

SMITHFIELD FOODS INC  
Form 10-Q  
October 28, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 2015

COMMISSION FILE NUMBER 1-15321

SMITHFIELD FOODS, INC.

200 Commerce Street  
Smithfield, Virginia 23430  
(757) 365-3000

Virginia  
(State of Incorporation)

52-0845861  
(I.R.S. Employer Identification Number)

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  No

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  No

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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input checked="" type="radio"/>	Smaller reporting company	<input type="radio"/>

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

At October 28, 2015, 1,000 shares of the registrant's Common Stock (no par value per share) were outstanding.



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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## SMITHFIELD FOODS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(in millions and unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Sales	\$3,406.1	\$ 3,702.3	\$10,509.2	\$ 10,938.4
Cost of sales	3,021.1	3,248.3	9,299.6	9,619.2
Gross profit	385.0	454.0	1,209.6	1,319.2
Selling, general and administrative expenses	238.4	218.4	692.9	653.0
Income from equity method investments	(7.1	) (14.5	) (11.3	) (40.5
Operating profit	153.7	250.1	528.0	706.7
Interest expense	32.3	39.3	98.5	120.5
Non-operating (gain) loss	—	—	12.1	(1.1
Income before income taxes	121.4	210.8	417.4	587.3
Income tax expense	38.1	55.5	132.9	183.8
Net income	\$83.3	\$ 155.3	\$284.5	\$ 403.5

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(in millions and unaudited)

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Net income	\$83.3	\$ 155.3	\$284.5	\$ 403.5
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(14.4 )	(78.2 )	(55.2 )	(76.7 )
Pension accounting	—	—	47.7	—
Hedge accounting	(27.5 )	4.5	(36.3 )	(96.3 )
Total other comprehensive loss	(41.9 )	(73.7 )	(43.8 )	(173.0 )
Comprehensive income	\$41.4	\$ 81.6	\$240.7	\$ 230.5

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS  
(in millions, except share data)  
(unaudited)

	September 27, 2015	December 28, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 115.2	\$ 433.5
Accounts receivable, net	826.2	864.0
Inventories	2,251.9	2,206.8
Prepaid expenses and other current assets	225.6	244.3
Total current assets	3,418.9	3,748.6
Property, plant and equipment, net	2,829.8	2,753.4
Goodwill	1,622.5	1,626.2
Intangible assets, net	1,371.4	1,380.9
Investments	139.8	498.0
Other assets	118.2	124.4
Total assets	\$ 9,500.6	\$ 10,131.5
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	21.6	48.1
Accounts payable	495.2	675.1
Accrued expenses and other current liabilities	697.8	745.0
Total current liabilities	1,214.6	1,468.2
Long-term debt and capital lease obligations	2,276.3	2,678.5
Net long-term pension liability	305.6	574.9
Other liabilities	885.6	819.7
Redeemable noncontrolling interests	53.0	49.8
Commitments and contingencies		
Equity:		
Shareholder's equity:		
Common stock, no par value, 1,000 shares authorized; 1,000 issued and outstanding	—	—
Additional paid-in capital	4,182.2	4,167.3
Retained earnings	845.3	590.8
Accumulated other comprehensive loss	(262.4	) (218.6 )
Total shareholder's equity	4,765.1	4,539.5
Noncontrolling interests	0.4	0.9
Total equity	4,765.5	4,540.4
Total liabilities and equity	\$ 9,500.6	\$ 10,131.5

See Notes to Consolidated Condensed Financial Statements





SMITHFIELD FOODS, INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
(in millions and unaudited)

	Nine Months Ended	
	September 27, 2015	September 28, 2014
Cash flows from operating activities:		
Net income	\$284.5	\$ 403.5
Adjustments to reconcile net cash flows from operating activities:		
Depreciation and amortization	174.9	172.1
Stock-based compensation expense	14.7	3.9
Income from equity method investments	(11.3	) (40.5
Changes in operating assets and liabilities and other, net	(375.1	) (534.9
Net cash flows from operating activities	87.7	4.1
Cash flows from investing activities:		
Proceeds from sale of equity interest in CFG	354.0	—
Capital expenditures	(240.3	) (187.8
Business acquisitions	—	(11.0
Net proceeds (expenditures) from breeding stock transactions	(41.6	) 12.4
Proceeds from the sale of property, plant and equipment	5.6	2.6
Other	(37.9	) 4.3
Net cash flows from investing activities	39.8	(179.5
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	—	13.0
Principal payments on long-term debt and capital lease obligations	(409.0	) (28.3
Proceeds from Securitization Facility	290.0	255.0
Payments on Securitization Facility	(290.0	) (190.0
Net payments on revolving credit facilities	(3.7	) (13.1
Payment of dividends	(30.0	) —
Other	—	(0.5
Net cash flows from financing activities	(442.7	) 36.1
Effect of foreign exchange rate changes on cash	(3.1	) 4.7
Net change in cash and cash equivalents	(318.3	) (134.6
Cash and cash equivalents at beginning of period	433.5	193.4
Cash and cash equivalents at end of period	\$115.2	\$ 58.8

See Notes to Consolidated Condensed Financial Statements

SMITHFIELD FOODS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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.

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. You should read these statements and notes in conjunction with the audited consolidated financial statements and the related notes included in our report on Form 10-K for the twelve months ended December 28, 2014. 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. Certain prior year amounts have been reclassified to conform to current year presentation.

The three months ended September 27, 2015 correspond to the third quarter of 2015 and the three months ended September 28, 2014 correspond to the third quarter of 2014.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (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. In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (ASU 2015-14) which defers the effective date by one year to fiscal year and interim periods within those years beginning after December 15, 2017. Early adoption is permitted as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within those annual periods. The guidance is not currently effective for us and has not been applied in this Form 10-Q. 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 April 2015, the FASB issued Accounting Standards Update 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). The standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of that debt liability, consistent with debt discounts. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015 with early adoption permitted. We elected to early adopt this new guidance effective for the first quarter of 2015 and have applied the changes retrospectively to all periods presented. As a result, debt issuance costs of approximately \$12.1 million and \$16.1 million are presented in long-term debt and capital lease obligations in the consolidated condensed balance sheets as of September 27, 2015

and December 28, 2014, respectively.

In May 2015, the FASB issued Accounting Standards Update 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). The standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015 with early adoption permitted. We elected to early adopt this new guidance for 2015.

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In July 2015, the FASB issued Accounting Standards Update 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11). Topic 330 currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. ASU 2015-11 requires an entity to measure inventory at the lower of cost or net realizable value. The new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016 with early adoption permitted. The guidance is not currently effective for us and has not been applied in this Form 10-Q. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

#### NOTE 2: INVENTORIES

Inventories consist of the following:

	September 27, 2015	December 28, 2014
	(in millions)	
Fresh and packaged meats	\$1,019.5	\$961.9
Livestock	914.8	928.1
Grains	170.0	191.6
Manufacturing supplies	79.3	79.8
Other	68.3	45.4
Total inventories	\$2,251.9	\$2,206.8

#### NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS

Our meat processing and hog production operations use various raw materials, primarily live hogs, corn and soybean meal, 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 September 27, 2015, 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.

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As of September 27, 2015, we had no significant credit exposure on non-exchange traded derivative contracts. No significant concentrations of credit risk existed as of September 27, 2015.

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 condensed balance sheets, as appropriate.

The following table presents the fair values of our open derivative financial instruments on a gross basis.

