SMITHFIELD FOODS INC
Form 10-K
July 11, 2005
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 1, 2005

Commission file number: 1-15321

SMITHFIELD FOODS, INC.

(Exact name of registrant as specified in its charter)

Virginia **(State or other jurisdiction of incorporation or organization)**	**52-0845861** **(I.R.S. Employer Identification No.)**
200 Commerce Street	
Smithfield, Virginia	**23430**

(Address of principal executive offices)	(Zip Code)

(757) 365-3000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.50 par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The aggregate market value of the shares of Registrant s Common Stock held by non-affiliates as of October 29, 2004 was approximately $1.7 billion. This figure was calculated by multiplying (i) the $24.23 last sales price of Registrant s Common Stock as reported on the New York Stock Exchange on the last business day of the Registrant s most recently completed second fiscal quarter by (ii) the number of shares of Registrant s Common Stock not held by any officer or director of the Registrant or any person known to the Registrant to own more than five percent of the outstanding Common Stock of the Registrant. Such calculation does not constitute an admission or determination that any such officer, director or holder of more than five percent of the outstanding shares of Common Stock of the Registrant is in fact an affiliate of the Registrant.

At June 15, 2005, 111,054,597 shares of the Registrant s Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part II and Part III incorporate certain information by reference from the Registrant s definitive proxy statement to be filed with respect to its Annual Meeting of Shareholders to be held on August 26, 2005.

Table of Contents

TABLE OF CONTENTS

i

Table of Contents

PART I

Item 1. *Business*

Smithfield Foods, Inc., the registrant, together with its subsidiaries, is referred to herein as the Company .

General

The Company is the largest hog producer and pork processor in the world and the fifth largest beef processor in the United States (U.S.). The Company conducts its business through six reporting segments, Pork, Beef, Hog Production (HP), International, Other and Corporate, each of which is comprised of a number of subsidiaries. Prior to the fourth quarter of fiscal 2005, the Company conducted its business through five reporting segments, Pork, Beef, HP, Other and Corporate. The Company has reclassified the segment information for fiscal 2004 and 2003 to conform to the fiscal 2005 presentation. See Note 13 in Item 8. Financial Statements and Supplementary Data Notes to Consolidated Financial Statements for additional segment and geographic information.

Pork Segment

The Pork segment produces a wide variety of fresh pork and processed meats products in the U.S. and markets them nationwide and to numerous foreign markets, including Japan, Mexico, Canada and Australia. The Pork segment currently operates over 40 processing plants.

During the preceding five fiscal years, the Company s main acquisitions in the Pork segment were:

Date	Business	Description
Fiscal 2004	Farmland Foods, Inc.	Sixth largest pork processor in the U.S. producing 1 billion pounds of fresh pork and 500 million pounds of processed meat under the Farmland, Carando, Ohse, and Roegelein brands. Farmland Foods is headquartered in Kansas City, Missouri.
Fiscal 2004	Cumberland Gap Provision Co.	90% interest in this processor of premium, branded hams, sausages and other specialty products, based in Middlesboro, Kentucky.
Fiscal 2003	Stefano Foods, Inc.	80% interest in this producer and marketer of Italian convenience foods, including stuffed pizza rings and calzones, based in Charlotte, North Carolina.

The following table shows, for the fiscal periods indicated, the percentages of the Pork segment revenues derived from fresh pork, processed meats and other products.

	Fiscal Year Ended		
	May 1, 2005	May 2, 2004	April 27, 2003
Processed meats	50%	50%	51%
Fresh pork	49%	48%	46%
Other products	1%	2%	3%
	100%	100%	100%

1

Table of Contents

Historically, processed meats in the Pork segment have increased as a percentage of sales reflecting the Company s acquisitions of higher-margin processed meats operations and the Company s continued focus on converting fresh pork sales to further-processed, value-added products with higher margins. With the inclusion of the substantial fresh pork business of Farmland Foods, Inc. (Farmland Foods), the percentage of revenue from fresh pork increased slightly during fiscal 2004 and 2005.

Fresh pork products. The Company s Pork segment sold approximately 3.5 billion pounds of fresh pork in fiscal 2005. The Company s Pork segment processes hogs at eight plants (five in the Midwest and three in the Southeast), with a current aggregate slaughter capacity of 111,000 hogs per day. A substantial portion of the Pork segment s fresh pork is sold to retail customers as unprocessed, trimmed cuts such as butts, loins (including roasts and chops), picnics and ribs. Pork segment revenue from third party further processors is declining as the Company is using more of its own hams and pork bellies to increase its processed meats production.

Processed meats products. The Company s Pork segment sold approximately 2.4 billion pounds of processed meats products in fiscal 2005. The Company produces a wide variety of processed meats, including smoked and boiled hams, bacon, sausage, hot dogs (pork, beef and chicken), deli and luncheon meats, specialty products such as pepperoni, dry meat products, and ready-to-eat, prepared foods such as pre-cooked entrees and pre-cooked bacon and sausage. The Company markets its domestic processed meats products under labels that include Smithfield, Farmland, John Morrell, Gwaltney, Great, Cumberland Gap, Dinner Bell, Carando, Kretschmar, Lean Generation, Lykes, Esskay, Valleydale, Ember Farms, Rath, Roegelein, Ohse, Stefano s, Williamsburg, Tom & Ted s and Jamestown. The Pork segment also sells a substantial quantity of processed meats as private-label products. The Company continues to emphasize a strategy of converting more of its fresh meat raw materials into value-added, further processed meats. During fiscal 2005, the Company built new lines to process bacon that increased capacity by 12%. The Company expects this increased capacity to enable it to become a net buyer of fresh bellies over time. In addition, the Company announced plans to build a new state of the art ham plant in North Carolina.

In recent years, as consumers have become more health conscious, the Company has broadened its product line to include leaner fresh pork products as well as lower-fat and lower-salt processed meats. The Company also markets a line of lower-fat value-priced luncheon meats, smoked sausage and hot dogs, as well as fat-free deli hams and 40% lower-fat bacon. Management believes that leaner pork products and the recent popularity of low-carbohydrate diets, combined with the industry s efforts to heighten public awareness of pork as an attractive protein source, have led to increased consumer demand.

Raw materials. The primary raw materials of the Pork segment are live hogs. Historically, hog prices have been subject to substantial fluctuations. Hog supplies, and consequently prices, are affected by factors such as corn and soybean meal prices, weather and farmers access to capital. Hog prices tend to rise seasonally as hog supplies decrease during the hot summer months and tend to decline as supplies increase during the fall. This tendency is due to lower farrowing performance during the winter months and slower animal growth rates during the hot summer months.

The Pork segment purchased approximately 44% of its U.S. live hog requirements from the HP segment in fiscal 2005. In addition, the Company has established multi-year agreements with Maxwell Foods, Inc. and Prestage Farms, Inc., which provide the Pork segment with a stable supply of high-quality hogs at market-indexed prices. These producers supplied approximately 11% of the hogs that the Pork segment processed in fiscal 2005.

