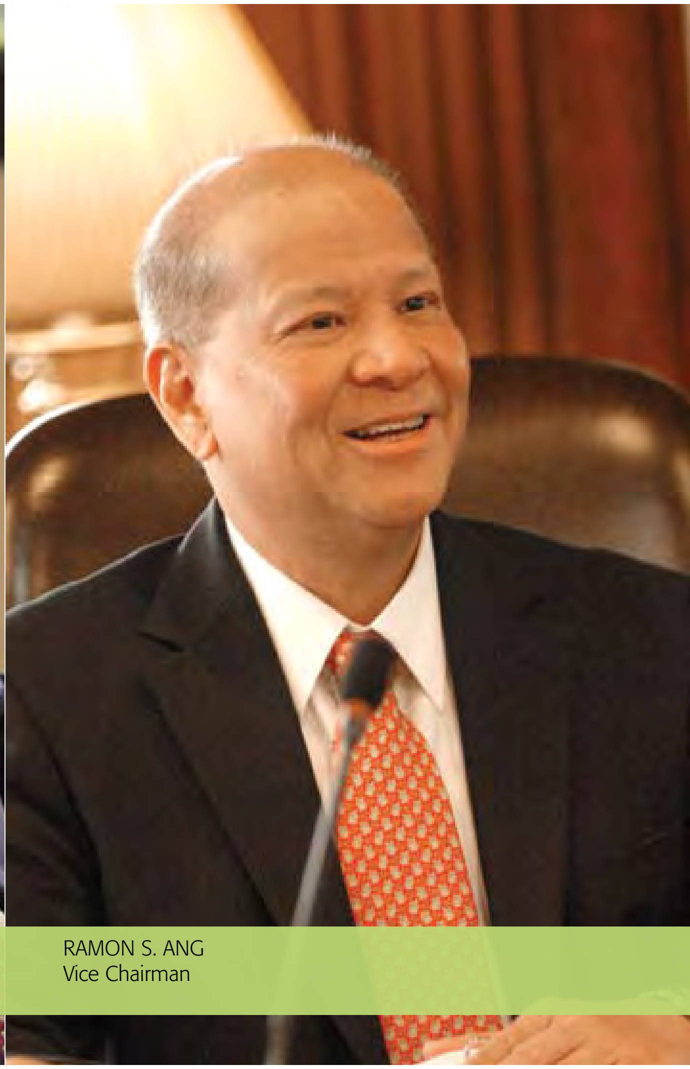
2013
ANNUAL REPORT

San Miguel
Pure Foods

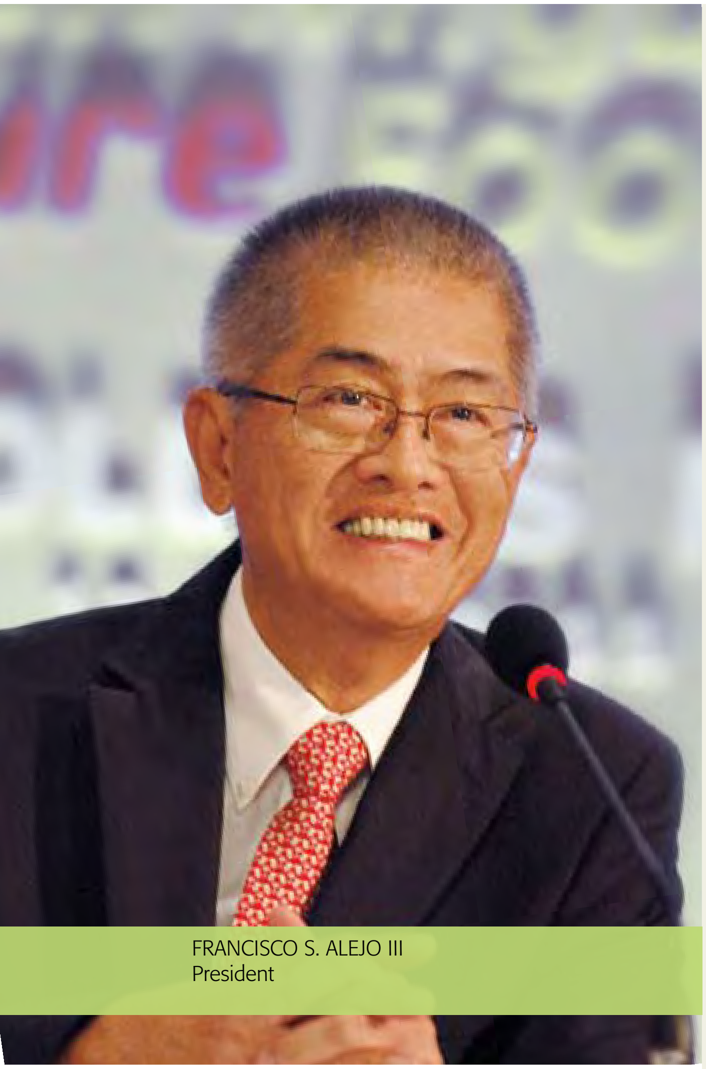
CONTENTS

EDUARDO M. COJUANGCO, JR.
Chairman



RAMON S. ANG
Vice Chairman

OUR CONSUMERS ARE THE CORE ENGINE OF OUR GROWTH.



FRANCISCO S. ALEJO III
President

MESSAGE TO STOCKHOLDERS

It's been another solid year for San Miguel Pure Foods Company (SMPFC or "the Company") and its subsidiaries. For 2013, revenues rose 4% to Php 99.8 billion, while operating income of Php 5.5 billion, grew 6% higher than the prior year. Despite this strong showing, we were not immune to the short-term impact of unforeseen mark-to-market losses as a result of the peso depreciation and unfavorable wheat options. As a result, net income declined by 4% to Php 4.1 billion.

In line with our key goal of achieving a more balanced portfolio, we remain steadfast in implementing our strategies and programs that are geared towards delighting our consumers and customers—the core engines of our growth.

As a company we are always reinvesting in our business and in our brands. This is probably the single biggest thing we can do to make sure that our company is set up for the future. Many of our capital investments have been undertaken precisely to support our growth capabilities and meet growing demand for our products.

Technology has been the driver of cost efficiencies and productivity and to this end, we have expanded our capacities with the completion of additional feed mills, processing and slaughter facilities. The number of poultry and hog farms that make use of our climate-controlled systems and elevated housing has raised both growing and breeding outputs, resulting in better yields, harvest recovery and feed conversion ratios.

But perhaps our single largest investment in 2013 was the Golden Bay Grain Terminal in Mabini, Batangas. The terminal is the Philippines' most efficient, modern, and first fully-automated bulk grain facility that will allow SMPFC to enjoy lower freight costs and terminal and storage fees for our flour and feed-milling operations. Ultimately, this will help generate cost savings in our supply chain, a significant proportion of which will again be reinvested back in our businesses.

Our franchised retail outlets, among them Monterey Meatshops, Magnolia Chicken Stations, and Kambal Pandesal, place our products well within reach of consumers, providing them convenience and quality brands with unbeatable value. At the same time, these retail chains are proving to be a key differentiator, allowing us to provide better and more stable margins for our commodities business. Indeed our growing number of retail channels—both company-owned and through the modern and traditional trade—ensures the availability of our expanding product portfolio.

A string of innovative products and new packaging formats were introduced to the market last year to help boost sales. We're confident that over time these new offerings will be joining our roster of reliable performers like Purefoods Tender Juicy, Purefoods Corned Beef, and Star Margarine. Indeed, new products and innovation opportunities in the wellness sector will be key for us going forward and we're going to do everything we can to keep our brand offerings and categories fresh. We've invested in improving our sales and marketing execution and continue to launch strategic advertising and promotional campaigns to strengthen and keep our brands top-of-mind.

As an organization, we are working to become a more dynamic, highly responsive, and more profitable food business, and as such SMPFC is constantly evolving. In April 2013, the Company integrated into one management structure its branded businesses (i.e. processed meats, dairy and coffee) to maximize synergies in order to achieve market leadership across our brands.

Fellow stockholders, these are exciting times for San Miguel Pure Foods. Your Company is built on a strong platform of well-loved brands and quality products and our products boast leadership positions in categories that are among the most attractive and fastest-growing in the Philippine food industry.

Moving forward, we will work toward accelerating revenue growth, improving margins and generating more cash flow. We will leverage our strengths, and continue to innovate and build our capabilities, improve our offerings and expand into attractive food categories.

In closing, we'd like to thank our directors, shareholders, and stakeholders for your support and trust. Your Company is ready to face greater challenges and fresh opportunities head on. We are confident that with your continued support, San Miguel Pure Foods will be able to deliver even more profitable growth in the years ahead.

FINANCIAL HIGHLIGHTS

(in Thousand Pesos, except Per Share data)

San Miguel Pure Foods Company Inc. and Subsidiaries

	2013	**2012***	**2011***
Revenue	99,772,930	95,787,365	89,591,080
NET INCOME	4,083,835	4,262,566	4,170,608
Attributable to:			
Equity Holders of the Parent Company	4,096,989	4,171,984	4,060,557
Non-controlling interests	(13,154)	90,582	110,051
EQUITY	42,359,925	41,022,382	39,455,957
Attributable to:			
Equity Holders of the Parent Company	40,191,233	38,233,917	36,350,300
Non-controlling interests	2,168,692	2,788,465	3,105,657
PER COMMON SHARE**			
Basic Earnings	17.38	17.83	18.40
Equity	144.97	133.23	123.17

* As restated (See Note 3 of the 2013 Audited Financial Statements)
** Based on the number of shares outstanding at the end of each year

MANAGEMENT'S DISCUSSION & ANALYSIS

AGRO-INDUSTRIAL BUSINESSES

FEEDS

The Feeds business posted a 3% growth in revenue due to better selling prices. This, combined with continuing efforts to improve operational efficiencies, minimize costs and better availability of cassava resulted in double-digit growth in operating income.