	Assets		Liabilities	
	September 27, 2015	December 28, 2014	September 27, 2015	December 28, 2014
	(in millions)		(in millions)	
Derivatives using the "hedge accounting" method:				
Grain contracts	\$2.9	\$4.8	\$15.6	\$24.8
Livestock contracts	0.4	60.7	0.1	—
Interest rate swaps	0.1	—	—	0.1
Foreign exchange contracts	0.1	—	0.5	0.2
Total	3.5	65.5	16.2	25.1
Derivatives using the "mark-to-market" method:				
Grain contracts	4.8	1.1	1.2	8.5
Livestock contracts	3.1	5.9	4.4	8.6
Energy contracts	0.1	—	14.1	10.1
Foreign exchange contracts	0.3	0.7	0.2	0.1
Total	8.3	7.7	19.9	27.3
Total fair value of derivative instruments	\$11.8	\$73.2	\$36.1	\$52.4

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 counterparty 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 condensed balance sheets and the related effects of cash collateral under netting arrangements that provide a legal right of offset of assets and liabilities.

September 27, 2015

	Gross Amount of Derivative Assets/Liabilities	Netting of Derivative Assets/Liabilities	Net Derivative Assets/Liabilities	Cash Collateral	Net Amount Presented in the Consolidated Condensed Balance Sheet
(in millions)					
Assets:					
Commodities	\$11.3	\$(11.3)	\$ —	\$21.7	\$21.7
Interest rate swaps	0.1	—	0.1	—	0.1
Foreign exchange contracts	0.4	(0.4)	—	—	—
Total	\$11.8	\$(11.7)	\$ 0.1	\$21.7	\$21.8

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Liabilities:

Commodities	35.4	(11.3	) 24.1	(18.6	) 5.5
Foreign exchange contracts	0.7	(0.4	) 0.3	—	0.3
Total	\$36.1	\$(11.7	) \$ 24.4	\$(18.6	) \$5.8

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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 Condensed 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 swaps	0.1	—	) 0.1	—	) 0.1
Foreign exchange contracts	0.3	(0.3)	) —	—	) —
Total	\$52.4	\$(14.9)	) \$ 37.5	\$(32.3)	) \$5.2

See Note 9—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 September 27, 2015, we had no cash flow hedges for forecasted transactions beyond December 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 sales and selling, general and administrative expenses (SG&A) 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 the nine months ended September 27, 2015, the range of notional volumes associated with open derivative instruments designated in cash flow hedging relationships was as follows:

	Minimum	Maximum	Metric
Commodities:			
Corn	56,855,000	79,155,000	Bushels
Soybean meal	439,500	689,000	Tons
Lean hogs	—	1,006,440,000	Pounds
Interest rate	18,555,827	19,493,720	U.S. Dollars



Foreign currency <sup>(1)</sup>	18,589,039	50,251,356	U.S. Dollars
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<sup>(1)</sup> Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

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

	Gains (Losses) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion) Three Months Ended September 27, 2015 (in millions)		Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Earnings (Effective Portion) Three Months Ended September 27, 2015 (in millions)		Gains (Losses) Recognized in Earnings on Derivative (Ineffective Portion) Three Months Ended September 27, 2015 (in millions)	
	September 28, 2014	September 28, 2014	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Commodity contracts:						
Grain contracts	\$(6.4 )	\$(159.5 )	\$(15.7 )	\$ 8.6	\$(0.3 )	\$(4.7 )
Lean hog contracts	0.2	93.0	55.3	(83.5 )	0.1	9.1
Interest rate swaps	(0.2 )	—	—	—	—	—
Foreign exchange contracts	(0.5 )	(0.6 )	(0.8 )	0.1	—	—
Total	\$(6.9 )	\$(67.1 )	\$38.8	\$(74.8 )	\$(0.2 )	\$ 4.4
	Nine Months Ended September 27, 2015 (in millions)		Nine Months Ended September 27, 2015 (in millions)		Nine Months Ended September 27, 2015 (in millions)	
	September 28, 2014	September 28, 2014	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Commodity contracts:						
Grain contracts	\$(40.2 )	\$(122.0 )	\$(60.3 )	\$ 14.9	\$(4.1 )	\$(5.0 )
Lean hog contracts	145.8	(217.1 )	225.3	(200.1 )	2.1	(8.7 )
Interest rate swaps	0.1	—	—	—	—	—
Foreign exchange contracts	(2.8 )	(0.1 )	(2.4 )	3.3	—	—
Total	\$102.9	\$(339.2 )	\$162.6	\$(181.9 )	\$(2.0 )	\$(13.7 )

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.

As of September 27, 2015, there were deferred net losses of \$10.0 million, net of tax of \$6.5 million, in accumulated other comprehensive income (loss). We expect to reclassify \$4.4 million (\$2.7 million net of tax) of deferred net losses on closed commodity contracts into earnings within the next twelve months. We are unable to estimate the amount of unrealized gains or losses to be reclassified into earnings within the next twelve months 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 the nine months ended September 27, 2015, the range of notional volumes associated with open derivative instruments designated in fair value hedging relationships was as follows:

	Minimum	Maximum	Metric
Commodities:			
Corn	3,605,000	11,285,000	Bushels
Soybean meal	—	22,600	Tons



The following table presents the effects on our consolidated condensed 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:

	Gains (Losses) Recognized in Earnings on Derivative		Gains (Losses) Recognized in Earnings on Related Hedged Item	
	Three Months Ended		Three Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)		(in millions)	
Commodity contracts	\$2.8	\$ 5.9	\$(2.7 )	\$(5.6 )
	Nine Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)		(in millions)	
Commodity contracts	\$5.0	\$ 7.9	\$(4.8 )	\$(7.3 )

We recognized gains of \$0.5 million and \$0.7 million for the three months ended September 27, 2015 and September 28, 2014, respectively, and gains of \$1.4 million and \$0.7 million for the nine months ended September 27, 2015 and September 28, 2014, 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 the nine months ended September 27, 2015, 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	7,080,000	266,440,000	Pounds
Corn	3,960,000	16,995,000	Bushels
Soybean meal	2,800	19,700	Tons
Soybeans	640,000	3,125,000	Bushels
Wheat	60,000	3,420,000	Bushels
Natural gas	7,460,000	11,000,000	Million BTU
Heating oil	2,016,000	3,276,000	Gallons
Live cattle	—	11,760,000	Pounds
Diesel	5,264,000	7,112,000	Gallons
Crude oil	48,000	72,000	Barrels
Foreign currency <sup>(1)</sup>	6,375,669	47,482,823	U.S. Dollars

<sup>(1)</sup> Amounts represent the U.S. dollar equivalent of various foreign currency contracts.

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

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)		(in millions)	
Commodity contracts	10.4	25.2	\$(0.7)	\$ 39.8
Foreign exchange contracts	—	—	(0.6)	(0.1)
Total	\$ 10.4	\$ 25.2	\$(1.3)	\$ 39.7

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 a quarter. 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 4: INVESTMENTS

Investments consist of the following:

Equity Investment	% Owned	September 27, 2015	December 28, 2014
		(in millions)	
CFG	37%	\$—	\$ 330.0
Mexican joint ventures	50%	113.4	142.8
Other	Various	26.4	25.2
Total investments		\$ 139.8	\$ 498.0

In June 2015, we sold our entire equity interest in Campofrío Food Group (CFG) to Alfa S.A.B. de C.V. (Alfa) for \$354.0 million in cash. As of the date of the sale, the book value of our investment in CFG was \$298.7 million. Additionally, we had \$54.6 million of unrealized currency translation losses on our balance sheet related to our investment in CFG.

