**3,239,145**	2,564,759	1,479,563
Personnel expenses	*25*	**2,487,255**	2,521,441	2,316,173
Contracted services		**1,899,408**	1,544,071	1,224,360
Rentals	*31*	**1,321,457**	956,413	639,538
Depreciation and amortization	*24*	**387,397**	304,869	223,463
Taxes and licenses		**349,437**	321,286	256,173
Professional fees		**290,008**	473,130	306,577
Supplies		**279,967**	284,052	243,248
Communication, light and water		**231,607**	201,113	170,155
Repairs and maintenance		**209,599**	175,601	102,132
Travel and transportation		**199,165**	226,590	179,978
Others		**300,456**	142,293	348,892
		P14,678,339	P12,660,333	P10,093,711

**As restated (Note 3).*

24. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2013**	2012	2011
Cost of sales:				
Property, plant and equipment	*14*	**P682,052**	P660,457	P691,678
Biological assets	*10*	**1,523,536**	1,311,085	1,186,384
Others		**46,098**	20,789	18,908
		2,251,686	1,992,331	1,896,970
Selling and administrative expenses:				
Property, plant and equipment	*14*	**202,670**	175,642	155,103
Others		**184,727**	129,227	68,360
		387,397	304,869	223,463
		P2,639,083	P2,297,200	P2,120,433

"Others" include amortization of containers, computer software and licenses, and small tools and equipment, and depreciation of investment properties amounting to P230.8 million, P150.0 million and P87.3 million in 2013, 2012 and 2011, respectively.

25. Personnel Expenses

This account consists of:

	Note	**2013**	2012*	2011*
Salaries and allowances		**P1,755,331**	P1,714,034	P1,742,824
Retirement costs	*28*	**192,396**	159,809	102,160
Other employee benefits		**1,207,129**	1,294,422	1,230,268
		P3,154,856	P3,168,265	P3,075,252

**As restated (Note 3).*

Personnel expenses are distributed as follows:

	Note	**2013**	2012*	2011*
Cost of sales	*22*	**P667,601**	P646,824	P759,079
Selling and administrative expenses	*23*	**2,487,255**	2,521,441	2,316,173
		P3,154,856	P3,168,265	P3,075,252

**As restated (Note 3).*

26. Interest Expense and Other Financing Charges, Interest Income and Other Income (Charges)

These accounts consist of:

a. Interest Expense and Other Financing Charges

	2013	2012	2011
Interest expense	**P483,629**	P527,778	P494,491
Other financing charges	**65,977**	47,120	36,481
	P549,606	P574,898	P530,972

Amortization of debt issue costs in 2013 and 2012 included in "Other financing charges" account amounted to P8.0 million and P7.6 million, respectively (Note 19).

Interest expense on notes payable and long-term debt are as follows:

	Note	**2013**	2012	2011
Notes payable	*17*	**P288,522**	P325,371	P289,637
Long-term debt	*19*	**195,107**	202,407	204,854
		P483,629	P527,778	P494,491

b. Interest Income

	2013	2012	2011
Short-term investments	**P44,505**	P92,022	P328,878
Cash in banks	**14,413**	56,496	64,694
	P58,918	P148,518	P393,572

c. Other Income (Charges)

	Note	**2013**	2012	2011
Gain (loss) on derivatives	*33*	**(P475,173)**	P205,454	(P28,137)
Dividend income		**-**	3	55
Foreign exchange gains (losses) - net	*32*	**32,890**	(47,297)	(59,803)
Impairment loss		**-**	(19,455)	(5,800)
Others - net		**(90,513)**	(81,905)	(230,011)
		(P532,796)	P56,800	(P323,696)

In 2012, the Group recognized provisions for impairment loss on idle assets amounting to P19.5 million.