The Pork segment also purchases hogs on a daily basis at its Southeastern and Midwestern processing plants, at Company-owned buying stations in three Southeastern and five Midwestern states and from Canadian sources. The Pork segment also purchases fresh pork from other meat processors to supplement its processing requirements. Additional purchases include raw beef, poultry and other meat products that are added to the Pork segment s sausages, hot dogs and luncheon meats. Those meat products and other materials and supplies, including seasonings, smoking and curing agents, sausage casings and packaging materials, are readily available from numerous sources at competitive prices.

Table of Contents

Beef Segment

The Beef segment is composed mainly of two U.S. beef processing subsidiaries and the Company s cattle feeding operations.

The Beef segment produces mainly boxed beef and ground beef (both chub and case-ready) and markets these products in large portions of the U.S. Prior to December 2003, the Company s Beef segment sold to over 17 foreign markets, including Canada, China, Japan, Mexico and South Korea.

In December 2003 (fiscal 2004), a case of Bovine Spongiform Encephalopathy (BSE) was discovered in the State of Washington. As a result, beef imports from the U.S. have been banned by many foreign countries. It is not known at this time when the export markets will be re-opened, or the restrictions that may result, for the resumption of normal beef export activity. In June 2005 (fiscal 2006), a second case of BSE in the U.S. was confirmed.

During the preceding five fiscal years, the Company s main acquisitions in the Beef segment were:

Date	Business	Description
Fiscal 2005	MF Cattle Feeding, Inc.	Cattle feeding operation in Colorado and Idaho with one time feeding capacity of over 357,000 head.
Fiscal 2002	Packerland Holdings, Inc.	Fifth largest beef processor in the U.S. with a current capacity to process approximately 5,950 head per day.
Fiscal 2002	Moyer Packing Company	Ninth largest beef processor in the U.S. with a current capacity to process approximately 1,800 head per day.

The following table shows, for the fiscal periods indicated, the percentages of Beef segment revenues derived from fresh beef, cattle feeding and other products (including hides and rendering).

	Fiscal Year Ended		
	May 1, 2005	May 2, 2004	April 27, 2003
Fresh beef	80%	86%	91%
Cattle feeding	11%	4%	0%
Other products	9%	10%	9%
	100%	100%	100%

Beef products. The Company is the fifth largest beef processor in the U.S., producing approximately 1.3 billion pounds of beef in fiscal 2005. It processes cattle at five plants (three in the Midwest, one in the Northeast and one in the Southwest), with a current aggregate processing capacity of 7,750 cattle per day. Its beef is sold to retail and food service customers as boxed beef and ground beef.

Cattle feeding. As of May 1, 2005, the Company had approximately 440,000 head of cattle on feed valued at roughly $325 million located at both company-owned and custom feedlots throughout the Northwest, Southwest, Midwest, and East regions of the U.S. The Company utilizes the Beef segment s company-owned cattle program to meet the increasing demands of the Beef segment s customers for consistent quality boxed beef products.

On May 20, 2005, the Company and ContiGroup Companies, Inc. completed the formation of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50/50 joint venture between their respective cattle feeding businesses, MF Cattle Feeding, Inc. (MFI) and ContiBeef LLC (ContiBeef). Five Rivers is a stand-alone operating company, independent from both the Company and ContiGroup Companies, Inc., currently headquartered in Boulder,

3

Colorado, with a total of ten feedlots located in Colorado, Kansas, Oklahoma and Texas, having a combined one-time feeding capacity of 811,000 head making it the largest commercial cattle feeding operation in the U.S. Five Rivers sells cattle to multiple U.S. beef packing firms throughout the U.S. using a variety of marketing methods that were already in place at MFI and ContiBeef.

Raw materials. The primary raw materials of the Beef segment are live cattle. Historically, cattle prices have been subject to substantial fluctuations. Cattle supplies, and consequently prices, are affected by factors such as corn and soybean meal prices, weather and farmers access to capital. In addition, there is currently a ban on the import of Canadian cattle that has reduced the supply of cattle in the U.S.

The Beef segment s five processing plants purchase lean Holstein steers and cows and other cattle primarily from feed yards, auction barns, company-operated buying stations, through direct contract relationships with suppliers in close proximity to processing plants and from the Beef segment s existing cattle feeding operations. The close proximity of these plants to most of their suppliers reduces transportation costs, shrinkage and bruising of livestock in transit. The Beef segment generally maintains a bought ahead position of a one- to two-week supply of live cattle. The Beef segment procures approximately 10% of its live cattle from its existing cattle feeding operations and 16% of its live cattle on a forward contract basis, filling the remainder of its live cattle requirements in the spot market.

Facility closure. During the second quarter of fiscal 2005, the Company ceased operations at the Showcase Foods, Inc. (Showcase Foods) facility in the Beef segment. In connection with the closing, the Company recorded a pre-tax charge of $4.0 million related to ceasing the use of certain leased equipment. In addition, Showcase Foods incurred operating losses of $5.2 million during fiscal 2005. The Company does not currently expect to incur further significant losses or charges related to the closing of the Showcase Foods facility.

International Segment

The International segment includes the Company s international meat processing operations that produce a wide variety of fresh and processed meats products. The Company has controlling interests in international meat processing operations located mainly in Poland, France, Romania and the United Kingdom, and the Company has joint ventures and minority interests located mainly in Spain, Mexico, Romania and China.

During the preceding five fiscal years, the Company s main acquisitions and the initial investment dates in the International segment were:

Date	Business	Description
Fiscal 2005	Morliny S.A.	A producer and marketer of pork and beef in Poland, which markets its products both domestically and through export channels.
Fiscal 2005	Comtim Group S.R.L.	A hog and pork producer and pork marketer based in Romania, which markets its products mainly domestically.
Fiscal 2005	Jean Caby S.A.	Producer and marketer of branded and private-label hams and other specialty products primarily in the French market.
Fiscal 2004	Campofrío Alimentación S.A.	

		A 22% ownership interest in a processed meats manufacturer and marketer, headquartered in Madrid, Spain.
Fiscal 2004	Agrotorvis S.R.L.	A 70% interest in a pork processing business in Romania.

4

Table of Contents

The following table shows, for the fiscal periods indicated, the percentages of International segment revenues derived from processed meats, fresh pork and other meat products.

