SMITHFIELD FOODS INC
Form 10-K
March 25, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the twelve months ended : December 28, 2014

Commission file number: 1-15321

SMITHFIELD FOODS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Virginia<br>(State or other jurisdiction of incorporation or organization) | 52-0845861<br>(I.R.S. Employer Identification No.) |
| 200 Commerce Street<br>Smithfield, Virginia<br>(Address of principal executive offices) | 23430<br>(Zip Code) |

(757) 365-3000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes þ No o

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No þ

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 27, 2014, there was no established public trading market for the common stock of the registrant and therefore, an aggregate market value of the registrant's shares is not determinable.
At March 25, 2015, 1,000 shares of the registrant’s Common Stock (no par value per share) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None

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# PART I

## ITEM 1. BUSINESS

### GENERAL DEVELOPMENT OF BUSINESS

Smithfield Foods, Inc., together with its subsidiaries (the "Company," "Smithfield," "we," "us" or "our"), began as a pork processing operation called The Smithfield Packing Company, founded in 1936 by Joseph W. Luter and his son, Joseph W. Luter, Jr. Through a series of acquisitions starting in 1981, we have become the largest pork processor and hog producer in the world.

We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We operate in a cyclical industry and our results are affected by fluctuations in commodity prices. Additionally, some of the key factors influencing our business are customer preferences and demand for our products; our ability to maintain and grow relationships with customers; the introduction of new and innovative products to the marketplace; accessibility to international markets for our products including the effects of any trade barriers; and operating efficiencies of our facilities.

We conduct our operations through five reportable segments: Fresh Pork, Packaged Meats, Hog Production, International and Corporate. The Fresh Pork segment consists of our U.S. fresh pork operations. The Packaged Meats segment consists of our U.S. packaged meats operations. The Hog Production segment consists of our U.S. hog production operations. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Corporate segment provides management and administrative services to support our other segments. See "Item 8. Financial Statements and Supplementary Data-Note 15—Reportable Segments" for additional information about changes to our reportable segments during the current year.

On September 26, 2013 (the Merger Date), pursuant to the Agreement and Plan of Merger dated May 28, 2013 (the Merger Agreement) with WH Group Limited, formerly Shuanghui International Holdings Limited, a corporation formed under the laws of the Cayman Islands hereinafter referred to as WH Group, the Company merged with Sun Merger Sub, Inc., a Virginia corporation and wholly owned subsidiary of WH Group (Merger Sub), in a transaction hereinafter referred to as the Merger. As a result of the Merger, the Company survived as a wholly owned subsidiary of WH Group.

The Merger has enabled Smithfield to continue to execute on its strategic priorities while maintaining brand excellence and its commitment to environmental stewardship and animal welfare. We have established Smithfield as the world's leading vertically integrated pork processor and hog producer with best-in-class operations and outstanding food safety practices. Operationally, we have become part of an enterprise that shares our belief in global opportunities and our commitment to the highest standards of product safety and quality. With our shared expertise and leadership, we expect to continue to work on accelerating a global expansion strategy as part of WH Group.

On January 16, 2014, the Company elected to change its fiscal year end from the 52 or 53 week period which previously ended on the Sunday nearest to April 30 to the 52 or 53 week period which ends on the Sunday nearest to December 31. The change became effective at the end of the period ended December 29, 2013. Unless otherwise noted, all references to "2014" in this report are to the twelve months ended December 28, 2014.

### DESCRIPTION OF SEGMENTS

#### Fresh Pork Segment

The Fresh Pork segment consists of our U.S. fresh pork operations. The Fresh Pork segment produces a wide variety of fresh pork products in the U.S. and markets them nationwide and to numerous foreign markets, including China, Japan, Mexico, Russia and Canada. We process hogs at nine plants (six in the Midwest and three in the Southeast), with an aggregate slaughter capacity of approximately 116,200 hogs per day. In 2014, the Fresh Pork segment processed 27.9 million hogs.

The Fresh Pork segment sold approximately 3.9 billion pounds of fresh pork in 2014. A substantial portion of our fresh pork is sold to retail customers as unprocessed, trimmed cuts such as butts, loins (including roasts and chops),

picnics and ribs. Our product lines also include leaner fresh pork products.



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In 2014, export sales comprised approximately 23% of the Fresh Pork segment's volumes and approximately 27% of the segment's revenues.

Packaged Meats Segment

The Packaged Meats segment consists of our U.S. packaged meats operations. The Packaged Meats segment produces a wide variety of packaged meat products in the U.S. and markets them primarily in the U.S. The Packaged Meats segment currently operates approximately 33 processing plants.

The Packaged Meats segment sold approximately 2.8 billion pounds of packaged meats products in 2014. We produce a wide variety of packaged meats, including smoked and boiled hams, bacon, sausage, hot dogs (pork, beef and chicken), deli and luncheon meats, specialty products such as pepperoni, dry meat products, and ready-to-eat, prepared foods such as pre-cooked entrees and pre-cooked bacon and sausage. We market our domestic packaged meats products under a number of labels including the following core brand names: Smithfield, Farmland, John Morrell, Gwaltney, Armour, Eckrich, Margherita, Carando, Kretschmar, Cook's, Curly's and Healthy Ones. We also sell a substantial quantity of packaged meats as private-label products.

Our product lines also include lower-fat and lower-salt packaged meats. We also market a line of lower-fat, value-priced luncheon meats, smoked sausage and hot dogs, as well as fat-free deli hams and 40% lower-fat bacon.

In 2014, export sales comprised approximately 2.6% of the Packaged Meats segment's volumes and approximately 3.2% of the segment's revenues.

Hog Production Segment

As a complement to our Fresh Pork and Packaged Meats segments, we are the world's largest hog producer. The Hog Production segment consists of our hog production operations located in the U.S. The Hog Production segment operates numerous hog production facilities with approximately 894,000 sows, which produced 14.7 million market hogs in 2014.

The profitability of hog production is directly related to the market price of live hogs and the cost of feed grains such as corn and soybean meal. The Hog Production segment generates higher profits when hog prices are high and feed grain prices are low, and lower profits (or losses) when hog prices are low and feed grain prices are high. In addition, with the importance of food safety to the consumer, our vertically integrated system provides increased traceability from conception of livestock to consumption of the pork product.

The following table shows the percentages of Hog Production segment revenues derived from hogs sold internally and externally and other products for the periods indicated:

| | Twelve Months Ended | The Transition Period | Twelve Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | April 29 - December 29, 2013 | April 28, 2013 | April 29, 2012 |
| Internal hog sales | 85 % | 80 % | 76 % | 80 % |
| External hog sales | 8 | 13 | 14 | 17 |
| Other products [(1)] | 7 | 7 | 10 | 3 |
| | 100 % | 100 % | 100 % | 100 % |

[(1)] Consists primarily of grains, feed and gains (losses) on derivatives.

Genetics

We own certain genetic lines of breeding stock, under the name Smithfield Premium Genetics (SPG). The Hog Production segment makes extensive use of these genetic lines, with approximately 894,000 SPG breeding sows. In addition, we have sublicensed some of these rights to some of our strategic hog production partners.

Hog production operations

We use advanced management techniques to produce premium quality hogs on a large scale at a low cost. We develop breeding stock, optimize diets for our hogs at each stage of the growth process, process feed for our hogs and design hog containment facilities. We believe our economies of scale and production methods, together with our use of the advanced SPG genetics, make us a low cost producer of premium quality hogs. We also utilize independent farmers and their facilities to raise hogs produced from our breeding stock. Under multi-year contracts, a farmer provides the initial facility investment, labor and front line management in exchange for a service fee. In 2014, approximately 76% of our market hogs were finished on contract farms.

International Segment

The International segment includes our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. Our international meat processing operations produce a wide variety of fresh pork, beef, poultry and packaged meats products, including cooked hams, sausages, hot dogs, bacon and canned meats. Our interests in international meat processing operations include a 37% stake in Campofrío Food Group (CFG), a leading European packaged meats company headquartered in Madrid, Spain, and one of the largest worldwide with annual sales of approximately $2.6 billion.

The following table shows the percentages of International segment revenues derived from packaged meats, fresh meats and hog production for the periods indicated:

| | Twelve Months Ended | | The Transition Period | | Twelve Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | December 28, 2014 | | April 29 - December 29, 2013 | | April 28, 2013 | | April 29, 2012 | |
| Packaged meats | 41 | % | 44 | % | 49 | % | 46 | % |
| Fresh meats [1] | 55 | | 55 | | 50 | | 53 | |
| Hog production [2] | 4 | | 1 | | 1 | | 1 | |
| | 100 | % | 100 | % | 100 | % | 100 | % |

(1) Includes feathers, by-products and rendering

(2) Includes external hog and feed sales

The International segment has sales denominated in foreign currencies and, as a result, is subject to certain currency exchange risk. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments” for a discussion of our foreign currency hedging activities.

SEGMENTS IN GENERAL

Sources and Availability of Raw Materials

Feed grains, including corn, soybean meal and wheat, are the primary raw materials of our hog production operations. These grains are readily available from numerous sources at competitive prices. We generally purchase corn and soybean meal through forward purchase contracts. Historically, grain prices have been subject to significant fluctuations, particularly in recent years.

Live hogs are the primary raw materials of the Fresh Pork segment. Historically, hog prices have been subject to substantial fluctuations. Hog supplies, and consequently prices, are affected by factors such as corn and soybean meal prices, weather and farmers’ access to capital. Hog prices tend to rise seasonally as hog supplies decrease during the hot summer months and tend to decline as supplies increase during the fall. This tendency is due to lower farrowing performance during the winter months and slower animal growth rates during the hot summer months.

The Fresh Pork segment purchased approximately 47% of its U.S. live hog requirements from the Hog Production segment in 2014. In addition, we have established multi-year agreements with several suppliers, which provide us with a stable supply of high-quality hogs at market-indexed prices. We also purchase hogs on a daily basis at our

Southeastern and Midwestern processing plants and our company-owned buying stations in the Southeast and Midwest.

Like the Fresh Pork segment, live hogs are the primary raw material of our meat processing operations in the International segment with the primary source of hogs being our hog production operations located in Poland and Romania. Our meat processing operations in the International segment purchased approximately 62% of its live hog requirements from our hog production operations located in Poland and Romania in 2014.

A substantial portion of the fresh meat processed by the Packaged Meats segment is transferred from the Fresh Pork segment. We also purchase fresh pork from other meat processors to supplement our processing requirements. Additional purchases include raw beef, poultry and other meat products that are added to sausages, hot dogs and luncheon meats. Those meat products and other materials and supplies, including seasonings, smoking and curing agents, sausage casings and packaging materials, are readily available from numerous sources at competitive prices.

Nutrient Management and Other Environmental Issues

Our hog production facilities have been designed to meet or exceed all applicable zoning and other government regulations. These regulations require, among other things, maintenance of separation distances between farms and nearby residences, schools, churches, public use areas, businesses, rivers, streams and wells and adherence to required construction standards.

Hog production facilities generate significant quantities of manure, which must be managed properly to protect public health and the environment. We believe that we use the best technologies currently available and economically feasible for the management of swine manure, which require permits under state, and in some instances, federal law. The permits impose standards and conditions on the design and operation of the systems to protect public health and the environment, and can also impose nutrient management planning requirements depending on the type of system utilized. The most common system of swine manure management employed by our hog production facilities is the lagoon and spray field system, in which lined earthen lagoons are utilized to treat the manure before it is applied to agricultural fields by spray application. The nitrogen and phosphorus in the treated manure serve as a crop fertilizer.

We follow a number of other policies and protocols to reduce the impact of our hog production operations on the environment, including: the employment of environmental management systems; ongoing employee training regarding environmental controls; walk-around inspections at all sites by trained personnel; formal emergency response plans that are regularly updated; and collaboration with manufacturers regarding testing and developing new equipment. For further information see “Regulation” below.

Customers and Marketing

Our fundamental marketing strategy is to provide quality and value to the ultimate consumers of meat products. We have a variety of consumer advertising and trade promotion programs designed to build awareness and increase sales distribution and penetration. We also provide sales incentives for our customers through rebates based on achievement of specified volume and/or growth in volume levels.

We have significant market presence, both domestically and internationally, where we sell our meat products to national and regional supermarket chains, wholesale distributors, the foodservice industry (fast food, restaurant and hotel chains, hospitals and other institutional customers), export markets and other further processors. We use both in-house salespersons as well as independent commission brokers to sell our products. In 2014, we sold our products to more than 3,200 customers, none of whom accounted for as much as 10% of consolidated revenues. We have no significant or seasonally variable backlog because most customers prefer to order products shortly before shipment and, therefore, do not enter into formal long-term contracts.

Methods of Distribution

We use a combination of private fleets of leased tractor trailers and independent common carriers and owner operators to distribute live hogs and meat products to our customers, as well as to move raw materials between plants for further processing. We coordinate deliveries and use backhauling to reduce overall transportation costs. In the U.S., we distribute products directly from some of our plants and from leased distribution centers primarily in Missouri, Pennsylvania, North Carolina, Virginia, Kansas, Wisconsin, Indiana, Illinois, California, Iowa, Nebraska and Texas. We also operate distribution centers adjacent to our plants in Bladen County, North Carolina, Sioux Falls, South Dakota and Crete, Nebraska. Internationally, we distribute our products through a combination of leased and owned warehouse facilities.

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### Trademarks

We own and use numerous marks, which are registered trademarks or are otherwise subject to protection under applicable intellectual property laws. We consider these marks and the accompanying goodwill and customer recognition valuable and material to our business. We believe that registered trademarks have been important to the success of our branded fresh pork and packaged meats products. In a number of markets, our brands are among the leaders in select product categories.

### Seasonality

The meat processing business is somewhat seasonal in that, traditionally, the periods of higher sales for hams are the holiday seasons such as Christmas, Easter and Thanksgiving, and the periods of higher sales for smoked sausages, hot dogs and luncheon meats are the summer months. We typically build substantial inventories of hams in anticipation of our seasonal holiday business. In addition, the Hog Production segment experiences lower farrowing performance during the winter months and slower animal growth rates during the hot summer months resulting in a decrease in hog supplies in the summer and an increase in hog supplies in the fall.

### Competition

The protein industry is highly competitive. Our products compete with a large number of other protein sources, including chicken, beef and seafood, but our principal competition comes from other pork processors.

We believe that the principal competitive factors in the pork processing industry are price, product quality and innovation, product distribution and brand loyalty. Some of our competitors are more diversified than us, especially now that we have sold our beef and turkey operations. To the extent that their other operations generate profits, these more diversified competitors may be able to support their meat processing operations during periods of low or negative profitability.

### Research and Development

We conduct continuous research and development activities to develop new products and to improve existing products and processes. We incurred expenses on company-sponsored research and development activities of $75.3 million, $55.1 million, $80.9 million and $75.9 million in 2014, the eight months ended December 29, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively.

## FINANCIAL INFORMATION ABOUT SEGMENTS

Financial information for each reportable segment, including revenues and operating profit, is disclosed in Note 15—Reportable Segments in “Item 8. Financial Statements and Supplementary Data.”

## RISK MANAGEMENT AND HEDGING

We are exposed to market risks primarily from changes in commodity prices, as well as interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates. For further information see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments.”

## REGULATION

### Regulation in General

Like other participants in the industry, we are subject to various laws and regulations administered by federal, state and other government entities, including the United States Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the Grain Inspection, Packers and Stockyard Administration, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration, the Commodities and Futures Trading Commission and similar agencies in foreign countries.

From time to time, we receive notices and inquiries from regulatory authorities and others asserting that we are not in compliance with particular laws and regulations. In some instances, litigation ensues. In addition, individuals may initiate litigation against us.

Many of our facilities are subject to environmental permits and other regulatory requirements, violations of which are subject to civil and criminal sanction. In some cases, third parties may also have the right to sue to enforce compliance.

We use internationally recognized management systems to manage many of our regulatory programs. For example, we use the International Organization for Standardization (ISO) 14001:2004 standard to manage and optimize environmental performance, and we were the first in the industry to achieve ISO 14001:2004 certification for our hog production and processing facilities. ISO guidelines require a long-term management plan integrating regular third-party audits, goal setting, corrective action, documentation, and executive review. Our Environmental Management System (EMS), which conforms to the ISO 14001:2004 standard, addresses the significant environmental aspects of our operations, provides employee training programs and facilitates engagement with local communities and regulators. Most importantly, the EMS allows the collection, analysis and reporting of relevant environmental data to facilitate our compliance with applicable environmental laws and regulations.

Water

In March 2011, the U.S. Court of Appeals for the Fifth Circuit overturned EPA's November 2008 rule requiring that confined animal feeding operations (CAFOs) that “discharge or propose to discharge” apply for permit coverage under the Clean Water Act's National Pollutant Discharge Elimination System (NPDES). The Fifth Circuit's decision (which held that only discharging CAFOs have a duty to apply for NPDES permit coverage) has clarified the extent of our obligations under the NPDES permit program. EPA has not yet proposed or finalized a rule in response to the Fifth Circuit's decision, and it is not clear whether any such action may attempt to impose additional obligations on our hog production operations.

Air

During calendar year 2002, the National Academy of Sciences (the Academy) undertook a study at EPA's request to assist EPA in considering possible future regulation of air emissions from animal feeding operations. The Academy's study identified a need for more research and better information, but also recommended implementing without delay technically and economically feasible management practices to decrease emissions. Further, our hog production subsidiaries have accepted EPA's offer to enter into an administrative consent agreement and order with owners and operators of hog farms and other animal production operations. Under the terms of the consent agreement and order, participating owners and operators agreed to pay a penalty, contribute towards the cost of an air emissions monitoring study and make their farms available for monitoring. In return, participating farms have been given immunity from federal civil enforcement actions alleging violations of air emissions requirements under certain federal statutes, including the Clean Air Act. Pursuant to our consent agreement and order, we paid a $100,000 penalty to EPA. Premium Standard Farm, Inc.'s (PSF's) (now Murphy-Brown of Missouri LLC's ) Texas farms and company-owned farms in North Carolina also agreed to participate in this program. The National Pork Board, of which we are a member and financial contributor, paid the costs of the air emissions monitoring study on behalf of all hog producers, including us, out of funds collected from its members in previous years. The cost of the study for all hog producers was approximately $6.0 million. Monitoring under the study began in the spring 2007 and ended in the winter 2010.

In March 2012, EPA made available draft emission estimation methodologies for broilers and swine and dairy feeding operations for public comment. Soon thereafter, EPA also submitted the draft emission estimation methodologies to EPA’s Science Advisory Board (“SAB”) for review and comment. In its April 19, 2013 report to EPA, the SAB found significant problems with data used in the study and the EPA’s approach to developing the draft methodologies and recommended that EPA develop a process-based modeling approach to predict air emissions from broiler confinement facilities and swine and dairy lagoons and basins. EPA has not announced when or how it will respond to the SAB’s findings and recommendations or when it expects to finalize the methodologies. New regulations governing air emissions from animal agriculture operations are likely to emerge from the monitoring program undertaken pursuant to the consent agreement and order.

There can be no assurance that any new regulations that may be proposed to address air emissions from animal feeding operations will not have a material adverse effect on our financial position or results of operations.

Greenhouse Gases (GHGs) and Climate Change

In calendar year 2009, EPA finalized its Mandatory Reporting of Greenhouse Gases (GHGs) rule, which requires owners or operators of certain facilities (including facilities that contain a manure management system) that emit at least 25,000 metric tons or more of GHGs per year to report their emissions. Although EPA has not been implementing the rule as it applies to manure management systems due to a congressional restriction prohibiting the expenditure of funds for this purpose, there is no assurance that this prohibition will not be lifted in the future. Should that occur, the rule would impose additional costs on our hog production operations; however, it is not expected that such costs would have a material adverse effect on our hog production operations.

The EPA finalized regulations in calendar year 2010 under the Clean Air Act, which may trigger new source review and permitting requirements for certain sources of GHG emissions. Beginning in early 2011, when GHG emissions standards for light-duty vehicles took effect, permits issued under the Clean Air Act permitting programs for large stationary sources of air pollution - the Prevention of Significant Deterioration (PSD) and the Title V Operating Permit Programs - must address GHGs. In April 2012, EPA issued the GHG Tailoring Rule to ensure that only the largest sources of GHGs, those responsible for 70 percent of the GHG pollution from stationary sources, would require air permits.

As in virtually every industry, GHG emissions occur at several points across our operations, including production, transportation and processing. Compliance with future legislation, if any, and compliance with currently evolving regulation of GHGs by EPA and the states may result in increased compliance costs, capital expenditures, and operating costs. In the event that any future compliance requirements at any of our facilities require more than the sustainability measures that we are currently undertaking to monitor emissions and improve our energy efficiency, we may experience significant increases in our costs of operation. Such costs may include the cost to purchase offsets or allowances and costs to reduce GHG emissions if such reductions are required. These regulatory changes may also lead to higher cost of goods and services which may be passed on to us by suppliers.

As an agriculture-based company, changes to the climate and weather patterns could also affect key inputs to our business as the result of shifts in temperatures, water availability, precipitation, and other factors. Both the cost and availability of corn and other feed crops, for example, could be affected. The regulation or taxation of carbon emissions could also affect the prices of commodities, energy, and other inputs to our business. We believe there could also be opportunities for us as a result of heightened interest in alternative energy sources, including those derived from manure, and participation in carbon markets. However, it is not possible at this time to predict the complete structure or outcome of any future legislative efforts to address GHG emissions and climate change, whether EPA's regulatory efforts will survive court challenge, or the eventual cost to us of compliance. There can be no assurance that GHG regulation will not have a material adverse effect on our financial position or results of operations.

Regulatory and Other Proceedings

From time to time we receive notices from regulatory authorities and others asserting that we are not in compliance with certain environmental laws and regulations. In some instances, litigation ensues.

In March 2006, we entered into a consent decree that settled two citizen lawsuits alleging among other things violations of certain environmental laws. The consent decree provides, among other things, that our subsidiary, Murphy-Brown LLC, will undertake a series of measures designed to enhance the performance of the swine waste management systems on approximately 244 company-owned farms in North Carolina and thereby reduce the potential for surface water or ground water contamination from these farms. Murphy-Brown has successfully completed a number of the measures called for in the consent decree and expects to fulfill its remaining consent decree obligations over the next 12 to 24 months, at which time it will move for termination of the decree.

Prior to our acquisition of PSF, it had entered into a consent judgment with the State of Missouri and a consent decree with the federal government and a citizens group. The judgment and decree generally required that PSF pay penalties to settle past alleged regulatory violations, utilize new technologies to reduce nitrogen in the material that it applies to farm fields and research, and develop and implement “Next Generation Technology” for environmental controls at certain of its Missouri farm operations. PSF has successfully completed the measures called for in the state judgment and the state court terminated the judgment in the fall of 2012.

PSF has also completed a number of the measures called for in the federal consent decree, but is unable to predict at this time when it will complete the remaining consent decree obligations or when the consent decree will be terminated.

Environmental Stewardship

In July 2000, in furtherance of our continued commitment to responsible environmental stewardship, we and our North Carolina-based hog production subsidiaries voluntarily entered into an agreement with the Attorney General of North Carolina (the Agreement) designed to enhance water quality in the State of North Carolina through a series of initiatives to be undertaken by us and our subsidiaries while protecting access to swine operations in North Carolina.

One of the features of the Agreement reflects our commitment to preserving and enhancing the environment of eastern North Carolina by providing a total of $50.0 million to assist in the preservation of wetlands and other natural areas in eastern North Carolina and to promote similar environmental enhancement activities. We began annual contributions of $2.0 million in fiscal 2001, deferred annual payments in fiscal 2011 and fiscal 2012 and re-started our annual $2.0 million payment in fiscal 2013.

Animal Care

More than a decade ago, Smithfield developed and implemented a comprehensive, systematic animal care management program to monitor and measure the well-being of pigs on company-owned and contract farms. Developed in consultation with two of the world's foremost experts in animal behavior and handling, this system continues to guide our operations today. Our animal care management program guides the proper and humane care of our animals at every stage of their lives, from gestation to transport to processing plant. All farm employees and contract hog producers must employ the methods and techniques of the management system and take steps to verify their compliance. Adherence to proper animal welfare management is a condition of our agreements with contract producers.

Our Animal Care Policy underscores the company's Commitments to providing the following:

- shelter that is designed, maintained, and operated to meet the animals' needs;
- access to adequate water and high-quality feed to meet nutritional requirements;
- humane treatment of animals that enhances their well-being and complies with all applicable laws and regulations;
- identification and appropriate treatment of animals in need of health care; and
- use of humane methods to euthanize sick or injured animals not responding to care and treatment.

Several years ago, we volunteered to provide input and recommendations to help the National Pork Board enhance its animal care management program for all pork producers. That program, which includes many of the tenets of our own guidelines, became the National Pork Board's Pork Quality Assurance Plus (PQA Plus®) program. A pork producer becomes PQA Plus certified only after staff attend training sessions on good production practices (which includes topics such as responsible animal handling, disease prevention, biosecurity, responsible antibiotic use, and appropriate feeding). Farms entered into the program undergo on-farm site assessments and are subject to random third-party audits. We obtained certification of all company-owned and contract farms under the PQA Plus program by the end of calendar year 2009.

Smithfield was also one of the founding adopters of the National Pork Board's “We Care” program, which demonstrates that pork producers are accountable to established ethical principles and animal well-being practices.

At all of our slaughter facilities, we also use a systematic approach that includes the following:

- an animal welfare and humane handling manual;
- a comprehensive training program; and
- an auditing system with internal verification and third-party audits.

