

Grocery Products: Grocery Products net sales decreased 3.8 percent for the fourth quarter and increased 2.5 percent for the year compared to fiscal 2002. Sales tonnage volume decreased 3.4 percent for the quarter but finished the year up 1.1 percent compared to fiscal 2002. Operating profit for Grocery Products decreased 25.9 percent for the quarter and increased 1.6 percent for the year compared to fiscal 2002. This segment experienced lower average raw material costs until late in the second quarter of fiscal 2003. Since that time, raw materials increased substantially while product pricing remained relatively stable thereby pressuring product margins and causing a reduction in third and fourth quarter profits.

Lower tonnage volume also impaired the operating profits of this segment. Fourth quarter tonnage volume declines compared to fiscal 2002 included *Dinty Moore Classic Bakes* dinner kit casseroles (down 4,766,000 lbs., or 74.5 percent) and *Dinty Moore* canned products (down 1,937,000 lbs., or 8.4 percent). The *Dinty Moore Classic Bakes* dinner kits comparison is to an initial pipeline sell-in, as this line was introduced late in the third quarter of fiscal 2002. *Hormel* chili posted a strong fourth quarter volume gain of 4,097,000 lbs. (12.9 percent) over fiscal 2002; however, significantly higher raw material costs, primarily beef, more than offset any positive impact on operating profits.

Refrigerated Foods: The Refrigerated Foods segment net sales were up 8.2 percent for the fourth quarter and 1.9 percent for the twelve months compared to fiscal 2002. Operating profit increased 183.3 and 44.8 percent for the quarter and fiscal year, respectively, compared to fiscal 2002. Sales tonnage decreased 8.0 percent for the quarter and 5.6 percent for the year compared to fiscal 2002 results. Tonnage volume was negatively affected by the discontinuance of hog processing, effective January 3, 2003, at the company's Rochelle, Illinois, facility. The company's hog processing for fiscal 2003 declined 9.8 percent to 6,904,000 hogs from 7,651,000 hogs for the comparable period of fiscal 2002. The Rochelle facility is being converted to a 100 percent value-added product processing facility, which will help meet the increasing demand for the company's branded products.

Refrigerated Foods operating profit substantially increased in fiscal 2003 primarily due to the return of cash hog prices to more normal levels, allowing the company to purchase its raw materials under its hog procurement contracts at costs consistent with those hogs available in the cash market. This market turnaround began in the company's third quarter and continued through the end of the year, resulting in strong second half results.

Prior to the second half recovery in cash hog markets, much of the progress achieved by the company in expanding its value-added portfolio of products was masked by the higher costs on procurement contracts. Product lines performing particularly well in the company's Meat Products business unit, with fourth quarter volume gains over fiscal 2002, were premium dinner hams (up 760,000 lbs., or 6.0 percent), refrigerated entrees (up 872,000 lbs., or 16.8 percent), and deli products (up 1,221,000 lbs., or 4.4 percent). Volume growth was also enhanced as the Precept Foods operation continued to expand sales of its *Hormel Always Tender* branded products. The Precept Foods joint venture began shipping products in the third quarter of fiscal 2003.

The Foodservice business unit contributed to the improved operating profits as key product lines continued to achieve solid volume gains. Fourth quarter tonnage volume increases over the fiscal 2002 comparable quarter were 196,000 lbs. (17.5 percent) for *Austin Blues* BBQ products, 457,000 lbs. (27.8 percent) for *Always Tender* boneless pork, and 533,000 lbs. (12.0 percent) for *Bread Ready* meats. The third quarter 2002 launch of the *café h* line of products continues to progress with fourth quarter tonnage volume up 368,000 lbs. (265.4 percent) over fiscal 2002 and sequential volume up 118,000 lbs. (30.3 percent).

Jennie-O Turkey Store: Jennie-O Turkey Store (JOTS) net sales for the quarter and year increased 6.0 and 4.8 percent, respectively, compared to fiscal 2002 periods. Operating profit decreased 14.6 percent for the quarter and 40.1 percent for the year compared to fiscal 2002. Tonnage volume increased 3.4 percent for the quarter and 4.1 percent for the year compared to fiscal 2002 results. JOTS began scaling back its live turkey production in the third quarter of fiscal 2003 in order to accelerate its reduction of commodity product sales.

Throughout fiscal 2003, excess commodity turkey meat in the marketplace had a significant negative impact on JOTS profits. However, during the fourth quarter, industry supplies moderated and turkey meat commodity prices began increasing to more normal price levels.

Throughout fiscal 2003, JOTS enhanced its value-added product portfolio with strong tonnage volume growth over fiscal 2002. Notable value-added product performers with twelve month volume gains over fiscal 2002 were *Jennie-O Turkey Store* homestyle turkey breast (up 2,336,000 lbs., or 23.9 percent), *Jennie-O Turkey Store* oven roasted products (up 2,619,000 lbs., or 7.6 percent), and *Jennie-O Turkey Store* regular and savory seasoned frozen burgers (up 2,916,000 lbs., or 33.1 percent).