We record our share of earnings and losses from our equity method investments in income 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 condensed financial statements.

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

Equity Investment	Segment	Three Months Ended		Nine Months Ended	
		September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
		(in millions)		(in millions)	
CFG	International	\$—	\$ 0.4	\$ 4.9	\$ (2.8)
Mexican joint ventures	International	(6.2)	(13.9)	(14.0)	(34.4)
All other equity method investments	Various	(0.9)	(1.0)	(2.2)	(3.3)
Income from equity method investments		\$(7.1)	\$(14.5)	\$(11.3)	\$(40.5)

NOTE 5: DEBT

Working Capital Facilities

As of September 27, 2015, we had aggregate credit facilities totaling \$1.5 billion, including an asset-based revolving credit facility totaling \$1.025 billion (the Inventory Revolver), an accounts receivable securitization facility totaling

\$325.0 million (the Securitization Facility) and international credit facilities totaling \$175.2 million. As of September 27, 2015, our unused capacity under these credit facilities was \$1.4 billion.

As part of the Securitization Facility agreement, all accounts receivable of our major Fresh Pork and Packaged Meats subsidiaries are sold to a wholly owned "bankruptcy remote" special purpose vehicle (SPV). The SPV pledges the receivables as security for loans and letters of credit. The SPV is included in our consolidated financial statements and therefore, the accounts receivable owned by it are included in our consolidated balance sheet. However, the accounts receivable owned by the SPV are separate and distinct from our other assets and are not available to our other creditors should we become insolvent. As of September 27, 2015, the SPV held \$503.2 million of accounts receivable. In April 2015, we entered into a new \$1.025 billion asset-based revolving credit facility agreement (the Inventory Revolver Credit Agreement) which replaced our previous \$1.025 billion senior secured revolving credit facility which would have matured in June 2016. The Inventory Revolver Credit Agreement provides for an option, subject to obtaining additional loan commitments and certain other conditions, to increase the available commitments by up to \$375 million in the future. It also includes a multicurrency subfacility for Canadian Dollars, Japanese Yen, Euros, British Pounds Sterling and U.S. Dollars of up to the foreign currency equivalent of \$100 million, a subfacility of up to \$50 million for swingline borrowings and a subfacility of up to \$150 million for issuances of letters of credit. Availability under the Inventory Revolver Credit Agreement is based upon borrowing base valuations of our U.S. inventory, live sows and certain accounts receivable. The Inventory Revolver Credit Agreement is scheduled to mature on May 1, 2020.

Loans under the Inventory Revolver Credit Agreement bear interest at LIBOR plus a margin ranging from 1.75% to 2.75% per annum, or, at our election, at a base rate plus a margin ranging from 0.75% to 1.75% per annum, with either such margin varying according to the ratio of our consolidated funded debt to consolidated EBITDA. Letters of credit issued under the Inventory Revolver Credit Agreement accrue fees at a rate equal to the applicable margin for LIBOR loans. In addition, we are required to pay a commitment fee for the average daily unused commitments under the Inventory Revolver Credit Agreement, at rates ranging from 0.30% to 0.50% per annum depending on the ratio of our consolidated funded debt to consolidated EBITDA.

The obligations under the Inventory Revolver Credit Agreement are guaranteed by substantially all of our U.S. subsidiaries and are secured by a first-priority lien, subject to permitted liens and exceptions for excluded assets, on substantially all of our and our subsidiary guarantors' personal property, including accounts receivable (other than those sold and financed pursuant to the Securitization Facility), inventory, cash and cash equivalents, deposit accounts, intercompany notes, intellectual property and certain capital stock and interests pledged by us and our subsidiary guarantors, and all proceeds thereof.

The Inventory Revolver Credit Agreement contains affirmative and negative covenants that, among other things, limit or restrict our ability and the ability of our subsidiaries to create liens and encumbrances; incur debt; make capital expenditures; make acquisitions and investments; dispose of or transfer assets; and pay dividends or make other payments in respect of our capital stock; in each case, subject to certain qualifications and exceptions.

In addition, the Inventory Revolver Credit Agreement contains financial covenants requiring us to maintain a total consolidated leverage ratio (ratio of consolidated funded debt to consolidated capitalization) of, subject to certain exceptions, not more than 0.50 to 1.0, a minimum interest coverage ratio (ratio of consolidated EBITDA to consolidated interest expense) of not less than 2.50 to 1.0 and limitations on capital expenditures.

The Inventory Revolver Credit Agreement also includes usual and customary events of default for facilities of this nature, and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the facility may be accelerated, the lenders' commitments may be terminated and the lenders may foreclose upon the collateral. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the facility will automatically become due and payable and the lenders' commitments will automatically terminate.

Rabobank Term Loan

In May 2015, we refinanced the Rabobank Term Loan and extended its maturity date from May 1, 2018 to May 1, 2020. After the refinancing, the total capacity of the Rabobank term loan was \$150 million, with \$50 million outstanding. We may draw the additional \$100 million until April 15, 2016. We may elect to prepay the loan at any time, subject to the payment of certain prepayment fees in respect of any voluntary prepayment prior to April 15, 2017 and other customary breakage costs. Interest accrues, at our option, at LIBOR plus 3.25%.



## Tender Offer

In January 2015, we commenced a cash tender offer for our 7.75% senior unsecured notes due July 2017, 5.25% senior unsecured notes due August 2018, 5.875% senior unsecured notes due August 2021 and 6.625% senior unsecured notes due August 2022, subject to a maximum aggregate purchase price up to \$275.0 million (2015 Tender Offer). As a result of the 2015 Tender Offer, we paid \$275.0 million to repurchase \$258.1 million of principal and recognized losses on debt extinguishment of \$12.8 million in non-operating (gain) loss in the consolidated condensed income statement, including the write-off of related unamortized premiums and debt issuance costs.

## NOTE 6: GUARANTEES

As part of our business, we are a party to various financial guarantees and other commitments. These arrangements involve elements of performance and credit risk that are not included in the consolidated condensed balance sheets. We could become liable in connection with these obligations depending on the performance of the primary obligor 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 on our consolidated balance sheet.

As of September 27, 2015, we continued to guarantee \$6.9 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.

## NOTE 7: PENSION PLANS

The components of net periodic pension cost consist of:

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)		(in millions)	
Service cost	\$13.8	\$ 11.8	\$44.0	\$ 35.3
Interest cost	20.0	21.1	58.0	63.2
Expected return on plan assets	(25.5 )	(21.5 )	(69.7 )	(64.4 )
Net amortization	0.2	—	2.6	—
Net periodic pension cost	\$8.5	\$ 11.4	\$34.9	\$ 34.1

## Remeasurement of Qualified Pension Plans

In June 2015, we made a \$200.0 million voluntary contribution to fund our qualified pension plans. We also elected to perform an interim remeasurement of our plan obligations and assets as of June 26, 2015. The discount rate used to determine the pension obligation was 4.8%. All other actuarial assumptions used for the remeasurement were consistent with those used at the end of 2014. The remeasurement resulted in a decrease to the pension obligation of \$76.1 million with a corresponding decrease to accumulated other comprehensive loss, net of tax. Net periodic pension cost is expected to be \$8.5 million for the remainder of 2015.



## NOTE 8: EQUITY

## Other Comprehensive Income (Loss)

The following tables present changes in the accumulated balances for each component of other comprehensive income (loss) and the related effects on net income of amounts reclassified out of other comprehensive income (loss).