Newly-launched products such as B-MEG Expert Premium and B-MEG Integra Powermaxx were well received by the market, helping to push total sales. The year also saw the business ramp up its production capacity, with the commissioning of three new feed mills.

POULTRY AND FRESH MEATS

The Poultry and Fresh Meats business registered a 5% increase in revenue, on the back of volume growth for poultry products and favorable selling prices for pork. This was, however, tempered by lower selling prices for broilers, resulting from an industry oversupply experienced in the third quarter of 2013. Nevertheless, better net selling prices and improved efficiencies resulted in higher operating profit.

The stable priced segment, which includes the Magnolia Chicken Stations and Monterey Meat Shops, benefitted from favorable selling prices, posting double-digit revenue growth, particularly with the expansion of franchised outlets and the introduction of new product offerings.

The business also expanded capacity by adding new poultry processing plants and increasing the number of poultry farms using our Climate-Controlled System (CCS). The capacity of the CCS facilities rose 10% for poultry and 11% for hogs, compared to the previous year.

MILLING BUSINESS

Driven by higher volume, the milling business grew its revenue by 4% despite lower selling prices. Volumes improved with the addition of new "Kambal Pandesal" outlets reaching more than 150 outlets, all of which exclusively use the Company's flour premixes.

The opening of Golden Bay Grain Terminal in Batangas in November was a significant milestone for the Company. Capable of accommodating larger vessels, this state-of-the-art facility will generate significant savings for the Company, as it will allow for lower freight costs and terminal storage fees.

VALUE-ADDED BUSINESSES

PROCESSED MEATS

The Processed Meats business posted a 9% growth in revenue, on account of higher volumes for core brands and improved selling prices. However, operating income declined as the business invested more in advertising and promotions, and improvements in distribution. Greater ad spend and distribution enhancements are aimed at supporting the launch of new products and improving product availability.

The business also introduced new products such as Purefoods Native Marinated Lines, Thick-Cut Bacon, Meaty Spaghetti Sauce, and new variants for Tender Juicy Hotdog and Chicken Nuggets. This is in line with our efforts to expand the Company's portfolio of well-loved products.

With product quality being a top priority, the Company invested in systems that allowed it to pass the SGS Surveillance audits (ISO 22000:2005, ISO 9001:2008, and ISO14000:2004) and the NMIS HACCP Certification and Surveillance audits.

DAIRY, SPREADS, OILS AND ICE CREAM

The business posted a 4% increase in revenue on account of higher volumes. Better margins as a result of lower costs of dairy ingredients, combined with higher volumes, resulted in a double-digit growth in operating income.

The introduction of innovative products in new and emerging categories also contributed to the segment's growth. New products include JellyAce Jelly Sip, Magnolia All-Purpose Cream, Magnolia Yogurt Ice Cream and new flavors for the Best of the Philippines line (Kesong Puti, Strawberry Shortcake, and Butterscotch) which were accepted favorably by our consumers.

To meet the growing demand for cheese, the Company also expanded its production capability.

As part of its continuing efforts to provide only the highest quality products for consumers, the Dairy plant in Cavite successfully passed the SGS Surveillance audits (ISO 2200 and 9001:2008) and earned favorable audit ratings from key food service partners. The Company's ice cream plant also received Halal certification and passed the SGS audit for its GMP re-certification.

COFFEE

The coffee business saw an 18% growth in revenue on the back of improved sales in the general trade. In order to gain more leverage in the market, the company also expanded promotional activities for the year.

FOOD SERVICE

Revenue from the Company's foodservice channel registered a double-digit growth participating in the growing trend of eating out. The Company continued to strengthen its presence in this channel through product customization, product placement, and relationship management allowing the Company to increase its share in the food service purchases.

INTERNATIONAL BUSINESS

The Company's international operations continued to face challenges in 2013 as combined revenues declined by 15%. Revenues from Vietnam operations dropped due to unfavorable selling prices of hogs. Given this, the Company focused on its value-added operations and downsized its livestock operations to improve overall financial performance. The Company expanded its Indonesian operations by improving distribution in key establishments across the country.

BOARD OF DIRECTORS

Eduardo M. Cojuangco, Jr.
Chairman of the Board
Chairman, Executive Committee

Ramon S. Ang
Vice Chairman of the Board
Member, Executive Committee
Member, Executive Compensation Committee

Francisco S. Alejo III
President
Member, Executive Committee
Member, Nomination and Hearing Committee

Menardo R. Jimenez
Chairman, Executive Compensation Committee
Member, Audit Committee
Member, Nomination and Hearing Committee

Mario C. Garcia
Director

Carmelo L. Santiago
Independent Director
Chairman, Audit Committee
Chairman, Nomination and Hearing Committee
Member, Executive Compensation Committee

Angelina S. Gutierrez
Independent Director
Member, Executive Committee
Member, Audit Committee

Silvestre H. Bello III
Independent Director

Edgardo P. Cruz
Independent Director
Member, Audit Committee

KEY EXECUTIVES

SAN MIGUEL PURE FOODS COMPANY INC.
Eduardo M. Cojuangco, Jr.
Chairman

Ramon S. Ang
Vice Chairman

Francisco S. Alejo III
President

Zenaida M. Postrado
Chief Finance Officer and Treasurer

Alexandra B. Trillana
Corporate Secretary & General Counsel

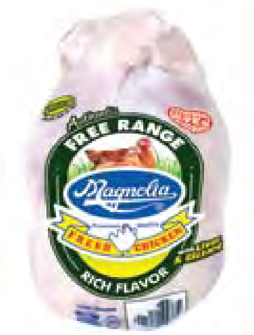
SAN MIGUEL FOODS, INC.
Rita Imelda B. Palabyab
President

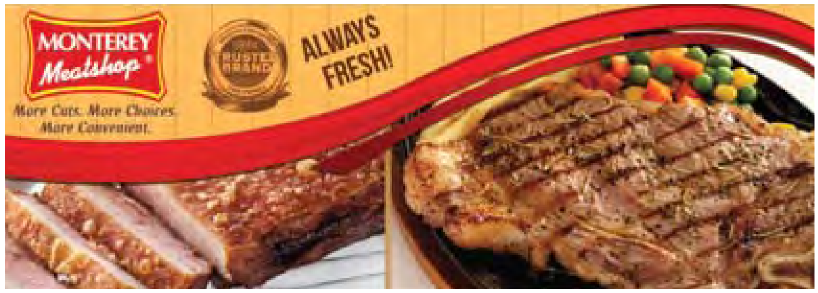
SAN MIGUEL MILLS, INC.
Florentino C. Policarpio
President

THE PUREFOODS-HORMEL COMPANY, INC.
MAGNOLIA, INC.
SAN MIGUEL SUPER COFFEEMIX CO., INC.
Raul B. Nazareno
President

SAN MIGUEL HORMEL (VN) CO., LTD.
PT SAN MIGUEL PURE FOODS INDONESIA
Oscar R. Sañez
Vice President & Head, Exports & International Operations

PRODUCT PORTFOLIO





San Miguel Foods, Inc.

POULTRY

Live Broilers
Dressed Chicken (Wholes)
- Magnolia Fresh Chicken (Fresh Chilled & Frozen)
- Magnolia Spring Chicken (Fresh Chilled & Frozen)
- Magnolia Jumbo Chicken (Fresh & Frozen)
- Magnolia Free Range Chicken (Fresh & Frozen)
- Purefoods Supermanok (Fresh Chilled & Frozen)
- Housebrand and Unbranded Chicken (Fresh Chilled & Frozen)

Cut-ups
- Magnolia Chicken Cut-ups (Fresh Chilled & Frozen)
- Magnolia Chicken Station Cut-ups
- Magnolia Chicken Station Convenient Cuts
- Magnolia Chicken Breast & Leg Meat Yakitori
- Magnolia Chicken Quick Chix
- Housebrand and Unbranded Chicken Cut-ups

Marinated
- Magnolia Chicken Station Cook Easy products
- Magnolia Chicken Station Twist
  (Inasal Longganisa, Burger & Tapa)
- Magnolia Chicken Station Lite
  (Mango Maple, Citrus Burst, Italian & Pesto Balsamic Chicken Chunks)
- Magnolia Chicken Chicks for Every Juan
  (Apple Cinnamon, Pineapple Rosemary & Kiwi Chili)

Convenient Cuts
- Magnolia Chicken Station convenient cuts

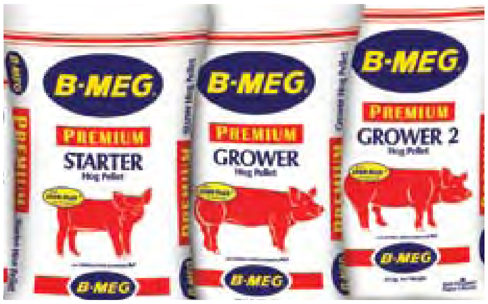
Giblets
- Magnolia Chicken Giblets
  (Frozen Liver and Gizzard)

Export
- Frozen Chicken Yakitori
- Frozen Bone-in Chicken Cut-ups
- Frozen Deboned Chicken Cut-ups
- Magnolia Fresh Chicken Griller (Fresh & Frozen)
- Frozen Marinated Deboned Products

Brown Eggs
- Unbranded

FRESH MEATS

Monterey Meatshop
- Fresh Meats Primals (Pork, Beef, Lamb)
- Fresh Meats Individual Portion Cuts
  (Pork, Beef, Lamb)
- Ready-to-Cook Marinated Meats or Timplados
  (Pork, Beef, Lamb)
  - Pork Patariffic
  - Pork Blood Trio
  - Crispy Feet
  - Pork Tenderloin Skewered BBQ
  - Burgers (BBQ, Teriyaki, Cheesy & Pizza)
  - Monterey Meatshop Burger Express
    (Bicol Express Burger Patty)
  - Montana Flavored Burgers
    (Fajita, Curry & Cajun Patty)
  - Monterey Longanisa Line
    (Garlic and Spicy Batutay Longanisa)