	Fiscal Year Ended		
	May 1, 2005	May 2, 2004	April 27, 2003
Processed meats	58%	63%	67%
Fresh pork	20%	15%	26%
Other meat products	22%	22%	7%
	100%	100%	100%

The Pork, Beef and International Segments in General

Customers and marketing. The Pork, Beef and International segments have significant market presence throughout their respective geographic areas. The Pork, Beef and International segments sell their fresh pork, processed meats, beef and other meat products to national and regional supermarket chains, wholesale distributors, the foodservice industry (fast food, restaurant and hotel chains, hospitals and other institutional customers), export markets and other further processors. The Company uses both in-house salespersons as well as independent commission brokers to sell its products. In fiscal 2005, the Company sold its products to more than 3,500 customers, none of whom accounted for as much as 10% of the Pork, Beef or International segments revenues. The Company has no significant or seasonally variable backlog because most customers prefer to order products shortly before shipment and, therefore, do not enter into formal long-term contracts.

The Company s fundamental marketing strategy is to provide quality and value to the ultimate consumers of its fresh pork, processed meats and beef products. The Company incurred advertising expenses of $116.3 million and $95.8 million in fiscal years 2005 and 2004, respectively, on consumer advertising and trade promotion programs designed to build awareness and increase sales distribution and penetration. The Company also provides sales incentives for its customers through rebates based on achievement of specified volume and/or growth in volume levels.

In fiscal 2005, export sales comprised approximately seven percent of the total combined sales of the Pork and Beef segments. The Company provides Japanese markets with a line of branded fresh pork, as well as other chilled and frozen unbranded fresh pork products. In addition to Japan, the Company currently has export sales to Mexico and to more than three dozen other foreign countries. The Company expects continued growth in its export sales for the foreseeable future, especially in the Company s operations in the International segment since Poland was admitted to the European Union during fiscal 2004. Export sales are subject to factors beyond the Company s control, such as tariffs, exchange rate fluctuations and changes in governmental policies. The Company s Pork and Beef segments conduct the majority of their export sales in U.S. dollars and therefore bear very little currency exchange risk. The Company s International segment has sales denominated in foreign currencies and, as a result, is subject to certain currency exchange risk. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Derivative Financial Instruments for a discussion of the Company s foreign currency hedging activities.

Seasonality. The meat processing business is somewhat seasonal in that, traditionally, the periods of higher sales for hams are the holiday seasons such as Christmas, Easter and Thanksgiving, and the periods of higher sales for smoked sausages, hot dogs and luncheon meats are the summer months. The Pork segment typically builds substantial inventories of hams in anticipation of its seasonal holiday business. The Beef segment also enjoys a stronger spring and summer period during the traditional grilling season .

Risk management and hedging. The Company s Pork, Beef and International segments use recognized price risk management and hedging techniques to enhance sales and to reduce the effect of adverse price changes on its profitability. The Company s price risk management and hedging activities currently are utilized in the areas of forward sales, hog production margin management, procurement of raw materials for seasonal demand peaks, inventory hedging, hog and cattle contracting and truck fleet fuel purchases. For further information see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Derivative Financial Instruments for a discussion of the Company s commodity hedging activities.

Trademarks. The Company owns and uses numerous marks. These marks are the Company s registered trademarks or are otherwise subject to protection under applicable intellectual property laws. The Company considers these marks and the accompanying goodwill and customer recognition valuable and material to its business. Management believes that registered trademarks have been important to the success of the Company s branded fresh pork and processed meats products. In a number of markets, the Company s brands are among the leaders in selected product categories.

Distribution. The Pork, Beef and International segments use a combination of private fleets of leased tractors and trailers and independent common carriers and owner operators to distribute fresh pork and beef and processed meats to their customers, as well as to move raw materials between plants for further processing. The Company coordinates deliveries and uses backhauling to reduce overall transportation costs. In the U.S., the Company s Pork and Beef segments distribute their products directly from some of their plants and from leased distribution centers in Missouri, Pennsylvania, North Carolina, Kansas, Wisconsin, Indiana, Connecticut, California and Texas. The Company also operates distribution centers adjacent to its plants in Bladen County, North Carolina, and Sioux Falls, South Dakota. Internationally, the Company distributes its products through a combination of leased and owned warehouse facilities.

Competition. The protein industry generally, and the pork and beef processing industries in particular, are highly competitive. The Pork, Beef and International segments products compete with a large number of other protein sources, including chicken and seafood, but the Pork, Beef and International segments principal competition comes from other pork and beef processors.

Management believes that the principal competitive factors in the pork and beef processing industries are price, product quality and innovation, product distribution and brand loyalty. Some of the Company s competitors are more diversified than the Company. To the extent that their other operations generate profits, these more diversified competitors may be able to subsidize their meat processing operations during periods of low or negative profitability.

Hog Production Segment

General. As a complement to the Company s Pork and International segments, the Company has vertically integrated into hog production. The HP segment operates numerous hog production facilities with approximately 857,000 sows producing about 14.7 million market hogs annually. In addition, through its joint ventures, the Company has approximately 90,000 sows producing about 1.4 million market hogs annually. Domestically, the HP segment produces approximately 52% of the Pork segment s live hog requirements. Internationally, the HP segment produces approximately 65% of the International segment s live hog requirements. The profitability of hog production is directly related to the market price of live hogs and the cost of corn and soybean meal. The HP segment generates higher profits when hog prices are high and corn and soybean meal prices are low, and lower profits (or losses) when hog prices are low and corn and soybean meal prices are high. Management believes that the HP segment furthers the Company s strategic initiative of vertical integration and reduces its exposure to fluctuations in profitability historically experienced by the pork processing industry. In addition, as food safety becomes increasingly important to the consumer, the Company s vertically integrated system provides traceability from conception of livestock to consumption of the pork product.

The Company owns certain genetic lines of specialized breeding stock. In fiscal 2003, the Company began marketing the hogs produced under these genetic lines using the name Smithfield Premium Genetics (SPG). The HP segment makes extensive use of these genetic lines, with approximately 620,000 SPG breeding sows. In addition, the Company has sublicensed some of these rights to some of its strategic hog production partners. In addition, through its joint ventures, the Company has approximately 43,000 SPG breeding sows. All hogs produced under these sublicenses are supplied to the Company. The Company believes that the hogs produced by these genetic lines are the leanest hogs commercially available and enable it to market highly differentiated pork products. Management believes that the leanness and increased meat yields of these hogs will, over time, improve the Company s profitability with respect to both fresh pork and processed meats. In fiscal 2005, the Company processed 11.2 million SPG hogs domestically and 654,000 SPG hogs internationally.

Hog production operations. The HP segment is the world s largest hog producer. This segment uses advanced management techniques to produce premium quality hogs on a large scale at a low cost. The Company develops breeding stock, optimizes diets for its hogs at each stage of the growth process, processes feed for its hogs and designs and builds hog containment facilities. The Company believes its economies of scale and production methods, together with its use of the advanced SPG genetics, make it a low cost producer of premium quality hogs. The HP segment also utilizes independent farmers and their facilities to raise hogs produced from its breeding stock. Under multi-year contracts, a farmer provides the initial facility investment, labor and front line management in exchange for a service fee. Currently, approximately 67% of the HP segment s market hogs are raised on contract farms.