	Three Months Ended			September 28, 2014		
	September 27, 2015			September 28, 2014		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
	(in millions)					
Foreign currency translation:						
Translation adjustment arising during the period	\$(14.4 )	\$—	\$(14.4 )	\$(82.4 )	\$4.2	\$(78.2 )
Hedge accounting:						
Losses arising during the period	(6.9 )	2.7	(4.2 )	(67.1 )	26.1	(41.0 )
(Gains) losses reclassified to sales	(55.3 )	21.6	(33.7 )	83.5	(32.5 )	51.0
(Gains) losses reclassified to cost of sales	15.7	(6.1 )	9.6	(8.6 )	3.2	(5.4 )
(Gains) losses reclassified to SG&A	0.8	—	0.8	(0.1 )	—	(0.1 )
Total other comprehensive loss	\$(60.1 )	\$18.2	\$(41.9 )	\$(74.7 )	\$1.0	\$(73.7 )
	Nine Months Ended			September 28, 2014		
	September 27, 2015			September 28, 2014		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
	(in millions)					
Foreign currency translation:						
Translation adjustment arising during the period	\$(101.7 )	\$11.0	\$(90.7 )	\$(81.0 )	\$4.3	\$(76.7 )
Translation losses reclassified to non-operating (gain) loss	54.6	(19.1 )	35.5	—	—	—
Pension accounting:						
Actuarial gain	76.1	(29.8 )	46.3	—	—	—
Amortization of actuarial losses and prior service credits reclassified to cost of sales	1.7	(0.7 )	1.0	—	—	—
Amortization of actuarial losses and prior service credits reclassified to SG&A	0.7	(0.3 )	0.4	—	—	—
Hedge accounting:						
Gains (losses) arising during the period	102.9	(40.5 )	62.4	(339.2 )	132.1	(207.1 )
(Gains) losses reclassified to sales	(225.3 )	87.7	(137.6 )	200.1	(77.7 )	122.4
(Gains) losses reclassified to cost of sales	60.3	(23.4 )	36.9	(14.9 )	5.9	(9.0 )
(Gains) losses reclassified to SG&A	2.4	(0.4 )	2.0	(3.3 )	0.7	(2.6 )
Total other comprehensive loss	\$(28.3 )	\$(15.5 )	\$(43.8 )	\$(238.3 )	\$65.3	\$(173.0 )

## Dividend

We paid a \$30.0 million dividend during the second quarter of 2015 to our parent company, recorded as a reduction to retained earnings.



**NOTE 9: FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are required to consider and reflect the assumptions of market participants in fair value calculations. These factors include nonperformance risk (the risk that an obligation will not be fulfilled) and credit risk, both of the reporting entity (for liabilities) and of the counterparty (for assets).

We use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs, such as observable, independent market data, that we believe are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The FASB has established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of inputs used to measure fair value are as follows:

Level 1—quoted prices in active markets for identical assets or liabilities accessible by the reporting entity.

Level 2—observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—unobservable for an asset or liability. Unobservable inputs should only be used to the extent observable inputs are not available.

We have classified assets and liabilities measured at fair value based on the lowest level of input that is significant to the fair value measurement. For the periods presented, we had no transfers of assets or liabilities between levels within the fair value hierarchy. The timing of any such transfers would be determined at the end of each reporting period.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following tables set forth, by level within the fair value hierarchy, our financial assets and liabilities, including assets held in a rabbi trust used to fund our non-qualified defined benefit plan, that were measured at fair value on a recurring basis as of September 27, 2015 and December 28, 2014:

	September 27, 2015				December 28, 2014			
	Level 1 (in millions)	Level 2	Level 3	Total	Level 1 (in millions)	Level 2	Level 3	Total
<b>Assets</b>								
<b>Derivatives:</b>								
Commodity contracts	\$—	\$—	\$—	\$—	\$57.8	\$0.1	\$—	\$57.9
Interest rate swaps	—	0.1	—	0.1	—	—	—	—
Foreign exchange contracts	—	—	—	—	—	0.4	—	0.4
Bond securities	—	—	—	—	15.9	—	—	15.9
Insurance contracts	—	68.2	—	68.2	—	70.0	—	70.0
<b>Total</b>	<b>\$—</b>	<b>\$68.3</b>	<b>\$—</b>	<b>\$68.3</b>	<b>\$73.7</b>	<b>\$70.5</b>	<b>\$—</b>	<b>\$144.2</b>
<b>Liabilities</b>								
<b>Derivatives:</b>								
Commodity contracts	5.9	18.2	—	24.1	18.0	19.4	—	37.4
Interest rate swaps	—	—	—	—	—	0.1	—	0.1
Foreign exchange contracts	—	0.3	—	0.3	—	—	—	—
<b>Total</b>	<b>\$5.9</b>	<b>\$18.5</b>	<b>\$—</b>	<b>\$24.4</b>	<b>\$18.0</b>	<b>\$19.5</b>	<b>\$—</b>	<b>\$37.5</b>



The following are descriptions of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value on a recurring basis:

**Derivatives**—Derivatives classified within Level 1 are valued using quoted market prices. In some cases where quoted market prices are not available, we value the derivatives using market based pricing models that utilize the net present value of estimated future cash flows to calculate fair value, in which case the measurements are classified within Level 2. These valuation models make use of market-based observable inputs, including exchange traded prices and rates, yield curves, credit curves, and measures of volatility.

**Bond securities**—Bond securities are valued at quoted market prices and are classified within Level 1.

**Insurance contracts**—Insurance contracts are valued at their cash surrender value using the daily asset unit value (AUV) which is based on the quoted market price of the underlying securities and classified within Level 2.

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis after initial recognition; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances, for example, when there is evidence of impairment. During the nine months ended September 27, 2015, we had no significant assets or liabilities that were measured and recorded at fair value on a nonrecurring basis.

#### Other Financial Instruments

We determine the fair value of public debt using Level 2 inputs based on quoted market prices. The carrying amount of all other debt approximates fair value as those instruments are based on variable interest rates. The following table presents the fair value and carrying value of long-term debt, including the current portion of long-term debt as of September 27, 2015 and December 28, 2014.

	September 27, 2015		December 28, 2014	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(in millions)			
Long-term debt, including current portion	\$2,358.9	\$2,272.7	\$2,782.0	\$2,701.7

The carrying amounts of cash and cash equivalents, accounts receivable, notes payable and accounts payable approximate their fair values because of the relatively short-term maturity of these instruments.

#### NOTE 10: CONTINGENCIES

Like other participants in our 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.

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

#### North Carolina Nuisance Litigation

As previously disclosed in our Report on Form 10-K for the twelve months ended December 28, 2014, 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. On July 31, 2015, plaintiffs again amended all 26 complaints. Ten plaintiffs dismissed their claims without prejudice. The 26 currently pending complaints were filed on behalf of 531 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.





Murphy-Brown filed its answers and affirmative defenses to all 26 complaints on August 31, 2015, and the parties are engaging in discovery. The Company believes that the claims are unfounded and intends to defend the suits vigorously.

Our policy for establishing accruals and disclosures for contingent liabilities is contained in Note 1—Summary of Significant Accounting Policies in our report on Form 10-K for the twelve months ended December 28, 2014. We established a reserve for our estimated expenses to defend against these and similar potential claims in 2013. Consequently, future expenses associated with these claims will not affect our profits or losses unless our reserve proves to be insufficient or excessive. However, legal expenses incurred in our and our subsidiaries' defense of these claims and any payments made to plaintiffs through unfavorable verdicts or otherwise will negatively impact our cash flows and our liquidity position. Given that these matters are in the very preliminary stages and given the inherent uncertainty of the outcome for these and similar potential claims, we cannot estimate the reasonably possible loss or range of loss for these loss contingencies outside the expenses we will incur to defend against these claims. We will continue to review whether an additional accrual is necessary and whether we have the ability to estimate the reasonably possible loss or range of loss for these matters.