FEEDS

Animal & Aquatic Feeds

Hog Feeds
- B-MEG Premium Hog Pellets
- B-MEG Dynamix Hog Feeds
- Pureblend Hog Pellets
- B-MEG Expert Hog Feeds
- B-MEG Expert Premium Hog Feeds
- Bonanza Hog Pellets
- B-MEG Essential Hog Feeds
- Jumbo Hog Mash
- Maton

Poultry Feeds
- B-MEG Premium Layer
- Pureblend Layer
- B-MEG Expert Layer
- B-MEG Layer (Regular)
- B-MEG Essential Layer
- Pureblend Layer Breeder
- B-MEG Premium Broiler
- Pureblend Broiler
- Pureblend Special Broiler
- B-MEG Broiler (Regular)
- B-MEG Essential Broiler
- B-MEG Essential Broiler Breeder
- B-MEG Kabir

Duck Feeds
- B-MEG Duck Feeds
- Pureblend Duck Feeds

Gamefowl Feeds
- B-MEG Derby Ace
- B-MEG Integra
- B-MEG Integra Powermaxx
- Jumbo Pullet Developer Pellets
- B-MEG Alertone Mixed Grains
- B-MEG Fighting Cock Pellets
- B-MEG Pigeon Pellets

Quail & Ostrich Feeds
- B-MEG Quail
- Pureblend Quail
- B-MEG Ostrich Breeder Pellets

Calf and Horse Feeds
- B-MEG Horse Pellets
- B-MEG Calf Pellets

Aquatic Feeds
- B-MEG Super Premium Floating Feeds
- B-MEG Premium Tilapia Pellets
- B-MEG Premium Bangus Pellets
- B-MEG Aquaration
- B-MEG Expert Fish Feeds
- B-MEG Prize Catch Floating Feeds
- B-MEG Prize Catch Extruded Sinking Feeds
- B-MEG Nutrifloat Floating Feeds
- B-MEG Nutrisink
- B-MEG CE-90 Shrimp Feeds
- B-MEG VN-21Shrimp Feeds
- Pinoy Sinking Pellets
- Pinoy Floating Feeds

Concentrate
- B-MEG Hog Concentrate
- B-MEG Poultry Concentrate
- B-MEG Layer Concentrate
- B-MEG Pullet Concentrate
- B-MEG Cattle Concentrate
- B-MEG Goat Concentrate
- B-MEG Pig Protein Concentrate
- B-MEG Broiler Protein Concentrate

Animal Health Care Veterinary Medicines

Anti-infective - Water Soluble Preparation
- Amoxicillin 20%
- Cephalexin 20%
- Chlortetracycline 25%
- Cotrimoxazole 48%
- Doxycycline 20%
- Dox-C-Lin
- Dox-C-Trin Premium

Supplement/Vitamins - Water Soluble Preparation
- Electrolytes
- Multivitamins
- Multivitamins + Minerals + Amino Acids
- Vitamin B Complex for Broiler
- Vitamin B Complex for Breeder
- Vitamin E 50%

PRODUCT PORTFOLIO

Anti-Inflammatory/Anti-pyretic -
  Water Soluble Preparation
    Paracetamol 25%

Dewormer/Anti-nematodal -
  Water Soluble Preparation
    Bulatigok SD
    Levamisole 20%

Disinfectant
    Protect Plus

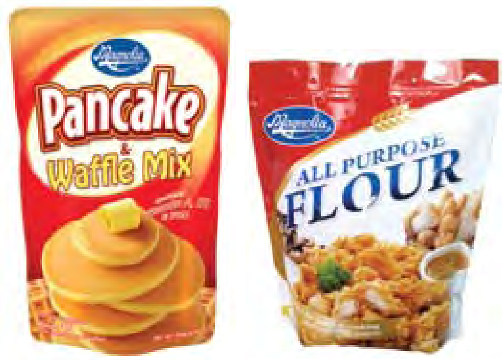
Injectables
    Norotyl LA
    Alamycin LA
    Iron-Vet
    Norovit

Oral Preparation
    First Pulse D
    Worm-X

Feed Premixes
    Amoxicillin 10% and 20%
    Chlortetracycline 15%
    Tiamulin 10%
    Swine Mineral Premix
    Poultry Mineral Premix
    Swine Vitamin Premix
    Poultry Vitamin Premix
    Cotrimazine 48%

Liquid Preparation
    Vitamin ADE
    Vitamin E 60%
    Norfloxacin 20%

Vaccines
    Para Shield
    Parvo Shield L5E
    Pneumostar SIV
    Pneumostar Myco
    Porcine Pili Shield
    Porcine Ecolizer 3



San Miguel Mills, Inc.

Hard Wheat Flour
  King
  Emperor
  Monarch
  Pacific
  Harina de Pan de Sal

Soft Wheat Flour
  Queen
  Countess
  Red Dragon

Specialty Flour
  Baron All-Purpose Flour
  Baron Siopao Flour
  Princess Cake Flour
  Golden Wheat Whole Wheat Flour (Coarse & Fine)

Customized Flour
  Royal Premium Noodle Flour
  Prince Miki Flour
  Prince Noodle Flour
  Prince Wrapper Flour

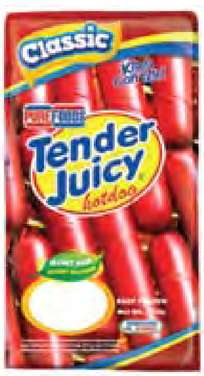
Premixes
  Mix' n Bake
    Brownie Mix
    Crinkle Mix

  Mix' n Steam
    Puto Mix

  Retail Mixes
    Magnolia Pancake Plus with Syrup
      (Maple, Chocolate, Strawberry)
    Magnolia Pancake & Waffle Mix
    Magnolia All Purpose Flour

Bakery Ingredients
- Bake Best Bread Improver
- Bake Best Baking Powder
- Bake Best Instant Yeast

Services
- Product Customization
- Recipe Development
- Technical Training in Flour Applications

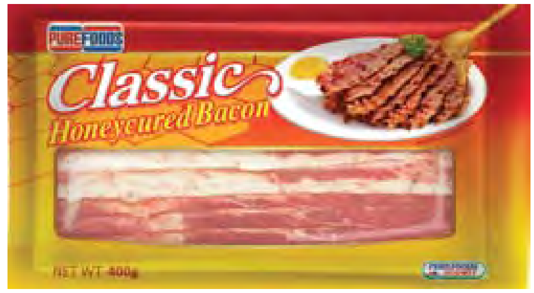


The Purefoods-Hormel Company, Inc.

REFRIGERATED MEATS

Hotdogs
- Purefoods Tender Juicy Hotdog (Classic, Jumbo, Kingsize, Cocktail, Cheesedog, Chick 'n Cheese, Chick 'n Bacon, Chick 'n Chili)
- Purefoods Star Hotdog (Regular, Jumbo, Super Jumbo, Footlong, Cheezeedog, Chicken Franks)
- Purefoods Deli Franks (German, Angus Beef, Turkey, Cheese, Spicy Pepper Beef)
- Purefoods Deli Sausages (Bockwurst, Schublig, Hungarian Cheese)
- Purefoods Beefies Hotdog (Regular, Jumbo, Lots A Cheese)
- Purefoods Chick'N Tasty Chicken Hotdog (Regular, Jumbo, Cheese)
- Vida Hotdog (Regular, Jumbo, Mini-Regular)

Battered, Breaded & Fried
- Purefoods Fun Stuff Nuggets (Crazy Cut Shapes, Letters & Numbers, Bacon & Cheese, Chicken & Cheese, Pepperoni & Cheese, Cheese Overload, Christmas Nuggets)
- Purefoods Crisp 'n Juicy (Drummets - Classic, Buffalo-style, Chicken Burger, Fish Nuggets, Chicken Breast Nuggets, Wingers, Tonkatsu)
- Purefoods Star (Chicken Nuggets, Burger Bites, Crispy Burger)



Bacon
- Purefoods Honeycured Bacon (Regular, Thick Cut)
- Purefoods Maple-flavored Bacon
- Purefoods Lean 'N Mean Bacon
- Purefoods Bacon Crumble
- Hormel Black Label Bacon
- Vida Bacon
- Purefoods Honey Roast Bacon (Thick Cut)
- Purefoods Spicy Barbecue Bacon (Thick Cut)

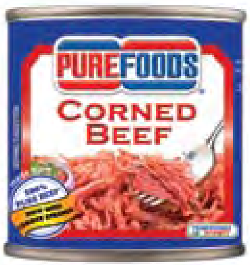
Sliced Hams
- Purefoods Regular Ham (Sweet, Cooked, Chicken Ham)
- Purefoods Fiesta Ham Slices
- Purefoods Deli (Salami, Spiced Ham, Bologna, Farmers Ham, Roast Chicken Ham)
- Purefoods Star Sweet Ham
- Vida Sweet Ham

Whole Hams
- Purefoods Fiesta Ham (Classic, Smoked Bone-in Ham, Smoked Honeycured Ham, Smoked Chicken)
- Purefoods Jamon de Bola
- Purefoods Chinese Ham
- Purefoods Brick Ham
- Purefoods Pear-Shaped Ham
- Jamon Royale

Ready-to-Cook/Ready-to-Eat
- Monterey Sisig
- Purefoods Tender Cuts (Asado, Estofado, Patatim)

Native Line
- Purefoods Pork Longanisa (Hamonado, Recado)
- Purefoods Tocino (Classic Pork, Sweet Chili)

PRODUCT PORTFOLIO



GROCERY PRODUCTS

Corned Meats
- Purefoods Corned Beef (Classic, Hash, Chili)
- Purefoods Chunkee Corned Beef
- Purefoods Carne Norte
- Purefoods Star Corned Beef
- Purefoods Star Carne Norte

Luncheon Meats
- Purefoods Luncheon Meat (Classic, BBQ, Chili Pepper)
- Purefoods Chinese Luncheon Meat
- Purefoods Beef Loaf
- Purefoods Chicken Luncheon Meat

Sausages
- Purefoods Vienna Sausage
- Purefoods Vienna Tidbits
- Purefoods Chicken Vienna Sausage

Canned Viands
- Purefoods Sizzling Delights (Sisig, Chicken Sisig, Bopis)
- Ulam King (Asado, Caldereta, Lechon Paksiw, Menudo, Mechado)

Specialty Grocery Products
- Purefoods Liver Spread
- Purefoods Spaghetti Meat Sauce
- Purefoods Meaty Spaghetti Sauce
- Purefoods Chorizo Filipino

Magnolia, Inc.