Our plants all have developed quality programs following the standards set in the U.S. Department of Agriculture's Process Verified Program (PVP), as described elsewhere in this report. Our PVP programs monitor aspects of traceability, country of origin, PQA Plus® adherence on farms, and Transport Quality Assurance status of drivers.

In January 2007, we announced a voluntary, ten-year program to phase out individual gestation stalls at our company-owned sow farms and replace the gestation stalls with group pens. We currently estimate the total cost of our transition to group pens to be approximately $360.0 million, including associated maintenance and repairs. This program represents a significant financial commitment and reflects our desire to be more animal friendly, as well as to address the concerns and needs of our customers. As of the end of 2014, we had completed conversions to group housing for over 71% of our sows on company-owned farms. We remain on track to finish conversion to group housing for all sows on company-owned farms by the end of 2017. Our hog production operations in Poland and Romania completed their conversions to group housing facilities a number of years ago.

In January 2014, we announced the recommendation that all of our contract sow growers join with us in converting their facilities to group housing systems for pregnant sows. We asked contract sow growers to convert by 2022 and offered a sliding scale of incentives to accelerate that timetable. Growers who commit to convert to group housing will receive contract extensions upon completion of the conversion.

EMPLOYEES

The following table shows the approximate number of our employees and the approximate number of employees covered by collective bargaining agreements or that are members of labor unions in each segment, as of December 28, 2014:

| Segment | Employees | Employees Covered by Collective Bargaining Agreements (1) |
|---|---|---|
| Fresh Pork and Packaged Meats (2) | 32,370 | 17,910 |
| International | 10,770 | 837 |
| Hog Production | 4,920 | — |
| Corporate | 180 | — |
| Totals | 48,240 | 18,747 |

(1) Includes employees that are members of labor unions.

(2) Employees are shared across both segments.

Approximately 1,300 employees are covered by collective bargaining agreements that expire in 2015. Collective bargaining agreements covering other employees expire over periods throughout the next several years. We believe that our relationship with our employees is satisfactory.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

See Note 15—Reportable Segments in “Item 8. Financial Statements and Supplementary Data” for financial information about geographic areas. See “Item 1A. Risk Factors” for a discussion of the risks associated with our international sales and operations.

AVAILABLE INFORMATION

Our website address is www.smithfieldfoods.com. The information on our website is not part of this annual report. Our annual report on Form 10-K, transition report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available free of charge through our website as soon as reasonably practicable after filing or furnishing the material to the SEC. You may read and copy documents we file at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains transition, annual, quarterly and current reports and other information that issuers and voluntary reporting companies, like us, file electronically with the SEC. The SEC’s website is www.sec.gov.

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The risk factors below represent what we believe are the known material risk factors with respect to us and our business. Any of the following risks could materially adversely affect our business, operations, industry, financial position or future financial results.

Our results of operations are cyclical and could be adversely affected by fluctuations in the commodity prices for hogs and grains.

We are largely dependent on the cost and supply of hogs and feed ingredients and the selling price of our products and competing protein products, all of which are determined by constantly changing and volatile market forces of supply and demand as well as other factors over which we have little or no control. These other factors include:

- competing demand for corn for use in the manufacture of ethanol or other alternative fuels,
- environmental and conservation regulations,
- import and export restrictions such as trade barriers resulting from, among other things, food safety concerns and developments in international relations,
- economic conditions,
- weather, including the impact of weather on our water supply and the availability and pricing of grains,
- energy prices, including the effect of changes in energy prices on our transportation costs and the cost of feed, and
- crop and livestock diseases.

We cannot assure you that all or part of any increased costs experienced by us from time to time can be passed along to consumers of our products, in a timely manner or at all.

Hog prices demonstrate a cyclical nature over periods of years, changing market supply and demand of hogs on the market. These fluctuations can be significant, as shown in recent years, with average domestic live hog prices going from $61 per hundredweight for the twelve months ended April 28, 2013 to $79 per hundredweight in 2014. Further, hog raising costs are largely dependent on the fluctuations of commodity prices for corn and other feed ingredients. For example, our results of operations for the twelve months ended April 28, 2013 were negatively impacted by higher feed and feed ingredient costs which increased hog raising costs to $68 per hundredweight compared to $54 per hundred weight for the twelve months ended May 1, 2011. When hog prices are lower than our hog production costs which occurred in the twelve months ended April 28, 2013, our non-vertically integrated competitors (i.e., those without significant hog production operations) may have a cost advantage over us.

Additionally, commodity pork prices demonstrate a cyclical nature over periods of years, reflecting changes in the supply of fresh pork and competing animal proteins on the market, especially beef and chicken.

We attempt to manage certain of these risks through the use of our risk management and hedging programs. However, these programs may also limit our ability to participate in gains from favorable commodity fluctuations. Additionally, a portion of our commodity derivative contracts are marked-to-market such that the related unrealized gains and losses are reported in earnings on a quarterly basis. This accounting treatment may cause significant volatility in our quarterly earnings. See “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments” for further information.

Outbreaks of disease among or attributed to livestock can significantly affect production, the supply of raw materials, demand for our products and our business.

We take precautions to ensure that our livestock are healthy and that our processing plants and other facilities operate in a sanitary manner. Nevertheless, we are subject to risks relating to our ability to maintain animal health and control diseases. Livestock health problems could adversely impact our production, our supply of raw materials and consumer confidence in all of our operating segments.

From time to time, we have experienced outbreaks of livestock diseases and we may experience additional occurrences of disease in the future. Disease can reduce the number of offspring produced, hamper the growth of livestock to finished size, result in expensive vaccination programs and require in some cases the destruction of infected livestock, any of which could adversely affect our production or ability to sell or export our products. For example, during 2013, the USDA identified the first case of Porcine Epidemic Diarrhea Virus (PEDv). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Executive Overview-Porcine Epidemic Diarrhea Virus (PEDv)" for additional details.
Adverse publicity concerning any disease or health concern could also cause customers to lose confidence in the safety and quality of our food products, particularly as we expand our branded pork products. In addition to risks associated with maintaining the health of our livestock, any outbreak of disease elsewhere in the U.S. or in other countries could reduce consumer confidence in the meat products affected by the particular disease, generate adverse publicity, depress market conditions for our hogs internationally and/or domestically and result in the imposition of import or export restrictions.
Outbreaks of disease among or attributed to livestock also may have indirect consequences that adversely affect our business. For example, past outbreaks of avian influenza in various parts of the world reduced the global demand for poultry and thus created a temporary surplus of poultry both domestically and internationally. This poultry surplus placed downward pressure on poultry prices, which in turn reduced meat prices including pork prices both in the U.S. and internationally. The occurrence of similar events in the future could materially and adversely affect our business, financial condition, results of operations and prospects.
Our operations are subject to the general risks associated with the food industry, including perceived or real health risks related to our products or the food industry generally and risks associated with government regulations.
We are subject to risks affecting the food industry generally, including risks posed by the following:
- food spoilage,
- food contamination,
- food allergens,
- evolving consumer preferences and nutritional and health-related concerns,
- consumer product liability claims,
- product tampering,
- product labeling errors,
- the expense and possible unavailability of product liability insurance, and
- the potential cost and disruption of a product recall.

Negative publicity relating to our products, brands, operations, industry or products similar to ours may adversely affect consumer perceptions of our products and result in decreased demand for our products. In particular, negative publicity relating to one of our 12 core brands may be particularly harmful since we face risks from brand concentration. Adverse publicity concerning any perceived or real health risk associated with our brands or our products could also cause customers to lose confidence in the safety and quality of our food products, which could adversely affect our ability to sell our reputation, business, financial condition, results of operation and prospects, particularly as we expand our branded products business. We could also be adversely affected by perceived or real health risks associated with similar products produced by others to the extent such risks cause customers to lose confidence in the safety and quality of such products generally and, therefore, lead customers to opt for other meat options that are perceived as safe. The A(H1N1) influenza outbreak that occurred in late fiscal 2009 and early fiscal 2010 illustrates the adverse impact that can result from perceived health risks associated with the products we sell. Although the CDC and other regulatory and scientific bodies indicated that people cannot get A(H1N1) influenza from eating cooked pork or pork products, the perception of some consumers that the disease could be transmitted in that manner was the apparent cause of the temporary decline in pork consumption in late fiscal 2009 and early fiscal 2010.

Our products are susceptible to contamination by disease producing organisms or pathogens, such as Listeria monocytogenes, Salmonella, Campylobacter and generic E. coli. Because these organisms and pathogens are generally found in the environment, there is a risk that one or more, as a result of food processing, could be present in our products. We have systems in place designed to monitor food safety risks throughout all stages of our vertically integrated process. However, we cannot assure you that such systems, even when working effectively, will eliminate the risks related to food safety. These organisms and pathogens can also be introduced to our products as a result of improper handling in transportation or at the further processing, foodservice or consumer level. In addition to the risks caused by our processing operations and the subsequent handling of the products, we may encounter the same risks if any third party tampers with our products. We could be required to recall certain of our products in the event of contamination or adverse test results. Any product contamination also could subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs and decreased sales as customers lose confidence in the safety and quality of our food products. Any of these events could have an adverse impact on our reputation, business, financial condition, results of operations and prospects.

Our manufacturing facilities and products, including the processing, packaging, storage, distribution, advertising and labeling of our products, are subject to extensive federal, state and foreign laws and regulations in the food safety area, including regular government inspections and governmental food processing controls. Loss of or failure to obtain necessary permits and registrations could delay or prevent us from meeting current product demand, introducing new products, building new facilities or acquiring new businesses and could adversely affect operating results. If we are found to be out of compliance with applicable laws and regulations, particularly if it relates to or compromises food safety, we could be subject to civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, future material changes in food safety regulations could result in increased operating costs or could be required to be implemented on schedules that cannot be met without interruptions in our operations.

Environmental regulation and related litigation and commitments could have a material adverse effect on us.

Our past and present business operations and properties are subject to extensive and increasingly stringent federal, state, local and foreign laws and regulations pertaining to protection of the environment, including among others:

- the treatment and discharge of materials into the environment,
- the handling and disposition of manure and solid wastes and
- the emission of greenhouse gases.

Failure to comply with these laws and regulations or any future changes to them may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. Some requirements applicable to us may also be enforced by citizen groups or other third parties. Natural disasters, such as flooding and hurricanes, can cause the discharge of effluents or other waste into the environment, potentially resulting in our being subject to further liability claims and governmental regulation as has occurred in the past. See “Item 1. Business—Regulation” for further discussion of regulatory compliance as it relates to environmental risk. We have incurred, and will continue to incur, significant capital and operating expenditures to comply with these laws and regulations.

We also face the risk of lawsuits even if we are operating in compliance with applicable regulations. For example, 26 nuisance suits seeking recovery of an unspecified amount of compensatory, special and punitive damages, as well as unspecified injunctive and equitable relief are currently pending against our subsidiary Murphy-Brown in North Carolina. See “Item 3. Legal Proceedings--North Carolina Nuisance Litigation” for additional details. Although the Company believes that the claims are unfounded and intends to defend the suits vigorously, we cannot assure you that we will be successful, that additional nuisance claims will not arise in the future, or that the accruals for this litigation will not have to be substantially increased.

In addition, new environmental issues could arise that would cause currently unanticipated investigations, assessments or expenditures.

Governmental authorities may take further action restricting our ability to produce and/or sell livestock or adopt new regulations impacting our production or processing operations, which could adversely affect our business.

A number of states, including Iowa and Missouri, have adopted legislation that prohibits or restricts the ability of meat packers, or in some cases corporations generally, from owning livestock or engaging in farming. In addition, Congress has in the past considered federal legislation that would ban meat packers from owning livestock. We cannot assure you that such or similar legislation affecting our operations will not be adopted at the federal or state levels in the future. Such legislation, if adopted and applicable to our current operations and not successfully challenged or settled, could have a material adverse impact on our operations and our financial statements.

In fiscal 2008, the State of North Carolina enacted a permanent moratorium on the construction of new hog farms using the lagoon and sprayfield system. The moratorium limits us from expanding our North Carolina production operations. This permanent moratorium replaced a 10-year moratorium on the construction of hog farms with more than 250 hogs or the expansion of existing large farms. This moratorium may over time lead to increased competition for contract growers.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

As of December 28, 2014, we had:

- approximately $2.7 billion of indebtedness;
- guarantees of $7.7 million for leases that were transferred to JBS S.A. in connection with the sale of Smithfield Beef, Inc.; and
- aggregate unused capacity available totaling approximately $1.3 billion under (1) our inventory based revolving credit facility with capacity up to $1.025 billion, with an option to expand up to $1.225 billion (the Inventory Revolver), (2) our accounts receivable securitization facility with capacity up to $325.0 million (the Securitization Facility) and (3) our other credit facilities with capacity of $122.0 million, such total taking into account outstanding borrowings of $50.1 million and $92.7 million of outstanding letters of credit under the Securitization Facility.

Because the borrowing capacity under the Inventory Revolver and Securitization Facility depend, in part, on inventory and accounts receivable levels, respectively, which fluctuate from time to time, such amounts may not reflect actual borrowing capacity.

Our indebtedness may increase from time to time for various reasons, including fluctuations in operating results, working capital needs, capital expenditures and potential acquisitions or joint ventures. In addition, due to the volatile nature of the commodities markets, we may have to borrow significant amounts to cover any margin calls under our risk management and hedging programs. During 2014, margin deposits posted by us ranged from $7.1 million to $382.0 million. Our consolidated indebtedness level could significantly affect our business because:

- it may, together with the financial and other restrictive covenants in the agreements governing our indebtedness, limit or impair our ability in the future to obtain financing, refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and materially impair our liquidity,
- a downgrade in our credit rating could restrict or impede our ability to access capital markets at attractive rates and increase the cost of future borrowings,
- it may reduce our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise,
- a portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes, which amount would increase if prevailing interest rates rise,
- substantially all of our working capital assets in the United States secure the Inventory Revolver and the Securitization Facility, all of which could limit our ability to dispose of such assets or utilize the proceeds of such dispositions and, upon an event of default under any such secured indebtedness, the lenders thereunder could foreclose upon our pledged assets, and
- it could make us more vulnerable to downturns in general economic or industry conditions or in our business.

Further, our debt agreements, under certain circumstances, may limit additional borrowings, investments, the payment of dividends, the acquisition or disposition of assets, mergers and consolidations, transactions with affiliates, the creation of liens and the repayment of certain debt.

Should market conditions deteriorate, or our operating results be depressed in the future, we may have to request amendments or waivers to our covenants and restrictions under our debt agreements. There can be no assurance that we will be able to obtain such relief should it be needed in the future. A breach of any of these covenants or restrictions could result in a default that would permit our senior lenders, including lenders under the Inventory Revolver, the Securitization Facility, the Rabobank term loan (Rabobank Term Loan) and the holders of our senior unsecured notes, as the case may be, to declare all amounts outstanding under the Inventory Revolver, the Securitization Facility, the Rabobank Term Loan or the senior unsecured notes to be due and payable, together with accrued and unpaid interest, and the commitments of the relevant lenders to make further extensions of credit under the Inventory Revolver and the Securitization Facility could be terminated. If we were unable to repay our secured indebtedness to our lenders, these lenders could proceed against the collateral securing that indebtedness, which could include substantially all of our working capital assets in the United States.

Our future ability to comply with financial covenants and other conditions, make scheduled payments of principal and interest, or refinance existing borrowings depends on future business performance which is subject to economic, financial, competitive and other factors, including the other risks set forth in this Item 1A. Any failure to comply with the covenants of our debt agreements could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our operations are subject to the risks associated with acquisitions and investments in joint ventures.

From time to time we review opportunities for strategic growth through acquisitions. We have also pursued and may in the future pursue strategic growth through investment in joint ventures. These acquisitions and investments may involve large transactions or realignment of existing investments. These transactions present financial, managerial and operational challenges, including:

- diversion of management attention from managing our existing business,
- difficulty with integrating businesses, operations, personnel and financial and other systems,
- lack of experience in operating in the geographical or product markets of the acquired business,
- increased levels of debt potentially leading to associated reduction in ratings of our debt securities and adverse impact on our various financial ratios,
- the requirement that we periodically review the value at which we carry our investments in joint ventures and, in the event we determine that the value at which we carry a joint venture investment has been impaired, the requirement to record a non-cash impairment charge, which charge could substantially affect our reported earnings in the period of such charge, would negatively impact our financial ratios and could limit our ability to obtain financing in the future,
- potential loss of key employees and customers of the acquired business,
- assumption of and exposure to unknown or contingent liabilities of acquired businesses,
- potential disputes with the sellers, and
- for our investments, potential lack of common business goals and strategies with, and cooperation of, our joint venture partners.

In addition, acquisitions outside the U.S. may present unique difficulties and increase our exposure to those risks associated with international operations.

We may experience financial or other set-backs if any of the businesses that we have acquired or may acquire in the future have problems of which we are not aware or liabilities that exceed expectations.

Our numerous equity investments in joint ventures, partnerships and other entities, both within and outside the U.S., are periodically involved in modifying and amending their credit facilities and loan agreements. The ability of these entities to refinance or amend their facilities on a successful and satisfactory basis, and to comply with the covenants in their financing facilities, affects our assessment of the carrying value of any individual investment. As of December 28, 2014, none of our equity investments represented more than 5% of our total consolidated assets. If we determine in the future that an investment is impaired, we would be required to record a non-cash impairment charge, which could substantially affect our reported earnings in the period of such charge. In addition, any such impairment charge would negatively impact our financial ratios and could limit our ability to obtain financing in the future. See "Item 8. Notes to Consolidated Financial Statements—Note 5: Investments" for a discussion of the accounting treatment of our equity investments.

We are subject to risks associated with our international sales and operations.

Sales to international customers accounted for approximately 23% of our net sales in 2014. We conduct foreign operations in Poland, Romania and the United Kingdom and export our products to more than 40 countries. In addition, we are engaged in joint ventures in Mexico and have a significant investment in Western Europe. As of December 28, 2014, approximately 16% of our long-lived assets were associated with our foreign operations. Because of the growing market share of U.S. pork products in the international markets, U.S. exporters are increasingly being affected by measures taken by importing countries to protect local producers.

Our international sales, operations and investments are subject to various risks related to economic or political uncertainties including among others:

- general economic and political conditions,
- imposition of tariffs, quotas, trade barriers and other trade protection measures imposed by foreign countries,
- import or export licensing requirements imposed by various foreign countries,
- the closing of borders by foreign countries to the import of our products due to, among other things, animal disease or other perceived health or safety issues,
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations, including the Foreign Corrupt Practices Act,
- different regulatory structures and unexpected changes in regulatory environments,
- tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation,
- potentially negative consequences from changes in tax laws, and
- distribution costs, disruptions in shipping or reduced availability of freight transportation.

Furthermore, our foreign operations are subject to the risks described above as well as additional risks and uncertainties including among others:

- fluctuations in currency values, which have affected, among other things, the costs of our investments in foreign operations,
- translation of foreign currencies into U.S. dollars, and
- foreign currency exchange controls.

Negative consequences relating to these risks and uncertainties could jeopardize or limit our ability to transact business in one or more of those markets where we operate or in other developing markets and could adversely affect our business, financial condition, results of operations and prospects.

Our operations are subject to the general risks of litigation.

We are involved on an ongoing basis in litigation arising in the ordinary course of business or otherwise. Trends in litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, employment, antitrust, securities or environmental matters. Moreover, the process of litigating cases, even if we are successful, may be costly, and may approximate the cost of damages sought. These actions could also expose us to adverse publicity, which might adversely affect our brands, reputation and/or customer preference for our products and distract management from other tasks. Litigation trends and expenses and the outcome of litigation cannot be predicted with certainty and adverse litigation trends, expenses and outcomes could adversely affect our business, financial condition, results of operations and prospects.

We depend on availability of, and satisfactory relations with, our employees.

As of December 28, 2014, we had approximately 48,240 employees, 18,747 of whom are covered by collective bargaining agreements or are members of labor unions. Our operations depend on the availability, retention and relative costs of labor and maintaining satisfactory relations with employees and the labor unions. Further, employee shortages can and do occur, particularly in rural areas where some of our operations are located. Labor relations issues arise from time to time, including issues in connection with union efforts to represent employees at our plants and with the negotiation of new collective bargaining agreements. If we fail to maintain satisfactory relations with our employees or with the labor unions, we may experience labor strikes, work stoppages or other labor disputes. Negotiation of collective bargaining agreements also could result in higher ongoing labor costs. In addition, the discovery by us or governmental authorities of undocumented workers, as has occurred in the past, could result in our having to attempt to replace those workers, which could be disruptive to our operations or may be difficult to do. Immigration reform continues to attract significant attention in the public arena and the U.S. Congress. If new immigration legislation is enacted, such laws may contain provisions that could increase our costs in recruiting, training and retaining employees and increase our costs of complying with federal law in reviewing employees' immigration status. Furthermore, increased enforcement efforts with respect to existing immigration laws by governmental authorities may disrupt a portion of our workforce or our operations.

There can be no assurance that these activities or consequences will not adversely affect our business, financial condition, results of operations or prospects in the future.

The continued consolidation of customers could negatively impact our business.

Our ten largest customers represented approximately 27% of net sales for 2014. We do not have long-term sales agreements (other than to certain third-party hog customers) or other contractual assurances as to future sales to these major customers. In addition, continued consolidation within the retail industry, including among supermarkets, warehouse clubs and food distributors, has resulted in an increasingly concentrated retail base and increased our credit exposure to certain customers. Our business could be materially adversely affected and suffer significant set-backs in sales and operating income from the loss of some of our larger customers or if our larger customers' plans, markets, and/or financial condition should change significantly.

An impairment in the carrying value of goodwill could negatively impact our consolidated results of operations and net worth.

Goodwill is recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if impairment indicators arise. In evaluating the potential for impairment of goodwill, we make assumptions regarding future operating performance, business trends, and market and economic conditions. Such analyses further require us to make judgmental assumptions about sales, operating margins, growth rates, and discount rates. There are inherent uncertainties related to these factors and to management's judgment in applying these factors to the assessment of goodwill recoverability. Goodwill reviews are prepared using estimates of the fair value of reporting units based on market multiples of EBITDA (earnings before interest, taxes, depreciation and amortization) and/or on the estimated present value of future cash flows. We could be required to evaluate the recoverability of goodwill prior to the annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of our business or market capitalization declines. Impairment charges could substantially affect our reported earnings in the periods of such charges. In addition, impairment charges would negatively impact our financial ratios and could limit our ability to obtain financing in the

future. As of December 28, 2014, we had $1.6 billion of goodwill, which represented approximately 16% of total assets.

Deterioration of economic conditions could negatively impact our business.

Our business may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of and access to capital markets, consumer spending rates, energy availability and costs (including fuel surcharges) and the effects of governmental initiatives to manage economic conditions.

Any such changes could adversely affect the demand for our products or the cost and availability of our needed raw materials, cooking ingredients and packaging materials, thereby negatively affecting our financial results.