Nutrient management and other environmental issues. All of the HP segment s hog production facilities have been designed to meet or exceed all applicable zoning and other government regulations. These regulations require, among other things, maintenance of separation distances between farms and nearby residences, schools, churches, public use areas, businesses, rivers, streams and wells and adherence to required construction standards.

Hog production facilities generate significant quantities of manure, which must be managed properly to protect public health and the environment. The Company believes that it uses the best technologies currently available for the management of swine manure, which require permits under state, and in some instances, federal law. The permits impose standards and conditions on the design and operation of the systems to ensure that they protect public health and the environment, and can also impose nutrient management planning requirements depending on the type of system utilized. The most common system of swine waste management employed by the HP segment s hog production facilities is the lagoon and spray field system, in which earthen lagoons are utilized to treat the manure before it is applied to agricultural fields by spray application. The nitrogen and phosphorus in the treated manure serve as a crop fertilizer.

The HP segment follows a number of other policies and protocols to minimize the impact of its operations on the environment, including: the employment of environmental management systems; ongoing employee training regarding environmental controls; walk-around inspections at all sites by trained personnel; formal emergency response plans that are regularly updated; and collaboration with manufacturers regarding testing and developing new equipment. For further information see Environmental Stewardship and Regulation below.

Other Segment

The Other segment is mainly comprised of the Company s turkey production operations, its interests in turkey processing operations and the Company s alternative fuels subsidiary, Smithfield BioEnergy LLC (Smithfield BioEnergy), based in Milford, Utah. The turkey operations include hatcheries and production operations as well as a 49% interest in Carolina Turkeys, Inc., one of the nation s largest turkey processors. Through Smithfield BioEnergy, the Company is beginning to convert hog waste into biomethanol and biodiesel.

Employees

As of May 1, 2005, the Company had approximately 51,290 employees, approximately 21,800 of whom were covered by collective bargaining agreements. The Pork segment had approximately 30,200 employees, approximately 17,900 of whom were covered by collective bargaining agreements; the Beef segment had approximately 5,700 employees, approximately 2,000 of whom were covered by collective bargaining agreements; the International segment had approximately 10,400 employees, approximately 1,900 of whom were covered by collective bargaining agreements; the HP segment had approximately 4,600 employees, none of whom were covered by collective bargaining agreements; the Other segment had approximately 100 employees, none of whom were covered under collective bargaining agreements; and the Corporate segment had approximately 290 employees, none of whom were covered by collective bargaining agreements. The Company believes that its relationship with its employees is satisfactory.

Table of Contents

Labor organizing activities occasionally occur at one or more of the Company s facilities. For example, the Company is involved in a couple of proceedings regarding union representation of employees at two of its processing facilities. In one proceeding, an administrative law judge has directed that a bargaining order be entered against the Company as to one of the facilities. That case is on appeal to the National Labor Relations Board (the Board). In a case involving another facility, the Board has ordered, among other things, that the Company allow a new representation election be held. The case is on appeal to the Circuit Court of Appeals for the District of Columbia. The outcome of these appeals may determine whether approximately 1,800 additional employees will be union represented or whether new representation elections will be conducted to determine this issue.

Environmental Stewardship

In calendar year 2000, in furtherance of the Company s continued commitment to responsible environmental stewardship, Smithfield Foods, Inc. and its North Carolina-based hog production subsidiaries voluntarily entered into an agreement with the Attorney General of North Carolina (the North Carolina Agreement) designed to enhance water quality in the State of North Carolina through a series of initiatives to be undertaken by the Company and its subsidiaries while protecting their access to swine operations in North Carolina. These initiatives emphasized operations of the Company s hog production subsidiaries in the State of North Carolina, particularly areas devastated by hurricanes in the fall of 1999.

Under the North Carolina Agreement, the Company has assumed a leadership role in the development of environmentally superior and economically feasible waste management system technologies. Pursuant to the North Carolina Agreement, the Company and its subsidiaries committed to implement environmentally superior and economically feasible technologies for the management of swine waste at the subsidiaries farms in North Carolina following a determination made by an expert from North Carolina State University, with advice from peer review panels appointed by him, that such technologies are both environmentally superior and economically feasible to construct and operate at such farms. Initial determinations on the environmental superiority of a subset of the technologies being studied were issued in 2004, and additional determinations related to the environmental superiority and economic feasibility of both the initial subset of technologies receiving determination in 2004, and the remaining technologies, are expected during calendar year 2005. The Company and its subsidiaries have also agreed to provide certain financial and technical assistance to those farms under contract to the subsidiaries as necessary to facilitate their implementation of such technologies determined to be environmentally superior and economically feasible. The Company has paid approximately $13.4 million to date of a $15.0 million commitment under the North Carolina Agreement to help defray the costs of identifying, developing and evaluating such potential technologies. The Company also committed, beginning in calendar year 2000, to pay up to $2.0 million per year for 25 years to assist in the preservation of wetlands and other natural areas in eastern North Carolina and to promote similar environmental enhancement activities.

Through Smithfield BioEnergy, the Company is beginning to convert hog waste into biomethanol and biodiesel.

The Company has assumed a leadership role in the development of environmental management systems, and except for certain recent acquisitions (including those in Romania) and new facilities, all of the Company s hog production operations and meat processing operations have developed and implemented environmental management systems meeting the requirements of the International Organization for Standardization 14001 (ISO 14001). ISO 14001 is a standard published by the International Organization for Standardization, which establishes a coordinated framework of controls to manage environmental protection within an organization. To obtain ISO 14001 certification, an organization must meet a rigorous and comprehensive set of requirements and criteria developed by experts from all over the world and submit to independent audits of its environmental management systems by third parties.

In addition, throughout the Pork, Beef and International segments, the Company promotes a variety of pollution reduction projects related to energy and water conservation, recycling and pollution prevention.

The Company s Environmental Compliance Committee oversees the Company s various environmental initiatives and reports to the board of directors. Members of this committee include, among others, senior management from the Company and its principal operating subsidiaries. The Company s initiatives under the North Carolina agreement are also overseen by management and the Attorney General of North Carolina.

Animal Welfare Management

The Company has a formalized Animal Welfare Management System (AWMS) which it believes to be one of the most comprehensive animal welfare programs in its industry.

The Company s AWMS includes processes and procedures relating to the safety, comfort and health of its animals. The Company retained the services of two internationally recognized experts on animal behavior and animal handling, who verified that the Company s AWMS is credible, science-based and auditable. In addition, the objectives and requirements of our AWMS are regularly audited by the U.S. Department of Agriculture Process Verified Program.

The Company s AWMS includes procedures designed to monitor animal well-being at all stages of the animal s life through a series of checklists, inspections and audits. Through this program, the Company s production personnel receive specific training in the proper methods and practices for the promotion of animal well-being.