27. Income Taxes

a. The components of the Group's deferred tax assets and liabilities as at December 31 are as follows:

	2013	2012*
Deferred tax assets:		
Allowance for impairment losses on receivables and inventories	**P200,594**	P174,997
Unamortized past service cost	**330,490**	250,316
Unrealized mark-to-market loss	**94,321**	45,227
NOLCO	**66,230**	5,299
MCIT	**10,202**	4,422
Others	**138,585**	209,977
	P840,422	P690,238
Deferred tax liabilities:		
Unrealized mark-to-market gain	**P12,622**	P40,978
Accelerated depreciation	**35,979**	37,447
Others	**87,181**	86,028
	P135,782	P164,453

**As restated (Note 3)*

As of December 31, 2013, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**NOLCO**	**MCIT**
2012	December 31, 2015	P324	P4,422
2013	December 31, 2016	220,443	5,780
		P220,767	**P10,202**

b. The components of the income tax expense consist of:

	2013	2012*	2011*
Current:			
Corporate income tax	**P1,488,011**	P1,494,906	P1,616,155
Final tax on interest and royalty income and on proceeds from sale of investment in shares of stock	**152,756**	90,775	120,842
	1,640,767	1,585,681	1,736,997
Deferred	**(128,564)**	(40,546)	(11,203)
	P1,512,203	P1,545,135	P1,725,794

**As restated (Note 3)*

c. The reconciliation between the statutory income tax rates on income before income tax and the Group's effective income tax rates follows:

	2013	2012*	2011*
Statutory income tax rate	**30.00%**	30.00%	30.00%
Additions to (reductions in) income tax resulting from the tax effects of:			
Interest income subjected to final tax	**(0.32)**	(0.65)	(1.73)
Equity in net earnings of an associate	**(3.83)**	(4.57)	(1.38)
Others - net	**1.17**	1.82	2.38
Effective income tax rates	**27.02%**	26.60%	29.27%

**As restated (Note 3)*

28. Retirement Plans

The Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans covering all of their permanent employees (collectively, the "Retirement Plans"). The Retirement Plans of the Group pays out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2013. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees (BOT) of each Retirement Plan.

The BOT of the Group's Retirement Plans exercises voting rights over the shares and approve material transactions. The Retirement Plans' accounting and administrative functions are undertaken by SMC's Retirement Funds Office.

The following table shows a reconciliation of the net defined benefit retirement obligation and its components:

	Fair Value of Plan Assets			**Present Value of Defined Benefit Obligation**			**Effect of Asset Ceiling**			**Net Defined Benefit Retirement Obligation**		
	2013	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*
Balance at beginning of year	**P2,475,056**	P2,536,179	P2,488,970	**(P3,145,454)**	(P2,978,538)	(P2,346,173)	**P -**	(P1,246)	(P21,991)	**(P670,398)**	(P443,605)	P120,806
Recognized in profit or loss												
Service costs	**-**	-	-	**(147,546)**	(133,119)	(110,860)	**-**	-	-	**(147,546)**	(133,119)	(110,860)
Interest expense	**-**	-	-	**(165,277)**	(167,909)	(175,559)	**-**	-	-	**(165,277)**	(167,909)	(175,559)
Interest income	**120,427**	141,294	182,834	**-**	-	-	**-**	-	-	**120,427**	141,294	182,834
Adjustment for curtailment	-	-	-	-	-	-	-	-	3,107	-	-	3,107
Interest on the effect of asset ceiling	-	-	-	-	-	-	-	(75)	(1,682)	-	(75)	(1,682)
	120,427	141,294	182,834	**(312,823)**	(301,028)	(286,419)	-	(75)	1,425	**(192,396)**	(159,809)	(102,160)
Recognized in other comprehensive income												
Remeasurements:												
Actuarial losses arising from:												
Experience adjustments	**(12,686)**	(57,951)	(2,014)	**(197,864)**	(122,029)	(489,381)	**-**	-	-	**(210,550)**	(179,980)	(491,395)
Changes in financial assumptions	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
Changes in demographic assumptions	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
Return on plan asset excluding interest	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-
Changes in the effect of asset ceiling	-	-	-	-	-	-	-	1,321	19,320	-	1,321	19,320
	(12,686)	(57,951)	(2,014)	**(197,864)**	(122,029)	(489,381)	-	1,321	19,320	**(210,550)**	(178,659)	(472,075)
Others												
Benefits paid	**(532,606)**	(239,200)	(131,577)	**534,759**	241,565	133,714	**-**	-	-	**2,153**	2,365	2,137
Contributions	**182,279**	109,310	7,687	**-**	-	-	**-**	-	-	**182,279**	109,310	7,687
Transfers from other plans	**6,984**	125,487	7,485	**(6,984)**	(125,487)	(7,485)	**-**	-	-	**-**	-	-
Transfers to other plans	**(20,001)**	(140,063)	(17,206)	**20,001**	140,063	17,206	**-**	-	-	**-**	-	-
	(363,344)	(144,466)	(133,611)	**547,776**	256,141	143,435	**-**	_	_	**184,432**	111,675	9,824
Balance at end of year	**P2,219,453**	P2,475,056	P2,536,179	**(P3,108,365)**	(P3,145,454)	(P2,978,538)	**P -**	P -	(P1,246)	**(P888,912)**	(P670,398)	(P443,605)