Disruptions and instability in credit and other financial markets and deterioration of national and global economic conditions, could, among other things:

- make it more difficult or costly for us to obtain financing for our operations or investments or to refinance our debt in the future;
- cause our lenders to depart from prior credit industry practice and make more difficult or expensive the granting of any technical or other waivers under our credit agreements to the extent we may seek them in the future;
- impair the financial condition of some of our customers, suppliers or counterparties to our derivative instruments, thereby increasing customer bad debts, non-performance by suppliers or counterparty failures negatively impacting our treasury operations;
- negatively impact global demand for our products, which could result in a reduction of sales, operating income and cash flows;
- decrease the value of our investments in equity and debt securities, including our company-owned life insurance and pension plan assets, which could result in higher pension cost and statutorily mandated funding requirements; and
- impair the financial viability of our insurers.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

The following table lists our material plants and other physical properties. Based on a five day week, our weekly domestic pork slaughter capacity was 581,000 head and our domestic packaged meats capacity was 64.0 million pounds, as of December 28, 2014. During 2014, the average weekly domestic capacity utilization for pork slaughter and packaged meats was 91% and 84%, respectively. We believe these properties are adequate and suitable for our needs.

| Location | Segment | Operation |
|---|---|---|
| Smithfield Farmland Plant<br>Bladen County, North Carolina | Fresh Pork | Slaughtering and cutting hogs |
| Smithfield Farmland Plant<br>Smithfield, Virginia | Fresh Pork and<br>Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| Smithfield Farmland Plant<br>Kinston, North Carolina | Packaged Meats | Production of boneless cooked hams, deli hams and sliced deli products |
| Smithfield Farmland Plant<br>Clinton, North Carolina | Fresh Pork and<br>Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| Smithfield Farmland Plant<br>Wilson, North Carolina | Packaged Meats | Production of bacon |
| John Morrell Plant<br>Sioux Falls, South Dakota | Fresh Pork and<br>Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| John Morrell Plant<br>Springdale, OH | Packaged Meats | Production of hot dogs and luncheon meats |
| Curly’s Foods, Inc. Plant<br>(operated by John Morrell)<br>Sioux City, Iowa | Fresh Pork and<br>Packaged Meats | Production of raw and cooked ribs and other BBQ items |
| Armour-Eckrich Meats<br>(operated by John Morrell)<br>St. Charles, Illinois | Packaged Meats | Production of bulk and sliced dry sausages |
| Armour-Eckrich Meats<br>(operated by John Morrell)<br>Omaha, Nebraska | Packaged Meats | Production of bulk and sliced dry sausages |
| Armour-Eckrich Meats<br>(operated by John Morrell)<br>Peru, Indiana | Packaged Meats | Production of pre-cooked bacon |
| Armour-Eckrich Meats<br>(operated by John Morrell)<br>Junction City, Kansas | Packaged Meats | Production of smoked sausage |

| | | |
|---|---|---|
| Armour-Eckrich Meats (operated by John Morrell) Mason City, Iowa | Packaged Meats | Production of boneless bulk and sliced ham products |
| Armour-Eckrich Meats (operated by John Morrell) St. James, Minnesota | Packaged Meats | Production of sliced luncheon meats |

| Location | Segment | Operation |
|---|---|---|
| Smithfield Farmland Plant Crete, Nebraska | Fresh Pork and Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| Smithfield Farmland Plant Monmouth, Illinois | Fresh Pork and Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| Smithfield Farmland Plant Denison, Iowa | Fresh Pork and Packaged Meats | Slaughtering and cutting hogs; fresh and packaged pork products |
| Smithfield Farmland Plant Milan, Missouri | Fresh Pork | Slaughtering and cutting hogs; fresh pork |
| Smithfield Farmland Plant Wichita, Kansas | Packaged Meats | Production of hot dogs and luncheon meats |
| Cook’s Hams Plant (operated by Smithfield Farmland) Lincoln, Nebraska | Packaged Meats | Production of smoked hams and other smoked meats |
| Cook’s Hams Plant (operated by Smithfield Farmland) Grayson, Kentucky | Packaged Meats | Production of spiral hams and smoked ham products |
| Cook’s Hams Plant (operated by Smithfield Farmland) Martin City, Missouri | Packaged Meats | Production of spiral hams |
| Patrick Cudahy Plant (operated by John Morrell) Cudahy, Wisconsin | Packaged Meats | Production of bacon, dry sausage and refinery products |
| Animex Plant Szczecin, Poland | International | Slaughtering and deboning hogs; production of packaged and other pork products |
| Animex Plant Starachowice, Poland | International | Slaughtering and deboning hogs; production of packaged and other pork products |
| Animex Plant Elk, Poland | International | Slaughtering and deboning hogs; production of packaged and other pork products |
| Animex Plant Morliny, Poland | International | Production of packaged and other pork and beef products |

| | | |
|---|---|---|
| Animex Plant<br>Ilawa, Poland | International | Slaughtering of turkey and geese; production of fresh and packaged poultry products |
| Animex Plant<br>Suwalki, Poland | International | Slaughtering of chicken; production of fresh and packaged poultry products |
| Animex Plant<br>Opole, Poland | International | Slaughtering of chicken; production of fresh and packaged poultry products |

| Location | Segment | Operation |
|---|---|---|
| Animex Plant<br>Debica, Poland | International | Production of packaged poultry products |
| Smithfield Prod Plant<br>Timisoara, Romania | International | Slaughtering, deboning and rendering hogs |
| Corporate Headquarters<br>Smithfield, Virginia | Corporate | Management and administrative support services for other segments |

The Hog Production segment owns and leases numerous hog production and grain storage facilities, as well as feedmills, mainly in North Carolina, Utah, Missouri, Iowa, Colorado and Virginia, with additional facilities in Oklahoma, Texas, Illinois, South Carolina, Pennsylvania, South Dakota and Kansas.

Also, the International segment owns and leases numerous hog production and grain storage facilities, as well as feedmills, in Poland and Romania.

ITEM 3. LEGAL PROCEEDINGS

We and certain of our subsidiaries are parties to the environmental litigation matters discussed in “Item 1. Business—Regulation” above. Apart from those matters and the matters listed below, we and our affiliates are parties to various lawsuits arising in the ordinary course of business. In the opinion of management, any ultimate liability with respect to the ordinary course matters will not have a material adverse effect on our financial position or results of operations.

North Carolina Nuisance Litigation

In August, September and October 2014, 25 complaints were filed in the Eastern District of North Carolina by 515 individual plaintiffs against our wholly owned subsidiary, Murphy-Brown, alleging causes of action for nuisance and related claims. The complaints stemmed from the nuisance cases previously filed in the Superior Court of Wake County. On February 23, 2015, all 25 complaints were amended and one complaint was severed into two separate actions. The 26 currently pending complaints were filed on behalf of 541 plaintiffs and relate to approximately 14 company-owned and 75 contract farms. All 26 complaints include causes of action for temporary nuisance and negligence and seek recovery of an unspecified amount of compensatory, special and punitive damages, as well as unspecified injunctive and equitable relief. Murphy-Brown is in the process of responding to the complaints in all 26 cases. The Company believes that the claims are unfounded and intends to defend the suits vigorously.

Neuse Riverkeeper Foundation and Waterkeeper Alliance NOI

From time to time we receive notices from regulatory authorities and others asserting that we are not in compliance with certain environmental laws and regulations. In some instances, litigation ensues.

On March 13, 2014, the Neuse Riverkeeper Foundation and Waterkeeper Alliance submitted a 60-day Notice of Intent (NOI) to file a citizen suit against the Company, our wholly owned subsidiary Murphy-Brown, a contract grower, the landowner, and certain individual employees of either Murphy-Brown or the contract grower related to alleged violations of the Clean Water Act at a hog farm in Greene County, North Carolina. The Company is continuing to investigate the allegations and is in the process of responding.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table shows the name and age, position and business experience during the past five years of each of our executive officers. Our board of directors (the "Board" or "Board of Directors") elects executive officers to hold office until the next annual meeting of the Board, until their successors are elected or until their resignation or removal.

| Name and Age | Position | Business Experience During Past Five Years |
|---|---|---|
| C. Larry Pope (60) | President and Chief Executive Officer | Mr. Pope was elected President and Chief Executive Officer in June 2006, effective September 1, 2006. Mr. Pope served as President and Chief Operating Officer from October 2001 to September 2006. |
| Kenneth M. Sullivan (51) | Executive Vice President and Chief Financial Officer | Mr. Sullivan was promoted to Chief Financial Officer in 2013 and elected Executive Vice President effective March 1, 2015. He served as Senior Vice President of Finance and Chief Accounting Officer from 2012 to 2013, Vice President of Finance and Chief Accounting Officer from 2010 to 2012, Chief Accounting Officer from 2007 to 2010 and Vice President of Internal Audit from 2003 to 2007. |
| Dhamu Thamodaran (59) | Executive Vice President and Chief Commodity Hedging Officer | Mr. Thamodaran was elected Executive Vice President and Chief Commodity Hedging Officer in July 2011. He was named Senior Vice President and Chief Commodity Hedging Officer in June 2008. Prior to these appointments, Mr. Thamodaran served as Vice President, Price Risk Management. |
| Dennis H. Treacy (60) | Executive Vice President and Chief Sustainability Officer | Mr. Treacy was elected Executive Vice President, Corporate Affairs, and Chief Sustainability Officer in October 2011. He was named Senior Vice President of Corporate Affairs and Chief Sustainability Officer in February 2010. Prior to these appointments, Mr. Treacy served as Vice President, Environmental and Corporate Affairs. |
| Joseph B. Sebring (67) | President, Packaged Meats Division | Mr. Sebring was elected President, Packaged Meats Division effective March 1, 2015. He served as President of John Morrell from May 1994 to February 2015. |
| Dariusz Nowakowski (61) | President of Smithfield Europe | Mr. Nowakowski was elected President of Smithfield Europe in August 2012 and is responsible for all of Smithfield's wholly owned subsidiaries in Europe. Mr. Nowakowski joined Smithfield in 2006 as President of Animex. |
| Scott Saunders (51) | President, Fresh Pork Division | Mr. Saunders was elected President, Fresh Pork Division, effective March 1, 2015. He served as Chief |

| | | |
|---|---|---|
| | | Financial Officer of John Morrell from 2008 to February 2015. |
| Gregg Schmidt (57) | President, Hog Production Division | Mr. Schmidt was elected President, Hog Production Division, effective March 1, 2015. He served as President of Murphy-Brown from 2013 to February 2015. He served as President of Murphy-Brown East Production Operations from 2011 to 2013 and served as President of the International Division from 2002 to 2011. |

## PART II

### ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION

Prior to the Merger, our common stock was listed on the New York Stock Exchange under the symbol "SFD." As a result of the Merger, our common stock ceased to be traded on the New York Stock Exchange after close of market on September 26, 2013. Smithfield Foods, Inc. is wholly owned by a subsidiary of WH Group.

DIVIDENDS

We have never paid a cash divided on our common stock. Subject to the limitations in certain of our debt agreements, we expect to pay dividends to WH Group starting in 2016 based on a certain percentage of our net income. The terms of certain of our debt agreements limit the payment of cash dividends on our common stock. We would only pay cash dividends from assets legally available for that purpose.

ITEM 6. SELECTED FINANCIAL DATA

On September 26, 2013, we were acquired by an indirect subsidiary of WH Group in a merger transaction accounted for as a business combination. Unless the context otherwise requires, all references to "Successor" refer to Smithfield Foods, Inc. and all its subsidiaries for the period subsequent to the Merger. All references to "Predecessor" refer to Smithfield Foods, Inc. and all its subsidiaries for all periods prior to the Merger. In addition, the Merger was accounted for under the acquisition method of accounting, which resulted in purchase price allocations that affect the comparability of results of operations for periods before and after the Merger.
The following table shows selected consolidated financial data and other operational data for each of the periods indicated. This financial data has been derived from our audited consolidated financial statements. The financial data for the eight months ended December 29, 2013 (the Transition Period) have been derived from our audited consolidated financial statements, but have not been audited. You should read the information in conjunction with "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."
As a result of the Merger, all outstanding common stock of the Company during the Predecessor period was retired and all of the outstanding shares of Merger Sub were converted to 1,000 shares of common stock of the Company, no par value, and such shares are owned by a wholly owned subsidiary of WH Group. There are no other shares of stock outstanding in the Company; therefore we have not reported earnings per share.

| | Successor | | Predecessor | | | | |
|---|---|---|---|---|---|---|---|
| | Twelve Months Ended | | | Twelve Months Ended | | | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 | May 1, 2011 | May 2, 2010 |
| | (in millions) | | | | | | |
| Statement of Income Data: | | | | | | | |
| Sales | $15,031.3 | $3,894.2 | $5,679.5 | $13,221.1 | $13,094.3 | $12,202.7 | $11,202.6 |
| Cost of sales | 13,255.7 | 3,543.1 | 5,190.1 | 11,901.4 | 11,544.9 | 10,488.6 | 10,472.5 |
| Gross profit | 1,775.6 | 351.1 | 489.4 | 1,319.7 | 1,549.4 | 1,714.1 | 730.1 |
| Selling, general and administrative expenses | 902.2 | 213.4 | 341.7 | 815.4 | 816.9 | 789.8 | 705.9 |
| Gain on fire insurance recovery | — | — | — | — | — | (120.6) | — |
| Merger related costs | — | 23.9 | 18.0 | — | — | — | — |
| (Income) loss from equity method investments | (58.2) | 2.6 | 0.5 | (15.0) | 9.9 | (50.1) | (38.6) |
| Operating profit | 931.6 | 111.2 | 129.2 | 519.3 | 722.6 | 1,095.0 | 62.8 |
| Interest expense | 159.4 | 59.0 | 64.6 | 168.7 | 176.7 | 245.4 | 266.4 |
| Non-operating (gain) loss | (0.9) | 1.7 | — | 120.7 | 12.2 | 92.5 | 11.0 |
| Income (loss) from before income taxes | 773.1 | 50.5 | 64.6 | 229.9 | 533.7 | 757.1 | (214.6) |
| Income tax expense (benefit) | 217.0 | 15.8 | 12.7 | 46.1 | 172.4 | 236.1 | (113.2) |
| Net income (loss) | $556.1 | $34.7 | $51.9 | $183.8 | $361.3 | $521.0 | $(101.4) |

| | Successor | | Predecessor | | | |
|---|---|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | April 28, 2013 | April 29, 2012 | May 1, 2011 | May 2, 2010 |
| | (in millions) | | | | | |
| Balance Sheet Data: | | | | | | |
| Working capital | $2,280.4 | $ 2,208.5 | $1,805.6 | $2,162.7 | $2,110.0 | $2,128.4 |
| Total assets | 10,147.6 | 9,954.8 | 7,716.4 | 7,422.2 | 7,611.8 | 7,708.9 |
| Long-term debt and capital lease obligations | 2,694.6 | 2,997.4 | 1,829.2 | 1,900.9 | 1,978.6 | 2,918.4 |
| Shareholder's equity | 4,539.5 | 4,231.1 | 3,097.0 | 3,387.3 | 3,545.5 | 2,755.6 |

| | Twelve Months Ended | | Twelve Months Ended | | | |
|---|---|---|---|---|---|---|
| | December 28, 2014 | The Transition Period | April 28, 2013 | April 29, 2012 | May 1, 2011 | May 2, 2010 |
| | (in millions) | | | | | |
| Other Consolidated Operational Data: | | | | | | |
| Total hogs processed [1] | 32.1 | 21.9 | 32.0 | 30.7 | 30.4 | 32.9 |
| Packaged meats sales (pounds) [2] | 3,333.6 | 2,225.1 | 3,260.2 | 3,119.4 | 3,159.7 | 3,238.0 |
| Fresh pork sales (pounds) [1] | 4,471.3 | 2,920.7 | 4,234.3 | 4,154.6 | 4,035.0 | 4,289.9 |
| Total hogs sold [3] | 17.3 | 12.6 | 18.4 | 18.1 | 18.6 | 19.3 |

(1) Comprised of Fresh Pork and International.
(2) Comprised of Packaged Meats and International.
(3) Comprised of Hog Production and International and includes intercompany hog sales.

Notes to Selected Financial Data:

Twelve Months Ended December 28, 2014

- None.

Three Months Ended December 29, 2013

- Includes $23.9 million of professional fees related to the Merger.
- Includes $17.3 million of debt issuance costs for a financing arrangement entered into by Merger Sub. We recognized these costs in interest expense upon termination of the financing arrangement following the Merger.

Five Months Ended September 26, 2013

- Includes $18.0 million of professional fees related to the Merger.

Twelve Months Ended April 28, 2013

- Includes losses of $120.7 million on debt extinguishment.

Twelve Months Ended April 29, 2012

Includes our share of charges related to the CFG Consolidation Plan, as defined in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Significant Events Affecting Results of Operations," of $38.7 million.

Includes net charges of $22.2 million related to the litigation in Missouri that involved a number of claims alleging that hog farms owned by us or operated under hog raising contracts with third parties interfered with the plaintiffs' use and enjoyment of their properties (the Missouri Litigation).

Includes losses of $12.2 million on debt extinguishment.
Includes accelerated depreciation charges associated with the idling of certain Missouri hog farm assets of $8.2 million.
Includes accelerated depreciation and other charges associated with the planned closure of our Portsmouth facility of $4.7 million.

Includes $3.1 million of charges related to our plan to improve the cost structure and profitability of our domestic hog production operations (the Cost Savings Initiative).

Twelve Months Ended May 1, 2011

Includes an involuntary conversion gain on fire insurance recovery of $120.6 million.

Includes losses of $92.5 million on debt extinguishment.

Includes $28.0 million of charges related to the Cost Savings Initiative.

Includes a net benefit of $19.1 million related to the Missouri Litigation.

Includes net gains of $18.7 million on the sale of hog farms.

Twelve Months Ended May 2, 2010

Includes $34.1 million of impairment charges related to certain hog farms.

Includes restructuring and impairment charges totaling $17.3 million related to our plan to consolidate and streamline the corporate structure and manufacturing operations of our Fresh Pork and Packaged Meats segments (the Restructuring Plan).

Includes $13.1 million of impairment and severance costs primarily related to the Sioux City plant closure.

Includes $11.0 million of charges for the write-off of amendment fees and costs associated with our U.S. and European credit facilities.

Includes $9.1 million of charges related to the Cost Savings Initiative.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following information in conjunction with the audited consolidated financial statements and the related notes in “Item 8. Financial Statements and Supplementary Data.”

### EXECUTIVE OVERVIEW

We are the largest hog producer and pork processor in the world. In the United States, we are also the leader in numerous packaged meats categories with popular brands including Smithfield®, Eckrich®, Farmland®, Armour® and John Morrell®. We are committed to providing good food in a responsible way and maintaining robust animal care, community involvement, employee safety, environmental, and food safety and quality programs.

We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We operate in a cyclical industry and our results are significantly affected by fluctuations in commodity prices for livestock (primarily hogs) and grains. Some of the factors that we believe are critical to the success of our business are our ability to:

- maintain and expand market share, particularly in packaged meats,
- develop and maintain strong customer relationships,
- continually innovate and differentiate our products,
- manage risk in volatile commodities markets, and
- maintain our position as a low cost producer of live hogs, fresh pork and packaged meats.

We conduct our operations through five reportable segments: Fresh Pork, Packaged Meats, Hog Production, International and Corporate. The Fresh Pork segment consists of our U.S. fresh pork operations. The Packaged Meats segment consists of our U.S. packaged meats operations. The Hog Production segment consists of our hog production operations located in the U.S. The International segment is comprised mainly of our meat processing and distribution operations in Poland, Romania and the United Kingdom, our interests in meat processing operations, mainly in Western Europe and Mexico, our hog production operations located in Poland and Romania and our interests in hog production operations in Mexico. The Corporate segment provides management and administrative services to support our other segments. See "Item 8. Financial Statements and Supplementary Data-Note 15—Reportable Segments" for additional information about changes to our reportable segments during the current year.

In February 2015, we announced an organizational realignment and key senior management appointments that unify all of our independent operating companies, brands, marketing and employees under one corporate umbrella. Moving to a more centralized structure allows for a more efficient and effective approach to customers, best utilizes management talent, maximizes the manufacturing platform and plant efficiency and optimizes marketing, innovation and brand management.

### WH Group Merger

On September 26, 2013 (the Merger Date), pursuant to the Agreement and Plan of Merger dated May 28, 2013 (the Merger Agreement) with WH Group Limited, formerly Shuanghui International Holdings Limited, a corporation formed under the laws of the Cayman Islands and hereinafter referred to as WH Group, the Company merged with Sun Merger Sub, Inc., a Virginia corporation and wholly owned subsidiary of WH Group (Merger Sub), in a transaction hereinafter referred to as the Merger. As a result of the Merger, the Company survived as a wholly owned subsidiary of WH Group.

WH Group is the majority shareholder of Henan Shuanghui Investment & Development Co., which is China's largest meat processing enterprise and China's largest publicly traded meat products company as measured by market capitalization. WH Group is a pioneer in the Chinese meat processing industry with over 30 years of history. WH Group's businesses include hog production, meat processing, fresh meat and packaged meats production and distribution. The merging of WH Group's distribution network with our strong management team, leading brands and vertically integrated model is allowing us to provide high-quality, competitively-priced and safe U.S. meat products to consumers in markets around the world. As part of WH Group's international platform, we expect our best practices in large-scale farming, food safety standards, environmental stewardship and animal welfare to set the global industry standard.

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This transaction enabled Smithfield to continue to execute on its strategic priorities while maintaining brand excellence and commitment to environmental stewardship and animal welfare. We have established Smithfield as the world's leading vertically integrated pork processor and hog producer with best-in-class operations and outstanding food safety practices. Operationally, we have become part of an enterprise that shares our belief in global opportunities and our commitment to the highest standards of product safety and quality. With our shared expertise and leadership, we continue to work on accelerating a global expansion strategy as part of WH Group.

The Merger was accounted for as a business combination using the acquisition method of accounting. WH Groups's cost of acquiring the Company has been pushed-down to establish a new accounting basis for the Company. The difference in the cost basis of the Company before and after the Merger impacts the comparability of results.

Change in Fiscal Year

On January 16, 2014, the Company elected to change its fiscal year end from the 52 or 53 week period which previously ended on the Sunday nearest to April 30 to the 52 or 53 week period which ends on the Sunday nearest to December 31. The change became effective at the end of the period ended December 29, 2013. Unless otherwise noted, all references to 2014 in this report are to the twelve months ended December 28, 2014. The comparable financial data for the twelve months ended December 29, 2013 is unaudited.

2014 Summary

Net income was $556.1 million in 2014, compared to net income of $120.7 million for the twelve months ended December 29, 2013. The following summarizes the operating results of each of our reportable segments and other significant items impacting pre-tax income for 2014 compared to the twelve months ended December 29, 2013:

Fresh Pork operating profit increased $20.7 million primarily as a result of higher fresh pork market prices.

Packaged Meats operating profit increased $81.8 million as a result of higher average selling prices and the unfavorable impact of the fair value step-up of inventories in the prior year due to the Merger.

Hog Production operating profit increased $366.1 million as a result of significantly higher live hog market prices and lower feed costs.

International operating profit increased $95.3 million due to higher sales volume and lower raw material costs in our European operations as well as an increase in equity income from our joint ventures in Mexico.

Corporate results improved by $29.2 million due to the impact of merger related costs incurred in the prior year, partially offset by higher variable compensation cost in the current year. See "Significant Events Affecting Results of Operations" below for further discussion.

Porcine Epidemic Diarrhea Virus (PEDv)

The USDA identified PEDv in the United States for the first time in 2013. During 2014, the U.S. pork market was significantly impacted by the spreading of PEDv, a disease that only infects pigs, not humans or other livestock, which has been an industry-wide issue and continues to have a presence in U.S. swine. Our herds in several regions in which we operate were affected in 2014 as PEDv spread throughout the U.S. There are confirmed cases of PEDv in the U.S. in 2015; however, the outbreak currently appears to be less severe than in 2014. The USDA and the industry continue to monitor the situation. We are subject to risks related to our ability to maintain animal health and control PEDv. We are unable to predict the extent the disease will impact our operations or market prices in the future.

Renewable Fuel Standard
The federal Renewable Fuel Standard (RFS) program requires that bio-fuels be blended into transportation fuels at ever-increasing volumes up to 36 billion gallons in 2030. In October 2010, the Environmental Protection Agency (EPA) granted a “partial waiver” to a statutory bar under the Clean Air Act prohibiting fuel manufacturers from introducing fuel additives that are not “substantially similar” to those already approved and in use for vehicles of model year (MY) 1975 or later. Prior to EPA's decision, the ethanol content of gasoline in the United States was limited to 10 percent (E10), which created a barrier, commonly referred to as the “blendwall,” to the expansion of blended bio-fuels as prescribed by the RFS. The EPA's decision allows fuel manufacturers to increase the ethanol content of gasoline to 15 percent (E15) for use in MY 2007 and newer light-duty motor vehicles, including passenger cars, light-duty trucks and medium-duty passenger vehicles. In January 2011, the EPA granted another partial waiver authorizing E15 use in MY 2001-2006 light-duty motor vehicles. Judicial challenges to these rulemakings by a coalition of industry groups were dismissed.

In 2013, the EPA issued a proposed rule that would have reduced the volume of renewable fuels mandated by statute and reflected the EPA’s estimate of what would actually be produced in 2014. However, the EPA has not yet issued the final rule for 2014 production volumes, nor has it issued a proposed rule for 2015 production volumes. Representative Bob Goodlatte (R-VA) has re-introduced legislation in the 114th Congress that would eliminate the corn ethanol mandate, cap the blendwall at E10, and require the EPA to set cellulosic standards at production levels. Although the long-term impact of the RFS is currently unknown, studies have shown that expanded corn-based ethanol production has driven up the price of livestock feed and led to commodity-price volatility. We cannot presently assess the full economic impact of the RFS program on the meat processing industry or on our operations.

Country of Origin Labeling
Following a World Trade Organization (WTO) panel ruling on a complaint by Canada and Mexico that existing U.S. country- of-origin labeling (COOL) requirements violated the United States’ WTO obligations, USDA published a new rule effective May 23, 2013, Mandatory Country of Origin Labeling of Beef, Pork, Lamb, Chicken, Goat Meat, Wild and Farm-Raised Fish and Shellfish, Perishable Agricultural Commodities, Peanuts, Pecans, Ginseng, and Macadamia Nuts. 78 Fed. Reg. 31367 (May 24, 2013) (the 2013 Rule). The 2013 Rule requires, in part, that labels on covered meat products must list separately, in sequence, the specific country where the animal was "born," the country where it was "raised," and the country where it was "slaughtered." The rule also prohibits combining or commingling of meats with different "Born, Raised, and Slaughtered" combinations in the same package at retail.

On March 28, 2014 and on July 29, 2014, the U.S. Court of Appeals for the District of Columbia Circuit rejected a judicial challenge to these rulemakings by a coalition of industry groups. As of February 9, 2015, industry opponents dropped their lawsuit against the Department of Agriculture. The Canadian and Mexican governments challenged the 2013 Rule before the Dispute Settlement Body (DSB) of the WTO. On October 20, 2014, the DSB issued panel reports finding in favor of Canada and Mexico and against the United States' 2013 Rule. The U.S. Trade Representative has appealed the WTO determination and the appeal decision is expected in late spring. If the Canadian and Mexican WTO challenge is ultimately successful, then USDA will be faced with the choice of re-formulating another country of origin regulation, seeking amendments to the underlying statute from Congress, or subjecting U.S. industries to substantial retaliatory tariffs that could begin as early as summer 2015. Although the long-term impact of COOL is currently unknown, industry groups have indicated that the rules impose additional costs on the industry including costs associated with segregation of livestock, record-keeping and new packaging and labeling along with potential retaliatory trade measures under WTO rules. We cannot presently assess the full economic impact of COOL on the meat processing industry or on our operations.
Outlook
The commodity markets affecting our business fluctuate on a daily basis. In this operating environment, it is difficult to forecast industry trends and conditions. The outlook statements that follow must be viewed in this context.

With the launch of our recently announced organizational realignment, we are taking steps to build on our positive results in 2014 as we continue to solidify Smithfield's position as a global leader in branded packaged meats. Our organizational realignment is about growth and harmonization and we currently expect to further evolve the company without closing any locations or reducing our workforce.

