

sales (currency futures), in the period or periods in which the hedged transactions affect earnings. The company typically does not hedge its grain purchases beyond 15 months and currency exposure beyond 12 months.

As of October 30, 2004, the company has included in accumulated other comprehensive loss hedging losses of \$2.5 million (net of tax) relating to its futures contracts. The company expects to recognize the majority of these losses over the next six months. Losses in the amount of \$6.0 million, before tax, were reclassified into earnings in fiscal 2004.

**Fair Value Hedge:** The company utilizes hog futures to minimize the price risk assumed when forward priced contracts are offered to the company's hog producers. The intent of the program is to make the forward priced hogs cost nearly the same as cash market hogs at the date of delivery.

The futures contracts are designated and accounted for as fair value hedges, and the company measures the effectiveness of the hedges on a regular basis. The company has determined its hedge program to be highly effective. Changes in the fair value of the futures contracts, along with the gain or loss on the hedged purchase commitment, are marked-to-market through earnings and are recorded on the consolidated statement of financial position as a current asset and liability, respectively.

As of October 30, 2004, the fair value of the company's open futures contracts included on the consolidated statement of financial position was \$(0.7 million). Losses on closed futures contracts in the amount of \$0.7 million, before tax, were recognized in earnings during the fiscal year.

## > note K

### Segment Operating Results

The company develops, processes, and distributes a wide array of food products in a variety of markets. Under the criteria set forth by the accounting standard SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the company reports its results in the following five segments: Grocery Products, Refrigerated Foods, Jennie-O Turkey Store, Specialty Foods, and All Other.

The December 2002 acquisition of Diamond Crystal Brands prompted Hormel Foods management to adjust how it evaluates its business and, as a result, established a new segment for Specialty Foods. The Specialty Foods segment includes the newly acquired Diamond Crystal Brands and Century Foods International operating segments, along with the existing operating segments of Hormel HealthLabs (formerly in the Refrigerated Foods segment) and Specialty Products (formerly in the Grocery Products segment). All prior year segment information has been restated to reflect this change.

The Grocery Products segment consists primarily of the processing, marketing, and sale of shelf-stable food products sold predominately in the retail market.

The Refrigerated Foods segment includes the Meat Products and Foodservice business units. The segment consists primarily of the processing, marketing, and sale of branded and unbranded pork products for the retail, foodservice, and fresh customer markets. This segment also includes the Precept Foods operation, which offers fresh, case-ready, branded pork and beef products to its retail customers. The Precept Foods operation is a 50 percent owned joint venture between Hormel Foods Corporation and Excel Corporation, a wholly owned subsidiary of Cargill, Incorporated.

The Jennie-O Turkey Store segment consists primarily of the processing, marketing, and sale of branded and unbranded turkey products for the retail, foodservice, and fresh customer markets.

The Specialty Foods segment includes the Diamond Crystal Brands (acquired in December 2002), Century Foods International (acquired in July 2003), Hormel HealthLabs, and Specialty Products operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, dessert mixes, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.

The All Other segment includes the Dan's Prize, Inc., Vista International Packaging, Inc., and Hormel Foods International operating segments. These businesses produce, market, and sell beef products and food packaging (i.e., casing for dry sausage), and manufacture, market, and sell company products internationally. This segment also includes various miscellaneous corporate sales. Effective June 30, 2004, the company completed the sale of Vista.

Intersegment sales are recorded at prices that approximate cost and are eliminated in the consolidated profit and loss statement. Equity in earnings of affiliates is included in segment profit; however, the company does not allocate investment income, interest expense, and interest income to its segments when measuring performance. The company also retains various other income and unallocated expenses at corporate. These items are included below as "net interest and investment income" and "general corporate expense" when reconciling to earnings before income taxes.