**As restated (Note 3)*

The Group’s annual contribution to the Retirement Plans consists of payments covering the current service cost plus amortization of Unfunded Past Service Liability.

Retirement cost recognized in the consolidated statements of income by the Parent Company amounted to P0.2 million in 2011.

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P192.4 million, P159.8 million and P102.0 million in 2013, 2012 and 2011, respectively.

Retirement assets and liabilities in 2013, included as part of “Other noncurrent assets” and “Other noncurrent liabilities” accounts, amounted to P4.8 million and P893.7 million, respectively.

Retirement assets and liabilities in 2012, included as part of “Other noncurrent assets” and “Other noncurrent liabilities” accounts, amounted to P4.8 million and P675.2 million, respectively.

The carrying amounts of the Group’s retirement fund approximate fair values as at December 31, 2013 and 2012.

The Group’s plan assets consist of the following:

	In Percentages	
	2013	2012
Marketable securities	**18.8**	18.2
Interest in pooled funds:		
Stock trading portfolio	**14.8**	16.0
Fixed income portfolio	**52.6**	44.7
Others	**13.8**	21.1

Investments in Marketable Securities

As at December 31, 2013, the plan assets include:

- 2,079,890 common shares of SMC, 600,000 Subseries “A” preferred shares of SMC and 730,000 Subseries “B” preferred shares of SMC with fair market value per share of P62.50, P76.15 and P76.30, respectively;

- 455,000 preferred shares of Petron Corporation with fair market value per share of P109.00;

- 939,832 common shares of Ginebra San Miguel, Inc. with fair market value per share of P23.00; and

- 225,110 common shares and 54,835 preferred shares of the Company with fair market value per share of P238.00 and P1,045.00, respectively.

As at December 31, 2012, the plan assets include:

- 2,079,890 common shares of SMC with fair market value per share of P105.40;

- 750,000 common shares and P455,000 preferred shares of Petron Corporation with fair market value per share of P10.46 and P108.00, respectively;

- 3,136,032 common shares of Ginebra San Miguel, Inc. with fair market value per share of P17.80; and

- 225,110 common shares and 54,835 preferred shares of the Company with fair market value per share of P244.00 and P1,018.00, respectively.

The fair market value per share of the above shares of stock is determined based on quoted market prices in active markets as at the reporting date (Note 4).

The Group's Retirement Plans recognized losses on the investment in marketable securities of SMC and its subsidiaries amounting to P70.6 million and P36.3 million in 2013 and 2012, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to P56.6 million and P15.1 million in 2013 and 2012, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The BOT approved the percentage of asset to be allocated for fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The BOT may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment income and expenses are allocated to the plans based on their pro-rata share in net assets of pooled funds. The Retirement Plans' interests in the net assets of the pooled funds were 39.7% and 36.5% of fixed income portfolio as at December 31, 2013 and 2012, respectively. The Retirement Plans' interests in net assets of the pooled funds were 17.8% and 22.7% of stock trading portfolio as at December 31, 2013 and 2012, respectively.

Approximately 2.6% and 3.2% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2013 and 2012, respectively.

Aproximately 22.5% and 20.3% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31 2013 and 2012, respectively.

Others include the Group Retirement Plans' investments in real estate such as memorial lots and foreclosed properties, investments in government securities, cash and cash equivalents, and receivables which earn interest.