There are a plethora of benefits to moving to a centralized structure and unifying all our resources and brands together as ‘One Smithfield,’ which should position us to take advantage of growth opportunities with the following goals:

- Leveraging Smithfield’s size and scope in pork industry;
- Approaching the market more efficiently and effectively;
- Best utilizing management talent across company;
- Aligning with the way in which our customers operate;
- Maximizing our manufacturing platform and plant efficiency;
- Optimizing operations in areas like brand management, manufacturing, sales, and marketing; and
- Strengthening marketing, brand building and innovation across all brands.

PEDv has not been a major issue for us this past fall, but the virus does remain a potential uncertainty going forward. We expect U.S. market hog supplies to rebound in 2015, although lower prices and reduced energy costs should generate additional demand in the export markets, as well as domestically. Lower pork prices should also allow us to leverage additional synergistic opportunities with WH Group.

We are sharply focused on growth and believe that Smithfield is in an ideal position to continue to achieve strong results in 2015.

RESULTS OF OPERATIONS
Significant Events Affecting Results of Operations
WH Group Merger
In connection with the Merger, we incurred $23.9 million and $18.0 million of professional fees during the three months ended December 29, 2013 and five months ended September 26, 2013, respectively. These fees are recognized in merger related costs on the consolidated statements of income and reflected in the results of our Corporate segment. In addition, Merger Sub deferred $17.3 million of debt issuance costs for a financing arrangement. We recognized these deferred costs in interest expense during the three months ended December 29, 2013 upon termination of the financing arrangement following the Merger.
WH Group's cost of acquiring the Company has been pushed-down to establish a new accounting basis for the Company. The allocation of consideration to the net tangible and intangible assets acquired and liabilities assumed by WH Group in the Merger reflects fair value estimates based on management analysis, including work performed by third-party valuation specialists. This work was finalized during the third quarter of 2014 with no material adjustments. Our pre-tax earnings for the twelve months ended December 29, 2013 were negatively impacted by $37.7 million as a result of the fair value adjustments to our assets and liabilities, including a $45.4 million increase in cost of sales as a result of the fair value step-up of our inventories.
Acquisition of Kansas City Sausage, LLC
In May 2013, we acquired a 50% interest in Kansas City Sausage Company, LLC (KCS), for $36.0 million in cash. KCS operates in Des Moines, Iowa and Kansas City, Missouri. In Des Moines, KCS produces premium raw materials for sausage, as well as value-added products, including boneless hams and hides. The Kansas City plant is a modern sausage processing facility and is designed for optimum efficiency to provide retail and foodservice customers with high quality products. With our strong ongoing focus on building our packaged meats business, and with 15% of the U.S. sow population, this joint venture is a logical fit for the Company. It is expected to provide a growth platform in two key packaged meats categories — breakfast sausage and dinner sausage — and to allow us to expand our product offerings to our customers. These categories represent over $4.0 billion in industry retail and foodservice sales annually.
KCS is managed by its Board of Directors, which makes decisions that most significantly impact the economic performance of KCS. We have the right to nominate and elect the majority of the members of the Board of Directors of KCS, and based on the associated voting rights, we have determined that we have a controlling financial interest in KCS. As a result, the acquisition of our interest in KCS was accounted for in the Fresh Pork and Packaged Meats segments using the acquisition method of accounting. In 2014, KCS generated over $300 million in sales.
Missouri Litigation
During the twelve months ended April 29, 2012, we engaged in global settlement negotiations and recognized $22.2 million in net charges associated with the expected settlement of the Missouri Litigation. The charges were recognized in selling, general and administrative expenses in the Hog Production segment. During the twelve months ended April 28, 2013, the parties to the litigation reached an agreement and consummated the global settlement.
CFG Consolidation Plan
In December 2011, the board of Campofrío Food Group (CFG) approved a multi-year plan to consolidate and streamline its manufacturing operations to improve operating efficiencies and increase utilization (the CFG Consolidation Plan). The CFG Consolidation Plan included the disposal of certain assets, employee redundancy costs and the contribution of CFG's French cooked ham business into a newly formed joint venture. As a result, we recorded our share of CFG's charges totaling $38.7 million in equity in (income) loss of affiliates within the International segment in the third quarter of fiscal 2012.

Consolidated Results of Operations

The tables presented below compare our results of operations for the twelve months ended December 28, 2014, December 29, 2013, April 28, 2013 and April 29, 2012.

The twelve months ended December 29, 2013 reflects the combined results of predecessor and successor periods. This combined information does not purport to represent what our consolidated results of operations would have been if the Merger had taken place on December 31, 2012, nor have we made any attempt to either include or exclude expenses or income that would have resulted had the Merger actually occurred on December 31, 2012.

The Transition Period reflects the combined results of predecessor and successor periods. This combined information does not purport to represent what our consolidated results of operations would have been if the Merger had taken place on April 29, 2013, nor have we made any attempt to either include or exclude expenses or income that would have resulted had the Merger actually occurred on April 29, 2013.

As used in the tables below, "NM" means "not meaningful."

Twelve Months Ended December 28, 2014 and December 29, 2013

| | Twelve Months Ended | | |
|---|---|---|---|
| | December 28, 2014 | December 29, 2013 (unaudited) | % Change |
| | (in millions) | | |
| Sales | $15,031.3 | $13,896.1 | 8 % |
| Cost of sales | 13,255.7 | 12,691.1 | 4 |
| Gross profit | 1,775.6 | 1,205.0 | 47 |
| Selling, general and administrative expenses | 902.2 | 830.1 | 9 |
| Merger related costs | — | 41.9 | (100) |
| Income from equity method investments | (58.2) | (5.5) | 958 |
| Operating profit | 931.6 | 338.5 | 175 |
| Interest expense | 159.4 | 180.5 | (12) |
| Non-operating (gain) loss | (0.9) | 1.7 | (153) |
| Income before income taxes | 773.1 | 156.3 | 395 |
| Income tax expense | 217.0 | 35.6 | 510 |
| Net income | $556.1 | $120.7 | 361 % |

Sales and Gross Profit

- Sales increased primarily as a result of higher domestic pork market prices.
- Gross profit increased primarily as a result of higher average selling prices and lower hog raising costs, which more than offset the increase in pork processing raw material costs. As noted in "Significant Events Affecting Results of Operations--WH Group Merger," the twelve months ended December 29, 2013 included an additional $45.4 million in cost of sales as a result of the fair value step-up of our inventory.

Selling, General and Administrative Expenses (SG&A)

- The increase in SG&A is primarily attributable to higher variable compensation expenses stemming from higher year-over-year operating results, partially offset by lower pension expense.

Merger Related Costs

- We incurred an aggregate of $41.9 million of professional fees in the twelve months ended December 29, 2013 as a result of the Merger.

Income from Equity Method Investments

- The increase in profitability in the current year is primarily driven by higher hog prices in Mexico. Additionally, favorable changes to income tax rates positively impacted equity income from CFG.

Interest Expense

- Interest expense for the twelve months ended December 29, 2013 included $17.3 million of debt issuance costs originally deferred by Merger Sub.

Income Tax Expense

- For the twelve months ended December 28, 2014, taxable income relative to permanent items, the mix of income between jurisdictions and foreign restructurings impacted the effective tax rate. The effective tax rate for the twelve months ended December 29, 2013 was also impacted by income relative to permanent items for the period, the mix of income between jurisdictions and state income tax credits.

Eight Months Ended December 29, 2013 and December 30, 2012

| | Successor | Predecessor | The Transition Period | Predecessor | |
|---|---|---|---|---|---|
| | | | Eight Months Ended (unaudited) | | |
| | September 27 - December 29, 2013 | April 29 - September 26, 2013 | December 29, 2013 | December 30, 2012 | % Change |
| | (in millions) | | | | |
| Sales | $3,894.2 | $5,679.5 | $9,573.7 | $8,898.7 | 8 % |
| Cost of sales | 3,543.1 | 5,190.1 | 8,733.2 | 7,943.5 | 10 |
| Gross profit | 351.1 | 489.4 | 840.5 | 955.2 | (12 ) |
| Selling, general and administrative expenses | 213.4 | 341.7 | 555.1 | 540.5 | 3 |
| Merger related costs | 23.9 | 18.0 | 41.9 | — | NM |
| Loss (income) from equity method investments | 2.6 | 0.5 | 3.1 | (6.5 ) | (148 ) |
| Operating profit | 111.2 | 129.2 | 240.4 | 421.2 | (43 ) |
| Interest expense | 59.0 | 64.6 | 123.6 | 111.8 | 11 |
| Loss on debt extinguishment | 1.7 | — | 1.7 | 120.7 | (99 ) |
| Income before income taxes | 50.5 | 64.6 | 115.1 | 188.7 | (39 ) |
| Income tax expense | 15.8 | 12.7 | 28.5 | 58.7 | (51 ) |
| Net income | $34.7 | $51.9 | $86.6 | $130.0 | (33 )% |

Sales and Gross Profit

- Sales increased primarily as a result of higher average selling prices in the Fresh Pork, Packaged Meats and Hog Production segments and an 18% increase in volume in the International segment.
- Gross profit decreased primarily as the result of an 8% increase in domestic live hog prices. As noted in "Significant Events Affecting Results of Operations--WH Group Merger," the eight months ended December 29, 2013 included an additional $45.4 million in cost of sales as a result of the fair value step-up of our inventory.

Selling, General and Administrative Expenses

- Advertising costs during the eight months ended December 29, 2013 were approximately $20.0 million higher than during the eight months ended December 30, 2012 as we continued our investment in marketing and advertising programs focused on building brand equity and growing sales.

Merger Related Costs

- As noted in "Significant Events Affecting Results of Operations," we incurred an aggregate of $41.9 million of professional fees during the eight months ended December 29, 2013 as a result of the Merger.

Loss (Income) from Equity Method Investments

- The decline in profitability was primarily driven by lower selling prices in the meat processing operations of our Mexican joint ventures. Also, tax law changes in Mexico negatively impacted our joint ventures. during the eight months ended December 29, 2013.

Interest Expense and Loss on Debt Extinguishment

- As noted in "Significant Events Affecting Results of Operations," interest expense for the eight months ended December 29, 2013 includes $17.3 million of debt issuance costs originally deferred by Merger Sub.
- In the eight months ended December 30, 2012, we recognized losses of $120.7 million on the repurchase of $694.4 million of our outstanding senior notes due in May 2013 and July 2014.

Income Tax Expense

- The effective tax rate was impacted in all periods presented by income relative to permanent items, the mix of income between jurisdictions and state income tax credits.

Twelve Months Ended April 28, 2013 and April 29, 2012

| | Predecessor | | |
|---|---|---|---|
| | Twelve Months Ended | | |
| | April 28, 2013 | April 29, 2012 | % Change |
| | (in millions) | | |
| Sales | $13,221.1 | $13,094.3 | 1 % |
| Cost of sales | 11,901.4 | 11,544.9 | 3 |
| Gross profit | 1,319.7 | 1,549.4 | (15 ) |
| Selling, general and administrative expenses | 815.4 | 816.9 | — |
| (Income) loss from equity method investments | (15.0 ) | 9.9 | (252 ) |
| Operating profit | 519.3 | 722.6 | (28 ) |
| Interest expense | 168.7 | 176.7 | (5 ) |
| Loss on debt extinguishment | 120.7 | 12.2 | 889 |
| Income before income taxes | 229.9 | 533.7 | (57 ) |
| Income tax expense | 46.1 | 172.4 | (73 ) |
| Net income | $183.8 | $361.3 | (49 )% |

Sales and Gross Profit

- Sales increased slightly as higher volumes across all segments were largely offset by lower domestic fresh meat and hog market prices and the effects of foreign currency translation.
- The decline in gross profit margin was primarily caused by higher hog feed costs and lower pork prices in the U.S.

Selling, General and Administrative Expenses (SG&A)

- The twelve months ended April 29, 2012 included $22.2 million in net charges associated with the Missouri litigation.
- The twelve months ended April 29, 2012 included $6.4 million in professional fees related to the potential acquisition of a controlling interest in CFG. In June 2011, we terminated negotiations to purchase the additional interest.
- Pension and other post-retirement benefit expenses increased $26.4 million.

(Income) Loss from Equity Method Investments

- CFG's results for twelve months ended April 29, 2012 included $38.7 million of charges related to the CFG Consolidation Plan.

- Results from our Mexican joint ventures declined due to higher feed costs, lower hog prices and lower meat sales volumes.

Interest Expense

- Interest expense decreased due to lower average interest rates resulting from the refinancing of our 10% senior secured notes due July 2014 (2014 Notes) and our 7.75% senior unsecured notes due May 2013 (2013 Notes) as described under "Liquidity and Capital Resources" below.

Loss on Debt Extinguishment

Twelve Months Ended April 28, 2013

- We recognized losses of $120.7 million on the repurchase of $694.4 million of our outstanding senior notes due in May 2013 and July 2014.

Twelve Months Ended April 29, 2012

- We recognized losses of $11.0 million on the repurchase of $59.7 million of our 2014 Notes.
- We recognized a loss on debt extinguishment of $1.2 million in the first quarter associated with the refinancing of our working capital facilities in June 2011.

Income Tax Expense

The following items explain the significant changes in the effective tax rate from the twelve months ended April 29, 2012 to twelve months ended April 28, 2013:

- Tax credits increased due in part to the passage of the American Taxpayer Relief Act of 2012 that retroactively reinstated the Research and Development, Work Opportunity and Welfare to Work tax credits.
- We released $11.1 million in deferred tax asset valuation allowances in the twelve months ended April 28, 2013, primarily related to the utilization of tax losses in foreign jurisdictions.
- The mix of earnings from foreign operations, which are taxed at lower rates, was higher in the twelve months ended April 28, 2013.

Segment Results

The following information reflects the comparative results from each respective segment:

Twelve Months Ended December 28, 2014 and December 29, 2013

| | Twelve Months Ended | | |
|---|---|---|---|
| | December 28, 2014 | December 29, 2013 (unaudited) | % Change |
| | (in millions) | | |
| Sales: | | | |
| Fresh Pork | $5,780.0 | $5,155.6 | 12 % |
| Packaged Meats | 7,173.0 | 6,522.6 | 10 % |
| Hog Production | 3,384.6 | 3,420.6 | (1 )% |
| International | 1,654.0 | 1,556.7 | 6 % |
| Total segment sales | 17,991.6 | 16,655.5 | 8 % |
| Intersegment sales | (2,960.3 ) | (2,759.4 ) | 7 % |
| Consolidated sales | $15,031.3 | $13,896.1 | 8 % |
| | | | |
| Operating profit (loss): | | | |
| Fresh Pork | $96.7 | $76.0 | 27 % |
| Packaged Meats | 459.8 | 378.0 | 22 % |
| Hog Production | 344.2 | (21.9 ) | 1,672 % |
| International | 155.8 | 60.5 | 158 % |
| Corporate | (124.9 ) | (154.1 ) | 19 % |
| Consolidated operating profit | $931.6 | $338.5 | 175 % |

Fresh Pork

- Current year sales increased 12% due to a 15% increase in average selling prices partially offset by a 3% decrease in volume.
- Current year operating profit increased 27%. Operating profit per head increased from $2.61 to $3.47 due to higher fresh pork market prices, which more than offset higher raw material costs.
- We processed 27.9 million hogs during 2014, a decrease of 4%, largely attributable to PEDv. However, average hog weights were up 2%, which helped to offset the overall decline in volume.

Packaged Meats

- Current year sales increased 10% due to a 10% increase in average selling prices. Current year sales volume totaled 2.8 billion pounds, which remained relatively unchanged from the twelve months ended December 29, 2013.
- Current year operating profit increased to $0.16 per pound from $0.13 per pound due to higher average selling prices. Additionally, the prior year included $38.7 million, or $0.01 per pound, of non-cash costs related to the fair value step-up of inventories due to the Merger. See "Significant Events Affecting Results of Operations" for further discussion.

Hog Production

- Current year sales decreased due to lower sales volume, partially offset by higher domestic live hog market prices. Head sold during the year amounted to 14.7 million hogs, a decrease of 10% from the twelve months ended December 29, 2013. PEDv was a significant factor in the volume decline and favorably impacted market prices.
- Current year operating profit benefited from a 20% increase in domestic live hog market prices and lower feed costs.

International

- Current year sales were positively impacted by an 18% increase in volume of 1.5 billion pounds, driven largely by a 13% increase in hogs processed in Europe, and partially offset by an 11% decrease in average selling prices. We processed 4.3 million hogs during 2014. The effects of foreign currency translation also positively impacted sales by approximately $18 million.
- Current year operating profit was positively impacted by higher sales and lower feed costs in Europe along with higher equity income from our Mexican joint ventures. Additionally, favorable changes to income tax rates positively impacted equity income from CFG.

Corporate

- Operating results in the Corporate segment were improved from last year due to the impact of $41.9 million of merger related costs in the prior year, partially offset by higher variable compensation expense in the current year driven by improved operating results.

Eight Months Ended December 29, 2013 and December 30, 2012

| | Successor | Predecessor | The Transition Period | Predecessor | |
|---|---|---|---|---|---|
| | | | Eight Months Ended (unaudited) | | |
| | September 27 - December 29, 2013 (in millions) | April 29 - September 26, 2013 | December 29, 2013 | December 30, 2012 | % Change |
| Sales: | | | | | |
| Fresh Pork | $1,347.3 | $2,240.3 | $3,587.6 | $3,356.1 | 7 % |
| Packaged Meats | 1,968.9 | 2,541.7 | 4,510.6 | 4,140.0 | 9 |
| Hog Production | 889.2 | 1,439.1 | 2,328.3 | 2,042.8 | 14 |
| International | 428.2 | 643.6 | 1,071.8 | 983.6 | 9 |
| Total segment sales | 4,633.6 | 6,864.7 | 11,498.3 | 10,522.5 | 9 |
| Intersegment sales | (739.4) | (1,185.2) | (1,924.6) | (1,623.8) | (19) |
| Consolidated sales | $3,894.2 | $5,679.5 | $9,573.7 | $8,898.7 | 8 % |
| | | | | | |
| Operating profit (loss): | | | | | |
| Fresh Pork | $96.0 | $(50.7) | $45.3 | $131.0 | (65)% |
| Packaged Meats | 81.7 | 149.2 | 230.9 | 322.7 | (28) |
| Hog Production | (40.6) | 81.4 | 40.8 | (56.4) | 172 |
| International | 25.4 | 15.9 | 41.3 | 89.0 | (54) |
| Corporate | (51.3) | (66.6) | (117.9) | (65.1) | (81) |
| Consolidated operating profit | $111.2 | $129.2 | $240.4 | $421.2 | (43)% |

Fresh Pork

- Sales increased during the Transition Period as a result of a 6% increase in average selling prices and a 1% increase in volume.
- Operating profit decreased despite the increase in average selling prices primarily as a result of an 8% increase in domestic live hog prices.

Packaged Meats

- Sales increased during the Transition Period as a result of a 9% increase in average selling prices.
- Operating profit in the current year decreased as the increase in selling prices was more than offset by higher raw material costs. Additionally, operating profit in the Transition Period included $38.7 million of additional non-

cash costs related to the fair value step-up of our inventories. See "Significant Events Affecting Results of Operations" for further discussion.

Hog Production

- Transition Period sales benefited from an 8% increase in domestic live hog prices and a 3% increase in head sold.
- Hog Production operating profit improved by $97.2 million mainly due to higher live hog market prices.

International

- As a result of fluctuations in foreign exchange rates, International segment sales and operating profit in the Transition Period were both positively impacted by approximately 3%.
- Sales and operating profit in the transition period were positively impacted by an 18% increase in volume which was partially offset by a 10% decrease in average selling prices.
- Transition Period operating profit was also negatively impacted by 8% and 6% increases in raising costs in both Poland and Romania, respectively, along with significantly lower equity income from our Mexican joint ventures.

Corporate

- The Transition Period includes fees related to the Merger. See "Significant Events Affecting Results of Operations" for further discussion.

Twelve Months Ended April 28, 2013 and April 29, 2012

| | Predecessor Twelve Months Ended | | |
|---|---|---|---|
| | April 28, 2013 | April 29, 2012 | % Change |
| | (in millions) | | |
| Sales: | | | |
| Fresh Pork | $4,924.1 | $5,089.4 | (3 )% |
| Packaged Meats | 6,152.0 | 6,003.6 | 2 |
| Hog Production | 3,135.1 | 3,052.6 | 3 |
| International | 1,468.5 | 1,466.7 | — |
| Total segment sales | 15,679.7 | 15,612.3 | — |
| Intersegment sales | (2,458.6 ) | (2,518 ) | 2 |
| Consolidated sales | $13,221.1 | $13,094.3 | 1 |
| | | | |
| Operating profit (loss): | | | |
| Fresh Pork | $161.6 | $222.0 | (27 )% |
| Packaged Meats | 470.0 | 401.7 | 17 |
| Hog Production | (119.1 ) | 166.1 | (172 ) |
| International | 108.2 | 42.8 | 153 |
| Corporate | (101.4 ) | (110.0 ) | 8 |
| Consolidated operating profit | $519.3 | $722.6 | (28 )% |

Fresh Pork

- Sales declined 3% due to a 6% decrease in average selling prices, partially offset by a 3% increase in volume as a result of higher slaughter levels and hog weights.
- Operating profit decreased to $6 per head from $8 per head due to lower fresh pork market prices.
- We processed 28.5 million hogs, an increase of 3% from the twelve months ended April 29, 2012.

Packaged Meats

- Sales increased 2% due to a 4% increase in volume partially offset by a 1% decrease in average selling prices. Sales volume totaled 2.8 billion pounds and 2.7 billion pounds for the twelve months ended April 28, 2013 and April 29, 2012, respectively.
- Operating profit increased to $0.17 per pound from $0.15 per pound due to lower raw material costs.

Hog Production

- Sales increased due to higher volumes, which more than offset the impact of lower market hog prices. Head sold during the twelve months ended April 28, 2013 amounted to 16.0 million hogs, an increase of 1% from the twelve months ended April 29, 2012.
- Operating profit was negatively impacted by higher hog supplies, resulting in a 6% decrease in live hog prices, and increased domestic raising costs, including the effects of grain derivative contracts designated in hedging relationships for accounting purposes, primarily as a result of higher priced feed.
- Operating profit for the twelve months ended April 28, 2013 included gains of $91.2 million compared to $58.6 million for the twelve months ended April 29, 2012 on lean hog derivative contracts and grain derivative contracts that are not designated in hedging relationships for accounting purposes.
- Operating profit for the twelve months ended April 29, 2012 included $22.2 million in net charges associated with the Missouri litigation as well as accelerated depreciation charges of $8.2 million as a result of our decision to permanently idle certain farm assets in Missouri.

International

- Fluctuation in foreign exchange rates and their effect on foreign currency translation decreased sales by 8% and decreased operating profit by $11.5 million.
- Sales and operating profit for the twelve months ended April 28, 2013 benefited from significantly higher volumes in our Polish operations due to a 19% increase in the number of hogs processed. Unit sales prices in our Polish operations increased in several key product categories; however, higher volumes of lower value by-products that resulted from more processed hogs effectively diminished the overall average unit selling price compared to twelve months ended April 29, 2012.
- Sales and operating profit in our Romanian operations improved on significantly higher average unit selling prices and sales volumes, which benefited from the approval to export pork products to European Union member countries beginning in the fourth quarter of the twelve months ended April 29, 2012. Sales and hog slaughter volumes benefited from an expansion in our hog production operations in the second quarter of the twelve months ended April 29, 2012.
- Operating profit for the twelve months ended April 29, 2012 included $38.7 million of charges related to the CFG Consolidation Plan.
- Equity income from our Mexican joint ventures decreased by $4.1 million due to higher feed costs and unfavorable changes in foreign exchange rates.

Corporate

- The twelve months ended April 29, 2012 included $6.4 million of professional fees related to the potential acquisition of a controlling interest in CFG. In June 2011, we terminated negotiations to purchase the additional interest.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary

Our cash requirements consist primarily of the purchase of raw materials used in our hog production and pork processing operations, long-term debt obligations and related interest, lease payments for real estate, machinery, vehicles and other equipment, and expenditures for capital assets, other investments and other general business purposes. Our primary sources of liquidity are cash we receive as payment for the products we produce and sell, as well as our credit facilities.

We believe that our current liquidity position is strong and that our cash flows from operations and availability under our credit facilities will be sufficient to meet our working capital needs and financial obligations for at least the next twelve months. As of December 28, 2014, our liquidity position was $1.8 billion, comprised of $1.3 billion in availability under our credit facilities and $433.5 million in cash and cash equivalents.

### Sources of Liquidity

We have available a variety of sources of liquidity and capital resources, both internal and external. These sources provide funds required for current operations, acquisitions, integration costs, debt retirement and other capital requirements.

### Accounts Receivable and Inventories

The meat processing industry is characterized by high sales volume and rapid turnover of inventories and accounts receivable. Because of the rapid turnover rate, we consider our meat inventories and accounts receivable highly liquid and readily convertible into cash. The Hog Production segment also has rapid turnover of accounts receivable. Although inventory turnover in the Hog Production segment is slower, mature hogs are readily convertible into cash. Borrowings under our credit facilities are used, in part, to finance increases in the levels of inventories and accounts receivable resulting from seasonal and other market-related fluctuations in raw material costs.