## NOTE 11: REPORTABLE SEGMENTS

Our operating segments are determined on the basis of how we internally report and evaluate financial information used to make operating decisions and assess performance. For external reporting purposes, we aggregate operating segments which have similar economic characteristics, products, production processes, types or classes of customers and distribution methods into reportable segments based on a combination of factors, including products produced and geographic areas of operations. Our reportable segments are 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 in Mexico, our hog production operations located in Poland and Romania, our interests in hog production operations in Mexico, and our former investment in CFG. The Corporate segment provides management and administrative services to support our other segments.

The following table presents sales and operating profit (loss) by segment for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)		(in millions)	
Sales:				
Segment sales—				
Fresh Pork	\$1,210.8	\$ 1,444.3	\$3,909.4	\$ 4,437.2
Packaged Meats	1,630.6	1,733.8	4,885.8	5,010.5
Hog Production	759.8	803.2	2,350.8	2,509.7
International	365.0	439.3	1,047.7	1,240.0
Total segment sales	3,966.2	4,420.6	12,193.7	13,197.4
Intersegment sales—				
Fresh Pork	(15.2 )	(13.6 )	(44.0 )	(42.8 )
Packaged Meats	—	—	(0.1 )	(0.1 )
Hog Production	(534.0 )	(694.4 )	(1,606.5 )	(2,185.6 )
International	(10.9 )	(10.3 )	(33.9 )	(30.5 )
Total intersegment sales	(560.1 )	(718.3 )	(1,684.5 )	(2,259.0 )
Consolidated sales	\$3,406.1	\$ 3,702.3	\$10,509.2	\$ 10,938.4
Operating profit (loss):				
Fresh Pork	14.1	(12.5 )	32.2	76.1
Packaged Meats	112.3	111.3	461.1	330.1
Hog Production	47.1	139.6	79.8	278.1
International	15.3	40.3	46.0	111.1
Corporate	(35.1 )	(28.6 )	(91.1 )	(88.7 )
Consolidated operating profit	\$153.7	\$ 250.1	\$528.0	\$ 706.7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following information in conjunction with the unaudited consolidated condensed financial statements and the related notes in this Quarterly Report and the audited financial statements and the related notes as well as Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our report on Form 10-K for the twelve months ended December 28, 2014.

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 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 in Mexico, our hog production operations located in Poland and Romania, our interests in hog production operations in Mexico, and our former investment in CFG. The Corporate segment provides management and administrative services to support our other segments.

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. We believe 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.

Third Quarter Summary of Results

Net income for the third quarter of 2015 was \$83.3 million compared to net income of \$155.3 million for the third quarter of 2014. The following summarizes the operating results of each of our reportable segments for the third quarter of 2015 compared to the third quarter of 2014:

Fresh Pork operating results increased by \$26.6 million primarily as the impact of lower meat values was more than offset by lower hog prices.

Packaged Meats operating profit remained relatively unchanged as lower raw material costs and higher sales volume were largely offset by lower average selling prices.

Hog Production operating profit decreased by \$92.5 million primarily as a result of lower live hog market prices driven by higher hog supplies.

International operating profit decreased by \$25.0 million primarily due to lower pork market prices in Europe and Mexico and the impact of foreign currency translation due to a stronger U.S. dollar.

The following table provides a reconciliation of net income to EBITDA and adjusted EBITDA for all periods presented. EBITDA and adjusted EBITDA are non-GAAP measures. We believe EBITDA is a useful measure to our investors because it excludes the effects of financing and investing activities by eliminating interest and depreciation costs. We also believe adjusted EBITDA is a useful measure as it excludes the effect of non-operating activities. EBITDA and adjusted EBITDA are not intended to be substitutes for our comparable GAAP measures and should not be used by investors or other users of our financial statements as the sole basis for formulating decisions as they exclude a number of important cash and non-cash charges.

	Three Months Ended		Nine Months Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
	(in millions)			
Net income	\$83.3	\$ 155.3	\$284.5	\$ 403.5
Interest expense	32.3	39.3	98.5	120.5
Income tax expense	38.1	55.5	132.9	183.8
Depreciation and amortization expense	58.5	58.3	174.9	172.1
EBITDA	\$212.2	\$ 308.4	\$690.8	\$ 879.9
Non-operating (gain) loss	\$—	\$—	\$12.1	\$ (1.1 )
Adjusted EBITDA	\$212.2	\$ 308.4	\$702.9	\$ 878.8
Sale of CFG				

In June 2015, we completed the sale of our entire equity interest in CFG to Alfa for \$354.0 million in cash. As of the date of the sale, the book value of our investment in CFG was \$298.7 million. Additionally, we had \$54.6 million of unrealized currency translation losses on our balance sheet related to our investment in CFG.

#### Tender Offer

In January 2015, we commenced a cash tender offer for our 7.75% senior unsecured notes due July 2017, 5.25% senior unsecured notes due August 2018, 5.875% senior unsecured notes due August 2021 and 6.625% senior unsecured notes due August 2022, subject to a maximum aggregate purchase price up to \$275.0 million (2015 Tender Offer). As a result of the 2015 Tender Offer, we paid \$275.0 million to repurchase \$258.1 million of principal and recognized losses on debt extinguishment of \$12.8 million in non-operating (gain) loss in the consolidated condensed income statement, including the write-off of related unamortized premiums and debt issuance costs.

#### Animal Health

The U.S. Department of Agriculture (USDA) identified Porcine Epidemic Diarrhea Virus (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, there are very few cases compared to the outbreak that occurred in 2014. The USDA and the industry continue to monitor the situation. During 2015, herds in several of our geographic regions have also been impacted by outbreaks of Porcine Reproductive and Respiratory Syndrome Virus (PRRSv). While PRRSv is not new to the swine industry, the impact of these outbreaks has been more severe than observed in recent years. We are subject to risks related to our ability to maintain animal health and control PEDv and PRRSv. We are unable to predict the extent these diseases will impact our operations or market prices in the future.

In 2014, the spread of PEDv in the U.S. reduced hog supplies and lead to higher hog and meat prices. In 2015, the hog herds have recovered and the supply increase has yielded lower market prices.

## 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 the 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. In April 2015, the EPA entered into a proposed consent decree which would have them propose the 2015 RFS by June 1, 2015 and to finalize the 2014 and 2015 RFS targets by November 30, 2015. On May 29, 2015, the EPA proposed to establish the annual percentage standards for cellulosic biofuel, biomass-based diesel, advanced biofuel and total renewable fuels that apply to all gasoline and diesel produced or imported in years 2014, 2015 and 2016 as well as the volume of biomass-based diesel for 2017. The proposed volumes are below statutory levels, but above historical output of renewable fuels. The EPA plans to finalize those standards by November 30, 2015.