Regulation

Regulation generally. Like other participants in the industry, the Company is subject to various laws and regulations administered by federal, state and other government entities, including the Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration and similar agencies in foreign countries. Management believes that the Company currently is in compliance with all these laws and regulations in all material respects and that continued compliance with these laws and regulations will not have a material adverse effect on the Company s financial position or results of operations.

Water. In February 2003, the EPA promulgated regulations under the Clean Water Act governing confined animal feeding operations (CAFOs). Among other things, these regulations impose obligations on CAFOs to manage animal waste in ways intended to reduce the impact on water quality. These new regulations were challenged in federal court by both industry and environmental groups. Although a recent decision by the court invalidated several provisions of the regulations, they remain largely intact. Similarly, the State of North Carolina Department of Environment and Natural Resources (NCDENR) announced in July 2002 the issuance of general permits intended to protect state waters from impacts of large animal feeding operations. Environmental groups have initiated proceedings challenging the NCDENR s action, and the Company has intervened. These proceedings are pending. Although compliance with the federal regulations or state permits will require some changes to the Company s hog production operations resulting in additional costs to these operations, the Company does not believe that compliance with federal regulations or state permits as promulgated will have a material adverse effect on the Company s hog production operations. However, there can be no assurance that pending challenges to the regulations or permits will not result in changes to those regulations or permits that may have a material adverse effect on the Company s financial position or results of operations.

Air. The EPA is also focusing on the possible need to regulate air emissions from animal feeding operations. During calendar year 2002, the National Academy of Sciences (the Academy) undertook a study at the EPA s request to assist the EPA in making that determination. The Academy s study identified a need for more research and better information, but also recommended implementing without delay technically and economically feasible management practices to decrease emissions. Further, the EPA recently offered to enter into an administrative consent agreement and order with owners and operators of hog farms and other animal

Table of Contents

production operations. Under the terms of the consent agreement and order, participating owners and operators would agree to pay a small penalty, contribute towards the cost of an air emissions monitoring study and make their farms available for monitoring. In return, participating farms would be given immunity from federal civil enforcement actions alleging violations of air emissions requirements under certain federal statutes, including the Clean Air Act. The agreement has been challenged in federal court by several environmental organizations; however, to date, neither the court nor the EPA have taken any action which would suggest that the agreement will not proceed as planned prior to the challenge. The Company and its hog production subsidiaries are currently evaluating whether they will participate in the consent agreement and order. New regulations governing air emissions from animal agriculture operations are likely to emerge from any monitoring program undertaken pursuant to the consent agreement and order. There can be no assurance that any new regulations that may be proposed to address air emissions from animal feeding operations may not have a material adverse effect on the Company s financial position or results of operations.

Regulatory and other proceedings. The Company from time to time receives notices from regulatory authorities and others asserting that it is not in compliance with such laws and regulations. In some instances, litigation ensues. The Water Keeper Alliance, an environmental activist group from the State of New York, has filed or caused to be filed a series of lawsuits against the Company and its subsidiaries and properties. Some of these suits were resolved in the Company s favor during fiscal years 2003 and 2004. The suits that remain pending are described below.

In February 2001, the Water Keeper Alliance, Thomas E. Jones d/b/a Neuse Riverkeeper and Neuse River Foundation filed two lawsuits in the United States District Court for the Eastern District of North Carolina against the Company, one of the Company s subsidiaries, and two of that subsidiary s hog production facilities in North Carolina, referred to as the Citizens Suits . The Citizens Suits allege, among other things, violations of various environmental laws at each facility and the failure to obtain certain federal permits at each facility. The lawsuits seek litigation costs, injunctive relief and substantial civil penalties. The Company s and its subsidiary s motions to dismiss were denied and discovery is proceeding in these cases. These cases are not currently set for trial. The Company has investigated the allegations made in the Citizens Suits and believes that the outcome of these lawsuits will not have a material adverse effect on its financial condition or results of operations.

The Company has also received notices and other communications from several organizations, including the Water Keeper Alliance, of their intent to file additional lawsuits against the Company under various federal environmental statutes regulating water quality, air quality and management of solid waste and other common law theories. These threatened lawsuits may seek civil penalties, injunctive relief, remediation costs and other damages. However, the Company does not know whether any of these threatened lawsuits will be filed. The Company believes that all of the litigation and threatened litigation described above represents the agenda of special advocacy groups, including the Water Keeper Alliance. The plaintiffs in these cases have criticized federal and state environmental agencies for purportedly declining to bring any of these suits.

SEC Investigation of Royal Ahold/U.S. Foodservice

In April 2003 (fiscal 2003), the Company received a request from the Securities and Exchange Commission (SEC) to furnish documents related to the SEC s investigation into accounting practices at one of the Company s customers, the U.S. Foodservice unit of Dutch grocer Royal Ahold. The Company complied fully with that request and was not the focus of the SEC s investigation. The Company believes that the request it received was similar to others received by a number of other U.S. Foodservice vendors.

During the two years prior to the SEC s request, the Company s business with U.S. Foodservice had been conducted through an independent broker who handled the Company s products lines, as well as those of other vendors. The Company s internal review revealed that, on several occasions the broker received and, without the Company s knowledge, authorization or verification, responded to requests from U.S. Foodservice to confirm rebates and balances due from the Company. Some of the balances and related information that he confirmed were inconsistent with the Company s books and records and were significantly higher than the amounts owed. Before he established his own business, the broker had been a sales employee of the Company and dealt with U.S. Foodservice in that capacity. From the Company s review, it appears that, also without authority, he responded incorrectly on at least one occasion to confirmation requests from U.S. Foodservice while he was an employee of the Company. The Company has provided these findings and related materials to the SEC in conjunction with the SEC s ongoing investigation into U.S. Foodservice.

Available Information

The Company s website address is *www.smithfieldfoods.com*. The Company makes available free of charge through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after filing or furnishing the material to the SEC. You may read and copy documents the Company files at the SEC s public reference room at 450 Fifth Street, N.W., Washington D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room.

The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including the Company) file electronically with the SEC. The SEC s website is *http://www.sec.gov*.

Table of Contents

Item 2. ***Properties***

The following table lists the Company s material plants and other physical properties. These properties are suitable for the Company s needs.