### Credit Facilities

| | December 28, 2014 | | | | |
|---|---|---|---|---|---|
| Facility | Capacity | Borrowing Base Adjustment | Outstanding Letters of Credit | Outstanding Borrowings | Amount Available |
| | (in millions) | | | | |
| Inventory Revolver | $1,025.0 | $— | $— | $— | $1,025.0 |
| Securitization Facility | 325.0 | — | (92.7) | — | 232.3 |
| International facilities | 122.0 | — | — | (50.1) | 71.9 |
| Total credit facilities | $1,472.0 | $— | $(92.7) | $(50.1) | $1,329.2 |

Cash Flows
Operating Activities

| | Twelve Months Ended | (unaudited) |
|---|---|---|
| | December 28, 2014 | December 29, 2013 |
| | (in millions) | |
| Net cash flows from operating activities | $813.1 | $358.2 |

The following items explain the significant changes in cash flows from operating activities for the periods presented:
Twelve Months Ended December 28, 2014 vs. Twelve Months Ended December 28, 2013

Cash received from customers increased due to higher average meat selling prices.

Cash paid for grain and other ingredients purchased by the Hog Production segment decreased approximately $656.6 million from the prior year.

Cash paid to outside hog suppliers increased due to a 20% increase in average domestic live hog prices.

Cash paid to outside meat suppliers increased due to higher fresh meat market prices, particularly pork and beef.

The current year included net tax payments of $178.8 million for income taxes as compared to net refunds of $16.5 million in the prior year.

In the current year, we paid $179.6 million for the settlement of derivative contracts and for margin requirements compared to $37.1 million in the prior year.

Cash interest payments increased approximately $23.2 million.

| | Successor | Predecessor | The Transition Period | Predecessor |
|---|---|---|---|---|
| | | | Eight Months Ended (unaudited) | |
| | September 27 - December 29, 2013 | April 29 - September 26, 2013 | December 29, 2013 | December 30, 2012 |
| | (in millions) | | | |
| Net cash flows from operating activities | $459.3 | $(25.8) | $433.5 | $248.0 |

The following items explain the significant changes in cash flows from operating activities for the periods presented:
Eight Months Ended December 29, 2013 vs. Eight Months Ended December 30, 2012

Cash received from customers increased due to a 6% and 9% increase in average selling prices in the Fresh Pork and Packaged Meats segments, respectively, and an 18% increase in sales volume in the International segment.

Cash paid for grain and other feed ingredients purchased by the Hog Production segment decreased approximately $65.4 million despite a significant increase in total pounds purchased.

In the prior year eight month period, we paid cash to settle the Missouri litigation.

In the eight months ended December 29, 2013, we paid $53.8 million for the settlement of derivative contracts and for margin requirements compared to $91.0 million received in prior year.

Cash paid to outside hog suppliers increased due to an 8% increase in domestic live hog market prices.

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| | Predecessor Twelve Months Ended | |
|---|---|---|
| | April 28, 2013 | April 29, 2012 |
| | (in millions) | |
| Net cash flows from operating activities | $172.7 | $570.1 |

The following items explain the significant changes in cash flows from operating activities for the periods presented:

Twelve Months Ended April 28, 2013 vs. Twelve Months Ended April 29, 2012

- Cash paid for grain and other feed ingredients purchased by the Hog Production segment increased approximately $372 million.
- Cash received for the settlement of commodity derivative contracts and for margin requirements decreased $103.4 million in fiscal 2013.
- Cash received from customers decreased primarily as a result of lower domestic selling prices.
- We paid cash to settle the Missouri litigation in the twelve months ended April 28, 2013.
- Expenditures for advertising increased as part of our strategy to build brand equity and grow sales.
- Cash paid to outside hog suppliers was lower due to a 6% decrease in average domestic live hog market prices.
- Income tax payments decreased $222.0 million as a result of significant tax refunds during the twelve months ended April 28, 2013 and lower domestic taxable income.
- We contributed $17.7 million to our qualified and non-qualified pension plans in the twelve months ended April 28, 2013 compared to $142.8 million in the twelve months ended April 29, 2012.

Investing Activities

| | Twelve Months Ended | |
|---|---|---|
| | | (unaudited) |
| | December 28, 2014 | December 29, 2013 |
| | (in millions) | |
| Acquisition of Smithfield Foods, Inc. | $— | $(4,896.6) |
| Capital expenditures | (301.4) | (311.0) |
| Business acquisition, net of cash acquired | (11.0) | (33.7) |
| Net (expenditures) proceeds from breeding stock transactions | 13.3 | (6.2) |
| Proceeds from sale of property, plant and equipment | 3.8 | 6.1 |
| Advance note and other | 3.6 | (10.4) |
| Net cash flows from investing activities | $(291.7) | $(5,251.8) |

The following items explain the significant investing activities for the periods presented:

Twelve Months Ended December 28, 2014

Capital expenditures primarily related to plant and hog farm improvement projects, including the replacement of gestation stalls with group pens, which is more fully explained under "Additional Matters Affecting Liquidity" below.

In April 2014, Kansas City Sausage Company, LLC (KCS) bought a meat processing business for $11.0 million.

Twelve Months Ended December 28, 2013

WH Group paid $4.9 billion in connection with the Merger to acquire all of our common stock and settle all vested and unvested stock-based compensation awards.

Capital expenditures primarily related to plant and hog farm improvement projects, including the replacement of gestation stalls with group pens, which is more fully explained under "Additional Matters Affecting Liquidity" below.

We paid $33.7 million, net of cash acquired, for a 50% interest in KCS. Also, we advanced $10.0 million to the seller of KCS in exchange for a promissory note, which is secured by the remaining membership interests in KCS held by the seller.

| | Successor | Predecessor | The Transition Period | Predecessor |
|---|---|---|---|---|
| | | | Eight Months Ended (unaudited) | |
| | September 27 - December 29, 2013 | April 29 - September 26, 2013 | December 29, 2013 | December 30, 2012 |
| | (in millions) | | | |
| Acquisition of Smithfield Foods, Inc. | $(4,896.6) | $— | $(4,896.6) | $— |
| Capital expenditures | (69.9) | (139.8) | (209.7) | (176.7) |
| Business acquisition, net of cash acquired | — | (32.8) | (32.8) | (23.1) |
| Net (expenditures) proceeds from breeding stock transactions | 5.1 | (5.3) | (0.2) | (12.4) |
| Proceeds from sale of property, plant and equipment | 2.3 | 1.7 | 4.0 | 14.8 |
| Advance note and other | — | (10.0) | (10.0) | 0.1 |
| Net cash flows from investing activities | $(4,959.1) | $(186.2) | $(5,145.3) | $(197.3) |

The following items explain the significant investing activities for the periods presented:

Eight Months Ended December 29, 2013

- WH Group paid $4.9 billion in connection with the Merger to acquire all of our common stock and settle all vested and unvested stock-based compensation awards.
- In May 2013, we paid $32.8 million, net of cash acquired, for a 50% interest in KCS. Also, we advanced $10.0 million to the seller of KCS in exchange for a promissory note, which is secured by the remaining membership interest in KCS held by the seller.
- Capital expenditures primarily related to plant and hog farm improvement projects, including the replacement of gestation stalls with group pens, which is more fully explained under "Additional Matters Affecting Liquidity" below.

Eight Months Ended December 30, 2012

- Capital expenditures during the prior year primarily related to plant and hog farm improvement projects, including the replacement of gestation stalls with group pens, which is more fully explained under "Additional Matters Affecting Liquidity" below.
- In October 2012, we paid $23.1 million, net of cash acquired, for a 70% interest in American Skin Food Group, LLC.

| | Predecessor | |
|---|---|---|
| | Twelve Months Ended | |
| | April 28, 2013 | April 29, 2012 |
| | (in millions) | |
| Capital expenditures | $(278.0) | $(290.7) |
| Business acquisition, net of cash acquired | (24.0) | — |
| Net (expenditures) proceeds from breeding stock transactions | (18.4) | (2.3) |
| Proceeds from sale of property, plant and equipment | 16.9 | 6.4 |
| Other | (0.2) | — |
| Net cash flows from investing activities | $(303.7) | $(286.6) |

The following items explain the significant investing activities for the periods presented:

Twelve Months Ended April 28, 2013

- Capital expenditures included $45.9 million related to our Kinston, North Carolina plant expansion project. The remaining capital expenditures primarily related to plant and hog farm improvement projects, including the replacement of gestation stalls with group pens, which is more fully explained under "Additional Matters Affecting Liquidity" below.
- We paid $24.0 million, net of cash acquired, for a 70% interest in American Skin Food Group, LLC.

Twelve Months Ended April 29, 2012

- Capital expenditures included $32.8 million related to our Kinston, North Carolina plant expansion project and $30.9 million related to the Cost Savings Initiative. The remaining capital expenditures primarily related to plant and hog farm improvement projects.

Financing Activities

| | Twelve Months Ended | |
|---|---|---|
| | | (unaudited) |
| | December 28, 2014 | December 29, 2013 |
| | (in millions) | |
| Net proceeds from equity contributions | $— | $4,162.1 |
| Proceeds from the issuance of long-term debt and capital leases | 13.0 | 1,100.3 |
| Principal payments on long-term debt and capital lease obligations | (34.5) | (680.5) |
| Proceeds from Securitization Facility | 255.0 | 440.0 |
| Payments on Securitization Facility | (360.0) | (335.0) |
| Net borrowings (repayments) on revolving credit facilities and notes payables | (159.6) | 93.5 |
| Debt issuance costs and other | (0.2) | (18.2) |
| Net cash flows from financing activities | $(286.3) | $4,762.2 |

The following items explain the significant investing activities for the periods presented:

Twelve Months Ended December 28, 2013

As part of the Merger, WH Group purchased all of our common stock as of the Merger Date. The amount paid by WH Group, net of certain transaction costs is deemed to be an equity contribution by WH Group to the Company. Merger Sub issued the Merger Sub Notes as part of the financing for the Merger. Also, Merger Sub incurred $20.4 million in transaction fees in connection with the issuance of the Merger Sub Notes, which are being amortized over the life of the Merger Sub Notes. As a result of the Merger and the transactions entered into in connection therewith, we have assumed the liabilities and obligations of Merger Sub, including Merger Sub's obligations under the Merger Sub Notes.

- We made an early repayment of our $200.0 million floating rate unsecured term loan due in February 2014 and we repaid the outstanding principal balance on our 4% senior unsecured convertible notes totaling $400.0 million, and we repaid the outstanding principal amount on our 7.75% senior unsecured notes totaling $55.0 million.
- We drew $145.0 million, net of repayments, on our Inventory Revolver and $105.0 million, net of repayments, on our Securitization Facility, to repay other long-term debt, as noted above.

| | Successor | Predecessor | The Transition Period | Predecessor |
|---|---|---|---|---|
| | | | Eight Months Ended (unaudited) | |
| | September 27 - December 29, 2013 | April 29 - September 26, 2013 | December 29, 2013 | December 30, 2012 |
| | (in millions) | | | |
| Net proceeds from equity contributions | $4,162.1 | $— | $4,162.1 | $— |
| Proceeds from the issuance of long-term debt and capital leases | 900.3 | — | 900.3 | 1,019.2 |
| Principal payments on long-term debt and capital lease obligations | (218.7) | (458.7) | (677.4) | (713.4) |
| Proceeds from Securitization Facility | 240.0 | 170.0 | 410.0 | — |
| Payments on Securitization Facility | (255.0) | (50.0) | (305.0) | — |
| Net borrowings (repayments) on revolving credit facilities and notes payables | (367.9) | 490.3 | 122.4 | 42.8 |
| Repurchase of common stock | — | — | — | (386.4) |
| Debt issuance costs and other | (20.4) | 0.1 | (20.3) | (16.5) |
| Net cash flows from financing activities | $4,440.4 | $151.7 | $4,592.1 | $(54.3) |

The following items explain the significant investing activities for the periods presented:

Eight Months Ended December 29, 2013

- As part of the Merger, WH Group purchased all of our common stock as of the Merger Date. The amount paid by WH Group, net of certain transaction costs is deemed to be an equity contribution by WH Group to the Company.
- Merger Sub issued the Merger Sub Notes as part of the financing for the Merger. Also, Merger Sub incurred $20.4 million in transaction fees in connection with the issuance of the Merger Sub Notes, which are being amortized over the life of the Merger Sub Notes. As a result of the Merger and the transactions entered into in connection therewith, we have assumed the liabilities and obligations of Merger Sub, including Merger Sub's obligations under the Merger Sub Notes.
- We made an early repayment of our $200.0 million floating rate unsecured term loan due in February 2014, repaid the outstanding principal balance on our 4% senior unsecured convertible notes totaling $400.0 million, and repaid the outstanding principal amount on our 7.75% senior unsecured notes totaling $55.0 million.
- We drew $145.0 million on our Inventory Revolver and $105.0 million on our Securitization Facility, net of repayments, to repay other long-term debt, as noted above.

Eight Months Ended December 30, 2012

- In August 2012, we issued $1.0 billion of our 2022 Notes at a price equal to 99.5% of their face value. We used $804.9 million of the $981.2 million in net proceeds from the debt offering to repurchase the remaining $694.4 million of our outstanding senior notes due in May 2013 and July 2014.
- We repurchased 19,068,079 shares of our common stock for $386.4 million as part of a previously approved share repurchase program.
- We incurred $18.0 million in transaction fees in connection with the issuance of the 2022 Notes, which are being amortized over their ten-year life.

| | Predecessor | |
|---|---|---|
| | Twelve Months Ended | |
| | April 28, 2013 | April 29, 2012 |
| | (in millions) | |
| Proceeds from the issuance of long-term debt | $1,219.2 | $— |
| Principal payments on long-term debt and capital lease obligations | (716.5) | (152.7) |
| Net borrowings (repayments) on revolving credit facilities and notes payables | 13.9 | (0.3) |
| Repurchase of common stock | (386.4) | (189.5) |
| Change in cash collateral | — | 23.9 |
| Debt issuance costs and other | (14.5) | (9.8) |
| Net cash flows from financing activities | $115.7 | $(328.4) |

The following items explain the significant financing activities for the periods presented:

Twelve Months Ended April 28, 2013

- In August 2012, we issued $1.0 billion of our 2022 Notes at a price equal to 99.5% of their face value. We used $804.9 million of the $981.2 million in net proceeds from the debt offering to repurchase the remaining $589.4 million of our 2014 Notes and $105.0 million of our 2013 Notes.
- We repurchased 19,068,079 shares of our common stock for $386.4 million as part of the Share Repurchase Program.
- We incurred $18.0 million in transaction fees in connection with the issuance of the 2022 Notes, which are being amortized over their ten-year life.

Twelve Months Ended April 29, 2012

- We redeemed the remaining $77.8 million of our 7% senior unsecured notes due August 2011 and repurchased $59.7 million of our 2014 Notes.
- We repurchased 9,176,704 shares of our common stock for $189.5 million as part of the Share Repurchase Program.
- We received $20.0 million of cash previously held in a deposit account to serve as collateral for overdrafts on certain of our bank accounts and $3.9 million of cash from the counterparty of our interest rate swap contract which expired in August 2011.
- We paid $11.0 million of debt issuance costs in connection with the refinancing of the ABL Credit Facility.

Capitalization

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| | (in millions) | |
| 6.625% senior unsecured notes, due August 2022, including unamortized premiums of $19.7 million and $21.7 million | $1,014.3 | $ 1,021.3 |
| 7.75% senior unsecured notes, due July 2017, including unamortized premiums of $38.1 million and $54.0 million | 519.3 | 538.4 |
| 5.25% senior unsecured notes, due August 2018 | 500.0 | 500.0 |
| 5.875% senior unsecured notes, due August 2021 | 400.0 | 400.0 |
| Floating rate senior unsecured term loan, due May 2018 | 200.0 | 200.0 |
| Inventory Revolver, LIBOR plus 2.75% | — | 145.0 |
| Securitization Facility, the lender's cost of funds of 0.30% plus 1.05% | — | 105.0 |
| Various, interest rates from 0.0% to 3.13%, due January 2015 through March 2019 | 84.2 | 110.4 |
| Total debt | 2,717.8 | 3,020.1 |
| Current portion | (46.9 ) | (47.3 ) |
| Total long-term debt | $2,670.9 | $ 2,972.8 |
| Total shareholder's equity | $4,539.5 | $ 4,231.1 |

Interest Rate Spread

As of December 28, 2014, the interest rates on borrowings under the Inventory Revolver and the Securitization Facility were LIBOR plus 2.75% and 0.30% plus 1.05%, respectively. The interest rate spread for the Inventory Revolver is based on a pricing-level grid in the agreement and is determined by our Funded Debt to EBITDA ratio (as defined in the Second Amended and Restated Credit Agreement, dated as of June 9, 2011, among the Company, specified subsidiaries of the Company, Rabobank Nederland, New York Branch, as Administrative Agent, specified lenders, and other specified agents and arrangers, as amended).

Guarantees

As part of our business, we are party to various financial guarantees and other commitments as described below. These arrangements involve elements of performance and credit risk that are not included in the consolidated balance sheet. We could become liable in connection with these obligations depending on the performance of the guaranteed party or the occurrence of future events that we are unable to predict. If we consider it probable that we will become responsible for an obligation, we will record the liability in our consolidated balance sheet.

As of December 28, 2014, we continued to guarantee $7.7 million of leases that were transferred to JBS S.A. in connection with the sale of Smithfield Beef, Inc which closed in October 2008. This guaranty may remain in place until the leases expire through February 2022.

## Additional Matters Affecting Liquidity

### Capital Projects

We anticipate annual capital expenditures in the range of $325 million to $380 million over the next several years to upgrade facilities with new machinery and equipment in order to improve our competitive cost structure and achieve least cost/best in class operations. These expenditures are expected to be funded with cash flows from operations and/or borrowings under credit facilities.

### Group Pens

In January 2007, we announced a voluntary, ten-year program to phase out individual gestation stalls at our company-owned sow farms and replace the gestation stalls with group pens. We currently estimate the total cost of our transition to group pens to be approximately $360.0 million, including associated maintenance and repairs. This program represents a significant financial commitment and reflects our desire to be more animal friendly, as well as to address the concerns and needs of our customers. As of the end of 2014, we had completed conversions to group housing for over 71% of our sows on company-owned farms. We remain on track to finish conversion to group housing for all sows on company-owned farms by the end of 2017. Our hog production operations in Poland and Romania completed their conversions to group housing facilities a number of years ago.

In January 2014, we announced the recommendation that all of our contract sow growers join with us in converting their facilities to group housing systems for pregnant sows. We asked contract sow growers to convert by 2022 and offered a sliding scale of incentives to accelerate that timetable through the receipt of contract extensions upon completion of the conversion.

### Risk Management Activities

We are exposed to market risks primarily from changes in commodity prices, and to a lesser degree, interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates, as more fully described under “Derivative Financial Instruments” below. Our liquidity position may be positively or negatively affected by changes in the underlying value of our derivative portfolio. When the value of our open derivative contracts decrease, we may be required to post margin deposits with our brokers to cover a portion of the decrease. Conversely, when the value of our open derivative contracts increase, our brokers may be required to deliver margin deposits to us for a portion of the increase. During 2014, margin deposits posted by us ranged from $7.1 million to $382.0 million. The average daily amount we held on deposit with our brokers during 2014 was $170.2 million. As of December 28, 2014, the net amount on deposit with our brokers was $20.0 million.

The effects, positive or negative, on liquidity resulting from our risk management activities tend to be mitigated by offsetting changes in cash prices in our core business. For example, in a period of rising grain prices, gains resulting from long grain derivative positions would generally be offset by higher cash prices paid to farmers and other suppliers in spot markets. These offsetting changes do not always occur, however, in the same amounts or in the same period, with lag times of as much as twelve months.

### Pension Plan Funding

Funding requirements for our pension plans are determined based on the funded status measured at the end of each year. The values of our pension obligation and related assets may fluctuate significantly, which may in turn lead to a larger underfunded status in our pension plans and a higher funding requirement. We contributed $167.1 million to our qualified pension plans in 2014. We do not expect to have a funding requirement in 2015.

### 2015 Tender Offer

In January 2015, we commenced a cash tender offer for our 2017, 2018, 2021 and 2022 Notes, subject to a maximum aggregate purchase price of up to $275 million (2015 Tender Offer). The 2015 Tender Offer expired in February 2015. As a result of the 2015 Tender Offer, we paid $275 million to repurchase $258 million of principal. As a result of these repurchases, we will recognize losses on debt extinguishment of approximately $12.1 million in the first quarter of 2015, including the write-off of related unamortized premiums and debt issuance costs.

Contractual Obligations and Commercial Commitments

The following table provides information about our contractual obligations and commercial commitments as of December 28, 2014:

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | < 1 Year | 1-3 Years | 3-5 Years | > 5 Years |
| | (in millions) | | | | |
| Long-term debt, excluding premiums | $2,660.1 | $46.9 | $534.0 | $684.4 | $1,394.8 |
| Interest | 944.6 | 164.5 | 326.0 | 208.4 | 245.7 |
| Capital lease obligations, including interest | 25.2 | 1.3 | 2.0 | 1.5 | 20.4 |
| Operating leases | 184.5 | 42.5 | 60.1 | 40.1 | 41.8 |
| Capital expenditure commitments | 40.2 | 40.2 | — | — | — |
| Purchase obligations: | | | | | |
| Hog procurement [1] | 5,638.3 | 1,136.0 | 1,981.0 | 1,622.7 | 898.6 |
| Contract hog growers [2] | 1,304.8 | 388.3 | 354.6 | 266.9 | 295.0 |
| Grain procurement [3] | 269.6 | 269.6 | — | — | — |
| Other [4] | 358.3 | 87.1 | 34.6 | 27.8 | 208.8 |
| Total | $11,425.6 | $2,176.4 | $3,292.3 | $2,851.8 | $3,105.1 |

(1) Through the Fresh Pork and International segments, we have purchase agreements with certain hog producers. Some of these arrangements obligate us to purchase all of the hogs produced by these producers. Other arrangements obligate us to purchase a fixed amount of hogs. Due to the uncertainty of the number of hogs that we are obligated to purchase and the uncertainty of market prices at the time of hog purchases, we have estimated our obligations under these arrangements. Future payments were estimated using current live hog market prices, available futures contract prices and internal projections adjusted for historical quality premiums.

(2) Through the Hog Production segment, we use independent farmers and their facilities to raise hogs produced from our breeding stock. Under multi-year contracts, the farmers provide the initial facility investment, labor and front line management in exchange for a performance-based service fee payable upon delivery. We are obligated to pay this service fee for all hogs delivered. We have estimated our obligation based on expected hogs delivered from these farmers.

(3) Includes fixed price forward grain purchase contracts totaling $15.4 million. Also includes unpriced forward grain purchase contracts which, if valued as of December 28, 2014 market prices, would be $254.2 million. These forward grain contracts are accounted for as normal purchases. As a result, they are not recorded in the balance sheet.

(4) Includes guaranteed royalty payments totaling $250.0 million to Nathan's Famous Inc. (Nathan's) over an 18 year contractual term commencing in March 2014. In December 2012, John Morrell signed an agreement with Nathan's to become Nathan's exclusive licensee to manufacture and sell branded hot dog, sausage and corn beef products in the retail market. Under the terms of the agreement, guaranteed minimum royalty payments are $10.0 million for the first year and increase at a compounded average annual rate of 3.2% over the contract term.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have a material current effect, or that are reasonably likely to have a material future effect, on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to market risks primarily from changes in commodity prices, as well as interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative instruments to hedge our exposure to changing prices and rates.

Derivative instruments are recorded in the balance sheet as either assets or liabilities at fair value. For derivatives that qualify and have been designated as cash flow or fair value hedges for accounting purposes, changes in fair value have no net impact on earnings, to the extent the derivative is considered perfectly effective in achieving offsetting changes

in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings (commonly referred to as the “hedge accounting” method). For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings (commonly referred to as the “mark-to-market” method). Under this guidance, we may elect either method of accounting for our derivative portfolio, assuming all the necessary requirements are met. We have in the past availed ourselves of either acceptable method and expect to do so in the future. We believe all of our derivative instruments represent economic hedges against changes in prices and rates, regardless of their designation for accounting purposes.

When available, we use quoted market prices to determine the fair value of our derivative instruments. This may include exchange prices, quotes obtained from brokers, or independent valuations from external sources, such as banks. In some cases where market prices are not available, we make use of observable market based inputs to calculate fair value.

The size and mix of our derivative portfolio varies from time to time based upon our analysis of current and future market conditions. The following table presents the fair values of our open derivative financial instruments in the consolidated balance sheets [1]:

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| | (in millions) | |
| Grains | $(27.4) | $ (11.2) |
| Livestock | 58.0 | (7.1) |
| Energy | (10.1) | 2.9 |
| Interest rate contracts | (0.1) | — |
| Foreign currency | 0.4 | 1.0 |

[1] Negative amounts represent net liabilities

Sensitivity Analysis

The following table presents the sensitivity of the fair value of our open derivative contracts to a hypothetical 10% change in market prices or foreign exchange rates, as of December 28, 2014 and December 29, 2013:

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| | (in millions) | |
| Grains | $24.2 | $ 29.9 |
| Livestock | 76.3 | 27.9 |
| Energy | 5.9 | 5.2 |
| Foreign currency | 4.3 | 5.8 |

Commodities Risk

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn, soybean meal and wheat, which are actively traded on commodity exchanges. We hedge these commodities when we determine conditions are appropriate to mitigate the inherent price risks. While this hedging may limit our ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. Commodities underlying our derivative instruments are subject to significant price fluctuations. Any requirement to mark-to-market the positions that have not been designated or do not qualify for hedge accounting could result in volatility in our results of operations. We attempt to closely match the hedging instrument terms with the hedged item's terms. Gains and losses resulting from our commodity derivative contracts are recorded in cost of sales except for lean hog contracts that are designated in cash flow hedging relationships, which are recorded in sales, and are offset by increases and decreases in cash prices in our core business (with such increases and decreases reflected in the same income statement line items). For example, in a period of rising grain prices, gains resulting from long grain derivative positions would generally be offset by higher cash prices paid to farmers and other suppliers in spot markets. However, under the "mark-to-market" method described above, these offsetting changes do not always occur in the same period, with lag times of as much as twelve months.