Representative Bob Goodlatte (R-VA) has re-introduced legislation in the 114th Congress that would eliminate the conventional (corn starch) ethanol mandate, cap the blendwall at E10, and require the EPA to set cellulosic standards at production levels. Additionally, Sens. Dianne Feinstein (D-CA) and Pat Toomey (R-PA) have introduced similar legislation which would eliminate the conventional ethanol mandate. 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, the 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 USDA. 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. An appeal of the DSB's ruling brought by the U.S. was rejected. Canada and Mexico are seeking a combined \$3.2 billion in retaliatory tariffs against a range of U.S. agricultural and manufactured product exports, including frozen and chilled pork products. On September 16, 2015,

the WTO Arbitrator hosted a public hearing in Geneva where Canada, Mexico and the U.S. defended their respective retaliatory tariff proposals. An Arbitration Panel report setting the final number of retaliatory tariffs is expected to be released in December. At that time, Canada and Mexico will be permitted to impose retaliatory tariffs equal to a sum determined by the arbitrator.

The U.S. House of Representatives passed legislation, H.R. 2393 the "Country of Origin Labeling Amendments Act of 2015," on June 10, 2015. If enacted, this legislation would repeal the WTO non-compliant sections of the COOL statute, thus settling the dispute and eliminating the threat of retaliatory tariffs from Canada and Mexico. The U.S. Senate is considering this legislation, as well as other proposals to amend the COOL statute. 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.

Our most exciting growth prospect is the ongoing development of our packaged meats business. Although we have experienced meaningful and consistent improvement in packaged meats margins, we believe significant growth potential remains. We will continue to strengthen our consumer-focused marketing programs and promote innovation to improve our product mix toward branded, value-added products. We expect these actions to result in continued broad-based gains in packaged meats sales, volume, market share, distribution and margins.

With our organizational realignment, we are taking steps to build on our record results in 2014 as we continue to solidify Smithfield's position as a global leader in branded packaged meats. There is 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 in the following ways:

- Leveraging Smithfield's size and scope in pork industry;
- Maximizing our manufacturing platform and distribution system;
- Approaching the market more efficiently and effectively;
- Best utilizing management talent across company;
- Aligning our operations to provide better customer service;
- Optimizing operations in areas like brand management, manufacturing, sales, and marketing; and
- Strengthening marketing, brand building and innovation across all brands.

We will continue to sharpen our strategic focus and drive operational improvements across our entire platform, including our fresh pork, hog production and international divisions. We are focused on growth and believe that Smithfield is in an ideal position to continue to achieve strong results for the remainder of 2015 as well as 2016.

## RESULTS OF OPERATIONS

## Consolidated Results of Operations

The table presented below compares our results of operations for the third quarters of 2015 and 2014.

	Three Months Ended		
	September 27, 2015	September 28, 2014	% Change
	(in millions)		
Sales	\$3,406.1	\$ 3,702.3	(8 )%
Cost of sales	3,021.1	3,248.3	(7 )%
Gross profit	385.0	454.0	(15 )%
Selling, general and administrative expenses	238.4	218.4	9 %
Income from equity method investments	(7.1 )	(14.5 )	(51 )%
Operating profit	153.7	250.1	(39 )%
Interest expense	32.3	39.3	(18 )%
Income before income taxes	121.4	210.8	(42 )%
Income tax expense	38.1	55.5	(31 )%
Net income	\$83.3	\$ 155.3	(46 )%

## Sales and gross profit

Sales decreased primarily as a result of lower market prices across all of our segments and the impact of foreign currency translation as a result of a stronger U.S. dollar.

Gross profit decreased primarily as a result of lower sales, partially offset by lower pork processing raw material costs and lower feed costs.

## Selling, general and administrative expenses (SG&amp;A)

The increase in SG&A is primarily attributable to higher marketing and advertising costs as we focus on growing our brands through consumer-focused marketing programs.

## Income from equity method investments

Equity income decreased primarily as a result of lower hog prices in Mexico.

## Interest expense

The decrease in interest expense is primarily due to lower debt balances in the current year as a result of various debt repayment activities.

## Income tax expense

The effective tax rate was 31% and 26% for the third quarters of 2015 and 2014, respectively. For both the current year and prior year, taxable income relative to permanent items, the mix of income between jurisdictions, and the expiration of certain federal tax credits impacted the effective tax rate.





The table presented below compares our results of operations for the first nine months of 2015 and 2014. As used in the table, "NM" means "not meaningful."

	Nine Months Ended		
	September 27, 2015	September 28, 2014	% Change
	(in millions)		
Sales	\$ 10,509.2	\$ 10,938.4	(4 )%
Cost of sales	9,299.6	9,619.2	(3 )%
Gross profit	1,209.6	1,319.2	(8 )%
Selling, general and administrative expenses	692.9	653.0	6 %
Income from equity method investments	(11.3 )	(40.5 )	(72 )%
Operating profit	528.0	706.7	(25 )%
Interest expense	98.5	120.5	(18 )%
Non-operating (gain) loss	12.1	(1.1 )	NM
Income before income taxes	417.4	587.3	(29 )%
Income tax expense	132.9	183.8	(28 )%
Net income	\$ 284.5	\$ 403.5	(29 )%

#### Sales and gross profit

Sales decreased primarily as a result of lower market prices across all of our segments and the impact of foreign currency translation as a result of a stronger U.S. dollar.

Gross profit decreased primarily as a result of lower sales, partially offset by lower pork processing raw material costs and lower feed costs.

#### Selling, general and administrative expenses (SG&A)

The increase in SG&A is primarily attributable to higher marketing and advertising costs as we focus on growing our brands through consumer-focused marketing programs as well as higher stock-based compensation expense.

#### Income from equity method investments

Equity income decreased primarily as a result of lower hog prices in Mexico. Additionally, equity income decreased due to a significant tax benefit recognized through our former investment in CFG in 2014.

#### Interest expense

The decrease in interest expense is primarily due to lower debt balances in the current year as a result of various debt repayment activities.

#### Non-operating (gain) loss

During 2015, we recognized a loss on debt extinguishment of \$12.8 million as a result of the 2015 Tender Offer.

## Segment Results

The following information reflects the results from each respective segment for the third quarters of 2015 and 2014.

	Three Months Ended		
	September 27, 2015	September 28, 2014	% Change
(in millions)			
<b>Sales:</b>			
Fresh Pork	\$1,210.8	\$1,444.3	(16)%
Packaged Meats	1,630.6	1,733.8	(6)%
Hog Production	759.8	803.2	(5)%
International	365.0	439.3	(17)%
Total segment sales	3,966.2	4,420.6	(10)%
Intersegment sales	(560.1)	(718.3)	(22)%
Consolidated sales	\$3,406.1	\$3,702.3	(8)%
<b>Operating profit (loss):</b>			
Fresh Pork	14.1	(12.5)	213%
Packaged Meats	112.3	111.3	1%
Hog Production	47.1	139.6	(66)%
International	15.3	40.3	(62)%
Corporate	(35.1)	(28.6)	(22)%
Consolidated operating profit	\$153.7	\$250.1	(38)%

## Fresh Pork

Sales decreased 16% due to a 27% decrease in average selling prices, partially offset by an 15% increase in volume. Operating results increased to a \$2 profit per head from a \$2 loss per head due to lower hog prices, which more than offset the impact of lower meat values.

We processed 7.2 million hogs in 2015, an increase of 15% from the prior year.

## Packaged Meats

Sales decreased 6% due to an 11% decrease in average selling prices, partially offset by a 5% increase in volume. Current year sales volume totaled 662.8 million pounds.

Operating profit decreased to \$0.17 per pound from \$0.18 per pound as advertising expenditures increased by \$0.01 per pound. Lower raw material costs were largely offset by lower average selling prices.