BUTTER, MARGARINE & CHEESE

Butter
- Magnolia Gold (Salted, Unsalted) and Magnolia Gold Lite
- Magnolia Butter-licious! (Classic, Garlic)

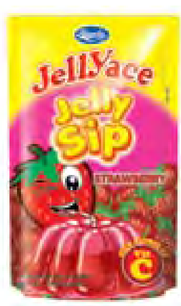
Refrigerated Margarine
- Dari Crème (Classic, Buttermilk, Herb and Garlic, Bacon) and Dari Crème Lite
- Buttercup
- Baker's Best

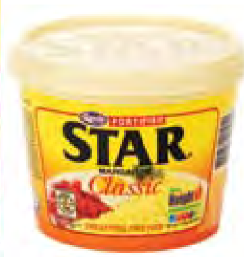
Non-Refrigerated Margarine
- Star Margarine (Classic, Sweet Blend, Garlic, Vanilla, Chocolate)
- Delicious Margarine
- Magnolia Non-Refrigerated Margarine (Food Service)

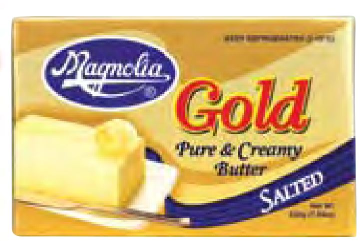
Cheese
- Magnolia Cheezee (Block, Spread - Cheddar, Pimiento)
- Daily Quezo
- Magnolia Quickmelt
- Magnolia Cheddar
- Magnolia Cream Cheese (Block, Spread - Classic, Bacon)
- Magnolia Christmas Cheeseballs (Quezo de Bola, Gold Edam) - Seasonal
- Magnolia Cheese Sauce (Food Service)
- Magnolia Cheesefood (Food Service)
- Mozarella (Food Service)

JELLY SNACKS AND DESSERTS

- JellYace Fruiteez
- JellYace Bites
- JellYace Snackers (Regular, Twin Pack)
- JellYace Suki Pack/ Gara Jar/ Buhos Pack/ Pene Pack
- Magnolia Best Fruits Jam (Strawberry, Pineapple, Apple Cinnamon, Mango)





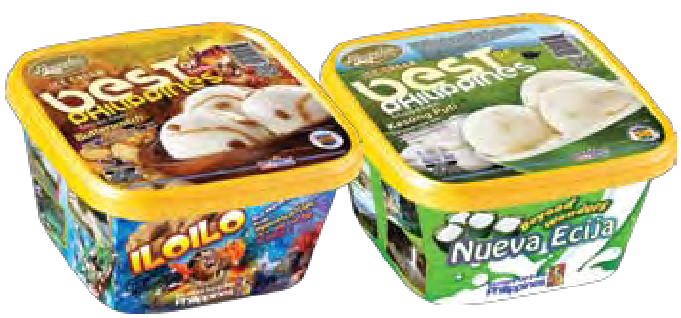


MILK
Magnolia Chocolait
Magnolia Chocolait Choco Magic (Mocha, Strawberry, Rocky Road, Cookies & Cream)
Magnolia Purefresh Natural Cow's Milk
Magnolia Purefresh Low Fat Cow's Milk
Magnolia Full Cream Milk

SPECIALTY OILS
Magnolia Nutri-Oil Coconut Oil
Magnolia Nutri-Oil Palm Oil
Magnolia Pure Oil
Primex Shortening (Food Service)

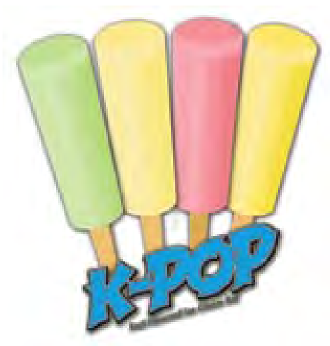
ALL-PURPOSE CREAM
Magnolia All-Purpose Cream

SALAD AIDS (Food Service)
Magnolia Real Mayonnaise
Magnolia Herb and Garlic Dip N' Dressing
Magnolia Sandwich Spread
Magnolia All-Purpose Dressing



ICE CREAM

Bulk Ice Cream
Magnolia Classic (Vanilla, Chocolate, Mocca, Strawberry, Ube, Mango, Caramel)
Magnolia Classic Medley (Black & White, Dare Devil, Bumble Bee)
Magnolia Gold Label (Double Dutch, Rocky Road, Cookies N' Cream, Dulce de Leche, Creamy Halo-Halo Delight, Ube Macapuno Swirl, Buko Salad Royale, Quezo Primero, Choco Chip Cookie Dough, Coffee Vienna, Buttery Sweet Corn)
Magnolia Double Gold Label (Double Dutch and Choco Chip Cookie Dough, Ube Keso and Creamy Halo-Halo, Cookies N' Cream and Rocky Road, Double Dutch and Rocky Road, Double Dutch and Cookies & Cream, Ube Keso and Buttery Sweet Corn)

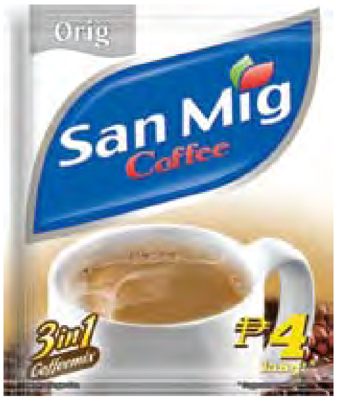


Magnolia President's Tub (Butter Pecan, Blueberry Cheesecake, Vanilla Almond Fudge, Belgian Chocolate Truffle, Red Velvet)
Magnolia Best of the Phillippines (Ube Keso, Macapuno Banana, Macapuno Langka, Tsokolate Table, Coffee Crumble, Mangoes and Cream, Pinipig Pandan, Durian Pastillas, Caramel Cashew Tart, Strawberry Shortcake, Butterscotch, Kesong Puti, Coffee Mangosteen)
Magnolia Sorbetes (Ube, Tsokolate, Keso)
Magnolia No Sugar Added (Vanilla, Chocolate, Cheese, Cafe Latte)
Magnolia Yogurt Ice Cream (Mango, Strawberry)

Frozen Novelties
Magnolia Spinner (Chocolate, Vanilla, Caramel, Hazelnut)
Magnolia Fizz (Rootbeer, Orange, Lemon Lime)
Magnolia Cookie Monster (Chocolate, Choco Hazelnut, Caramel)
Magnolia Party Cups (Vanilla, Chocolate, Ube, Mango)
Magnolia Sweetie Bites (Cookie Craze, Cheesy Bliss)
Magnolia Fun Bar (Choco Loco, Cool Bubblegum, Cotton Candy)
Magnolia Popsies (Orange Chill, Choco Cool)
Magnolia Pinipig Crunch (Vanilla Crisp, Sweet Corn)
Magnolia K-Pop (Banana, Honeydew, Strawberry, Mango)
Magnolia Yogurt Stick Ice Cream (Strawberry, Mango)

San Miguel Gold Label (For Export)
SMGL Mellorine
SMGL Frozen Dessert
SMGL Ice Confectionery

PRODUCT PORTFOLIO



San Miguel Super Coffeemix Co., Inc.

COFFEE

San Mig Coffee Regular 3-in-1 Coffeemix
(Mild, Original, Strong & Salo-Salo Pack)
San Mig Coffee Sugar Free 3-in-1 Coffeemix
(Mild, Original & Strong)
San Mig Coffee Super Packs (Super, Brown, White, Chococino, Cremdensada & Honeycino)
San Mig Coffee 100% Premium Instant Black Coffee
San Mig Coffee Pro-Health Line
(Pro-Fiber & Pro-Slim)
San Mig Fastbreak

GREAT FOOD SOLUTIONS

Poultry and Meats

Value-Added Meats

Pizza Toppings
Burgers and Patties
Hotdogs and Deli Items
Ready-to-Serve Viands

Flour and Dry Bakery Ingredients

Basic Flour and Premixes
Dessert mixes

Dairy, Fats and Oils

Butter, Margarine and Cheese
Mozzarella
Sliced-on-Slice Cheese
Skimmed Milk Powder
Iberico Promace and Olive Oil

Coffee and Milk

GFS Services

Marketing Services and Promotional Tie-Ups
Product Customization
Menu & Recipe Development
Packaging Development
Food Safety Trainings and Consultancy
Quality Assurance Services
Food Laboratory Analysis

FRANCHISING

Smokey's

Hotdogs (Bacon-wrapped Cheesedog, Chicken, Classic Style Frank 6", Hungarian Sausage, Jumbo Supreme, King Size Frank 12"/Footlong, Schublig)
Burgers (Classic, Cheese, Chicago Style, Spicy Jalapeno, Bacon Cheesy Garlic Mushroom)
Pizzas (Bacon, Hawaiian, Pepperoni)
Toppings (Bacon Bits, Chili Sauce, Jalapeno Sauce, Sauteed Garlic Mushroom, Salsa)

Hungry Juan

Roasts (Sweet Garlic, Inasal - Chicken & Liempo)
Juanito's Pritos (24pcs cut fried chicken)
Single Serve
(Pork BBQ Skewered, Chicken Isaw, Sisig)
Rice Meals (Roast Chicken, Roast Liempo, BBQ Belly, Sisig, Bangus Belly, Pork BBQ Skewered, Juanitos Pritos)
Quick Meals (Tapa, Beef Caldereta, Korean Beef Stew, Corned Beef, Adobo Flakes, Lechon Paksiw)
Family Feast
Barkada Blow-out

San Mig Food Ave.

