

processing at the company's Rochelle, Illinois, facility that was effective January 3, 2003, and a renovation at our Fremont, Nebraska, facility during the second quarter of fiscal 2004. The company's hog processing for the current year declined 0.7 percent to 6,855,000 hogs from 6,904,000 hogs for the comparable period last year. Converting the Rochelle facility to a 100 percent value-added product processing facility will address the increasing demand for the company's branded products. The Fremont facility returned to full processing levels in the third quarter of fiscal 2004.

Operating profit decreased 25.4 percent for the fourth quarter, as compared to an unusually strong fourth quarter in fiscal 2003 when ideal market conditions resulted in optimal margins. However, operating profit for fiscal 2004 increased 37.0 percent over the prior year, as the company was able to attain higher prices on pork primals when compared to hog costs over fiscal 2003. Throughout fiscal 2004, the company was able to purchase raw materials under its hog procurement contracts at costs that more closely paralleled the cash market, which significantly increased the profitability of fresh pork over the previous year. Margins on value-added product lines, however, were negatively impacted in the fourth quarter by primal costs that were higher than anticipated. The company expects input prices to remain higher into the first half of fiscal 2005.

This segment continues to focus on the expansion of the company's value-added products and improving product mix. Core product tonnage in the Meat Products business unit showed positive growth over the prior year fourth quarter, led by strong gains in refrigerated entrees (up 1,456,000 lbs., or 24.0 percent), retail flavored meats (up 1,269,000 lbs., or 20.8 percent), sliced meats (up 845,000 lbs., or 12.8 percent), and breakfast meats (up 762,000 lbs., or 3.1 percent). Continued strong consumer preference for branded product offerings was also evidenced by volume sales of sliced pepperoni (up 1,357,000 lbs., or 46.7 percent) and raw bacon (up 1,648,000 lbs., or 13.8 percent), compared to the fiscal 2003 fourth quarter.

The Foodservice business unit also contributed to strong results throughout fiscal 2004, as its premium value-added convenience products continued to find broader acceptance from foodservice customers. This business unit finished the fiscal year with a record shipping week for branded products, contributing to fourth quarter tonnage volume increases over the prior year comparable quarter for *Always Tender* pork (up 498,000 lbs., or 23.7 percent), *Austin Blues* BBQ products (up 649,000 lbs., or 46.9 percent), the *café h* line of products (up 495,000 lbs., or 88.7 percent), and *Fast 'N Easy* precooked bacon and sausage (up 753,000 lbs., or 29.4 percent).

Jennie-O Turkey Store: Jennie-O Turkey Store (JOTS) net sales for the quarter and year increased 18.3 and 13.9 percent, respectively, compared to fiscal 2003 periods. Tonnage volume increased

5.3 percent for the quarter and 0.4 percent for the year compared to prior year results. Tonnage comparisons for the twelve months reflect the strategy implemented at the end of the third quarter of fiscal 2003, when JOTS began scaling back its live turkey production in order to accelerate its reduction of commodity product sales. Fiscal 2004 value-added tonnage represented 54.0 percent of this segment's business, exceeding commodity tonnage for the first time on an annual basis. The company expects a continuation of this trend in fiscal 2005.

Operating profit increased 84.6 percent for the quarter and 91.4 percent for the year compared to fiscal 2003. These gains were largely driven by value-added growth, as well as excellent results in live production and plant operations. Commodity meat and wholebird markets considerably improved compared to fiscal 2003. These favorable conditions were mitigated by higher overall feed costs throughout much of fiscal 2004. Feed prices peaked and started to decline during the fourth quarter, and the company expects to benefit from lower feed costs in fiscal 2005. Independent industry reports indicate continued production restraint, at least in the first half of fiscal 2005. This should result in continued strength in the commodity meat markets and wholebird markets during that same time period.

Operating results benefited from value-added sales growth. All three channels of value-added turkey sales (retail, foodservice, and deli) showed double-digit growth in the fourth quarter of fiscal 2004. Products reflecting significant increases over the prior year comparable quarter were the *Jennie-O Turkey Store* tray pack line (up 3,642,000 lbs., or 28.2 percent), the *Jennie-O Turkey Store Grand Champion* line (up 882,000 lbs., or 23.5 percent), *Jennie-O Turkey Store* marinated tenderloins (up 903,000 lbs., or 77.3 percent), and *Jennie-O Turkey Store* rotisserie products (up 1,318,000 lbs., or 101.1 percent).

New product development will continue to be a focus of this segment. The *Jennie-O Turkey Store* Oven Ready Turkey, a product that goes directly from freezer to oven, was launched in the fourth quarter of fiscal 2004 and is being well received by retailers and consumers. The company continually evaluates the performance of its new products and fiscal 2004 included gross sales of approximately \$119,600 attributable to products introduced since 2001 (up from \$70,000 in fiscal 2003).

Specialty Foods: Specialty Foods net sales were up 7.9 percent for the quarter and 48.4 percent for the twelve months compared to fiscal 2003. Operating profit increased 16.7 and 42.7 percent for the quarter and fiscal year, respectively, compared to the prior year. Sales tonnage increased 34.9 and 75.3 percent for the quarter and twelve months, respectively, compared to last year. The acquisitions of the Diamond Crystal Brands (DCB) and Century Foods International (CFI) businesses have increased all twelve month segment measures in fiscal 2004, while the fourth quarter results are comparable to the prior year.