The BOT reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the retirement benefit obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group expects to contribute about P248.2 million in its defined benefit retirement plan in 2014.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Risk. The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the plan. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

Longevity and Salary Risks. The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The overall expected rate of return is determined based on historical performance of the investments.

The principal actuarial assumptions used to determine retirement benefits are as follows:

	In Percentages	
	2013	2012
Discount rate	**3.9 to 8.8**	4.6 to 5.8
Salary increase rate	**7.0 to 8.0**	7.0 to 8.0

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit obligation range from 2.4 to 12.6 years and 1.8 to 13.3 years as at December 31, 2013 and 2012, respectively.

As at December 31, 2013, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit obligation by the amounts below.

	Defined Benefit Retirement Obligation	
	1 Percent Increase	1 Percent Decrease
Discount rate	(P35,584)	P34,084
Salary increase rate	29,340	(31,849)

29. Related Party Disclosures

The 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 year 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:

	Year	Revenue From Related Parties	Purchases From Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	**2013**	**P -**	**P -**	**P117**	**P -**	On demand; non-interest bearing	Unsecured; no impairment
Parent Company	**2013**	**9,658**	**760,202**	**24,558**	**685,654**	On demand; non-interest bearing	Unsecured; no impairment
	2012	14,136	628,502	36,487	578,528		
	2011	13,907	670,729	43,062	545,723		
Affiliates*	**2013**	**92,179**	**2,813,671**	**100,456**	**754,340**	On demand; non-interest bearing	Unsecured; no impairment
	2012	20,455	2,829,044	69,222	814,533		
	2011	28,187	2,198,615	89,546	595,868		
Shareholder in subsidiaries	**2013**	**-**	**-**	**26,007**	**55,887**	On demand; non-interest bearing	Unsecured; no impairment
	2012	-	-	47,736	61,996		
	2011	-	-	18,838	60,621		
Associate**	2012	-	82,097	1,387	1,725	On demand; non-interest bearing	Unsecured; no impairment
	2011	-	85,761	32,209	9,400		
Total	**2013**	**P101,837**	**P3,573,873**	**P151,138**	**P1,495,881**		
Total	2012	P34,591	P3,539,643	P154,832	P1,456,782		
Total	2011	P42,094	P2,955,105	P183,655	P1,211,612		

* *Affiliates refer to companies owned by SMC and Top Frontier. Amounts owed by affiliates as at December 31, 2013 amounting to P1,684 is included under "Other noncurrent assets" account.*

** *Amounts owed by Meralco as at December 31, 2012 and 2011 amounting to P1,249 and P32,072, respectively, are included under "Other noncurrent assets" account.*

Amounts owed by related parties consist mainly of trade and non-trade receivables.

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

Certain related party transactions were discussed in Notes 12, 15 and 34. The following are the other significant related party transactions entered into by the Company:

SMPFC transferred to SMFI, a 99.97%-owned subsidiary of the Company, its franchising and food service businesses under its operating division, Great Food Solutions, in February and April 2012, respectively, for a total consideration of P303.0 million.

On December 28, 2004, SMC and Monterey executed a Trademark Licensing Agreement (Agreement) with PF-Hormel to license the Monterey trademark for a period of 20 years renewable for the same period for a royalty based on net sales revenue. The royalty fee will apply only for as long as SMC and any of its subsidiaries own at least 51% of PF-Hormel. In the event that the ownership of SMC and any of its subsidiaries is less than 51%, the parties will negotiate and agree on the royalty fee on the license of the Monterey trademark. As a result of the merger of Monterey into SMFI, with SMFI as the surviving corporation (Note 5), all rights and obligations of Monterey under the Agreement are automatically transferred to and vested in SMFI per applicable law and following the provision in the Plan of Merger.

The compensation of the key management personnel of the Group, by benefit type, follows:

	2013	2012	2011
Short-term employee benefits	**P90,640**	P75,117	P83,439
Retirement costs	**8,301**	8,957	3,403
	P98,941	P84,074	P86,842

The compensation of key management personnel, which were paid and charged by SMC to the Group as management fee, amounted to P1.8 million, P2.3 million and P3.2 million in 2013, 2012 and 2011, respectively.