Interest Rate and Foreign Currency Exchange Risk

We periodically enter into interest rate swaps to hedge our exposure to changes in interest rates on certain financial instruments and to manage the overall mix of fixed rate and floating rate debt instruments. We also periodically enter into foreign exchange forward contracts to hedge exposure to changes in foreign currency rates on foreign denominated assets and liabilities as well as forecasted transactions denominated in foreign currencies.

The following tables present the effects on our consolidated financial statements of pre-tax gains and losses on derivative instruments designated in cash flow hedging relationships:

Cash Flow Hedges

| | Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Earnings (Effective Portion) | | Gain (Loss) Recognized in Earnings on Derivative (Ineffective Portion) | |
|---|---|---|---|---|---|---|
| | Successor | | Successor | | Successor | |
| | Twelve Months Ended | | Twelve Months Ended | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | December 28, 2014 | September 27 - December 29, 2013 | December 28, 2014 | September 27 - December 29, 2013 |
| | (in millions) | | (in millions) | | (in millions) | |
| Commodity contracts: | | | | | | |
| Grain contracts | $(28.9) | $(8.9) | $1.7 | $(0.9) | $(3.8) | $(3.7) |
| Lean hog contracts | (137.0) | 3.1 | (218.7) | 3.0 | (6.4) | — |
| Interest rate contracts | (0.1) | — | — | — | — | — |
| Foreign exchange contracts | (0.3) | 3.5 | 2.9 | 0.3 | — | — |
| Total | $(166.3) | $(2.3) | $(214.1) | $2.4 | $(10.2) | $(3.7) |

| | Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | | Gain (Loss) Reclassified from Accumulated Other Comprehensive (Income) Loss into Earnings (Effective Portion) | | | Gain (Loss) Recognized in Earnings on Derivative (Ineffective Portion) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Predecessor | | | Predecessor | | | Predecessor | | |
| | | Twelve Months Ended | | | Twelve Months Ended | | | Twelve Months Ended | |
| | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | (in millions) | | | (in millions) | | |
| Commodity contracts: | | | | | | | | | |
| Grain contracts | $3.1 | $39.1 | $5.5 | $23.6 | $108.4 | $75.1 | $1.3 | $— | $(0.2) |
| Lean hog contracts | (29.3) | 13.6 | 102.8 | 5.9 | 54.9 | 32.3 | (0.8) | 0.4 | (0.5) |
| Interest rate contracts | — | — | — | — | — | (2.4) | — | — | — |
| Foreign exchange contracts | (0.4) | 0.4 | (2.5) | (0.3) | 2.1 | (4.1) | — | — | — |

| Total | $(26.6 ) | $53.1 | $105.8 | $29.2 | $165.4 | $100.9 | $0.5 | $0.4 | $(0.7 ) |
|---|---|---|---|---|---|---|---|---|---|

Fair Value Hedges

| | Gain (Loss) Recognized in Earnings on Derivative | | | | |
|---|---|---|---|---|---|
| | Successor | | Predecessor | | |
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts | $2.4 | $— | $0.5 | $(12.8) | $21.9 |

| | Gain (Loss) Recognized in Earnings on Related Hedged Item | | | | |
|---|---|---|---|---|---|
| | Successor | | Predecessor | | |
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts | $(2.0) | $0.1 | $(0.5) | $5.0 | $(16.7) |

Mark-to-Market Method

| | Gain (Loss) Recognized in Earnings on Related Hedged Item | | | | |
|---|---|---|---|---|---|
| | Successor | | Predecessor | | |
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts | $2.4 | $(5.9) | $8.5 | $42.6 | $6.4 |
| Foreign exchange contracts | 0.5 | 1.2 | (0.2) | 3.7 | 7.7 |
| Total | $2.9 | $(4.7) | $8.3 | $46.3 | $14.1 |

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our experience and our understanding of the current facts and circumstances. Actual results could differ from those estimates. The following is a summary of certain accounting policies and estimates we consider critical. Our accounting policies are more fully discussed in Note 1 in "Item 8. Financial Statements and Supplementary Data."

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
| --- | --- | --- |
| Contingent liabilities | | |
| We are subject to lawsuits, investigations and other claims related to the operation of our farms, labor, livestock procurement, securities, environmental, product, taxing authorities and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses and fees.<br><br>A determination of the amount of reserves and disclosures required, if any, for these contingencies are made after considerable analysis of each individual issue. We accrue for contingent liabilities when an assessment of the risk of loss is probable and can be reasonably estimated. We disclose contingent liabilities when the risk of loss is reasonably possible or probable. | Our contingent liabilities contain uncertainties because the eventual outcome will result from future events, and determination of current reserves requires estimates and judgments related to future changes in facts and circumstances, differing interpretations of the law and assessments of the amount of damages or fees, and the effectiveness of strategies or other factors beyond our control. | We have not made any material changes in the accounting methodology used to establish our contingent liabilities during the periods presented in this Form 10-K.<br><br>We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our contingent liabilities. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
| --- | --- | --- |
| Marketing and advertising costs<br><br>We incur advertising, customer incentive and consumer incentive costs to promote products through marketing programs. These programs include cooperative advertising, volume discounts, in-store display incentives, coupons and other programs.<br><br>Advertising costs are charged in the period incurred except for certain production costs, which are expensed upon the first airing of the advertisement. We accrue customer and consumer incentive costs based on the estimated performance, historical utilization and redemption of each program.<br><br>Except for certain amounts related to cooperative advertising arrangements, cash consideration given to customers is considered a reduction in the price of our products, thus recorded as a reduction to sales. The remainder of marketing and advertising costs is recorded as a selling, general and administrative expense. | Recognition of the costs related to these programs contains uncertainties due to judgment required in estimating the potential performance and redemption of each program.These estimates are based on many factors, including experience of similar promotional programs. | We have not made any material changes in the accounting methodology used to establish our marketing accruals during the periods presented in this Form 10-K.<br><br>We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our marketing accruals. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| Impairment Considerations of Equity Method Investments | | |
| Each quarter, we review the carrying value of our investments and consider whether indicators of impairment exist. Examples of impairment indicators include a history or expectation of future operating losses and declines in a quoted share price, among other factors. If an impairment indicator exists, we must evaluate the fair value of our investment to determine if a loss in value, which is other than temporary, has occurred. If we consider any such decline to be other than temporary (based on various factors, including historical financial results, product development activities and the overall health of the affiliate's industry), then a write-down of the investment to its estimated fair value would be recorded. | In assessing the fair value of an investment, we consider a variety of information, including, when available, independent third party valuation reports, which incorporate generally accepted valuation techniques, and quoted market prices for our investment adjusted for any influence premium that should be applied to the market price based on our ability to exert significant influence over the operational and strategic decisions of the company. We also consider the history of our investment's cash flows, expectations about future cash flows and market multiples for comparable businesses. | We have not made any material changes in the accounting methodology used to evaluate impairment of equity method investments during the periods presented in this Form 10-K. |
| Accrued self insurance | | |
| We are self insured for certain losses related to health and welfare, workers' compensation, auto liability and general liability claims.<br><br>We use an independent third-party actuary to assist in the determination of certain of our self-insurance liabilities. We and the actuary consider a number of factors when estimating our self-insurance liability, including claims experience, demographic factors, severity factors and other actuarial assumptions.<br><br>We periodically review our estimates and assumptions with our third-party actuary to assist us in determining the adequacy of our self-insurance liability. | Our self-insurance liabilities contain uncertainties due to assumptions required and judgment used. Costs to settle our obligations, including legal and healthcare costs, could increase or decrease causing estimates of our self-insurance liabilities to change. Incident rates, including frequency and severity, could increase or decrease causing estimates in our self-insurance liabilities to change. | We have not made any material changes in the accounting methodology used to establish our self-insurance liabilities during the periods presented in this Form 10-K.<br><br>We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate our self-insurance liabilities. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material. A 10% increase in the estimates as of December 28, 2014, would result in an increase in the amount we recorded for our insurance liabilities of approximately $10.2 million. |

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| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
| --- | --- | --- |
| Impairment of long-lived assets | | |
| Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Examples include a current expectation that a long-lived asset will be disposed of significantly before the end of its previously estimated useful life, a significant adverse change in the extent or manner in which we use a long-lived asset or a change in its physical condition.<br><br>When evaluating long-lived assets for impairment, we compare the carrying value of the asset to the asset's estimated undiscounted future cash flows. Impairment is recorded if the estimated future cash flows are less than the carrying value of the asset. The impairment is the excess of the carrying value over the fair value of the long-lived asset. | During 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, we had no significant impairments of long-lived assets.<br><br>Our impairment analysis contains uncertainties due to judgment in assumptions and estimates surrounding undiscounted future cash flows of the long-lived asset, including forecasting useful lives of assets and selecting the discount rate that reflects the risk inherent in future cash flows. | We have not made any material changes in the accounting methodology used to evaluate the impairment of long-lived assets during the periods presented in this Form 10-K.<br><br>We do not believe there is a reasonable likelihood there will be a material change in the estimates or assumptions used to calculate impairments of long-lived assets. However, if actual results are not consistent with our estimates and assumptions used to calculate estimated future cash flows, we may be exposed to future impairment losses that could be material. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| Impairment of goodwill and other non-amortized intangible assets | | |
| Goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter, or sooner if impairment indicators arise.<br>In the evaluation of goodwill for impairment, we may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any.<br><br>The first step in the two-step impairment test is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a | We estimate the fair value of our reporting units by applying valuation multiples and/or estimating future discounted cash flows.<br><br>The selection of multiples and cash flows is dependent upon assumptions regarding future levels of operating performance as well as business trends and prospects, and industry, market and economic conditions.<br><br>A discounted cash flow analysis requires us to make various judgmental assumptions about sales, operating margins, growth rates and discount rates. When estimating future discounted cash flows, we consider the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on our cost of capital or location-specific economic factors.<br><br>The fair values of trademarks have been calculated using a royalty rate method. Assumptions about royalty rates are based on the rates at which similar brands and trademarks are licensed in the marketplace.<br><br>Our impairment analysis contains uncertainties due to | We have not made any material changes in the accounting methodology used to evaluate impairment of goodwill and other intangible assets during the periods presented in this Form 10-K.<br><br>As of December 28, 2014, we had $1.6 billion of goodwill and $1.3 billion of other non-amortizable intangible assets, consisting mainly of trademarks. Our goodwill is included in the following segments:<br>Fresh Pork - $32.2 million<br>Packaged Meats - $1,518.3 million<br>International - $71.8 million<br>Hog Production - $3.9 million<br>As a result of the first step of our 2014 goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore, the second step was not necessary. A hypothetical 10% decrease in the estimated fair value of our reporting units would not result in a material impairment.<br>Our 2014 other non-amortizable intangible asset impairment analysis did not result in an impairment charge. A hypothetical 10% decrease in the estimated fair value of our intangible assets would not result in a material impairment. |

reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step compares the implied fair value of goodwill with the carrying amount of goodwill. If the implied fair value of goodwill exceeds the carrying amount, goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

uncontrollable events that could positively or negatively impact the anticipated future economic and operating conditions.

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
| --- | --- | --- |
| The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit).<br><br>For our other non-amortizable intangible assets, if the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.<br><br>We have elected to make the first day of the fourth quarter the annual impairment assessment date for goodwill and other intangible assets. However, we could be required to evaluate the recoverability of goodwill and other intangible assets prior to the required annual assessment if we experience disruptions to the business, unexpected significant declines in operating results, divestiture of a significant component of the business or a decline in market capitalization. | | |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| Income taxes | | |
| We estimate total income tax expense based on statutory tax rates and tax planning opportunities available to us in various jurisdictions in which we earn income.<br><br>Federal income taxes include an estimate for taxes on earnings of foreign subsidiaries expected to be remitted to the United States and be taxable, but not for earnings considered indefinitely invested in the foreign subsidiary.<br><br>Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse.<br><br>Valuation allowances are recorded when it is likely a tax benefit will not be realized for a deferred tax asset.<br><br>We record unrecognized tax benefit liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. This analysis is performed in accordance with the applicable accounting guidance. | Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.<br><br>Changes in projected future earnings could affect the recorded valuation allowances in the future.<br><br>Our calculations related to income taxes contain uncertainties due to judgment used to calculate tax liabilities in the application of complex tax regulations across the tax jurisdictions where we operate.<br><br>Our analysis of unrecognized tax benefits contain uncertainties based on judgment used to apply the more likely than not recognition and measurement thresholds. | We do not believe there is a reasonable likelihood there will be a material change in the tax related balances or valuation allowances. However, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities.<br><br>To the extent we prevail in matters for which liabilities have been established, or are required to pay amounts in excess of our recorded liabilities, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement may require use of our cash and result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement could be recognized as a reduction in our effective tax rate in the period of resolution. |

| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|---|---|---|
| Pension Accounting | | |
| We provide the majority of our U.S. employees with pension benefits. We account for our pension plans in accordance with the applicable accounting guidance, which requires us to recognize the funded status of our pension plans in our consolidated balance sheets and to recognize, as a component of other comprehensive income (loss), the gains or losses and prior service costs or credits that arise during the period, but are not recognized in net periodic benefit cost.<br><br>We use an independent third-party actuary to assist in the determination of our pension obligation and related costs.<br><br>We generally contribute the minimum amount required under government regulations to our qualified pension plans. We funded $167.1 million, $18.8 million, $17.7 million, and $142.8 million to our qualified pension plans during the twelve months ended December 28, 2014, the eight months ended December 29, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 28, 2012, respectively. We do not expect to have a funding requirement in 2015 for our qualified pension plans. | The measurement of our pension obligation and costs is dependent on a variety of assumptions regarding future events. The key assumptions we use include discount rates, salary growth, retirement ages/mortality rates and the expected return on plan assets.<br><br>These assumptions may have an effect on the amount and timing of future contributions. The discount rate assumption is based on investment yields available at year-end on corporate bonds rated AA and above with a maturity to match our expected benefit payment stream. The salary growth assumption reflects our long-term actual experience, the near-term outlook and assumed inflation. Retirement rates are based primarily on actual plan experience. Mortality rates were previously based on mandated mortality tables. During 2014, we used a new mortality table based on the Mercer Industry Longevity Experience Study (MILES). Both tables have flexibility to consider industry specific groups, such as blue collar or white collar. The expected return on plan assets reflects asset allocations, investment strategy and historical returns of the asset categories. The effects of actual results differing from these assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods.<br><br>The following weighted average assumptions were used to determine our benefit obligation and net benefit cost for 2014: | If actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.<br><br>An additional 0.50% decrease in the discount rate used to measure our projected benefit obligation would have further reduced the funded status by $112.5 million as of December 28, 2014, and would have resulted in an additional $2.2 million in net pension cost for the twelve months ended December 28, 2014.<br><br>A 0.50% decrease in expected return on plan assets would have resulted in an additional $5.6 million in net pension cost for the twelve months ended December 28, 2014.<br><br>In addition to higher net pension cost, a significant decrease in the funded status of our pension plans caused by either a devaluation of plan assets or a decline in the discount rate would result in higher pension funding requirements. |

• 5.25% – Discount rate to determine net benefit cost
• 4.30% – Discount rate to determine pension benefit obligation

• 7.50% – Expected return on plan assets

• 4.00% – Salary growth

Derivatives Accounting

See “Derivative Financial Instruments” above for a discussion of our derivative accounting policy.



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Recent Accounting Pronouncements

See Note 1 in “Item 8. Financial Statements and Supplementary Data” for information about recently issued accounting standards not yet adopted by us, including their potential effects on our financial statements.

FORWARD-LOOKING INFORMATION

This report contains “forward-looking” statements within the meaning of the federal securities laws. The forward-looking statements include statements concerning our outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Our forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements. These risks and uncertainties include, but are not limited to, the availability and prices of live hogs, feed ingredients (including corn), raw materials, fuel and supplies, food safety, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, risks associated with our indebtedness, including cost increases due to rising interest rates or changes in debt ratings or outlook, hedging risk, adverse weather conditions, operating efficiencies, changes in foreign currency exchange rates, access to capital, the cost of compliance with and changes to regulations and laws, including changes in accounting standards, tax laws, environmental laws, agricultural laws and occupational, health and safety laws, adverse results from litigation, actions of domestic and foreign governments, labor relations issues, credit exposure to large customers, the ability to realize the anticipated strategic benefits of the acquisition of Smithfield Foods, Inc. by WH Group, the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations and other risks and uncertainties described under “Item 1A. Risk Factors.” Readers are cautioned not to place undue reliance on forward-looking statements because actual results may differ materially from those expressed in, or implied by, the statements. Any forward-looking statement that we make speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about our exposure to market risk is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Derivative Financial Instruments” of this Annual Report on Form 10-K. All statements other than historical information required by this item are forward-looking statements. The actual impact of future market changes could differ materially because of, among others, the factors discussed in this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF DELOITTE & TOUCHE LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholder of Smithfield Foods, Inc.
Smithfield, Virginia

We have audited the accompanying consolidated balance sheets of Smithfield Foods Inc. and subsidiaries (the "Company") as of December 28, 2014 and December 29, 2013, and the related consolidated statements of income, comprehensive income, shareholder's equity, and cash flows for the year ended December 28, 2014 and the periods from September 27, 2013 to December 29, 2013 (Successor) and from April 29, 2013 to September 26, 2013 (Predecessor). Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Smithfield Foods Inc. and subsidiaries as of December 28, 2014 and December 29, 2013, and the results of their operations and their cash flows for the year ended December 28, 2014 and the periods from September 27, 2013 to December 29, 2013 (Successor) and from April 29, 2013 to September 26, 2013 (Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the financial statements, on September 26, 2013, WH Group Limited (WH Group), formerly Shuanghui International Holdings Limited, acquired all of the outstanding shares of the Company and WH Group's cost of acquiring the Company has been pushed-down to establish a new accounting basis for the Company.

/s/ DELOITTE & TOUCHE LLP
Richmond, VA
March 25, 2015

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholder of Smithfield Foods, Inc.
Smithfield, Virginia

We have audited the accompanying consolidated balance sheets of Smithfield Foods, Inc. and subsidiaries as of April 28, 2013 and April 29, 2012, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended April 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Smithfield Foods, Inc. and subsidiaries at April 28, 2013 and April 29, 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended April 28, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP
Richmond, Virginia
June 18, 2013, except for Note 13, as to which the date is March 25, 2015

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in millions)

| | Successor | | Predecessor | | |
|---|---|---|---|---|---|
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| Sales | $15,031.3 | $3,894.2 | $5,679.5 | $13,221.1 | $13,094.3 |
| Cost of sales | 13,255.7 | 3,543.1 | 5,190.1 | 11,901.4 | 11,544.9 |
| Gross profit | 1,775.6 | 351.1 | 489.4 | 1,319.7 | 1,549.4 |
| Selling, general and administrative expenses | 902.2 | 213.4 | 341.7 | 815.4 | 816.9 |
| Merger related costs | — | 23.9 | 18.0 | — | — |
| (Income) loss from equity method investments | (58.2) | 2.6 | 0.5 | (15.0) | 9.9 |
| Operating profit | 931.6 | 111.2 | 129.2 | 519.3 | 722.6 |
| Interest expense | 159.4 | 59.0 | 64.6 | 168.7 | 176.7 |
| Non-operating (gain) loss | (0.9) | 1.7 | — | 120.7 | 12.2 |
| Income before income taxes | 773.1 | 50.5 | 64.6 | 229.9 | 533.7 |
| Income tax expense | 217.0 | 15.8 | 12.7 | 46.1 | 172.4 |
| Net income | $556.1 | $34.7 | $51.9 | $183.8 | $361.3 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

| | Successor | Predecessor | | | |
|---|---|---|---|---|---|
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| Net income | $556.1 | $34.7 | $51.9 | $183.8 | $361.3 |
| Other comprehensive income (loss): | | | | | |
| Foreign currency translation: | | | | | |
| Translation adjustment | (167.5) | 29.6 | 23.3 | (12.5) | (185.7) |
| Tax benefit (expense) | 12.8 | (2.3) | (6.4) | 1.4 | 25.9 |
| Pension accounting: | | | | | |
| Net actuarial gains (losses) | (217.5) | 23.7 | — | (93.9) | (326.1) |
| Reclassification of losses into net income | 3.3 | — | 24.8 | 52.8 | 23.5 |
| Tax benefit (expense) | 82.0 | (9.1) | (9.7) | 15.9 | 117.6 |
| Hedge accounting: | | | | | |
| Net derivative gains (losses) | (166.3) | (2.3) | (26.6) | 53.3 | 105.6 |
| Reclassification of net (gains) losses into net income | 214.1 | (2.4) | (29.2) | (165.4) | (100.9) |
| Tax benefit (expense) | (18.5) | 1.8 | 21.8 | 43.1 | (1.6) |
| Total other comprehensive income (loss) | (257.6) | 39.0 | (2.0) | (105.3) | (341.7) |
| Total comprehensive income | $298.5 | $73.7 | $49.9 | $78.5 | $19.6 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 433.5 | $ 193.4 |
| Accounts receivable, net | 864.0 | 810.9 |
| Inventories | 2,206.8 | 2,274.7 |
| Prepaid expenses and other current assets | 244.3 | 225.1 |
| Total current assets | 3,748.6 | 3,504.1 |
| | | |
| Property, plant and equipment, net | 2,753.4 | 2,745.9 |
| Goodwill | 1,626.2 | 1,622.5 |
| Intangible assets, net | 1,380.9 | 1,405.8 |
| Investments | 498.0 | 496.5 |
| Other assets | 140.5 | 180.0 |
| Total assets | $ 10,147.6 | $ 9,954.8 |
| | | |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt and capital lease obligations | 48.1 | 48.5 |
| Accrued expenses and other current liabilities | 745.0 | 632.7 |
| Accounts payable | 675.1 | 614.4 |
| Total current liabilities | 1,468.2 | 1,295.6 |
| | | |
| Long-term debt and capital lease obligations | 2,694.6 | 2,997.4 |
| Deferred income taxes, net | 697.5 | 745.9 |
| Net long-term pension liability | 574.9 | 504.4 |
| Other liabilities | 122.2 | 131.1 |
| | | |
| Redeemable noncontrolling interests | 49.8 | 48.6 |
| | | |
| Commitments and contingencies | | |
| | | |
| Equity: | | |
| Shareholder's equity: | | |
| Common stock, no par value, 1,000 authorized shares; 1,000 issued and outstanding | — | — |
| Additional paid-in capital | 4,167.3 | 4,157.4 |
| Retained earnings | 590.8 | 34.7 |
| Accumulated other comprehensive income (loss) | (218.6) | 39.0 |
| Total shareholder's equity | 4,539.5 | 4,231.1 |
| Noncontrolling interests | 0.9 | 0.7 |
| Total equity | 4,540.4 | 4,231.8 |
| Total liabilities and shareholder's equity | $ 10,147.6 | $ 9,954.8 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

| | Successor | | Predecessor | | |
|---|---|---|---|---|---|
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| Cash flows from operating activities: | | | | | |
| Net income | $556.1 | $34.7 | $51.9 | $183.8 | $361.3 |
| Adjustments to reconcile net cash flows from operating activities: | | | | | |
| (Income) loss from equity method investments | (58.2) | 2.6 | 0.5 | (15.0) | 9.9 |
| Depreciation and amortization | 230.8 | 55.4 | 106.5 | 239.9 | 242.8 |
| Impact of inventory fair value step-up on cost of sales | — | 45.4 | — | — | — |
| Deferred income taxes | 62.0 | 14.5 | (3.7) | (5.3) | 90.2 |
| Impairment of assets | 6.2 | 0.5 | 2.0 | 4.2 | 2.9 |
| Pension expense | 50.6 | 11.9 | 44.8 | 96.1 | 57.2 |
| Pension contributions | (173.7) | (9.1) | (9.7) | (17.7) | (142.8) |
| Changes in operating assets and liabilities and other, net: | | | | | |
| Accounts receivable | (91.7) | (37.8) | (86.0) | (39.9) | 47.8 |
| Inventories | 17.9 | 199.8 | (108.7) | (273.9) | (89.8) |
| Prepaid expenses and other current assets | (22.5) | (66.7) | 72.8 | 52.0 | (68.1) |
| Accounts payable | 77.4 | 107.0 | 64.2 | 14.7 | 2.5 |
| Accrued expenses and other current liabilities | 92.8 | 151.7 | (150.3) | (15.9) | 12.6 |
| Other | 65.4 | (50.6) | (10.1) | (50.3) | 43.6 |
| Net cash flows from operating activities | 813.1 | 459.3 | (25.8) | 172.7 | 570.1 |
| | | | | | |
| Cash flows from investing activities: | | | | | |
| Acquisition of Smithfield Foods, Inc. | — | (4,896.6) | — | — | — |
| Capital expenditures | (301.4) | (69.9) | (139.8) | (278.0) | (290.7) |
| Business acquisition, net of cash acquired | (11.0) | — | (32.8) | (24.0) | — |
| Net (expenditures) proceeds from breeding stock transactions | 13.3 | 5.1 | (5.3) | (18.4) | (2.3) |
| Proceeds from sale of property, plant and equipment | 3.8 | 2.3 | 1.7 | 16.9 | 6.4 |
| Advance note and other | 3.6 | — | (10.0) | (0.2) | — |
| Net cash flows from investing activities | (291.7) | (4,959.1) | (186.2) | (303.7) | (286.6) |
| | | | | | |
| Cash flows from financing activities: | | | | | |
| Net proceeds from equity contributions | — | 4,162.1 | — | — | — |
| Proceeds from the issuance of long-term debt | 13.0 | 900.3 | — | 1,219.2 | — |
| Principal payments on long-term debt and capital lease obligations | (34.5) | (218.7) | (458.7) | (716.5) | (152.7) |
| Proceeds from Securitization Facility | 255.0 | 240.0 | 170.0 | — | — |
| Payments on Securitization Facility | (360.0) | (255.0) | (50.0) | — | — |