Convenient Store
Ready-to-eat Products

PT San Miguel Pure Foods Indonesia

Bakso (Meat Balls)
Farmhouse (Beef, Chicken)
Vida (Beef)
Vida Saving (Beef)

Sausages
Farmhouse (Beef, Chicken, Beef Cocktail, Beef Frankfurter, Beef Wiener, Fried Beef, Fried Chicken, Jumbo Fried Beef, Hot & Spicy, Cheese, Beef Frankfurter, Beef Wiener)
FunKidz Chubbies (Cheese)
Purefoods Choice (Chicken, Beef, Beef Jumbo, Beef Weiner, Beef Black Pepper, Beef Pepper, Chicken Pepper, Fried Beef, Fried Chicken, Cheese, Jumbo, Fried Beef, Hot & Spicy)
Vida (Chicken, Beef, Frank, Wiener, Fried Sosis Goreng)
Vida Saving (Beef, Chicken)

Retort Sausage
Vida Cociz (Chicken, Ready-to-Eat)

Cold Cuts
Farmhouse (Beef Pepperoni, Chicken Roll, Garlic Salami, Smoked Beef, Smoked Beef Block, Smoked Chicken, Smoked Chicken Roast)
Purefoods Choice (Chicken Chunk, Sliced Chicken Chunk, Minced Beef BBQ, Minced Chicken Teriyaki, Meat Block Papz, Smoked Beef FS)

Luncheon Burger
Farmhouse (Chicken, Beef, Cheese Burger)
Purefoods Choice (Chicken, Beef, Bakery Burger)
Vida (Beef, Mini)
Vida Saving (Beef)

Value Added
Farmhouse Corned Beef

Services
Customization

San Miguel Hormel (Vn) Co., Ltd.

Feeds Business
BMEG (Hog, Poultry, Aquatic)
Pureblend (Hog, Poultry)

Live Pigs

Value-Added Meats
Le Gourmet
(Bacon, Ham, Beef, Pate, Sausage, Traditional)
Dua Moc (Traditional)

CORPORATE GOVERNANCE

San Miguel Pure Foods Company Inc. (SMPFC or "the Company") 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.

Being a majority-owned subsidiary of San Miguel Corporation (SMC), SMPFC has adopted a Manual on Corporate Governance that is patterned after that of parent company SMC. 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.

The Company continues to review and strengthen its policies and procedures, giving due consideration to areas that, for the best interests of the Company and its stockholders, need further improvement.

BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors (the "Board"). The members of the Board, as well as the senior management of the Company and key finance personnel, have undergone the requisite training on corporate governance.

SMPFC's Board is primarily responsible for promoting the Company's long-term growth and success and determining its mission, strategy and objectives. It is the Board's responsibility to secure and maintain the Company's competitive edge in a manner consistent with its fiduciary responsibility, which it exercises in the best interest of the Company, its shareholders and other stakeholders.

In this connection, the Board exercises oversight responsibilities on the business affairs of the Company, reviews and approves the Company's financial statements, and ensures the presence of adequate and effective internal control mechanisms in the Company to manage business risk. The directors consider that the Company's financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of management and the Board with an appropriate consideration to materiality.

Composition and Qualification

The Board consists of nine members who hold at least one share each in the capital stock of the Company and are proven to possess integrity and probity in addition to the other qualifications of a director specified in the Company's Manual on Corporate Governance. They are elected by the stockholders with voting rights during the Annual General Stockholders' Meetings (AGSM). The Board members hold office for one year and until their successors are duly elected and qualified in accordance with the Company's amended by-laws and applicable laws and regulations.

A process of selection to ensure a mix of competent directors is implemented. The broad range of skills, expertise and experience of the directors in the fields of business, finance, accounting and law ensures comprehensive evaluation of and sound judgment on matters relevant to the Company's businesses and related interests. Moreover, the Company's orientation program for new directors, wherein such new directors are briefed on the corporate structure, operations and plans of its businesses, ensures meaningful discussion and participation of the Board in the governance of the Company.

The members of the Board of the Company are identified in the Board of Directors section, and their shareholdings in the Company, profiles and business experience are provided in the Definitive Information Statement distributed to shareholders prior to the AGSM.

Independent and Non-Executive Directors

Justice Cancio C. Garcia, Mr. Carmelo L. Santiago, Justice Angelina S. Gutierrez and Mr. Silvestre H. Bello III were elected as independent and non-executive directors in SMPFC's Board during the AGSM on May 10, 2013, exceeding the requirement under law of having at least two independent directors or 20% of the number of members of the Board, whichever is less. Justice Garcia, however, passed away on October 15, 2013. Justice Edgardo P. Cruz was then elected independent director by the Board during its Regular meeting on November 7, 2013, to serve the unexpired term of Justice Garcia. All the independent directors of the Company have no ties to its management and substantial shareholders.

The Company defines an independent director as a director who, apart from his/her fees and shareholdings, has no business or relationship with the Company, which could, or could reasonably be perceived to, materially interfere with the exercise of his/her independent judgment in carrying out his/her responsibilities as a director. Among others, independent directors have the power and authority to review related party transactions entered into by the Company at any time.

The independent directors of the Company are nominated and elected in accordance with the rules of the Securities and Exchange Commission (SEC). Accordingly, an independent director may serve as such for five consecutive years only starting January 2012, will be ineligible for re-election for a "cooling off" period of two years thereafter, following which he may again be considered for re-election to serve as independent director for another five consecutive years. After serving as independent director for ten years, he or she will be perpetually disqualified to be elected as an independent director of the Company.

Further, in business conglomerates such as the San Miguel Group of Companies of which SMPFC is a part, an independent director may be elected to only five corporations of the conglomerate.

Pursuant to such rules, each independent director, issues and submits to the Corporate Secretary for filing with the SEC, a certification confirming that he/she possesses all the qualifications and none of the disqualifications of an independent director at the time of his/her election and/or re-election.

The Chairman and the President

The Chairman of the Board is non-executive Director Eduardo M. Cojuangco, Jr. He is not the current or immediate past Chief Executive Officer of the Company. The President of the Company is Mr. Francisco S. Alejo III. The Chairman and President are held by two separate individuals with their respective roles clearly defined in the Company's Manual on Corporate Governance, to ensure independence, accountability, and responsibility in the discharge of their duties. The performance of the President is assessed yearly. The annual compensation of the President and the top four senior executives of the Company are provided in the Definitive Information Statement distributed to shareholders prior to the AGSM. The Chairman and the President attended the last two AGSMs of the Company.

Board Performance

The Board holds regular meetings on a quarterly basis and an organizational meeting immediately following the adjournment of the AGSM for the election of the Company's key corporate officers, Board committee members and trustees of the Company's retirement fund. Board of Directors' meetings of the Company are scheduled before the beginning of the year. Particularly, during the last regular meeting of the year, the Board sets the dates for its regular and organizational meetings for the succeeding year. The Board may also hold special meetings for the transaction of such other business as shall properly come before it, such as to approve the declaration of dividends, in accordance with the Company's by-laws.

To assist the directors in the discharge of their duties, the directors have access to the Corporate Secretary and Assistant Corporate Secretary, who both serve as legal counsel to the Board of Directors. The Corporate Secretary, likewise the General Counsel of the Company, provides support to the Compliance Officer in keeping the Board updated on relevant statutory and regulatory developments. The Corporate Secretary communicates with the Board, management, the Company's shareholders, and the investing public. In this regard, the Corporate Secretary assists the Chairman in the preparation of the agenda of Board and shareholder meetings, taking into account the suggestions of the President, management and other directors.

In 2013, the Board held six meetings. The directors of the Company (including Justice Cancio C. Garcia before his demise) attended all such meetings in which they were qualified to act as such, except for the last meeting of the year. Set out below is the record of attendance of the directors in these meetings and at the AGSM.

	Date of Board Meeting, All in Year 2013					
DIRECTOR	**Feb 6**	**Mar 20**	**May 7**	**May 10**	**Aug 8**	**Nov 7**
Eduardo M. Cojuangco, Jr.	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT
Ramon S. Ang	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	ABSENT
Francisco S. Alejo III	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT
Menardo R. Jimenez	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT
Mario C. Garcia	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT
Cancio C. Garcia* (Independent Director)	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	N/A
Carmelo L. Santiago (Independent Director)	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT	PRESENT
Angelina S. Gutierrez** (Independent Director)	N/A	N/A	N/A	PRESENT	PRESENT	PRESENT
Silvestre H. Bello III** (Independent Director)	N/A	N/A	N/A	PRESENT	PRESENT	PRESENT
Edgardo P. Cruz*** (Independent Director)	N/A	N/A	N/A	N/A	N/A	PRESENT

DIRECTOR	May 10, 2013 Annual General Stockholders' Meeting
Eduardo M. Cojuangco, Jr. (Chairman)	PRESENT
Ramon S. Ang (Vice Chairman)	PRESENT
Francisco S. Alejo III (President)	PRESENT
Menardo R. Jimenez	PRESENT
Mario C. Garcia	PRESENT
Cancio C. Garcia* (Independent Director)	PRESENT
Carmelo L. Santiago (Independent Director)	PRESENT
Angelina S. Gutierrez** (Independent Director)	PRESENT
Silvestre H. Bello III** (Independent Director)	PRESENT
Edgardo P. Cruz*** (Independent Director)	N/A

* *Until his demise on October 15, 2013*
** *Elected during the AGSM on May 10, 2013*
*** *Elected during the Board meeting on November 7, 2013 vice Cancio C. Garcia*

In order to assess and improve the performance of the Board of Directors, self-rating forms were distributed to the directors during the meeting on November 7, 2013 for them to accomplish pursuant to the annual internal self-rating system previously approved by the Board. The Company has made such self-rating form available at its corporate website for viewing.