## Hog Production

Sales decreased 5% due to lower domestic live hog market prices which were partially offset by favorable hedging results. Head sold during the quarter amounted to 3.7 million, an increase of 12% from the prior year. These changes in sales volumes and market prices were driven largely by the effects of PEDv in the prior year. See "Executive Overview--Animal Health" for additional discussion about PEDv.

Operating profit decreased to \$13 per head from \$42 per head due to lower live hog market prices, partially offset by favorable hedging results and lower feed costs.

## International

Sales decreased due primarily to changes in foreign exchange rates, which negatively impacted sales by \$76.5 million, or 17%. On a constant currency basis, sales increased 1% due to a 9% increase in volume to 394.6 million pounds, driven largely by an 11% increase in hogs processed and an 8% increase in poultry processed in Europe, partially offset by an 8% decrease in average selling prices. We processed 1.2 million hogs in 2015.

Operating profit was negatively impacted by lower pork market prices in Europe along with lower equity income from our Mexican joint ventures. Foreign currency translation also negatively impacted operating profit by approximately \$2.3 million due to a stronger U.S. Dollar.

The following information reflects the results from each respective segment for the first nine months of 2015 and 2014.

	Nine Months Ended		
	September 27, 2015 (in millions)	September 28, 2014	% Change
Sales:			
Fresh Pork	\$3,909.4	\$4,437.2	(12)%
Packaged Meats	4,885.8	5,010.5	(2)%
Hog Production	2,350.8	2,509.7	(6)%
International	1,047.7	1,240.0	(16)%
Total segment sales	12,193.7	13,197.4	(8)%
Intersegment sales	(1,684.5)	(2,259.0)	(25)%
Consolidated sales	\$10,509.2	\$10,938.4	(4)%
Operating profit (loss):			
Fresh Pork	32.2	76.1	(58)%
Packaged Meats	461.1	330.1	40%
Hog Production	79.8	278.1	(71)%
International	46.0	111.1	(59)%
Corporate	(91.1)	(88.7)	(3)%
Consolidated operating profit	\$528.0	\$706.7	(25)%

## Fresh Pork

Sales decreased 12% due to a 20% decrease in average selling prices, partially offset by an 11% increase in volume.

Operating profit decreased to \$1 per head from \$4 per head due to lower fresh pork market prices.

We processed 22.2 million hogs in 2015, an increase of 12% from the prior year.

## Packaged Meats

Sales decreased 2% due to an 8% decrease in average selling prices, partially offset by a 6% increase in volume.

Current year sales volume totaled 2.1 billion pounds.

Operating profit increased to \$0.22 per pound from \$0.17 per pound due to lower raw material costs.

## Hog Production

Sales decreased 6% due to lower domestic live hog market prices which were partially offset by favorable hedging results. Head sold during the year amounted to 11.5 million, an increase of 6% from the prior year. These changes in sales volumes and market prices were driven largely by the effects of PEDv in the prior year. See "Executive Overview--Animal Health" for additional discussion about PEDv.

Operating profit decreased to \$7 per head from \$26 per head due to lower sales, partially offset by favorable hedging results and lower feed costs.

International

Sales decreased 16% due primarily to changes in foreign exchange rates, which negatively impacted sales by \$205.4 million, or 17%. On a constant currency basis, sales increased 1% due to a 9% increase in volume to 1.1 billion pounds, driven largely by an 8% increase in hogs processed and a 13% increase in poultry processed in Europe, partially offset by a 7% decrease in average selling prices. We processed 3.4 million hogs in 2015.

Operating profit was negatively impacted by lower pork market prices in Europe along with lower equity income from our Mexican joint ventures. Foreign currency translation also negatively impacted operating profit by approximately \$8.9 million due to a stronger U.S. Dollar.

## 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 September 27, 2015, our liquidity position was approximately \$1.6 billion, comprised of approximately \$1.4 billion in availability under our credit facilities, \$115.2 million in cash and cash equivalents and \$100.0 million in unutilized loans.

## Sources of Liquidity

We have available a variety of sources of liquidity and capital resources, both internal and external. These resources 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

Facility	September 27, 2015				
	Capacity	Borrowing Base Adjustment	Outstanding Letters of Credit	Outstanding Borrowings	Amount Available
	(in millions)				
Inventory Revolver	\$1,025.0	\$(27.2 )	\$—	\$—	\$997.8
Securitization Facility	325.0	—	(88.5 )	—	236.5
International facilities	175.2	(3.4 )	—	(44.3 )	127.5
Total credit facilities	\$1,525.2	\$(30.6 )	\$(88.5 )	\$(44.3 )	\$1,361.8

In April 2015, we entered into a new \$1.025 billion asset-based revolving credit facility agreement (the Inventory Revolver Credit Agreement) which replaced our previous \$1.025 billion senior secured revolving credit facility which would have matured in June 2016. The Inventory Revolver Credit Agreement provides for an option, subject to obtaining additional loan commitments and certain other conditions, to increase the available commitments by up to \$375 million in the future. It also includes a multicurrency subfacility for Canadian Dollars, Japanese Yen, Euros, British Pounds Sterling and U.S. Dollars of up to the foreign currency equivalent of \$100 million, a subfacility of up to \$50 million for swingline borrowings and a subfacility of up to \$150 million for issuances of letters of credit. Availability under the Inventory Revolver Credit Agreement is based upon borrowing base valuations of our U.S. inventory, live sows and certain accounts receivable. The Inventory Revolver Credit Agreement is scheduled to mature on May 1, 2020.

Loans under the Inventory Revolver Credit Agreement bear interest at LIBOR plus a margin ranging from 1.75% to 2.75% per annum, or, at our election, at a base rate plus a margin ranging from 0.75% to 1.75% per annum, with either such margin varying according to the ratio of our consolidated funded debt to consolidated EBITDA. Letters of credit issued under the Inventory Revolver Credit Agreement accrue fees at a rate equal to the applicable margin for LIBOR

loans. In addition, we are required to pay a commitment fee for the average daily unused commitments under the Inventory Revolver Credit Agreement, at rates ranging from 0.30% to 0.50% per annum depending on the ratio of our consolidated funded debt to consolidated EBITDA.

The obligations under the Inventory Revolver Credit Agreement are guaranteed by substantially all of our U.S. subsidiaries and are secured by a first-priority lien, subject to permitted liens and exceptions for excluded assets, on substantially all of our and our subsidiary guarantors' personal property, including accounts receivable (other than those sold and financed pursuant to the Securitization Facility), inventory, cash and cash equivalents, deposit accounts, intercompany notes, intellectual property and certain capital stock and interests pledged by us and our subsidiary guarantors, and all proceeds thereof.

The Inventory Revolver Credit Agreement contains affirmative and negative covenants that, among other things, limit or restrict our ability and the ability of our subsidiaries to create liens and encumbrances; incur debt; make capital expenditures; make acquisitions and investments; dispose of or transfer assets; and pay dividends or make other payments in respect of our capital stock; in each case, subject to certain qualifications and exceptions.

In addition, the Inventory Revolver Credit Agreement contains financial covenants requiring us to maintain a total consolidated leverage ratio (ratio of consolidated funded debt to consolidated capitalization) of, subject to certain exceptions, not more than 0.50 to 1.0, a minimum interest coverage ratio (ratio of consolidated EBITDA to consolidated interest expense) of not less than 2.50 to 1.0 and limitations on capital expenditures.

The Inventory Revolver Credit Agreement also includes usual and customary events of default for facilities of this nature, and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the facility may be accelerated, the lenders' commitments may be terminated and the lenders may foreclose upon the collateral. In addition, upon the occurrence of certain insolvency or bankruptcy related events of default, all amounts payable under the facility will automatically become due and payable and the lenders' commitments will automatically terminate.