| | | | | | |
|---|---|---|---|---|---|
| Net borrowings (repayments) on revolving credit facilities and notes payables | (159.6) | (367.9) | 490.3 | 13.9 | (0.3) |
| Repurchase of common stock | — | — | — | (386.4) | (189.5) |
| Change in cash collateral | — | — | — | — | 23.9 |
| Debt issuance costs and other | (0.2) | (20.4) | 0.1 | (14.5) | (9.8) |
| Net cash flows from financing activities | (286.3) | 4,440.4 | 151.7 | 115.7 | (328.4) |
| | | | | | |
| Effect of foreign exchange rate changes on cash | 5.0 | 2.3 | 0.2 | 1.6 | (5.5) |
| Net change in cash and cash equivalents | 240.1 | (57.1) | (60.1) | (13.7) | (50.4) |
| Cash and cash equivalents at beginning of period | 193.4 | 250.5 | 310.6 | 324.3 | 374.7 |
| Cash and cash equivalents at end of period | $433.5 | $193.4 | $250.5 | $310.6 | $324.3 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
(in millions)

| | Common Stock (Shares) | Common Stock (Amount) | Additional Paid-in Capital | Stock Held in Trust | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholder's Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| Predecessor | | | | | | | | | |
| Balance, May 1, 2011 | 166.1 | $ 83.0 | $ 1,638.7 | $ (66.7) | $ 2,059.7 | $ (169.2) | $ 3,545.5 | $ 1.1 | $ 3,546.6 |
| Common stock repurchased | (9.2) | (4.6) | (90.3) | | (94.6) | | (189.5) | | (189.5) |
| Issuance of common stock | 0.5 | 0.3 | (5.0) | — | — | — | (4.7) | — | (4.7) |
| Stock compensation expense | — | — | 14.4 | — | — | — | 14.4 | — | 14.4 |
| Purchase of stock for trust | — | — | — | (1.6) | — | — | (1.6) | — | (1.6) |
| Other | — | — | 3.2 | 0.4 | — | — | 3.6 | 0.4 | 4.0 |
| Comprehensive income: | | | | | | | | | |
| Net income (loss) | — | — | — | — | 361.3 | — | 361.3 | (0.8) | 360.5 |
| Other comprehensive income, net of tax | — | — | — | — | — | (341.7) | (341.7) | — | (341.7) |
| Balance, April 29, 2012 | 157.4 | 78.7 | 1,561.0 | (67.9) | 2,326.4 | (510.9) | 3,387.3 | 0.7 | 3,388.0 |
| Common stock repurchased | (19.1) | (9.5) | (189.3) | — | (187.6) | — | (386.4) | — | (386.4) |
| Issuance of common stock | 0.6 | 0.3 | (1.1) | — | — | — | (0.8) | — | (0.8) |
| Stock compensation expense | — | — | 19.1 | — | — | — | 19.1 | — | 19.1 |
| Purchase of stock for trust | — | — | — | (1.8) | — | — | (1.8) | — | (1.8) |
| Other | — | — | 0.2 | 0.9 | — | — | 1.1 | (0.4) | 0.7 |
| Comprehensive income: | | | | | | | | | |
| Net income (loss) | — | — | — | — | 183.8 | — | 183.8 | 0.4 | 184.2 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (105.3) | (105.3) | — | (105.3) |
| Balance, April 28, 2013 | 138.9 | 69.5 | 1,389.9 | (68.8) | 2,322.6 | (616.2) | 3,097.0 | 0.7 | 3,097.7 |
| Issuance of common stock | 0.4 | 0.1 | (2.4) | — | — | — | (2.3) | — | (2.3) |
| Stock compensation expense | — | — | 26.4 | — | — | — | 26.4 | — | 26.4 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Purchase of stock for trust | — | — | — | (0.7) | — | — | (0.7) | — | (0.7) |
| Other | — | — | — | — | — | — | — | (0.3) | (0.3) |
| Comprehensive income: | | | | | | | | | |
| Net income | — | — | — | — | 51.9 | — | 51.9 | 0.2 | 52.1 |
| Other comprehensive loss, net of tax | — | — | — | — | — | (2.0) | (2.0) | — | (2.0) |
| Balance, September 26, 2013 | 139.3 | $ 69.6 | $ 1,413.9 | $ (69.5) | $ 2,374.5 | $ (618.2) | $ 3,170.3 | $ 0.6 | $ 3,170.9 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY - (Continued)
(in millions)
Successor

| | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholder's Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|---|---|---|
| Balance, September 27, 2013 | 4,162.1 | — | — | 4,162.1 | 0.6 | 4,162.7 |
| Adjustment to redeemable noncontrolling interests | (2.2) | — | — | (2.2) | — | (2.2) |
| Other | (2.5) | — | — | (2.5) | — | (2.5) |
| Comprehensive income: | | | | | | |
| Net income | — | 34.7 | — | 34.7 | 0.1 | 34.8 |
| Other comprehensive income, net of tax | — | — | 39.0 | 39.0 | — | 39.0 |
| Balance, December 29, 2013 | $4,157.4 | $34.7 | $39.0 | $4,231.1 | $0.7 | $4,231.8 |
| Stock compensation expense | 9.2 | — | — | 9.2 | — | 9.2 |
| Adjustment to redeemable noncontrolling interests | 0.3 | — | — | 0.3 | — | 0.3 |
| Other | 0.4 | — | — | 0.4 | — | 0.4 |
| Comprehensive income: | | | | | | |
| Net income | — | 556.1 | — | 556.1 | 0.2 | 556.3 |
| Other comprehensive loss, net of tax | — | — | (257.6) | (257.6) | — | (257.6) |
| Balance, December 28, 2014 | $4,167.3 | $590.8 | $(218.6) | $4,539.5 | $0.9 | $4,540.4 |

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Smithfield Foods, Inc., together with its subsidiaries ("Smithfield," "the Company," "we," "us" or "our"), is the largest hog producer and pork processor in the world. We produce and market a wide variety of fresh meat and packaged meats products both domestically and internationally. We conduct our operations through five reportable segments: Fresh Pork, Packaged Meats, Hog Production, International and Corporate. See Note 15—Reportable Segments for additional information about changes to our reportable segments during the current year.

On September 26, 2013 (the Merger Date), pursuant to the Agreement and Plan of Merger dated May 28, 2013 (the Merger Agreement) with WH Group Limited, formerly Shuanghui International Holdings Limited, a corporation formed under the laws of the Cayman Islands hereinafter referred to as WH Group, the Company merged with Sun Merger Sub, Inc., a Virginia corporation and wholly owned subsidiary of WH Group (Merger Sub), in a transaction hereinafter referred to as the Merger. As a result of the Merger, the Company survived as a wholly owned subsidiary of WH Group. See Note 2—Merger and Acquisitions for further information on the Merger.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-K and Regulation S-X. The information reflects all normal recurring adjustments which we believe are necessary to present fairly the financial position and results of operations for all periods included.

The Merger was accounted for as a business combination using the acquisition method of accounting. WH Groups's cost of acquiring the Company has been pushed-down to establish a new accounting basis for the Company. Accordingly, the consolidated financial statements are presented for two periods, Predecessor and Successor, which represent the accounting periods preceding and succeeding the completion of the Merger. The Predecessor and Successor periods have been separated by a vertical line on the face of the consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under two different historical-cost bases of accounting.

Certain prior year amounts have been reclassified to conform to current year presentation.

Change in Fiscal Year End

On January 16, 2014, the Company elected to change its fiscal year end from the 52 or 53 week period which previously ended on the Sunday nearest to April 30 to the 52 or 53 week period which ends on the Sunday nearest to December 31. The change became effective at the end of the period ended December 29, 2013. Unless otherwise noted, all references to 2014 in this report are to the twelve months ended December 28, 2014.

For comparative purposes, the Consolidated Statements of Income for the eight months ended December 29, 2013 and December 30, 2012 are presented as follows:

| | Successor | Predecessor | (unaudited) Eight Months Ended |
|---|---|---|---|
| | September 27 - December 29, 2013 | April 29 - September 26, 2013 | December 30, 2012 |
| | (in millions) | | |
| Sales | $3,894.2 | $5,679.5 | $8,898.7 |
| Cost of sales | 3,543.1 | 5,190.1 | 7,943.5 |
| Gross profit | 351.1 | 489.4 | 955.2 |
| Selling, general and administrative expenses | 213.4 | 341.7 | 540.5 |
| Merger related costs | 23.9 | 18.0 | — |
| Loss (income) from equity method investments | 2.6 | 0.5 | (6.5) |
| Operating profit | 111.2 | 129.2 | 421.2 |
| Interest expense | 59.0 | 64.6 | 111.8 |
| Loss on debt extinguishment | 1.7 | — | 120.7 |
| Income before income taxes | 50.5 | 64.6 | 188.7 |
| Income tax expense | 15.8 | 12.7 | 58.7 |
| Net income | $34.7 | $51.9 | $130.0 |

Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries, as well as all majority owned subsidiaries and other entities for which we have a controlling interest. Entities that are 50% owned or less are accounted for under the equity method when we have the ability to exercise significant influence. We use the cost method of accounting for investments in which our ability to exercise significant influence is limited. All intercompany transactions and accounts have been eliminated. Consolidating the results of operations and financial position of variable interest entities for which we are the primary beneficiary does not have a material effect on sales, net income, or on our financial position for the fiscal periods presented.

Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations and cash flows in foreign currencies are translated into U.S. dollars using the average exchange rate over the course of the year. The effect of exchange rate fluctuations on the translation of assets and liabilities is included as a component of shareholder's equity in accumulated other comprehensive income (loss) and included in other comprehensive income (loss) for each period. Gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in selling, general and administrative expenses as incurred. We recorded net losses on foreign currency transactions of $4.0 million in 2014, net gains of $0.2 million, $0.3 million and $1.1 million in the three months ended December 29, 2013, the five months ended September 26, 2013 and the twelve months ended April 28, 2013, respectively, and net losses of $7.4 million in the twelve months ended April 29, 2012.

Our Polish operations have different fiscal period end dates. As such, we have elected to consolidate the results of these operations on a one-month lag. We do not believe the impact of reporting the results of these entities on a one-month lag is material to the consolidated financial statements.

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the U.S., which require us to make estimates and use assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The majority of our cash is concentrated in demand deposit accounts or money market funds. The carrying value of cash equivalents approximates market value.

Accounts Receivable

Accounts receivable are recorded net of the allowance for doubtful accounts. We regularly evaluate the collectibility of our accounts receivable based on a variety of factors, including the length of time the receivables are past due, the financial health of the customer and historical experience. Based on our evaluation, we record reserves to reduce the related receivables to amounts we reasonably believe are collectible. Our reserve for uncollectible accounts receivable was $7.5 million and $3.2 million as of December 28, 2014 and December 29, 2013, respectively.

Inventories

Inventories consist of the following:

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| | (in millions) | |
| Livestock | $928.1 | $ 1,054.8 |
| Fresh and packaged meats | 961.9 | 956.7 |
| Grains | 191.6 | 134.5 |
| Manufacturing supplies | 79.8 | 69.3 |
| Other | 45.4 | 59.4 |
| Total inventories | $2,206.8 | $ 2,274.7 |

Livestock are valued at the lower of the average cost of production or market and further adjusted for changes in the fair value of livestock that are hedged. Costs include feed, medications, contract grower fees and other production expenses. Fresh and packaged meats are valued based on USDA and other market prices and adjusted for the cost of further processing. Costs for fresh and packaged meats include meat, labor, supplies and overhead. Average costing is primarily utilized to account for fresh and packaged meats and grains. Manufacturing supplies principally consist of ingredients and packaging materials.

Derivative Financial Instruments and Hedging Activities

See Note 4—Derivative Financial Instruments for our policy.

Property, Plant and Equipment, Net

Property, plant and equipment is generally stated at historical cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Assets held under capital leases are classified in property, plant and equipment, net and depreciated over the lease term. The depreciation of assets held under capital leases is included in depreciation expense. The cost of assets held under capital leases was $28.5 million and $28.6 million at December 28, 2014 and December 29, 2013, respectively. The assets held under capital leases had accumulated depreciation of $1.2 million and $0.6 million at December 28, 2014 and December 29, 2013, respectively. Depreciation expense is included in either cost of sales or selling, general and administrative (SG&A) expenses, as appropriate. Depreciation expense totaled $223.7 million, $53.7 million, $104.8 million, $235.3 million and $238.6 million in 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively.

Interest is capitalized on property, plant and equipment over the construction period. Total interest capitalized was $1.1 million, $0.4 million, $0.7 million, $4.8 million and $2.8 million in 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively.

Property, plant and equipment, net, consists of the following:

| | Useful Life (in Years) | December 28, 2014 | December 29, 2013 |
|---|---|---|---|
| | | (in millions) | |
| Land and improvements | 0-20 | $546.4 | $ 551.9 |
| Buildings and improvements | 20-40 | 866.1 | 846.3 |
| Machinery and equipment | 5-25 | 1,125.5 | 996.4 |
| Breeding stock | 2 | 193.0 | 193.2 |
| Computer hardware and software | 3-5 | 34.3 | 35.3 |
| Other | 3-10 | 67.2 | 66.4 |
| Construction in progress | | 191.2 | 106.4 |
| | | 3,023.7 | 2,795.9 |
| Accumulated depreciation | | (270.3 ) | (50.0 ) |
| Property, plant and equipment, net | | $2,753.4 | $ 2,745.9 |

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Intangible assets with finite lives are amortized over their estimated useful lives. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to future cash flows. Goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter, or sooner if impairment indicators arise. In the evaluation of goodwill for impairment, we may perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is not, no further analysis is required. If it is, a prescribed two-step goodwill impairment test is performed to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit, if any.

The first step in the two-step impairment test is to identify if a potential impairment exists by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The fair value of a reporting unit is estimated by applying valuation multiples and/or estimating future discounted cash flows. The selection of multiples is dependent upon assumptions regarding future levels of operating performance as well as business trends and prospects, and industry, market and economic conditions. When estimating future discounted cash flows, we consider the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on an industry-wide average cost of capital or location-specific economic factors. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to have a potential impairment and the second step of the impairment test is not necessary. However, if the carrying amount of a reporting unit exceeds its fair value, the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss to recognize, if any.

The second step compares the implied fair value of goodwill with the carrying amount of goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination (i.e., the fair value of the reporting unit is allocated to all the assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit). If the implied fair value of goodwill exceeds the carrying amount, goodwill is not considered impaired. However, if the carrying amount of goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

Based on the results of our annual goodwill impairment tests, as of our testing date, no impairment indicators were noted for all the periods presented.

Intangible assets consist of the following:

| | Useful Life (in Years) | December 28, 2014 (in millions) | December 29, 2013 |
|---|---|---|---|
| Amortized intangible assets: | | | |
| Customer relations assets | 14-16 | $54.4 | $55.2 |
| Patents, rights and leasehold interests | 5-25 | 3.0 | 3.0 |
| Contractual relationships | 17-22 | 40.0 | 40.0 |
| Accumulated amortization | | (8.2) | (1.6) |
| Amortized intangible assets, net | | 89.2 | 96.6 |
| Non-amortized intangible assets: | | | |
| Trademarks | Indefinite | 1,291.7 | 1,309.2 |
| Intangible assets, net | | $1,380.9 | $1,405.8 |

The fair values of trademarks are calculated using a royalty rate method. Assumptions about royalty rates are based on the rates at which similar brands and trademarks are licensed in the marketplace. If the carrying value of our indefinite-lived intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to that excess. Intangible assets with finite lives are reviewed for recoverability when indicators of impairment are present using estimated future undiscounted cash flows related to those assets. We have determined that no impairments of our intangible assets existed for any of the periods presented.

Amortization expense for intangible assets was $6.8 million, $1.7 million, $1.7 million, $3.1 million and $3.0 million in 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively. As of December 28, 2014, the estimated amortization expense associated with our intangible assets for each of the next five years is expected to be $6.8 million.

Debt Issuance Costs, Premiums and Discounts

Debt issuance costs, premiums and discounts are amortized into interest expense over the terms of the related loan agreements using the effective interest method or other methods which approximate the effective interest method.

Investments

See Note 5—Investments for our policy.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in earnings in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to amounts more likely than not to be realized.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items.

We record unrecognized tax benefit liabilities for known or anticipated tax issues based on our analysis of whether, and the extent to which, additional taxes will be due. We accrue interest and penalties related to unrecognized tax benefits in other liabilities and recognize the related expense in income tax expense.

Pension Accounting

We recognize the funded status of our defined benefit pension plans in the consolidated balance sheets. We measure our pension and other postretirement benefit plan obligations and related plan assets as of the last day of our year. The measurement of our pension obligations and related costs is dependent on the use of assumptions and estimates. These assumptions include discount rates, salary growth, mortality rates and expected returns on plan assets. Changes in assumptions and future investment returns could potentially have a material impact on our expenses and related funding requirements.

We also recognize in other comprehensive income (loss), the net of tax results of the gains or losses and prior service costs or credits that arise during the period but are not recognized in net periodic benefit cost. These amounts are adjusted out of accumulated other comprehensive income (loss) as they are subsequently recognized as components of net periodic benefit cost.

Self-Insurance Programs

We are self-insured for certain levels of general and vehicle liability, property, workers' compensation, product recall and health care coverage. The cost of these self-insurance programs is accrued based upon estimated settlements for known and anticipated claims. Any resulting adjustments to previously recorded reserves are reflected in current period earnings.

Contingent Liabilities

We are subject to lawsuits, investigations and other claims related to the operation of our farms, labor, livestock procurement, securities, environmental, product, taxing authorities and other matters, and are required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses and fees.

A determination of the amount of accruals and disclosures required, if any, for these contingencies is made after considerable analysis of each individual issue. We accrue for contingent liabilities when an assessment of the risk of loss is probable and can be reasonably estimated. We disclose contingent liabilities when the risk of material loss is at least reasonably possible or probable.

Our contingent liabilities contain uncertainties because the eventual outcome will result from future events. Our determination of accruals and any reasonably possible losses in excess of those accruals require estimates and judgments related to future changes in facts and circumstances, interpretations of the law, the amount of damages or fees, and the effectiveness of strategies or other factors beyond our control. If actual results are not consistent with our estimates or assumptions, we may be exposed to gains or losses that could be material.

Revenue Recognition

We recognize revenues from product sales upon delivery to customers or when title passes. Revenue is recorded at the invoice price for each product net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and trade allowance programs with our customers, primarily discounts and rebates based on achievement of specified volume or growth in volume levels.

Advertising and Promotional Costs

Advertising and promotional costs are expensed as incurred except for certain production costs, which are expensed upon the first airing of the advertisement. Promotional sponsorship costs are expensed as the promotional events occur. Advertising costs totaled $165.8 million, $48.0 million, $63.5 million, $143.1 million and $122.9 million in 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively, and are included in SG&A.

Shipping and Handling Costs

Shipping and handling costs are reported as a component of cost of sales.

Research and Development Costs
Research and development costs are expensed as incurred. Research and development costs totaled $75.3 million, $23.2 million, $31.9 million, $80.9 million and $75.9 million in 2014, the three months ended December 29, 2013, the five months ended September 26, 2013, the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively.
Recent Accounting Pronouncements
In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2013-11, Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists (ASU 2013-11). This update does not have a significant impact on our consolidated condensed balance sheet.

In May 2014, the FASB and International Accounting Standards Board (IASB) issued Accounting Standards Update 2014-09, Revenues from Contracts with Customers (ASU 2014-09). The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers, except those that are within the scope of other topics in the FASB Accounting Standards Codification. Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition. The new guidance is effective for fiscal year and interim periods within those years beginning after December 15, 2016 and early adoption is not permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The guidance is not currently effective for us and has not been applied to our financial statements. We are currently in the process of evaluating the potential impact of future adoption but at this time do not anticipate it will have a material impact on our consolidated financial statements.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements-Going Concern (ASU 2014-15). The new guidance is effective for annual reporting periods ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The impact of adoption will not effect our consolidated financial statements.
NOTE 2: MERGER AND ACQUISITIONS
WH Group Merger
On May 28, 2013, we entered into the Merger Agreement with WH Group and Merger Sub. The Merger was consummated on the Merger Date, and as a result, Merger Sub merged with and into the Company, with the Company surviving as a wholly owned subsidiary of WH Group. Upon completion of the Merger, all outstanding shares of Smithfield were cancelled and the Company's shareholders received $34.00 in cash (the Merger Consideration) for each share of common stock held prior to the effective time of the Merger. Additionally, all outstanding stock-based compensation awards, both vested and unvested, were converted into the right to receive the Merger Consideration, less the exercise price of such awards, if any. The total consideration paid in connection with the Merger was approximately $4.9 billion.
On July 31, 2013, Merger Sub issued $500.0 million aggregate principal amount of 5.25% senior notes due August 1, 2018 and $400.0 million aggregate principal amount of 5.875% senior notes due August 1, 2021 (together, the Merger Sub Notes). Merger Sub incurred $20.4 million in transaction fees in connection with issuance of the Merger Sub Notes, which are being amortized over the life of the Merger Sub Notes. As a result of the Merger and the transactions entered into in connection therewith, we have assumed the liabilities and obligations of Merger Sub, including Merger Sub's obligations under the Merger Sub Notes. Proceeds from the Merger Sub Notes were held in escrow prior to the Merger Date and used in funding the Merger. The proceeds were used to fund a portion of the total consideration paid, repay certain outstanding debt of the Company and pay certain transaction fees associated with the Merger.

WH Group is the majority shareholder of Henan Shuanghui Investment & Development Co., which is China's largest meat processing enterprise and China's largest publicly traded meat products company as measured by market capitalization. WH Group is a pioneer in the Chinese meat processing industry with over 30 years of history. WH Group's businesses include hog production, meat processing, fresh meat and packaged meats production and distribution. The merging of WH Group's distribution network with our strong management team, leading brands and vertically integrated model will allow us to provide high-quality, competitively priced and safe U.S. meat products to consumers in markets around the world.

WH Group's cost of acquiring the Company has been pushed-down to establish a new accounting basis for the Company. The consolidated balance sheets, as of December 28, 2014 and December 29, 2013, reflect various fair value estimates and analyses, including work performed by third-party valuation specialists. This work was finalized during the third quarter of 2014 with no material adjustments.

The following is a summary of the allocation of the total purchase consideration to the estimated fair values of our assets acquired, liabilities assumed and noncontrolling interests by WH Group in the transaction:

| | (in millions) |
|---|---|
| Cash and cash equivalents | $250.5 |
| Accounts receivable | 764.6 |
| Inventories | 2,504.7 |
| Prepaid expenses and other current assets | 214.2 |
| Property, plant and equipment | 2,719.2 |
| Goodwill | 1,631.5 |
| Investments | 479.1 |
| Intangible assets | 1,403.0 |
| Other assets | 171.7 |
| Assets acquired by WH Group | 10,138.5 |
| | |
| Current portion of long-term debt and capital lease obligations | 239.1 |
| Accounts payable | 535.3 |
| Accrued expenses and other current liabilities | 590.8 |
| Long-term debt and capital lease obligations | 2,509.1 |
| Net long-term pension liability | 522.8 |
| Deferred income taxes, net | 664.4 |
| Other liabilities | 125.8 |
| Liabilities assumed by WH Group | 5,187.3 |
| | |
| Redeemable noncontrolling interests and noncontrolling interests | 48.2 |
| Total purchase consideration | $4,903.0 |

Accounts receivable and accounts payable, as well as certain other current and non-current assets and liabilities, were valued at their existing carrying values as they approximated fair value of those items at the time of the Merger, based on management's judgments and estimates.

Inventories were valued using a net realizable value approach with the exception of manufacturing supplies and other inventories, which were valued using the replacement cost approach.

Property, plant and equipment have been valued using a combination of the market approach and the indirect cost approach which is based on current replacement and/or reproduction cost of the asset as new, less depreciation attributable to physical, functional and economic factors.

Intangible assets acquired include trademarks, customer relations assets, contractual relationships and rights with fair values of $1.3 billion, $55.0 million, $40.0 million and $3.0 million, respectively. The customer relations assets, contractual relationships and rights will be amortized over useful lives of 14 years, 17 years and 12 years, respectively. The trademarks are not subject to amortization.

Trademarks, including trade names, have been valued using the relief from royalty method. We utilized a bottoms-up approach to assess the appropriate royalty rates for trade names focused on consideration of the profitability of each trade name, the implied premium margin earned on branded versus private label sales of similar products for each trade name, market studies and third-party comparable licensing agreements.