Board Committees
To assist the Board in ensuring strict compliance with the principles of good corporate governance, the Board has created four committees.

Executive Committee. The Executive Committee is currently composed of four directors that include the Chairman of the Board and the President, as well as an independent director. Mr. Eduardo M. Cojuangco, Jr. sits as Chairman of the Committee.

The Committee is tasked to help and assist the officers of the Company in the management and direction of the affairs of the Company. It acts within the powers and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

In 2013, the Executive Committee held one meeting to discuss the proposed sale of the Company's shares of stock held as investment in Manila Electric Company.

Nomination and Hearing Committee. The Nomination and Hearing Committee is currently composed of three voting directors (including an independent director) and one non-voting member in the person of Ms. Maria Cristina M. Menorca, SMC's Human Resources Head. Independent Director Carmelo L. Santiago is the Chairman of the Committee.

The Nomination and Hearing Committee is responsible for making recommendations to the Board on matters relating to the directors' appointment, election and succession, with the view of appointing individuals to the Board with the relevant experience and capabilities to maintain and improve the competitiveness of the Company and increase its value. The Committee screens and shortlists candidates for Board directorship in accordance with the qualifications and disqualifications for directors defined in the Company's Manual on Corporate Governance, the amended articles of incorporation and amended by-laws of the Company, and applicable laws, rules, and regulations.

In 2013, the Nomination and Hearing Committee held two meetings. During the first meeting, the Committee discussed the nominees for election to the Board of the Company in its AGSM. During the second meeting, the Committee discussed the qualifications of the nominee to serve the unexpired term of Justice Cancio C. Garcia, who passed away in October 2013.

Executive Compensation Committee. The Executive Compensation Committee is composed of four members, one of whom is an independent director in the person of Mr. Carmelo L. Santiago. Mr. Menardo R. Jimenez is the Chairman of the Committee.

The Executive Compensation Committee advises the Board in the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of the Company's officers and directors, and provides oversight over remuneration of senior management and other key personnel, ensuring that compensation is consistent with the Company's culture, strategy, and control environment. Such remuneration shall be in a sufficient level to attract and retain directors and officers who are needed to run the Company successfully.

In 2013, the Executive Compensation Committee held two meetings to discuss the appointments and promotions of employees to officers of SMPFC's subsidiaries.

Audit Committee. The Audit Committee is currently composed of five members, three of whom are independent directors in the persons of Mr. Carmelo L. Santiago, Justice Angelina S. Gutierrez and Justice Edgardo P. Cruz. Independent Director Carmelo L. Santiago is the Chairman of the Committee. The Chairman attended the last two AGSMs of the Company.

The Audit Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements, elevating to international standards the accounting and auditing processes, practices and methodologies of the Company. The Committee performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management. It also has the power and authority to review related party transactions entered into by the Company.

The Audit Committee held four meetings in 2013. In these meetings, the Committee reviewed, affirmed the truth and fairness of the financial statements and reports of the Company, and approved the Company's 2012 Consolidated Audited Financial Statements as prepared by the external auditors, as well as the Company's unaudited financial statements for the first, second and third quarters of the year. Further, the Audit Committee monitored, reviewed and confirmed the sufficiency and effectiveness of the Company's internal control systems on the basis of the regular reports of its internal audit group. The Compliance Officer, on the other hand, keeps the Committee updated on the latest developments in regulatory and corporate governance requirements, by means of reports during such regular Audit Committee meetings.

In order to assess and improve the performance of the Audit Committee, self-assessment worksheets were distributed to the members of the Committee during the meeting on November 7, 2013 for them to accomplish pursuant to the Audit Committee Charter previously adopted by the Committee and approved by the Board, in compliance with SEC guidelines. The Company has made such self-assessment worksheet available at its corporate website for viewing.

Board Committee Members

The members of each Board committee and their attendance in Board committee meetings in 2013 are set out in the table below.

Date of Committee Meeting, All in the year 2013

EXECUTIVE COMMITTEE	May 29
Eduardo M. Cojuangco, Jr. *Chairman*	PRESENT
Ramon S. Ang	PRESENT
Francisco S. Alejo III	PRESENT
Cancio C. Garcia *Independent Director* *(Until his demise on October 15, 2013)*	PRESENT
Angelina S. Gutierrez *Independent Director* *(Elected during the Board meeting on November 7, 2013 vice Cancio C. Garcia)*	N/A

AUDIT COMMITTEE	Mar 20	May 7	Aug 8	Nov 7
Cancio C. Garcia *Chairman* *Independent Director* *(Until his demise on October 15, 2013)*	PRESENT	PRESENT	PRESENT	N/A
Carmelo L. Santiago *Independent Director* *(Elected as Chairman during the Board meeting on November 7, 2013 vice Cancio C. Garcia)*	PRESENT	PRESENT	PRESENT	PRESENT
Menardo R. Jimenez	PRESENT	PRESENT	PRESENT	PRESENT
Angelina S. Gutierrez *Independent Director* *(Elected during the Organizational Board meeting on May 10, 2013)*	N/A	N/A	PRESENT	PRESENT
Edgardo P. Cruz *Independent Director* *(Elected during the Board meeting on November 7, 2013 vice Cancio C. Garcia)*	N/A	N/A	N/A	N/A
Ferdinand K. Constantino *Non Director Member*	PRESENT	PRESENT	PRESENT	PRESENT

EXECUTIVE COMPENSATION COMMITTEE	Feb 6	May 7
Menardo R. Jimenez *Chairman*	PRESENT	PRESENT
Cancio C. Garcia *Independent Director* *(Until his demise on October 15, 2013)*	PRESENT	PRESENT
Carmelo L. Santiago *Independent Director*	PRESENT	PRESENT
Ramon S. Ang *(Elected during the Board meeting on November 7, 2013 vice Cancio C. Garcia)*	N/A	N/A
Ferdinand K. Constantino *Non Director Member*	PRESENT	PRESENT

NOMINATION & HEARING COMMITTEE	Mar 20	Nov 7
Carmelo L. Santiago *Chairman* *Independent Director*	PRESENT	PRESENT
Francisco S. Alejo III	PRESENT	PRESENT
Cancio C. Garcia *Independent Director* *(Until his demise on October 15, 2013)*	PRESENT	N/A
Menardo R. Jimenez *(Elected during the Board meeting on November 7, 2013 vice Cancio C. Garcia)*	N/A	PRESENT

Board Remuneration
The amended by-laws of the Company provides that the members of the Board shall be entitled to a director's fee in the amount to be fixed by the stockholders at a regular or special meeting duly called for such purpose.

The Company provides each director with reasonable per diem of P10,000 for each Board and Board Committee meeting attended by such director. Other than this allowance, there are no standard arrangements pursuant to which the directors of the Company are compensated, or are to be compensated, directly or indirectly, by the Company for services rendered by such directors.

ACCOUNTABILITY AND AUDIT

The Audit Committee provides oversight to both external and internal auditors. The role and responsibilities of the Audit Committee are clearly defined in the Company's Manual on Corporate Governance and Audit Committee Charter.

External Auditor
The external auditors of the Company, whose main function is to facilitate the environment of good corporate governance as reflected in the Company's financial records and reports, is selected and appointed by the shareholders upon the recommendation of the Board after consultations with the Audit Committee, and is rotated every five years or less, in accordance with SEC rules and regulations. The external auditor conducts an independent annual audit on the Company's financial performance and financial position and provides an objective opinion on the reasonableness of such records and reports.

In 2013, the SEC-accredited accounting firm R.G. Manabat & Co. (RGM & Co., formerly Manabat Sanagustin & Co., CPAs) served as the principal accountants and external auditor of the Company. Representatives of RGM & Co. are expected to be present at the AGSM to respond to relevant questions and assist in the counting of votes cast during the meeting. They also have the opportunity to make a statement if they so desire.

In instances where the external auditor suspects fraud or error during their conduct of audit, they are required to disclose and express their findings on the matter.

Fees billed for the regular audit services rendered by RGM & Co. to the Company in connection with the Company's annual financial statements and other statutory and regulatory filings for 2013 amounted to approximately P1.2 million. No other services were rendered by RGM & Co. to the Company in 2013.

Internal Audit
The internal audit of the Company is carried out by an independent internal audit group that helps the organization accomplish its objectives by bringing a systematic, disciplined approach in evaluating and improving the effectiveness

of risk management, control and governance processes. The Company's internal audit group provides an independent objective assurance that key organizational and procedural controls of the Company are effective, appropriate, and strictly followed. The internal audit group of the Company, headed by Ms. Mildred V. Ramirez, functionally reports directly to the Audit Committee. Any changes to the head of the internal audit group will require the approval of the Audit Committee.

The internal audit group is responsible for identifying and evaluating significant risk exposures of the Company and contributes to the improvement of risk management and control systems by assessing adequacy and effectiveness of controls covering the organization's governance, operations and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the Company's businesses maintain effective controls in their responsibilities and functions.

Regular audits of the business of the Company, its subsidiaries, and support units are conducted according to an annual audit program approved by the Audit Committee. Special audits are also undertaken when and as necessary.