Location	Segment	Operation
Smithfield Packing Plant* Smithfield, Virginia	Pork	Slaughtering and cutting hogs; production of bacon products, smoked meats and dry salt meats; production of hams and picnics
Smithfield Packing Plant* Bladen County, North Carolina	Pork	Slaughtering and cutting hogs; production of boneless hams and loins
Gwaltney Plant* Smithfield, Virginia	Pork	Slaughtering and cutting hogs; production of boneless loins, bacon, sausage, bone-in and boneless cooked and smoked hams and picnics
Lykes Meat Group Plant* (operated by Smithfield Packing) Plant City, Florida	Pork	Production of hot dogs, luncheon meats and sausage products
John Morrell Plant* Sioux Falls, South Dakota	Pork	Slaughtering and cutting hogs; production of boneless loins, bacon, hot dogs, luncheon meats, smoked and canned hams and packaged lard
John Morrell Plant* Sioux City, Iowa	Pork	Slaughtering and cutting hogs; production of boneless loins
Farmland Plant Crete, Nebraska	Pork	Slaughtering and cutting hogs; fresh and processed pork products
Farmland Plant Monmouth, Illinois	Pork	Slaughtering and cutting hogs; production of bacon and processed hams, extra tender and ground pork
Farmland Plant Dennison, Iowa	Pork	Slaughtering and cutting hogs; production of bacon and processed hams
Patrick Cudahy Plant Cudahy, Wisconsin	Pork	Production of bacon, dry sausage, boneless cooked hams and refinery products
Packerland Packing Plant* Green Bay, Wisconsin	Beef	Slaughtering and cutting cattle; production of boxed, processed and ground beef
Packerland Plainwell Plant* Plainwell, Michigan	Beef	Slaughtering and cutting cattle; production of boxed, processed and ground beef

Sun Land Packing Plant* Tolleson, Arizona	Beef	Slaughtering and cutting cattle; production of boxed beef
Moyer Packing Plant Souderton, Pennsylvania	Beef	Slaughtering and cutting cattle; production of boxed, processed and ground beef
Landivisiau, France	Int l.	Production of sliced ham, bellies and culinary aids
Quimper, France	Int l.	Production of shoulder, cooked bacon and pate
Saint Etienne, France	Int l.	Production of sliced ham, garlic sausage, dry sausage, poultry and cooked loin
Lille, France	Int l.	Production of deli ham, dry sausage, hot dogs and meat sausage
Animex Plant* Ilawa, Poland	Int l.	Fresh meat and processed products

12

Table of Contents

Location	Segment	Operation
Animex Plant* Szczecin, Poland	Int l.	Slaughter and deboning hogs; processed and other pork products
Animex Plant* Starachowice, Poland	Int l.	Slaughter and deboning hogs; processed and other pork products
Animex Plant* Elk, Poland	Int l.	Slaughter and deboning hogs; processed and other pork products
Morliny Plant Morliny, Poland	Int l.	Processed and other pork products
Agrotorvis and Comtim Plants Timisoara, Romania	Int l.	Deboning, slaughter and rendering hogs

* Pledged as collateral under various loan agreements.

The HP segment owns and leases numerous hog production facilities, mainly in North Carolina, Utah and Virginia, with additional hog production facilities in Oklahoma, Colorado, Texas, Iowa, Illinois, South Carolina, Missouri, Poland and Romania. A substantial number of these owned facilities are pledged under loan agreements.

13

Table of Contents

Item 3. ***Legal Proceedings***

Smithfield Foods and certain of its subsidiaries are parties to the environmental litigation matters discussed in Item 1. Business Regulation above. Apart from those matters and those listed below, Smithfield Foods and its subsidiaries and affiliates are parties in various lawsuits arising in the ordinary course of business. In the opinion of management, any ultimate liability with respect to these ordinary course matters will not have a material adverse effect on the Company s financial position or results of operations.

State of Iowa legislation. In calendar year 2000 and again in calendar year 2002, an Iowa statute was amended, among other things, to prohibit meat processors from directly or indirectly contracting to raise hogs in Iowa and from providing financing to Iowa hog producers. On January 22, 2003, the Company prevailed in an action in the United States District Court for the Southern District of Iowa, Central Division (the District Court), which declared the Iowa legislation unconstitutional. The State of Iowa appealed that decision to the United States Court of Appeals for the Eighth Circuit (the Court of Appeals). While the appeal was pending and in an effort to address the constitutionality of the statute, the Iowa state legislature amended it again on May 9, 2003. On May 21, 2004, the Court of Appeals vacated the decision and sent the case back to the District Court for consideration of the constitutionality of the statute in light of the May 9, 2003 amendment. The Company intends to continue to challenge vigorously the constitutionality of the amended Iowa statute, although there can be no assurance that the Company will again be successful. If the Company s challenge is unsuccessful, the Company believes that the most recent amendment to the Iowa statute provides that the Company has until June 30, 2006 to comply with the amended statute. Such legislation and the possible application of legislation may have a material adverse impact on the Company s operations, which are substantially integrated. In addition, there can be no assurance that the statute will not be further amended by the Iowa state legislature or that similar statutes will not be enacted by other state legislatures.

Pennexx litigation. The Company was a party to a credit agreement and related security documents with Pennexx Foods, Inc. (Pennexx), a Philadelphia-based producer of pre-priced, pre-packaged case-ready products. In June 2003, due to Pennexx s failure to pay amounts due to the Company under the credit agreement, and pursuant to the terms of a Forbearance and Peaceful Possession Agreement (the Forbearance Agreement) between the Company and Pennexx as approved by the United States District Court for the Eastern District of Pennsylvania (the District Court), the Company took possession of substantially all of Pennexx s assets and began operating these assets under the name Showcase Foods, Inc. as part of the Beef segment.

On July 24, 2003, a putative class action complaint was filed on behalf of shareholders of Pennexx in the District Court against Pennexx, its directors (including two of the Company s officers who were former directors of Pennexx) and the Company. The class action complaint alleged violations of federal securities laws and state common law and sought unspecified compensatory damages. On December 5, 2003, Pennexx filed a cross-claim in the class action against the Company and the Company s officers who formerly served as directors of Pennexx. The cross-claim alleged, among other things, fraud, breach of fiduciary duty and tortious interference with contractual relations, and sought damages in excess of $226 million.

On October 15, 2004, the Company filed a motion to dismiss Pennexx s cross-claim, which the District Court granted in full on May 16, 2005. On June 2, 2005, Pennexx filed a Notice of Appeal of the District Court s dismissal of the cross-claim to the U.S. Court of Appeals for the Third Circuit. The Company continues to believe that the allegations in the cross-claim are unfounded and intends to defend the appeal vigorously.

On January 21, 2004, the Company filed a motion to dismiss the class action suit, which the District Court granted in part and denied in part on September 27, 2004. On February 23, 2005, the shareholder plaintiffs in the class action filed a motion to certify a class of certain Pennexx shareholders. On June 29, 2005, the District Court dismissed the class action without prejudice for lack of prosecution. The District Court took this action following the withdrawal of the lead plaintiff and the failure of any other putative class member to step forward as lead plaintiff. The Company intends to defend any appeal of the dismissal of the class action vigorously.

Table of Contents

Item 4. ***Submission of Matters to a Vote of Security Holders***

During the fourth quarter of the fiscal year covered by this report, no matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

The following table sets forth the name, age as of the end of fiscal 2005, position with the Company and business experience during the past five years for each of the executive officers of the Company. The board of directors elects executive officers to hold office until the next annual meeting of the board of directors, until their successors are elected or until their resignation or removal.