Customer relations assets were determined using the multi-period excess earnings methodology utilizing our forecasted metrics and/or a market participant distributor model. Contractual relationships were valued based on the time and associated costs that would be required to recreate the existing relationships in addition to the lost profits over this time period using the avoided costs or lost profits method. Rights were also valued using an avoided costs or lost profits method.
The benefit obligation for both our qualified and non-qualified defined benefit pension plans was remeasured as of the Merger Date with the assistance of an independent third-party actuary.
Existing long-term debt assumed in the Merger was fair valued based on quoted market prices. Long-term debt assumed included our outstanding 6.625% senior unsecured notes due August 2022 (the 2022 Notes) and our outstanding 7.75% senior unsecured notes due July 2017 (the 2017 Notes).
Deferred income tax assets and liabilities as of the Merger Date represent the expected future tax consequences of temporary differences between the fair values of the assets acquired and the liabilities assumed as a result of the Merger and their tax basis.
Goodwill reflects the amount of the total consideration paid that exceeded the fair value of the identifiable assets acquired, liabilities assumed and noncontrolling interests. Goodwill recognized as a result of the Merger and is not deductible for tax purposes. See Note 15—Reportable Segments for the allocation of goodwill to our reportable segments.
In connection with the Merger, we incurred $23.9 million and $18.0 million of professional fees during the three months ended December 29, 2013 and the five months ended September 26, 2013, respectively. These fees are recognized in merger related costs on the consolidated statements of income. In addition, Merger Sub deferred $17.3 million of debt issuance costs for a financing arrangement. We recognized these deferred costs in interest expense during the three months ended December 29, 2013 upon termination of the financing arrangement following the Merger. All of these charges are reflected in the results of our Corporate segment.
The following unaudited pro forma financial data summarizes the Company's results of operations as if the Merger had occurred as of April 30, 2012. The pro forma data is for informational purposes only and may not necessarily reflect the actual results of operations had the Merger been consummated on April 30, 2012.

| | Eight Months Ended December 29, 2013 | Twelve Months Ended April 28, 2013 |
|---|---|---|
| | (in millions and unaudited) | |
| Sales | $9,573.7 | $13,221.1 |
| Net income | 192.9 | 219.6 |

The most significant pro forma adjustments were to reflect the impact of fair value step-ups of both assets and liabilities (e.g., inventory, property, plant and equipment, long-term debt) and fees and expenses related to the Merger noted above.
Kansas City Sausage, LLC
In May 2013, we acquired a 50% interest in Kansas City Sausage Company, LLC (KCS), for $36.0 million in cash. Upon closing, in addition to the cash purchase price, we advanced $10.0 million to the seller in exchange for a promissory note, which is secured by the remaining membership interests in KCS held by the seller (the Advance Note). The Advance Note was recorded in other assets in the consolidated balance. Additionally, we entered into a revolving loan agreement with KCS, under which we agreed to make loans from time to time up to an aggregate principal amount of $20.0 million. The aggregate amount of any obligations incurred under the revolving loan agreement is secured by a first priority security interest in all of the assets of KCS.
KCS is a leading U.S. sausage producer and sow processor with annual revenues exceeding $300.0 million in 2014. The merging of KCS's low-cost, efficient operations and high-quality products with our strong brands and sales and marketing team should contribute growth to our packaged meats business. KCS operates in Des Moines, Iowa and Kansas City, Missouri. In Des Moines, KCS produces premium raw materials for sausage, as well as value-added

products, including boneless hams and hides.

KCS is managed by its Board of Directors, which makes decisions that most significantly impact the economic performance of KCS. We have the right to nominate and elect the majority of the members of the Board of Directors of KCS, and based on the associated voting rights, we have determined that we have a controlling financial interest in KCS. As a result, the acquisition of our interest in KCS was accounted for in the Fresh Pork and Packaged Meats segments using the acquisition method of accounting, which requires, among other things, that assets acquired, liabilities assumed and noncontrolling interests in the acquiree be recognized at their fair values as of the acquisition date. The purchase price allocation includes assets acquired, excluding goodwill, of $39.2 million, liabilities assumed of $10.7 million, goodwill of $43.5 million and redeemable noncontrolling interests of $36.0 million.

Our initial estimate of the fair value of the noncontrolling interests was measured based on market multiples for similar companies in our industry and consideration of the terms of the acquisition, which provide the noncontrolling interest holder the right to exercise a put option at any time after the fifth anniversary of the acquisition, which would obligate us to redeem their interest. The noncontrolling interests is classified outside of equity as redeemable noncontrolling interests in the consolidated condensed balance sheet. The redemption amount is the greater of $45.0 million or the result of a computed amount based on a fixed multiple of earnings. We have elected to accrete changes in the redemption amount of the noncontrolling interest over the five year period until it becomes redeemable. If the noncontrolling interests had been redeemable as of December 28, 2014, the redemption amount would have been $45.0 million.

American Skin Food Group, LLC

In September 2012, we acquired a 70% controlling interest in American Skin Food Group, LLC (American Skin) for $24.2 million in cash.

Located in Burgaw, North Carolina, American Skin manufactures and supplies pork rinds to the snack food industry. By leveraging our coordinated sales and marketing team, we believe American Skin can expand into new markets both domestically and internationally, which could substantially increase current sales of approximately $25.0 million and net income of approximately $3.0 million annually over the next five to seven years with minimal additional plant investment.

The acquisition of American Skin was accounted for in the Packaged Meats segment using the acquisition method of accounting. The purchase price allocation includes assets acquired, excluding goodwill, of $18.7 million, liabilities assumed of $0.5 million, goodwill of $16.4 million and noncontrolling interests of $10.4 million.

Goodwill was recognized to reflect the amount of the enterprise fair value that exceeded the fair value of the identifiable assets acquired and liabilities assumed. The amount of goodwill that is expected to be deductible for tax purposes is $10.5 million.

The fair value of the noncontrolling interests was measured based on market multiples for similar public companies and consideration of the terms of the acquisition, which provide the noncontrolling interests holders the right to exercise a put option, which would obligate us to redeem their interests. The redemption amount is based on a fixed multiple of earnings, which is consistent with the formula utilized in determining the purchase price for our 70% interest.

NOTE 3: DISPOSAL OF LONG-LIVED ASSETS

Portsmouth, Virginia Plant

In November 2011, we announced that we would shift the production of hot dogs and lunchmeat from The Smithfield Packing Company, Inc.'s (Smithfield Packing) Portsmouth, Virginia plant to our Kinston, North Carolina plant and permanently close the Portsmouth facility. The Kinston facility was expanded to handle the additional production and incorporates state of the art technology and equipment, which is expected to produce significant production efficiencies and cost reductions. The expansion of the Kinston facility and the closure of the Portsmouth facility were completed in the second half of calendar year 2013.

As a result of this decision, we performed an impairment analysis of the related assets at the Portsmouth facility in the second quarter of the twelve months ended April 29, 2012 and determined that the net cash flows expected to be generated over the anticipated remaining useful life of the plant are sufficient to recover its book value. As such, no impairment existed. However, we revised depreciation estimates to reflect the use of the related assets at the Portsmouth facility over their shortened useful lives. As a result, we recognized accelerated depreciation charges of $4.4 million and $3.3 million in cost of sales during the twelve months ended April 28, 2013 and the twelve months ended April 29, 2012, respectively. Also, in connection with this decision, we wrote-down inventory by $0.8 million in cost of sales and accrued $0.6 million for employee severance in SG&A in the second quarter of the twelve months ended April 29, 2012. All of these charges are reflected in the Packaged Meats segment.

NOTE 4: DERIVATIVE FINANCIAL INSTRUMENTS

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn, soybean meal and wheat, which are actively traded on commodity exchanges. We hedge these commodities when we determine conditions are appropriate to mitigate price risk. While this hedging may limit our ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. We attempt to closely match the commodity contract terms with the hedged item. We also periodically enter into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and foreign exchange forward contracts to hedge certain exposures to fluctuating foreign currency rates.

We record all derivatives in the balance sheet as either assets or liabilities at fair value. Accounting for changes in the fair value of a derivative depends on whether it qualifies and has been designated as part of a hedging relationship. For derivatives that qualify and have been designated as hedges for accounting purposes, changes in fair value have no net impact on earnings, to the extent the derivative is considered perfectly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged, until the hedged item is recognized in earnings (commonly referred to as the “hedge accounting” method). For derivatives that do not qualify or are not designated as hedging instruments for accounting purposes, changes in fair value are recorded in current period earnings (commonly referred to as the “mark-to-market” method). We may elect either method of accounting for our derivative portfolio, assuming all the necessary requirements are met. We have in the past availed ourselves of either acceptable method and expect to do so in the future. We believe all of our derivative instruments represent economic hedges against changes in prices and rates, regardless of their designation for accounting purposes.

Changes in commodity prices could have a significant impact on cash deposit requirements under our broker and counter-party agreements. Additionally, certain of our derivative contracts contain credit risk related contingent features, which would require us to post additional cash collateral to cover net losses on open derivative instruments if our credit rating was downgraded. As of December 28, 2014, the net liability position of our open derivative instruments that are subject to credit risk related contingent features was not material.

We are exposed to losses in the event of nonperformance or nonpayment by counter-parties under financial instruments. Although our counter-parties primarily consist of financial institutions that are investment grade, there is still a possibility that one or more of these companies could default. However, a majority of our financial instruments are exchange traded futures contracts held with brokers and counter-parties with whom we maintain margin accounts that are settled on a daily basis, thereby limiting our credit exposure to non-exchange traded derivatives. Determination of the credit quality of our counter-parties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. As of December 28, 2014, we had no significant credit exposure on non-exchange traded derivative contracts. No significant concentrations of credit risk existed as of December 28, 2014.

The size and mix of our derivative portfolio varies from time to time based upon our analysis of current and future market conditions. All derivative contracts are recorded in prepaid expenses and other current assets or accrued expenses and other current liabilities within the consolidated balance sheets, as appropriate.

The following tables present the fair values of our open derivative financial instruments on a gross basis:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | December 28, 2014 | December 29, 2013 | December 28, 2014 | December 29, 2013 |
| | (in millions) | | (in millions) | |
| Derivatives using the "hedge accounting" method: | | | | |
| Grain contracts | $4.8 | $ 5.5 | $24.8 | $ 16.2 |
| Livestock contracts | 60.7 | 0.7 | — | 1.1 |
| Interest rate contracts | — | — | 0.1 | — |
| Foreign exchange contracts | — | 0.6 | 0.2 | — |
| Total | 65.5 | 6.8 | 25.1 | 17.3 |
| Derivatives using the "mark-to-market" method: | | | | |
| Grain contracts | 1.1 | 0.6 | 8.5 | 1.1 |
| Livestock contracts | 5.9 | 2.8 | 8.6 | 9.5 |
| Energy contracts | — | 2.9 | 10.1 | — |
| Foreign exchange contracts | 0.7 | 0.6 | 0.1 | 0.2 |
| Total | 7.7 | 6.9 | 27.3 | 10.8 |
| Total fair value of derivative instruments | $73.2 | $ 13.7 | $52.4 | $ 28.1 |

The majority of our derivatives are exchange traded futures contracts held with brokers, subject to netting arrangements that are enforceable during the ordinary course of business. Additionally, we have a smaller portfolio of over-the-counter derivatives that are held by counterparties under netting arrangements found in typical master netting agreements. These agreements legally allow for net settlement in the event of bankruptcy. We offset the fair values of derivative assets and liabilities, along with the related cash collateral, that are executed with the same counter-party under these arrangements in the consolidated balance sheet.

The following tables reconcile the gross amounts of derivative assets and liabilities to the net amounts presented in our consolidated balance sheets and the related effects of cash collateral under netting arrangements that provide a legal right of offset of assets and liabilities:

| | December 28, 2014 | | | | |
|---|---|---|---|---|---|
| | Gross Amount of Derivative Assets/ Liabilities | Netting of Derivative Assets/Liabilities | Net Derivative Assets/Liabilities | Cash Collateral | Net Amount Presented in the Consolidated Balance Sheet |
| | (in millions) | | | | |
| Assets: | | | | | |
| Commodities | $72.5 | $ (14.6) | $ 57.9 | $(12.3) | $45.6 |
| Foreign exchange contracts | 0.7 | (0.3) | 0.4 | — | 0.4 |
| Total | $73.2 | $ (14.9) | $ 58.3 | $(12.3) | $46.0 |
| Liabilities: | | | | | |
| Commodities | 52.0 | (14.6) | 37.4 | (32.3) | 5.1 |
| Interest rate contracts | 0.1 | — | 0.1 | — | 0.1 |
| Foreign exchange contracts | 0.3 | (0.3) | — | — | — |
| Total | $52.4 | $ (14.9) | $ 37.5 | $(32.3) | $5.2 |

| | December 29, 2013 | | | | |
|---|---|---|---|---|---|
| | Gross Amount of Derivative Assets/ Liabilities | Netting of Derivative Assets/Liabilities | Net Derivative Assets/Liabilities | Cash Collateral | Net Amount Presented in the Consolidated Balance Sheet |
| | (in millions) | | | | |
| Assets: | | | | | |
| Commodities | $12.5 | $ (7.4) | $ 5.1 | $— | $5.1 |
| Foreign exchange contracts | 1.2 | — | 1.2 | — | 1.2 |
| Total | $13.7 | $ (7.4) | $ 6.3 | $— | $6.3 |
| Liabilities: | | | | | |
| Commodities | 27.9 | (7.4) | 20.5 | (15.6) | 4.9 |
| Foreign exchange contracts | 0.2 | — | 0.2 | — | 0.2 |
| Total | $28.1 | $ (7.4) | $ 20.7 | $(15.6) | $5.1 |

See Note 12—Fair Value Measurements for additional information about the fair value of our derivatives.

Hedge Accounting Method

Cash Flow Hedges

We enter into derivative instruments, such as futures, swaps and options contracts, to manage our exposure to the variability in expected future cash flows attributable to commodity price risk associated with the forecasted sale of live hogs and fresh pork, and the forecasted purchase of corn, wheat and soybean meal. In addition, we enter into interest rate swaps to manage our exposure to changes in interest rates associated with our variable interest rate debt, and we enter into foreign exchange contracts to manage our exposure to the variability in expected future cash flows attributable to changes in foreign exchange rates associated with the forecasted purchase or sale of assets denominated in foreign currencies. As of December 28, 2014, we had no cash flow hedges for forecasted transactions beyond March 2016.

When cash flow hedge accounting is applied, derivative gains or losses are recognized as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The ineffective portion of derivative gains and losses is recognized as part of current period earnings. Derivative gains and losses, when reclassified into earnings, are recorded in cost of sales for grain

contracts, sales for lean hog contracts, interest expense for interest rate contracts and SG&A expenses for foreign exchange contracts. Gains and losses on derivatives designed to hedge price risk associated with fresh pork sales are recorded in the Hog Production segment.

During 2014, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|---|---|---|---|
| Commodities: | | | |
| Corn | 42,575,000 | 99,580,000 | Bushels |
| Soybean meal | 346,500 | 827,300 | Tons |
| Lean hogs | 103,280,000 | 1,847,680,000 | Pounds |
| Interest rate | — | 20,886,129 | U.S. Dollars |
| Foreign currency [1] | 10,966,921 | 34,363,900 | U.S. Dollars |

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[1] Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

The following tables present the effects on our consolidated financial statements of pre-tax gains and losses on derivative instruments designated in cash flow hedging relationships for the periods indicated:

| | Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Earnings (Effective Portion) | | Loss Recognized in Earnings on Derivative (Ineffective Portion) | |
|---|---|---|---|---|---|---|
| | Successor | | Successor | | Successor | |
| | Twelve Months Ended | | Twelve Months Ended | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | December 28, 2014 | September 27 - December 29, 2013 | December 28, 2014 | September 27 - December 29, 2013 |
| | (in millions) | | (in millions) | | (in millions) | |
| Commodity contracts: | | | | | | |
| Grain contracts | $(28.9) | $(8.9) | $1.7 | $(0.9) | $(3.8) | $(3.7) |
| Lean hog contracts | (137.0) | 3.1 | (218.7) | 3.0 | (6.4) | — |
| Interest rate contracts | (0.1) | — | — | — | — | — |
| Foreign exchange contracts | (0.3) | 3.5 | 2.9 | 0.3 | — | — |
| Total | $(166.3) | $(2.3) | $(214.1) | $2.4 | $(10.2) | $(3.7) |

| | Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) | | | Gain (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Earnings (Effective Portion) | | | Gain (Loss) Recognized in Earnings on Derivative (Ineffective Portion) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Predecessor | | | Predecessor | | | Predecessor | | |
| | | Twelve Months Ended | | | Twelve Months Ended | | | Twelve Months Ended | |
| | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | (in millions) | | | (in millions) | | |
| Commodity contracts: | | | | | | | | | |
| Grain contracts | $3.1 | $39.1 | $5.5 | $23.6 | $108.4 | $75.1 | $1.3 | $— | $(0.2) |
| Lean hog contracts | (29.3) | 13.6 | 102.8 | 5.9 | 54.9 | 32.3 | (0.8) | 0.4 | (0.5) |
| Interest rate contracts | — | — | — | — | — | (2.4) | — | — | — |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Foreign exchange contracts | (0.4) | 0.4 | (2.5) | (0.3) | 2.1 | (4.1) | — | — | — |
| Total | $(26.6) | $53.1 | $105.8 | $29.2 | $165.4 | $100.9 | $0.5 | $0.4 | $(0.7) |

For the periods presented, foreign exchange contracts were determined to be highly effective. We have excluded from the assessment of effectiveness differences between spot and forward rates, which we have determined to be immaterial.

During the twelve months ended April 29, 2012, we discontinued cash flow hedge accounting on certain grain contracts as it became probable that the original forecasted transactions would not transpire. As a result of this change, the table above for the twelve months ended April 29, 2012 includes gains of $12.0 million on grain contracts de-designated from hedging relationships that were reclassified from accumulated other comprehensive income (loss) into earnings in the twelve months ended April 29, 2012.

As of December 28, 2014, there were deferred net gains of $26.4 million, net of tax of $17.1 million, in accumulated other comprehensive income (loss). We expect to reclassify $1.9 million ($1.2 million net of tax) of the deferred net gains on closed commodity contracts into earnings in 2015. We are unable to estimate the unrealized gains or losses to be reclassified into earnings in 2015 related to open contracts as their values are subject to change.

Fair Value Hedges

We enter into derivative instruments (primarily futures contracts) that are designed to hedge changes in the fair value of live hog inventories and firm commitments to buy grains. When fair value hedge accounting is applied, derivative gains and losses are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. The gains or losses on the derivative instruments and the offsetting losses or gains on the related hedged items are recorded in cost of sales for commodity contracts.

During 2014, the range of notional volumes associated with open derivative instruments designated in fair value hedging relationships was as follows:

| | Minimum | Maximum | Metric |
|---|---|---|---|
| Commodities: | | | |
| Corn | 450,000 | 9,195,000 | Bushels |

The following tables present the effects on our consolidated statements of income of gains and losses on derivative instruments designated in fair value hedging relationships and the related hedged items for the periods indicated:

| | Gain (Loss) Recognized in Earnings on Derivative | | | | |
|---|---|---|---|---|---|
| | Successor | | Predecessor | | |
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts [1] | $2.4 | $— | $0.5 | $(12.8) | $21.9 |

(1) Includes losses of $7.5 million in the twelve months ended April 28, 2013 and gains of $5.1 million in the twelve months ended April 29, 2012, representing differences between the spot and futures prices for fair value hedges of hog inventory, which are recorded directly into earnings as they occur. There were no fair value hedges of hog inventory during 2014 nor during the three months ended December 29, 2013 nor during the five months ended September 26, 2013 and, therefore, no differences between spot and futures prices were recognized in those periods.

| | Gain (Loss) Recognized in Earnings on Related Hedged Item | | | | |
|---|---|---|---|---|---|
| | Successor | | Predecessor | | |
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts | $(2.0) | $0.1 | $(0.5) | $5.0 | $(16.7) |

We recognized gains of $2.8 million and $4.1 million in 2014 and the five months ended September 26, 2013, losses of $2.5 million in the twelve months ended April 28, 2013 and gains of $6.0 million in twelve months ended April 29, 2012, respectively, on closed commodity derivative contracts as the underlying cash transactions affected earnings.

Mark-to-Market Method

Derivative instruments that are not designated as a hedge, have been de-designated from a hedging relationship, or do not meet the criteria for hedge accounting are marked-to-market with the unrealized gains and losses together with actual realized gains and losses from closed contracts being recognized in current period earnings. Under the mark-to-market method, gains and losses are recorded in cost of sales for commodity contracts and SG&A for foreign exchange contracts.

During 2014, the range of notional volumes associated with open derivative instruments using the "mark-to-market" method was as follows:

| | Minimum | Maximum | Metric |
|---|---|---|---|
| Commodities: | | | |
| Lean hogs | 600,000 | 414,600,000 | Pounds |
| Corn | 490,000 | 24,640,000 | Bushels |
| Soybean meal | — | 18,500 | Tons |
| Soybeans | 75,000 | 3,545,000 | Bushels |
| Wheat | — | 85,000 | Bushels |
| Natural gas | 8,030,000 | 11,040,000 | Million BTU |
| Diesel | — | 6,888,000 | Gallons |
| Live cattle | — | 80,000 | Pounds |
| Propane | — | 966,000 | Gallons |
| Foreign currency [1] | 6,272,810 | 85,251,053 | U.S. Dollars |

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[1] Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

The following table presents the amount of gains (losses) recognized in the consolidated statements of income on derivative instruments using the "mark-to-market" method by type of derivative contract for the periods indicated:

| | Successor | | Predecessor | | |
|---|---|---|---|---|---|
| | Twelve Months Ended | | | Twelve Months Ended | |
| | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | | |
| Commodity contracts | $2.4 | $(5.9) | $8.5 | $42.6 | $6.4 |
| Foreign exchange contracts | 0.5 | 1.2 | (0.2) | 3.7 | 7.7 |
| Total | $2.9 | $(4.7) | $8.3 | $46.3 | $14.1 |

The table above reflects gains and losses from both open and closed contracts including, among other things, gains and losses related to contracts designed to hedge price movements that occur entirely within the period presented. The table includes amounts for both realized and unrealized gains and losses. The table is not, therefore, a simple representation of unrealized gains and losses recognized in the income statement during any period presented.

NOTE 5: INVESTMENTS

Investments consist of the following:

| Equity Investment | Segment | % Owned | December 28, 2014 | December 29, 2013 |
|---|---|---|---|---|
| | | | (in millions) | |
| Campofrío Food Group (CFG) [1] | International | 37% | $330.0 | $351.4 |
| Mexican joint ventures | International | 50% | 142.8 | 118.0 |
| All other equity method investments | Various | Various | 25.2 | 27.1 |
| Total investments | | | $498.0 | $496.5 |

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[1] Beginning in June 2014, our investment in CFG is through our interest in Sigma & WH Europe, as described below.

We record our share of earnings and losses from our equity method investments in (income) loss from equity method investments. Some of these results are reported on a one-month lag which, in our opinion, does not materially impact our consolidated financial statements.

In November 2013, Mexican processed meats producer Sigma Alimentos (Sigma) announced its intention to tender for all of CFG's outstanding shares (CFG Tender Offer). In December 2013, we announced our intention to participate in the CFG Tender Offer by retaining our 37% interest in CFG. In June 2014, we finalized our shareholder agreement with Sigma creating a new entity called Sigma & WH Food Europe, S.L. (Sigma & WH Europe) to hold all shares of CFG owned by Sigma and the Company. At the formation of Sigma & WH Europe, both the Company and Sigma contributed all of our shares of CFG to Sigma & WH Europe in exchange for the same number of shares in Sigma & WH Europe. Effective September 19, 2014, CFG's common stock ceased to trade on the Madrid Exchange. As of December 28, 2014, Sigma & WH Europe owned approximately 98% of the outstanding shares of CFG. The CFG Tender Offer and the shareholder agreement with Sigma had no impact on the book value of our investment in CFG.

(Income) loss from equity method investments consists of the following:

| | | Successor | Predecessor | | | |
|---|---|---|---|---|---|---|
| | | Twelve Months Ended | | | Twelve Months Ended | |
| Equity Investment | Segment | December 28, 2014 | September 27 - December 29, 2013 | April 29 - September 26, 2013 | April 28, 2013 | April 29, 2012 |
| | | (in millions) | | | | |
| CFG | International | $(11.1) | $(0.3) | $(0.4) | $(4.8) | $25.0 |
| Mexican joint ventures | International | (43.7) | 2.4 | 2.1 | (9.3) | (13.4) |
| All other equity method investments | Various | (3.4) | 0.5 | (1.2) | (0.9) | (1.7) |
| (Income) loss from equity method investments | | $(58.2) | $2.6 | $0.5 | $(15.0) | $9.9 |

In December 2011, the board of CFG approved a multi-year plan to consolidate and streamline its manufacturing operations to improve operating efficiencies and increase utilization (the CFG Consolidation Plan). The CFG Consolidation Plan includes the disposal of certain assets, employee redundancy costs and the contribution of CFG's French cooked ham business into a newly formed joint venture. As a result, we recorded our share of CFG's charges totaling $38.7 million in (income) loss from equity method investments within the International segment in the twelve months ended April 29, 2012.

The following summarized financial information for Sigma & WH Europe is based on its financial statements and translated into U.S. Dollars:

| | Twelve Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | December 28, 2014 | April 29 - December 29, 2013 | April 28, 2013 | April 29, 2012 |
| | (in millions) | | | |
| Income statement information: | | | | |
| Sales | $2,564.4 | $1,717.6 | $2,464.6 | $ 2,536.1 |
| Gross profit | 571.9 | 389.9 | 564.4 | 583.0 |
| Net income (loss) | 12.6 | 8.1 | 13.0 | (71.2) |

| | December 28, 2014 | December 29, 2013 |
|---|---|---|
| | (in millions) | |
| Balance sheet information: | | |
| Current assets | $913.3 | $ 821.5 |
| Long-term assets | 2,046.2 | 2,051.2 |
| Current liabilities | 1,021.9 | 999.0 |
| Long-term liabilities | 1,046.8 | 1,077.7 |

NOTE 6