RISK MANAGEMENT

Risk management functions are performed at the management committee level of each operating subsidiary of the Company, as well as assumed by the heads of each business unit and corporate service unit of the Company, i.e., Division Purchasing Group and Division Finance. Further, every manager of the consolidated group of companies under SMPFC is tasked to ensure compliance with all operational and financial controls in his/her area of responsibility and to implement internal controls as part of the total system to achieve the goals of the group. Managers conduct regular evaluation of existing policies, systems and procedures to ensure that these remain relevant and effective to the current operating environment. Management also gives prompt and cooperative consideration to recommended improvement measures made by independent internal or external audit groups.

At the Board level, the Audit Committee has oversight functions on risk management and corporate governance compliance.

The Company continuously reviews its enterprise risk management practices, systems and processes.

DISCLOSURE AND TRANSPARENCY

SMPFC adheres to the principle of full corporate disclosure and transparency regarding its financial condition, operations and state of corporate governance.

Ownership Structure

The top 20 shareholders of SMPFC, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors, and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders prior to the AGSM.

Financial Reporting

The Company also provides the investing community with regular updates on its operating performance and other financial information through adequate and timely disclosures filed with the SEC and the Philippine Stock Exchange (PSE).

The Company's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with International Accounting Standards. Consolidated audited financial statements for the latest completed financial year are submitted to the SEC and PSE not later than the prescribed date and are distributed to the shareholders prior to the AGSM.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with relevant regulations. The results are also presented to financial and investment analysts through quarterly analysts briefings. These disclosures are posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company timely discloses market-sensitive information, such as dividend declarations, joint ventures and acquisitions, sale and divestment of significant assets, and related party transactions that may affect share price performance.

Securities Dealing

The Company has adopted a policy that regulates the acquisition and disposal of Company shares by its directors, officers and key employees, and the use and disclosure of price-sensitive information by such persons.

Under the policy, directors, officers and key employees who have knowledge or are in possession of material non-public information are prohibited from dealing in the Company's securities prior to the disclosure of such information to the public. The policy likewise prescribes the number of days before and after public disclosure of structured and non-structured reports (the "Blackout Period"), during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non-public information, is not allowed.

The Corporate Secretary regularly sends reminders on compliance with the policy, to the directors, officers and key employees of the Company prior to the start of every Blackout Period as it relates to structured reports.

The full text of the policy may be found at the Company's corporate website.

SHAREHOLDER RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

Shareholder Meetings

The Company's amended by-laws provide that its AGSM shall be held on the second Friday of May of every year. Stockholders are informed at least 15 business days before the scheduled date of general meetings.

In this regard, on March 20, 2013, the date of the 2013 AGSM (held on May 10, 2013), the Agenda, time and place of the AGSM, record date for stockholders entitled to vote at said meeting, period when the stock transfer books of the Company will be closed, deadline for submission of proxies and date of validation of proxies, were disclosed to the public. The Notice and Definitive Information Statement to the 2013 AGSM, including the date, time and place for the validation of proxies, were sent to the stockholders on or around April 16, 2013.

Voting Rights and Voting Procedures

Each common share in the name of the shareholder entitles such shareholder to one vote that may be exercised in person or by proxy at shareholder meetings, including the AGSM. Common shareholders, even minority or non-controlling shareholders, have the right to nominate, elect, remove, and replace directors, as well as vote on certain corporate acts, including decisions concerning fundamental corporate changes such as amendments to the Company's articles of incorporation, and transactions that would significantly affect the Company such as the sale of all or substantially all assets, in accordance with the Corporation Code. In such cases, the Company provides the rationale and explanation for each agenda item that requires shareholders' approval in the Definitive Information Statement distributed prior to the AGSM.

Preferred shareholders have the right to vote on matters involving certain corporate acts in accordance with the Corporation Code. They also enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

During the 2011 AGSM, stockholders representing at least two-thirds of the Company's outstanding capital stock approved the amendment to the Articles of Incorporation of the Company to reflect additional optional redemption features of its preferred shares in accordance with the terms of the preferred shares offer of the Company to the public as approved by the SEC and PSE in January 2011.

Voting procedures on matters presented for approval to the stockholders in the AGSM are provided in the Definitive Information Statement.

Pre-emptive Rights

Unless denied in its articles of incorporation or an amendment thereto, stockholders have the right to subscribe to all issues of shares of the Company in proportion to their shareholdings.

On March 12, 2010 and November 3, 2010, the stockholders approved to amend the articles of incorporation of the Company to deny pre-emptive rights to the issuance of common and preferred shares, respectively. Such amendments to the articles of incorporation were approved by the SEC on May 21, 2010 and December 23, 2010, respectively.

Right to Information

Shareholders and prospective investors may request relevant information on the Company, including copies of periodic reports filed with the regulatory authorities and disclosures via the PSE, through the Investor Relations group of SMC headed by Ms. Reyna-Beth D. de Guzman, as well as the Investor Relations group of SMPFC headed by Ms. Ma. Soledad E. Olives. Disclosures are also posted on the Company's corporate website.

Dividends

Shareholders are entitled to receive dividends as the Board of Directors may, in its sole discretion, declare from time to time. However, the Company is required, subject to certain exceptions allowed under the law, to declare dividends when its retained earnings equal or exceed its paid-up capital stock.

Since March 30, 2010, the cash dividend policy of the Company has been to distribute cash dividends to the holders of common shares in an amount up to approximately 70% of the prior year's recurring net income. The Company expects that dividend distributions shall be made over the four quarters of the following year, subject to the discretion of the Board. Recurring net income is net income calculated without respect to extraordinary events that are not expected to recur. In considering dividend declarations each quarter, the Board has in the past and will in the future, take into account dividend payments on its preferred shares, and other factors such as, among others, the implementation of business plans, debt service requirements, debt covenant restrictions, funding for new investments, major capital expenditure requirements, appropriate reserves and working capital.

Under the terms of the preferred shares offer of the Company in February 2011, as and if dividends are declared by the Board, dividends on the preferred shares shall be at a fixed rate of 8.0% per annum applicable up to the fifth anniversary of the issue date of such shares.

In accordance with the foregoing, in 2013 and 2012, the Company paid out cash dividends of P4.80 per common share and P80.00 per preferred share. In 2011, the Company paid out cash dividends of P3.00 per common share and P60.00 per preferred share.

STAKEHOLDER RELATIONS

The Company exercises transparency when dealing with shareholders, customers, employees, creditors, suppliers and other trade partners. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually beneficial relationships.

Shareholder and Investor Relations

SMPFC addresses the information requests of the investing community and keeps shareholders informed through timely disclosures via the PSE, reports filed with the SEC, stockholder meetings, regular quarterly briefings, investor conferences, press releases and statements, its corporate website, emails and telephone calls. The Company's disclosures and other reports submitted to the SEC and PSE are available for download from its corporate website.

The Investor Relations Group of SMC organizes quarterly briefings on SMC and its consolidated group of companies, including SMPFC, for investment and financial analysts. The Company, through its own Investor Relations Group, also holds briefings and meetings with investment and financial analysts from time to time, as and when necessary or appropriate.

Suppliers, Creditors and Customers

The Company recognizes the importance of its other stakeholders, such as its customers, suppliers and creditors, in the creation and growth of value, stability and long-term competitiveness of its businesses. The Company is committed to delivering products and services that delight and inspire loyalty in its customers. The Company honors its obligations to its suppliers and creditors, including payments in accordance with agreements.

MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the President and the senior key executives of the Company, as well as their shareholdings in the Company, are set out in the Definitive Information Statement distributed to shareholders prior to the AGSM.

EMPLOYEE RELATIONS

Each employee is provided with an Employee Handbook containing the house rules, policies and guidelines setting out the duties and responsibilities of an employee of the Company.

The Company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are likewise discussed in the Employee Handbook.

Career advancement and improvement are provided by the Company through various training programs and seminars. In 2010, SMPFC launched the San Miguel Pure Foods University, which is an institution of higher learning that aims to synergize all training initiatives of the Company and provide employees a formal training ground specific to their functions and geared towards their professional development.

The Company and majority of its subsidiaries' permanent employees are further entitled to a funded, noncontributory defined benefit retirement plan.

Through internal newsletters and e-mail news briefs facilitated by the SMPFC Corporate Planning and Management Services Group and Division Human Resources, as well as SMC's Corporate Affairs Office, employees are updated on any one-time benefits that may be granted by senior management, significant events and programs, and material developments within the organization. In particular, the Company's internal newsletter "FoodTalk", which documents the Company's various activities and efforts to address the needs and interest of its employees and other stakeholders, including customers, suppliers/contractors and communities, are also available for viewing in the corporate website.

CORPORATE MISSION AND VISION

In the first quarter of 2010, SMPFC formally launched its corporate mission where it determined its long-term growth objectives. The Company has further defined its vision of "nourishing and nurturing families worldwide" and its core value of Malasakit, which it espouses in every one of its endeavors. This is part of the transformational programs that SMPFC has undertaken in order to reach its goals. The Board periodically reviews and approves the corporate mission and vision of the Company as it deems necessary, or upon the recommendation of management. The Board last reviewed and approved the vision and mission of the Company during its meeting on August 8, 2013.

CORPORATE SOCIAL RESPONSIBILITY

San Miguel Pure Foods along with the San Miguel Foundation, continues to uphold its social responsibility in the communities in which it operates. In 2013, the Company continued its flagship Corporate Social Responsibility program, the Handog Lusog: Nutrisyon Para Sa Nasyon, a six-month-long supplemental feeding activity where children between the ages of 3 to 7 years old are provided with one meal a day for five days per week. The children's progress is monitored monthly in terms of weight improvement, social and academic development. This year, the activity was conducted in 31 public schools across the country and a total of 2,313 children benefitted from the feeding program.

A set of nutrition talk and a livelihood cooking demonstration for the parents of the beneficiaries were conducted during the 2013 launch activities. In line with the Company's vision of nourishing and nurturing families worldwide, the program aims to not only provide feeding for the beneficiaries, but also to educate the parents on proper nutrition and possible income augmentation activity to sustain the benefits of the program even after it is finished. In 2013, a total of 1,993 parents underwent nutrition and wellbeing training.