Name and Age	Position with the Company	Business Experience During Past Five Years
Joseph W. Luter, III (65)	Chairman of the Board and Chief Executive Officer	Mr. Luter has served as Chairman of the Board and Chief Executive Officer since 1975. Prior to May 1995 and between June 2000 and October 2001, he also served as President.
C. Larry Pope (50)	President and Chief Operating Officer	Mr. Pope was elected President and Chief Operating Officer in October 2001. Mr. Pope served as Vice President and Chief Financial Officer from September 1999 to October 2001.
Richard J. M. Poulson (66)	Executive Vice President, General Counsel and Senior Advisor to the Chairman	Mr. Poulson was elected Executive Vice President and Senior Advisor to the Chairman in October 2001. Mr. Poulson joined the Company as Vice President and Senior Advisor to the Chairman in July 1998.
Daniel G. Stevens (46)	Vice President and Chief Financial Officer	Mr. Stevens was elected Vice President and Chief Financial Officer in October 2001. Mr. Stevens served as Vice President and Controller from June 2000 to October 2001 and as Corporate Controller from November 1998 to June 2000.
Joseph W. Luter, IV (40)	President of Smithfield Packing	Mr. Luter was elected President of Smithfield Packing in November 2004. Mr. Luter served as Executive Vice President of the Company from October 2001 until November 2004. He served as Senior Vice President, Sales and Marketing of Smithfield Packing from May 2000 until October 2001. Mr. Luter is the son of Joseph W. Luter, III.
Jerry H. Godwin (58)	President of Murphy-Brown	Mr. Godwin was elected President of Murphy-Brown in April 2001. Prior to April 2001, he was President of Murphy Farms, Inc.
Joseph B. Sebring (57)	President of John Morrell	Mr. Sebring has served as President of John Morrell since May 1994.
Richard V. Vesta (58)	President of Packerland Holdings and President of Moyer Packing	Mr. Vesta has served as President of Packerland Holdings since October 1993 and as President of Moyer Packing since October 2001.
George H. Richter (60)	President of Farmland Foods	Mr. Richter has served as President of Farmland Foods since October 2003. Prior to October 2003, he was President of Farmland Foods pork division.

Table of Contents

PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

The Common Stock of the Company trades on the New York Stock Exchange under the symbol SFD . The following table shows the high and low sales price of the Common Stock of the Company for each quarter of fiscal 2005 and 2004.

	Range of Sales Price	
	High	**Low**
Fiscal year ended May 2, 2004		
First quarter	$ 23.70	$ 18.39
Second quarter	23.05	19.00
Third quarter	25.75	20.10
Fourth quarter	28.00	23.00
Fiscal year ended May 1, 2005		
First quarter	$ 31.15	$ 25.90
Second quarter	28.24	23.27
Third quarter	30.81	24.10
Fourth quarter	34.64	29.29

Holders

As of June 15, 2005, there were 1,269 record holders of the Common Stock.

Dividends

The Company has never paid a cash dividend on its Common Stock and has no current plan to pay cash dividends. In addition, the terms of certain of the Company s debt agreements prohibit the payment of any cash dividends on the Common Stock. The payment of cash dividends, if any, would be made only from assets legally available for that purpose and would depend on the Company s financial condition, results of operations, current and anticipated capital requirements, restrictions under then existing debt instruments and other factors then deemed relevant by the board of directors.

Table of Contents

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased as Part Of Publicly Announced Plans Or Programs	Maximum Number Of Shares that May Yet Be Purchased Under the Plans or Programs(2)
Month #1 - January 31 to February 27, 2005		n/a	n/a	1,203,430
Month #2 - February 28 to April 3, 2005		n/a	n/a	1,203,430
Month #3 - April 4 to May 1, 2005	100,000(1)	$ 29.99	100,000	1,103,430
Total	100,000(1)	$ 29.99	100,000	1,103,430(3)

(1) The purchases were made in open market transactions.

(2) As of May 1, 2005, the Company s board of directors had authorized the repurchase of up to 18,000,000 shares of the Company s common stock. The original repurchase plan was announced on May 6, 1999 and increases in the number of shares the Company may repurchase under the plan were announced on December 15, 1999, January 20, 2000, February 26, 2001 and February 14, 2002.

(3) On June 2, 2005, the Company s board of directors authorized the repurchase of an additional 2,000,000 shares of the Company s common stock.

Table of Contents

Item 6. ***Selected Financial Data***

The selected consolidated financial data set forth below for the fiscal years indicated were derived from the Company s audited consolidated financial statements. The information should be read in conjunction with the Company s consolidated financial statements (including the notes thereto) and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in, or incorporated by reference into, this report.

	Fiscal Year Ended				
	May 1, 2005	**May 2, 2004**	**April 27, 2003**	**April 28, 2002**	**April 29, 2001**
	(in millions, except per share data)				
Statement of Income Data:					
Sales	$ 11,354.2	$ 9,267.0	$ 7,135.4	$ 6,604.9	$ 5,123.7
Cost of sales	10,115.8	8,328.1	6,533.2	5,719.0	4,361.4
Gross profit	1,238.4	938.9	602.2	885.9	762.3
Selling, general and administrative expenses	656.4	570.8	497.9	500.3	416.2
Interest expense	135.0	121.3	87.8	88.8	81.5
Gain on sale of IBP, inc. common stock				(7.0)	(79.0)
Income from continuing operations before income taxes	447.0	246.8	16.5	303.8	343.6
Income taxes	150.8	84.1	4.6	115.8	129.3
Income from continuing operations(1)	296.2	162.7	11.9	188.0	214.3
Income from discontinued operations, net of tax(2)		64.4	14.4	8.9	9.2
Net income	$ 296.2	$ 227.1	$ 26.3	$ 196.9	$ 223.5
Diluted Income Per Share:					
Continuing operations(1)	$ 2.64	$ 1.46	$ .11	$ 1.70	$ 1.95
Discontinued operations, net of tax(2)		.57	.13	.08	.08
Net income per diluted share	$ 2.64	$ 2.03	$ .24	$ 1.78	$ 2.03
Weighted Average Diluted Shares Outstanding	112.3	111.7	109.8	110.4	110.1
Balance Sheet Data:					
Working capital	$ 1,445.6	$ 1,056.6	$ 833.0	$ 798.5	$ 635.4
Total assets	5,704.8	4,785.6	4,210.6	3,872.7	3,250.9
Long-term debt and capital lease obligations	2,151.7	1,696.8	1,523.1	1,304.6	1,087.5
Shareholders equity	1,901.4	1,598.9	1,299.2	1,362.8	1,053.1

(1) Fiscal 2001 income from continuing operations and net income include a gain of $45.2 million, or $.41 per diluted share, from the sale of IBP, inc. common stock, net of related expenses.