30. Basic and Diluted Earnings Per Common Share

Basic EPS is computed as follows:

	2013	2012*	2011*
Net income attributable to equity holders of the Parent Company	**P4,096,989**	P4,171,984	P4,060,557
Dividends on preferred shares for the year	**1,200,000**	1,200,000	993,333
Net income attributable to common shareholders of the Parent Company (a)	**P2,896,989**	P2,971,984	P3,067,224
Common shares issued and outstanding	**166,667,096**	166,667,096	166,667,096
Weighted average number of common shares (b)	**166,667,096**	166,667,096	166,667,096
Basic earnings per common share attributable to equity holders of the Parent Company (a/b)	**P17.38**	P17.83	P18.40

**As restated (Note 3)*

As at December 31, 2013, 2012 and 2011, the Group has no dilutive equity instruments.

31. Operating Lease Agreements

The Group entered into various operating lease agreements. These non-cancellable leases will expire in various years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The minimum future rental payables under these operating leases as at December 31 are as follows:

	2013	2012	2011
Within one year	**P577,551**	P396,855	P349,344
After one year but not more than five years	**616,886**	143,201	136,648
After five years	**954,951**	975,543	904,151
	P2,149,388	P1,515,599	P1,390,143

Rent expense recognized in profit or loss amounted to P1,470.4 million, P1,153.4 million and P824.1 million in 2013, 2012 and 2011, respectively (Notes 22 and 23).

32. Financial Risk 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 Group's exposure to each of the foregoing risks, the Group's objectives, policies and processes for measuring and managing these risks, and the Group's management of capital.

The Group's principal non-trade related financial instruments include cash and cash equivalents, 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 Group's trade-related financial assets and financial liabilities 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 Group's outstanding derivative instruments 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 Group's operating activities.

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

The Group's risk management policies 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 the Group's 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 Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's 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 Group's 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 Group's financial statements and financial reporting process and the Group's systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the Group's financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance by the Group with legal and regulatory requirements, including the Group's disclosure control and procedures; e) evaluation of management's process to assess and manage the Group's enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit Committee shall also prepare the reports required to be included in the Group's annual report.

The Group's accounting policies in relation to derivatives are set out in Note 3 to the 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 Group's 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.

On the other hand, the Group's investment policy is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the Group's operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the Group's 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 P37.0 million in 2013 and 2012. 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 December 31, 2013 and 2012, the terms and maturity profile of the interest-bearing financial instruments, together with the gross amounts, are shown in the following tables:

December 31, 2013	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**Total**
Fixed rate					
Philippine peso-denominated	**P -**	**P800,000**	**P -**	**P -**	**P800,000**
Interest rate		**5.4885%**			
Floating rate					
Philippine peso-denominated	**-**	**3,700,000**	**-**	**-**	**3,700,000**
Interest rate		**3-month PDST-F plus margin**			
	P -	**P4,500,000**	**P -**	**P -**	**P4,500,000**

December 31, 2012	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	Total
Fixed rate					
Philippine peso-denominated	P -	P -	P800,000	P -	P800,000
Interest rate			5.4885%		
Floating rate					
Philippine peso-denominated	-	-	3,700,000	-	3,700,000
Interest rate			3-month PDST-F plus margin		
	P -	P -	P4,500,000	P -	P4,500,000

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The Group's 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 Group's 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 as at December 31 are as follows:

	2013		2012	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$6,403**	**P284,261**	US$3,288	P134,972
Trade and other receivables	**8,652**	**384,106**	10,172	417,561
	15,055	**668,367**	13,460	552,533
Liabilities				
Notes payable	**14,163**	**628,766**	17,373	713,162
Trade payables and other current liabilities	**14,182**	**629,610**	15,641	642,063
Other noncurrent liabilities	**1**	**44**	5	205
	28,346	**1,258,420**	33,019	1,355,430
Net foreign currency-denominated monetary liabilities	**(US$13,291)**	**(P590,053)**	(US$19,559)	(P802,897)

The Group reported net foreign exchange (gains) losses amounting to (P32.9 million), P47.3 million and P59.8 million in 2013, 2012 and 2011, 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 during the year. Shown in the following table are the foreign exchange rates as at statement of financial position dates.