From the time the program started in 2011, the Company has provided nutritional rehabilitation to a total of 4,691 children from Luzon, Visayas and Mindanao.

Living Malasakit

SMPFC also hosts various socially relevant activities such as scholarship programs, medical missions, the Sumilao Clinic, and the Sumilao Community Store. Sumilao, Bukidnon is one of SMPFC's host communities. In 2013, the Company was able to provide medical assistance to 3,500 patients and with the help of the San Miguel Foundation, was also able to construct 20 housing units in Sumilao for families who were displaced by Typhoon Sendong that damaged portions of Mindanao in December of 2011.

Last year was a challenging year for the entire nation. In August 2013 when "Habagat" brought in the torrential rains and floods, we mobilized relief efforts in highly affected areas outside Metro Manila. In cooperation with the relevant Local Government Units, we contributed through product donations in such communities. The Company was also able to implement along with its business partners, a feeding program, which we called "Operation Tulong". The country further suffered through the earthquake that hit mainly Bohol in October; and followed almost immediately by the devastation of a storm surge caused by Typhoon Yolanda in Eastern Visayas.

SMPFC was present to provide assistance to victims in badly affected areas nationwide. As part of relief efforts, we distributed 54,000 pieces of hard-boiled eggs to the survivors and provided meals to 24,750 children and

adults in 21 barangays from 5 municipalities in Leyte, where a Soup Kitchen was organized and conducted for ten (10) days, in cooperation with the Petron Foundation and the Philippine National Red Cross.

Working together with San Miguel Corporation's Office of the President and San Miguel Foundation, we also deployed a team in a medical mission and feeding program in Bantayan Island, Cebu in December. This has benefited over 1,500 individuals, including some children of the 147 beneficiaries of SMPFC's flagship feeding program, Handog Lusog: Nutrisiyon Para sa Nasyon.

Furthermore, SMPFC also took care of its own employees and their families who were affected by the devastation. Employees also provided contributions to help assist their colleagues, in addition to the assistance that the Company provided. The monetary donations by SMPFC employees helped in rebuilding the lives of 44 employees and their families who were directly affected by the calamity. Efforts continue as rehabilitation is ongoing for these areas.

Environmental Awareness

SMPFC's various facilities across the country continue to contribute to the care for the environment through compliance with environmental regulations and rules. All facilities have updated Environmental Compliance Certificates, and this requirement is also extended to all of the Company's business partners and service providers.

In 2013, Purefoods-Hormel celebrated the plant's anniversary in General Trias, Cavite with a tree-planting activity. In the past, the plant has participated in various tree planting and coastal clean-up activities in partnership with the local government.

Wastewater management facilities and solid waste management facilities are also in place and annually maintained.

Quality and Food Safety

SMPFC's various plants and facilities including those of its business partners and service providers are required to maintain effective and sustainable Quality and Food Safety Management Systems to enable the delivery of products and services of the highest quality to consumers.

SMPFC ensures that its facilities comply with applicable statutory and regulatory requirements in order to consistently provide products that meet and even exceed customer expectations.

- Plants and facilities are in compliance to Good Manufacturing Practices (GMP) requirements as per Department of Health (DOH) Administrative Order No. 153, Series of 2004, otherwise known as the Revised Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food, as well as to Department of Agriculture Administrative Order No. 21, Series of 2004 on the mandatory application of GMP in all National Meat Inspection Service (NMIS) "AA" accredited Meat Establishments. GMP as required by NMIS, is implemented in all SMPFC meat plants and storage facilities whether rated "AA" or "AAA".

- Hazard Analysis Critical Control Point (HACCP) - based systems are in place to control food safety hazards in order to ensure that the Company's products are safe for consumption at the time of sale. SMPFC "AAA"-rated meat facilities have applied HACCP systems in the whole production process.

- Quality and Food Safety Management Systems established by the Company are structured in compliance with the Food Safety Act of 2013. SMPFC also complies with related standards and regulations, among which are the Code on Sanitation of the Philippines, DOH Administrative Order No. 2007-0012 otherwise known as the Philippine National Standards for Drinking Water, and the Consumer Act of the Philippines, all geared to protect the supply of food and its consumers.

CODE OF ETHICS AND OTHER POLICIES

The Company adheres to the SMC Code of Ethics and Conduct that describes fundamental standards of conduct and values consistent with the principles of good governance and business practices, which guide and define the actions and decisions of the directors, officers and employees of the entire San Miguel Group of companies, including SMPFC.

During the meeting of the Board of Directors of the Company on August 8, 2013, the Board approved the adoption of SMPFC's own Code of Ethics that embodies the guidelines and principles on acceptable behavior and performance of the employees and business partners of the Company and its subsidiaries (the "San Miguel Food Group"), including their directors. It is aligned with the SMC Code of Ethics and Conduct, and supports SMC's program on corporate governance.

The SMPFC Code of Ethics is the centerpiece program of the Company that integrates, as well as serves as the foundation for existing and future policies to be observed by the San Miguel Food Group employees and business partners. It intends to enlist employees and business partners to SMPFC's core purpose, value and envisioned future, thus engaging them to become more conscientious employees and committed stakeholders in the San Miguel Food Group.

Procedures are also established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters under a San Miguel group-wide whistle-blowing policy.

The full texts of the Code of Ethics, whistle-blowing policy and other related policies may be found at the Company's corporate website.

COMPLIANCE MONITORING

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 on Corporate Governance 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 on Corporate Governance 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 posted 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.

The Company participated in the first ASEAN Corporate Governance Scorecard process for publicly listed companies, upon the recommendation of the Institute of Corporate Directors (ICD) and the endorsement of the PSE and SEC. The Company accomplished the ASEAN scorecard and submitted the same through the ICD, for validation based on publicly available and easily accessible information on the Company.

On November 15, 2013, during the 12th Annual Working Session of the ICD 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 P240.00 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 on Corporate Governance, 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.

In January 2014, in accordance with recent SEC pronouncements, the Company submitted a Letter-Advisement to the SEC on the attendance of Directors at Board and stockholder meetings in the year 2013, and other related information. The Company then updated its ACGR with such information, as well as information previously reported throughout the year 2013 in its Current Reports (SEC Form 17-C) filed with the SEC, and posted such updated ACGR in its corporate website. From time to time as necessary or appropriate, the Company has updated and will continue to update its ACGR and post the same in its 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.

WEB SITE

The Company's amended articles of incorporation, amended by-laws and policies to encourage shareholders, including institutional shareholders, to attend the AGSM, up-to-date information on the Company and its businesses and products, results of business operations, financial statements, career opportunities and other relevant information, may be viewed at its corporate website *www.sanmiguelpurefoods.com.*

The Board of Directors
San Miguel Pure Foods Company, Inc.

REPORT OF THE AUDIT COMMITTEE
For the year ended December 31, 2013

The undersigned Audit Committee assists the Board of Directors of San Miguel Pure Foods Company, Inc. (the "Company") in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies.

In fulfillment of these responsibilities, the Audit Committee performed the following in 2013:

- We endorsed for approval by the stockholders, and the stockholders approved the appointment of Manabat Sanagustin & Co., CPAs as the Company's independent external auditors for 2013;

- We reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- We reviewed and approved the scope of the audit and audit programs of the external auditors, as well as the Company's internal audit group, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- We reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission and applicable laws; and

- We reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

All five members of the Audit Committee, three of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2013.

CARMELO L. SANTIAGO
Chairman – Independent Director

ANGELINA S. GUTIERREZ
Member – Independent Director

EDGARDO P. CRUZ
Member – Independent Director

FERDINAND K. CONSTANTINO
Member

MENARDO R. JIMENEZ
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of San Miguel Pure Foods Company, Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internals controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

R.G. Manabat & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audits.

Eduardo M. Cojuangco, Jr.
Chairman of the Board

Francisco S. Alejo III
President

Zenaida M. Postrado
Treasurer and Chief Finance Officer

Signed this 26th day of March 2014

KPMG

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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.

KPMG

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
	Note	2013	2012 As restated (Note 3)	2012 As restated (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

	Note	Attributable to Equity Holders of the Parent Company										Non-controlling Interests	Total Equity
		Capital Stock (Note 20)	Additional Paid-in Capital (Note 20)	Revaluation Surplus	Reserve for Retirement Plan	Cumulative Translation Adjustments		Retained Earnings (Note 20)		Treasury Stock (Note 20)	Total		
						Translation Reserve	Fair Value Reserve	Appro-priated	Unappro-priated				
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.

SAN MIGUEL PURE FOODS COMPANY, INC. AND SUBSIDIARIES
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. 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.

<u>Financial Assets and Financial Liabilities</u>
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.

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 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.

<u>Transactions under Common Control</u>
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.

<u>Non-controlling Interests</u>
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.

<u>Investment in an Associate</u>
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.

Property, Plant and Equipment

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.

Provisions

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.

Share Capital

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.

<u>Revenue Recognition</u>
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.

<u>Cost and Expense Recognition</u>
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.

<u>Taxes</u>
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.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect 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).

Estimates and Assumptions

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* (In Millions)	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*	**2013**	2012*	2011*
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.

Valuation Technique and Significant Unobservable Inputs

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.

<u>Interest Rate Risk</u>

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.

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.

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	-	-

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the 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.

Trade and Other Receivables

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.

<u>GBGTC</u>
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.

<u>SMFI</u>
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.

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SHAREHOLDER SERVICES AND ASSISTANCE

The SMC Stock Transfer Service Corporation serves as the Company's stock transfer agent and registrar. For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates,
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INSTITUTIONAL INVESTOR INQUIRIES

The Company welcomes inquiries from institutional investors, analysts, and the financial community
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