

through responsive pricing, while the Grocery Products segment suffers because raw material costs are higher and price adjustments are infrequent. When protein markets weaken, the Grocery Products segment becomes more profitable, while the protein business margins soften. In the end, this balance within our business model helped deliver record profitability in fiscal 2004.

We continue to look for ways to reduce our commodity exposure. We have aggressively converted our hog contracts from a grain-based to a meat-value formula. This limits our exposure to the grain markets for the procurement of live hogs and better aligns the value of the raw material with market conditions. Over the long term, this will support steadier financial performance in the face of grain price fluctuations.

areas of attention

innovate more Innovation is a top priority for us because it creates competitive advantage and builds brand equity. Fiscal 2004 was a fertile period for new ideas in every aspect of our business. We installed high-volume, high-pressure food processing systems to explore new horizons in food safety. Beginning mid-year, *Hormel* chili varieties were first in their

product category to offer Tetra Recart carton packaging – an innovation that provides consumers with a more convenient package and adds excitement to a long established category. Other new convenience product launches include *SPAM* Singles and *Jennie-O Turkey Store* Oven Ready Turkey, a fool-proof, whole frozen turkey that's pre-seasoned, ready to go directly from freezer to oven, and is ready to eat in about three and one-half hours. Less dramatic packaging improvements have significantly boosted sales of our *Hormel* microwave meals by revising packaging to draw attention to the convenient bowl rather than the box.

To support continued innovation throughout the company, we made significant investments in new and expanded R&D facilities in 2004. *Jennie-O Turkey Store, Inc.* opened a new R&D facility and we expanded the R&D facility at our corporate campus. Our total R&D spending was up 21 percent in 2004 compared to fiscal 2003.

expand high-potential product portfolios As growth prospects accelerate for our Foodservice and ethnic foods businesses, we are expanding our portfolio of products in both sectors. Our Foodservice business offers a growing selection of branded products, including the highly popular *café h* family