	Peso to US Dollar
December 31, 2011	43.84
December 31, 2012	41.05
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 December 31, 2013 and 2012.

2013

	P1 Decrease in the US dollar Exchange Rate		**P1 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	**(P884)**	**(P6,138)**	**P884**	**P6,138**
Trade and other receivables	**(3,156)**	**(7,705)**	**3,156**	**7,705**
	(4,040)	**(13,843)**	**4,040**	**13,843**
Notes payable	**-**	**14,163**	**-**	**(14,163)**
Trade payables and other current liabilities	**4,588**	**12,805**	**(4,588)**	**(12,805)**
Other noncurrent liabilities	**-**	**1**	**-**	**(1)**
	4,588	**26,969**	**(4,588)**	**(26,969)**
	P548	**P13,126**	**(P548)**	**(P13,126)**

2012

	P1 Decrease in the US dollar Exchange Rate		P1 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	(P1,804)	(P2,747)	P1,804	P2,747
Trade and other receivables	(3,392)	(9,154)	3,392	9,154
	(5,196)	(11,901)	5,196	11,901
Notes payable	-	17,372	-	(17,372)
Trade payables and other current liabilities	4,663	14,242	(4,663)	(14,242)
Other noncurrent liabilities	-	5	-	(5)
	4,663	31,619	(4,663)	(31,619)
	(P533)	P19,718	P533	(P19,718)

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

<u>Commodity Price Risk</u>

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 and wheat.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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 or 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 payments used for liquidity management.

2013

	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	**P7,030,943**	**P7,030,943**	**P7,030,943**	**P -**	**P -**	**P -**
Trade and other receivables - net	**25,662,903**	**25,662,903**	**25,662,903**	**-**	**-**	**-**
Derivative assets	**4,621**	**4,621**	**4,621**	**-**	**-**	**-**
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**9,416**	**9,416**	**-**	**-**	**-**	**9,416**
Financial Liabilities						
Notes payable	**8,647,785**	**8,668,590**	**8,668,590**	**-**	**-**	**-**
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**14,343,256**	**14,343,256**	**14,343,256**	**-**	**-**	**-**
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**249,772**	**249,772**	**249,772**	**-**	**-**	**-**
Long-term debt - net of debt issue costs	**4,483,300**	**4,877,952**	**194,573**	**4,683,379**	**-**	**-**
Other noncurrent liabilities (excluding retirement liability)	**41**	**41**	**-**	**41**	**-**	**-**

2012

	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	P4,280,418	P4,280,418	P4,280,418	P -	P -	P -
Trade and other receivables - net	11,143,836	11,143,836	11,143,836	-	-	-
Derivative assets	38,934	38,934	38,934	-	-	-
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	9,540	9,540	-	-	-	9,540
Financial Liabilities						
Notes payable	7,351,040	7,393,608	7,393,608	-	-	-
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	13,374,772	13,374,772	13,374,772	-	-	-
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	58,767	58,767	58,767	-	-	-
Long-term debt - net of debt issue costs	4,475,318	5,072,526	194,573	194,573	4,683,380	-
Other noncurrent liabilities (excluding retirement liability)	199	199	-	199	-	-

<u>Credit Risk</u>
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 Group's trade 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.

<u>*Trade and Other Receivables*</u>
The Group's 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. The Group has no significant concentration of the credit risk with any counterparty.

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 Group's 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 Group's 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 Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are 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 provision for 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 December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

	Note	**2013**	2012
Cash and cash equivalents	*7*	**P7,030,943**	P4,280,418
Trade and other receivables - net	*8*	**25,662,903**	11,143,836
Derivative assets	*33*	**4,621**	38,934
AFS financial assets	*33*	**9,416**	9,540
		P32,707,883	P15,472,728

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 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 trade customers. 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 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 primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder value.