#### Rabobank Term Loan

In May 2015, we refinanced the Rabobank Term Loan and extended its maturity date from May 1, 2018 to May 1, 2020. After the refinancing, the total capacity of the Rabobank term loan was \$150.0 million, with \$50.0 million outstanding. We may draw the additional \$100.0 million until April 15, 2016. We may elect to prepay the loan at any time, subject to the payment of certain prepayment fees in respect of any voluntary prepayment prior to April 15, 2017 and other customary breakage costs. Interest accrues, at our option, at LIBOR plus 3.25%.

#### Cash Flows

##### Operating Activities

	Nine Months Ended	
	September 27, 2015	September 28, 2014
	(in millions)	
Net cash flows from operating activities	\$87.7	\$ 4.1

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

Cash paid to outside hog suppliers decreased due to lower domestic live hog prices.

In the current year, we received \$132.3 million for the settlement of derivative contracts and for margin requirements compared to \$309.3 million paid in the prior year.

Cash interest payments decreased approximately \$47.0 million.

In the current year, we received a cash dividend of \$14.3 million from one of our Mexican joint ventures.

Net tax payments decreased approximately \$12.8 million.

Cash received from customers decreased due to lower average meat selling prices.

In the current year, we contributed \$200.0 million to our qualified pension plans.





## Investing Activities

	Nine Months Ended	
	September 27, 2015	September 28, 2014
	(in millions)	
Proceeds from sale of equity interest in CFG	\$354.0	\$ —
Capital expenditures	(240.3 )	(187.8 )
Net proceeds (expenditures) from breeding stock transactions	(41.6 )	12.4
Business acquisitions	—	(11.0 )
Proceeds from the sale of property, plant and equipment	5.6	2.6
Other	(37.9 )	4.3
Net cash flows from investing activities	\$39.8	\$ (179.5 )

The following items explain the significant investing activities:

In June 2015, we sold our entire equity interest in CFG for \$354.0 million in cash.

Capital expenditures during both years primarily related to plant and hog farm improvement and expansion 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 (KCS) bought a meat processing business for \$11.0 million.

Other investing activities include construction expenditures pending sale leaseback treatment.

## Financing Activities

	Nine Months Ended	
	September 27, 2015	September 28, 2014
	(in millions)	
Proceeds from the issuance of long-term debt	\$—	\$ 13.0
Principal payments on long-term debt and capital lease obligations	(409.0 )	(28.3 )
Proceeds from Securitization Facility	290.0	255.0
Payments on Securitization Facility	(290.0 )	(190.0 )
Net payments on revolving credit facilities	(3.7 )	(13.1 )
Payment of dividends	(30.0 )	—
Other	—	(0.5 )
Net cash flows from financing activities	\$(442.7 )	\$ 36.1

The following items explain the significant financing activities:

In the current year, we repurchased \$258.1 million of senior unsecured notes in connection with the 2015 Tender Offer. Additionally, we repaid \$150.0 million on our Rabobank term loan.

In the current year, we paid a \$30.0 million dividend to our parent company.

In the prior year, we drew \$65.0 million, net of repayments, on our Securitization Facility, primarily to cover margin requirements on our commodity derivative contracts.

### Financial Position

Our balance sheet as of September 27, 2015, as compared to December 28, 2014, was impacted by the following significant changes:

Investments decreased \$358.2 million mainly due to the sale of CFG, a \$14.3 million cash dividend received from one of our Mexican joint ventures and currency translation adjustments, a result of a stronger U.S. Dollar.

Accounts payable decreased \$179.9 million mainly due to the timing of payments.

Net long-term pension liability decreased \$269.3 million mainly due to a \$200.0 million voluntary contribution to fund our qualified pension plans. We also elected to perform an interim remeasurement of our plan obligations and assets as of June 26, 2015 which resulted in a \$76.1 million decrease to the pension obligation.

### Guarantees

As part of our business, we are a party to various financial guarantees and other commitments. These arrangements involve elements of performance and credit risk that are not included in the consolidated condensed balance sheets. We could become liable in connection with these obligations depending on the performance of the primary obligor 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 on our consolidated balance sheet.

As of September 27, 2015, we continued to guarantee \$6.9 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 our 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 anticipate the full cost of our transition to group pens will total 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 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 "Item 7. Management's Discussion and Analysis of Financial Condition

and Results of Operations—Derivative Financial Instruments" in our Report on Form 10-K for the twelve months ended December 28, 2014. 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 decreases, 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 increases, our brokers may be required to deliver margin deposits to us for a portion of the increase.

During the nine months ended September 27, 2015, margin deposits ranged from \$(15.4) million to \$80.7 million (negative amounts representing margin deposits we have received from our brokers). The average daily amount on deposit with our brokers during the nine months ended September 27, 2015 was \$42.9 million. As of September 27, 2015, the net amount on deposit with our brokers was \$40.3 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.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated condensed 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. There have been no significant updates to our critical accounting policies and estimates described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our report on Form 10-K for the twelve months ended December 28, 2014.

#### FORWARD-LOOKING STATEMENTS

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 Limited, the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations and other risks and uncertainties described under Part I, Item 1A. "Risk Factors" in our report on Form 10-K for the twelve months ended December 28, 2014. 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For complete quantitative and qualitative disclosures about market risk affecting the Company, see "Item 7A. Qualitative and Quantitative Disclosures About Market Risk" in our report on Form 10-K for the twelve months ended December 28, 2014.

The following table presents the sensitivity of the fair value of our open commodity contracts and foreign currency contracts to a hypothetical 10% change in market prices or in interest rates and foreign exchange rates, as of September 27, 2015 and December 28, 2014.

	September 27, 2015	December 28, 2014
	(in millions)	
Grains	\$ 10.0	\$ 24.2
Livestock	6.1	76.3
Energy	4.8	5.9
Foreign currency	5.4	4.3

**ITEM 4. CONTROLS AND PROCEDURES**

An evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of September 27, 2015. Based on that evaluation, management, including the CEO and CFO, has concluded that our disclosure controls and procedures were effective as of September 27, 2015. There were no changes in our internal control over financial reporting during the three months ended September 27, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

There have been no material changes with respect to the legal proceedings disclosed in our report on Form 10-K for the twelve months ended December 28, 2014, nor have any significant new matters arisen during the first nine months of 2015.

**ITEM 1A. RISK FACTORS**

There have been no material changes with respect to the risk factors disclosed in our report on Form 10-K for the twelve months ended December 28, 2014.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

ITEM 6. EXHIBITS

- Exhibit 3.1 — Amended and Restated Articles of Incorporation of Smithfield Foods, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2013).
- Exhibit 3.2 — Amended and Restated Bylaws of Smithfield Foods, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on September 26, 2013).
- Exhibit 31.1 — Certification of C. Larry Pope, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 31.2 — Certification of Glenn T. Nunziata, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- Exhibit 101 — The following financial statements from Smithfield Foods, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 27, 2015, formatted in XBRL: (i) Consolidated Condensed Statements of Income, (ii) Consolidated Condensed Statements of Comprehensive Income, (iii) Consolidated Condensed Balance Sheets, (iv) Consolidated Condensed Statements of Cash Flows, and (v) the Notes to Consolidated Condensed Financial Statements (filed herewith).



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Smithfield Foods, Inc.

/s/ GLENN T. NUNZIATA

Glenn T. Nunziata

On behalf of the registrant and as Chief Financial  
Officer

Date: October 28, 2015