(2) Fiscal 2004 income from discontinued operations and net income include a gain of $49.0 million, net of tax of $27.0 million, or $.44 per diluted share, from the sale of Schneider Corporation.

The other operational data set forth below are for the fiscal years indicated.

	Fiscal Year Ended				
	May 1, 2005	May 2, 2004	April 27, 2003	April 28, 2002	April 29, 2001
	(in millions)				
Other Operational Data:					
Total hogs processed	28.6	24.7	20.1	19.3	18.9
Processed meats sales (pounds)	2,689.0	2,344.8	1,955.1	1,933.2	1,854.5
Fresh beef sales (pounds)	1,307.3	1,457.9	1,489.7	880.2	
Total hogs sold	15.4	14.5	12.9	12.2	11.8

Table of Contents

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

GENERAL

This discussion of management s views on the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements.

The Company conducts its business through six reporting segments, Pork, Beef, Hog Production (HP), International, Other and Corporate, each of which is comprised of a number of subsidiaries. Prior to the fourth quarter of fiscal 2005, the Company conducted its business through five reporting segments, Pork, Beef, HP, Other and Corporate. The Company has reclassified the segment information for fiscal 2004 and 2003 to conform to the fiscal 2005 presentation.

The Pork segment consists mainly of eight wholly- or majority-owned U.S. fresh pork and processed meats subsidiaries. The Beef segment is composed mainly of two U.S. beef processing subsidiaries and the Company s cattle feeding operations. The HP segment consists primarily of hog production operations located in the U.S., Poland and Romania. The International segment is comprised of international meat processing operations, mainly in France, Poland and Romania and the Company s interests in international meat processing operations, mainly in Mexico and Spain. The Other segment is mainly comprised of the Company s turkey production operations, its interests in turkey processing operations, and the Company s alternative fuels subsidiary. Each of the segments have certain joint ventures and other investments in addition to their main operations.

RESULTS OF CONTINUING OPERATIONS

Overview

General Factors Affecting the Results of Continuing Operations

The Company s fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest April 30th. Fiscal 2005 and fiscal 2003 were 52 weeks. Fiscal 2004 was 53 weeks.

Fiscal 2005 hog prices increased over fiscal 2004. This increased the sales and operating profit of the HP segment and the raw materials cost at the Pork segment.

Export markets for U.S. beef products remain closed following the discovery of a case of BSE in the State of Washington in December 2003 (fiscal 2004), negatively affecting beef margins that were also impacted by higher cattle prices. Beef volumes were down 10% during fiscal 2005.

In February 2004 (fiscal 2004), the Company purchased 8,008,294 shares of Campofrío Alimentación S.A. (Campofrío) for approximately $87.9 million. This investment represented 15% of the outstanding shares of Campofrío. In August 2004 (fiscal 2005), in two separate transactions, the Company purchased a total of 3,787,265 additional shares of Campofrío for approximately $49.0 million. The Company currently holds 11,795,559 shares, or 22% of the outstanding shares of Campofrío.

Acquisitions

The following acquisitions affect the comparability of the results of operations for fiscal years 2005, 2004 and 2003:

In November 2004 (fiscal 2005), the Company acquired Morliny S.A. (Morliny) and Comtim Group SRL (Comtim) in the International segment for approximately $71.3 million plus the assumption of certain liabilities.

Table of Contents

Morliny is a meat processor in Poland and Comtim is an integrated meat processing company in Romania. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of acquisition was recorded as goodwill totaling $21.5 million.

In October 2004 (fiscal 2005), the Company acquired MF Cattle Feeding, Inc. (MFI) for approximately $56.7 million. The principal assets of MFI were three cattle feedlots in Colorado and one in Idaho. The one-time feeding capacity of the feedlots, which will be operated by the Beef segment or by entities the Beef segment has investments in, is 357,000 head. The acquired assets did not include any of the cattle that were located on the feedlots. The preliminary balance of the purchase price in excess of the fair value of the assets and the liabilities assumed at the date of acquisition was recorded as goodwill totaling $7.0 million.

In July 2004 (fiscal 2005), the Company acquired Jean Caby S.A. (Jean Caby) and related companies for approximately $33.4 million plus the assumption of certain liabilities. Jean Caby, established in France in 1919, produces and markets cured and cooked processed meats including deli cooked hams, dry sausages, cocktail sausages, and hot dogs. The preliminary balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $10.6 million.

In October 2003 (fiscal 2004), the Company completed the acquisition of substantially all of the assets of Farmland Foods, the pork production and processing business of Farmland Industries, Inc., for approximately $377.4 million in cash, plus the assumption of certain Farmland Foods liabilities. The assumed liabilities include $67.4 million of pension obligations, net of associated assets. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed was recorded as goodwill totaling $35.2 million.

In September 2003 (fiscal 2004), the Company acquired 90% of the outstanding shares of Cumberland Gap Provision Company (Cumberland Gap) for approximately $54.8 million plus assumed debt. Cumberland Gap is a processor of premium branded smoked hams, sausages and other specialty pork products. The balance of the purchase price in excess of the fair value of the assets acquired and the liabilities assumed at the date of the acquisition was recorded as goodwill totaling $30.9 million.

Discontinued Operations

On April 5, 2004, the Company completed the sale of all of the outstanding stock of Schneider Corporation (Schneider) to Maple Leaf Foods Inc.

Showcase Foods Facility Closure

Despite the Company s efforts to build a viable business at the Showcase Foods facility, this Beef segment operation continued to incur operating losses and the Company decided to cease operations there. The Company recorded a pre-tax charge of $4.0 million during fiscal 2005 in connection with the closing of the facility. In addition, Showcase Foods incurred operating losses of $5.2 million during fiscal 2005. The Company does not currently expect to incur further significant losses or charges related to the closing of the Showcase Foods facility.

Polish Facility Temporary Shutdown

Subsequent to its fiscal 2005 year end, the Company s Polish operations temporarily shutdown a red meat plant in connection with media reports on food safety and related issues. The Company voluntarily shut down the plant for ten days and recalled some previously shipped product. The effects of the shutdown and returns did not have a material impact on the Company s financial position or results of operations.

Table of Contents

Results of Continuing Operations for the Fiscal Year Ended May 1, 2005 Compared to the Fiscal Year Ended May 2, 2004

The following table presents sales by reportable segment for the fiscal years indicated (in millions):

	2005	2004	$ Change
Sales:			
Pork	$ 7,636.5	$ 5,856.4	$ 1,780.1
Beef	2,280.6	2,391.6	(111.0)
International	1,022.3	663.7	358.6
HP	2,112.4	1,441.3	671.1
Other	141.7	116.7	25.0
Segment sales	13,193.5	10,469.7	2,723.8
Inter-segment sales	(1,839.3)		