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. Other components of equity such as treasury stock and cumulative translation adjustments 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 Group's external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

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

33. Financial Assets and Financial Liabilities

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments as at December 31, 2013 and 2012:

	2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P7,030,943**	**P7,030,943**	P4,280,418	P4,280,418
Trade and other receivables - net	**25,662,903**	**25,662,903**	11,143,836	11,143,836
Derivative assets	**4,621**	**4,621**	38,934	38,934
AFS financial assets (included under "Other noncurrent assets" account in the consolidated statements of financial position)	**9,416**	**9,416**	9,540	9,540
Financial Liabilities				
Notes payable	**8,647,785**	**8,647,785**	7,351,040	7,351,040
Trade payables and other current liabilities (excluding dividends payable, derivative liabilities and statutory liabilities)	**14,343,256**	**14,343,256**	13,374,772	13,374,772
Derivative liabilities (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position)	**249,772**	**249,772**	58,767	58,767
Long-term debt - net of debt issue costs	**4,483,300**	**4,533,089**	4,475,318	4,518,841
Other noncurrent liabilities (excluding retirement liability)	**41**	**41**	199	199

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 their respective 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 range from 0.47% to 2.48% and 0.62% to 3.82% as at December 31, 2013 and 2012, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

<u>Derivative Financial Instruments</u>
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.

<u>Derivative Instruments Not Designated as Hedges</u>
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 December 31, 2013 and 2012 of 174,248 and 85,457 metric tons, respectively. These options can be exercised at various calculation dates in 2014 and 2013 with specified quantities on each calculation date. As at December 31, 2013 and 2012, the net negative fair value of these options amounted to P185.9 million and P41.3 million, respectively.

As at December 31, 2011, the Group has outstanding bought and sold options covering its soybean meal requirements with notional quantity of 7,439 metric tons. These options can be exercised at various dates in 2012 with specified quantities on each calculation date. As at December 31, 2011, the negative fair value of these options amounted to P5.5 million. There were no outstanding options on the purchase of soybean meal as at December 31, 2013 and 2012.

Embedded Derivatives
The Group's embedded derivatives include currency forwards embedded in non-financial contracts. As at December 31, 2013 and 2012, the total outstanding notional amount of such embedded currency forwards amounted to US$52.0 million and US$61.0 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 December 31, 2013 and 2012, the net positive (negative) fair value of these embedded currency forwards amounted to (P59.2 million) and P21.5 million, respectively.

For the years ended December 31, 2013, 2012 and 2011, the Group recognized mark-to-market gains (losses) from freestanding and embedded derivatives amounting to (P475.2 million), P205.5 million and (P28.1 million), respectively (Note 26).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

	2013	2012
Balance at beginning of year	**(P19,833)**	P3,156
Net changes in fair value of derivatives		
Not designated as accounting hedges	**(475,173)**	205,454
	(495,006)	208,610
Less fair value of settled instruments	**(249,855)**	228,443
Balance at end of year	**(P245,151)**	(P19,833)

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 (Note 3).

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

2013

	Level 1	**Level 2**	**Total**
Financial Assets			
Derivative assets	**P -**	**P4,621**	**P4,621**
AFS financial assets	**8,312**	**1,104**	**9,416**
Financial Liabilities			
Derivative liabilities	**-**	**249,772**	**249,772**

2012

	Level 1	Level 2	Total
Financial Assets			
Derivative assets	P -	P38,934	P38,934
AFS financial assets	8,399	1,141	9,540
Financial Liabilities			
Derivative liabilities	-	58,767	58,767

As at December 31, 2013 and 2012, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

34. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and those of its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to the weighted average of the daily closing market prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stocks, subject to certain conditions, through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions.

Expenses billed by SMC for share-based payments recognized by the Group in profit or loss and included in "Selling and Administrative Expenses" amounted to P18.6 million, P33.2 million and P34.6 million in 2013, 2012 and 2011, respectively.

35. Other Matters

a. *Toll Agreements*

The significant subsidiaries are into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as "the Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.

- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.

- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses in 2013, 2012 and 2011 amounted to P6,006.4 million, P5,275.9 million and P4,709.2 million, respectively.

b. *Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor-related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

c. *Commitments*
The outstanding capital and purchase commitments of the Group as at December 31, 2013 and 2012 amounted to P12,981.5 million and P16,502.5 million, respectively.

d. *Registration with the Board of Investments (BOI)*
Certain operations of consolidated subsidiaries are registered with the BOI as pioneer and non-pioneer activities. As registered enterprises, these consolidated subsidiaries are subject to some requirements and are entitled to certain tax and non-tax incentives.

GBGTC
GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in the Omnibus Investments Code of 1987, GBGTC is entitled to incentives which include, among others, income tax holiday (ITH) for a period of four years from July 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI
SMFI's (formerly Monterey) Sumilao Hog Project (Sumilao Project) was registered with the BOI under Registration No. 2008-192, in accordance with the provisions of the Omnibus Investments Code of 1987 on a pioneer status as New Producer of Hogs on July 30, 2008. As a BOI-registrant, the Sumilao Project is entitled to incentives which include, among others, ITH for a period of six years, extendable under certain conditions to eight years, from February 2009 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

e. Certain changes in prior years' amounts were due to reclassifications for consistency with the current period presentation. These reclassifications had no effect on the reported financial position and financial performance for any period.

f. *Foreign Exchange Rates*
The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries and associates to Philippine peso were closing rates of P44.395 and P41.05 in 2013 and 2012, respectively, for consolidated statements of financial position accounts; and average rates of P42.43, P42.24 and P43.31 in 2013, 2012 and 2011, respectively, for income and expense accounts.

36. Events After the Reporting Date

On February 4, 2014, the Company's BOD declared cash dividends to all preferred and common shareholders of record as of February 19, 2014 amounting to P20.00 and P1.20 per share, respectively, payable on March 3, 2014.

On March 26, 2014, the Company's BOD declared cash dividends to all common shareholders of record as of April 11, 2014 amounting to P48.00 per share, payable on May 12, 2014.

Parties to the Offer

Issuer	**SAN MIGUEL PURE FOODS COMPANY INC.** 23rd Floor, The JMT Corporate Condominium, ADB Avenue Ortigas Center, Pasig City
Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	**BPI CAPITAL CORPORATION** 8th Floor, BPI Building 6750 Ayala Avenue corner Paseo de Roxas, Makati City
	CHINA BANKING CORPORATION 9th Floor China Bank Building 8745 Paseo de Roxas corner Villar Street, Makati City
	RCBC CAPITAL CORPORATION 21st Floor, Tower 2, RCBC Plaza 6819 Ayala Avenue, Makati City
	SB CAPITAL INVESTMENT CORPORATION 18th Floor, Security Bank Centre 6776 Ayala Avenue, Makati City
	STANDARD CHARTERED BANK Standard Chartered Bank Building 6788 Ayala Avenue, Makati City
Co-Lead Underwriters	**BDO CAPITAL & INVESTMENT CORPORATION** BDO Corporate Center 7899 Makati Avenue, Makati City
	PNB CAPITAL AND INVESTMENT CORPORATION 9th Floor, PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City
Participating Underwriter	**UNICAPITAL, INC.** 3rd Floor, Majalco Building, Benavidez corner Trasierra Streets, Legaspi Village, Makati City
Selling Agents	**THE TRADING PARTICIPANTS OF THE PHILIPPINE STOCK EXCHANGE, INC.**
Legal Counsel to the Issuer	**PICAZO BUYCO TAN FIDER & SANTOS** Penthouse, Liberty Center 104 H. V. dela Costa Street, Salcedo Village, Makati City
Legal Counsel to the Joint Issue Managers, Joint Lead Underwriters and Joint Bookrunners	**SYCIP SALAZAR HERNANDEZ & GATMAITAN** Sycip Law Center 105 Paseo de Roxas, Makati City
Receiving Agent and Registrar and Paying Agent	**SMC STOCK TRANSFER SERVICE CORPORATION** Podium Level, SMC Head Office 40 San Miguel Avenue, Mandaluyong City
Depository Bank	**BANK OF COMMERCE** Ground Floor, San Miguel Properties Building No. 7 St. Francis Street, Mandaluyong City
Independent Auditors	**R.G. MANABAT & CO.** The KPMG Center 5th Floor, 6787 Ayala Avenue Makati City