

**LESSONS FROM  
SMITHFIELD FOODS**



Smithfield Foods, Inc.

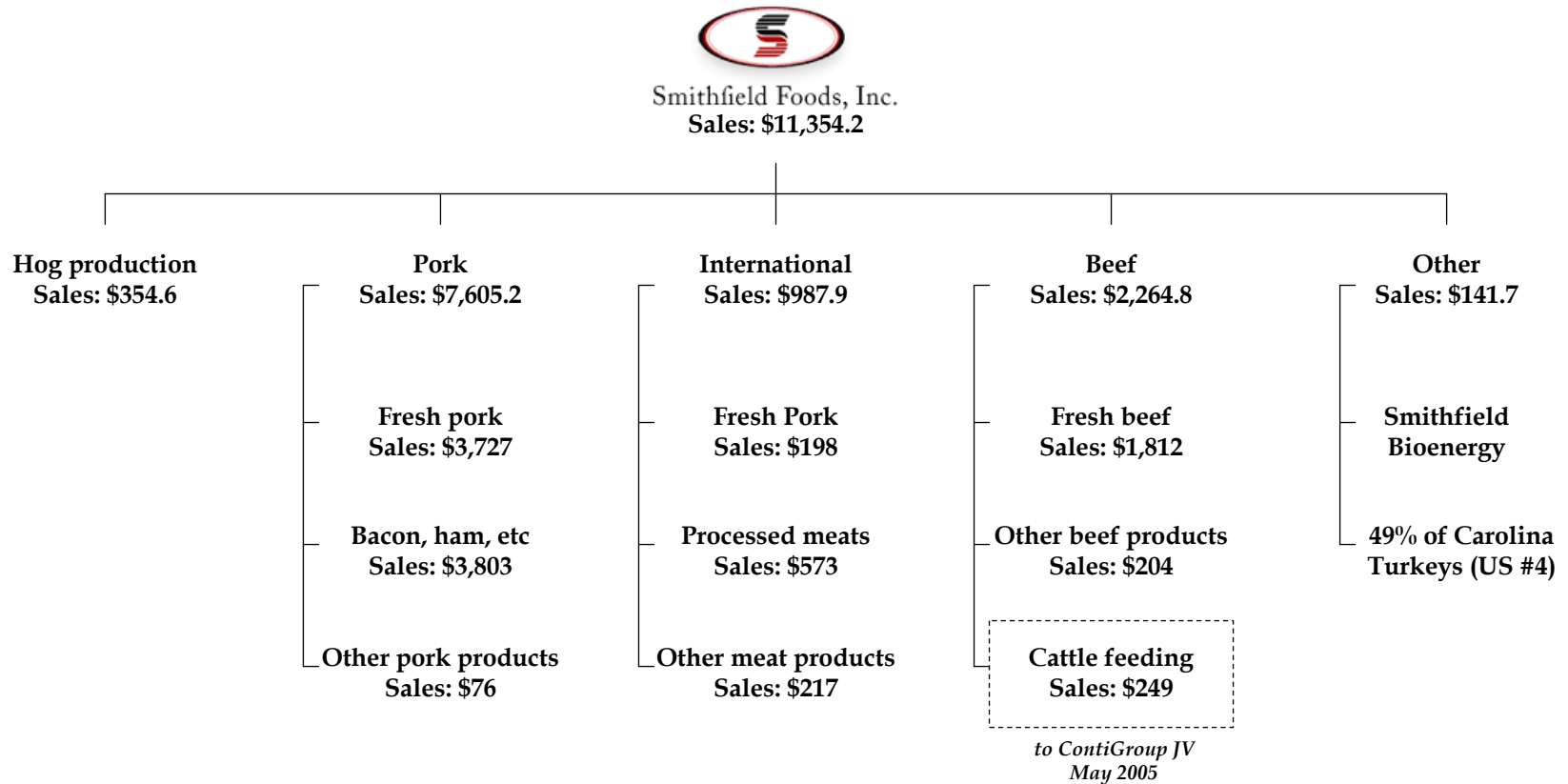
**Monash Meat  
Executive Program**  
November 2006

CORI@LIS  
RESEARCH

# COMPANY STRUCTURE

Smithfield is an integrated pork producer that has expanded internationally and diversified into beef

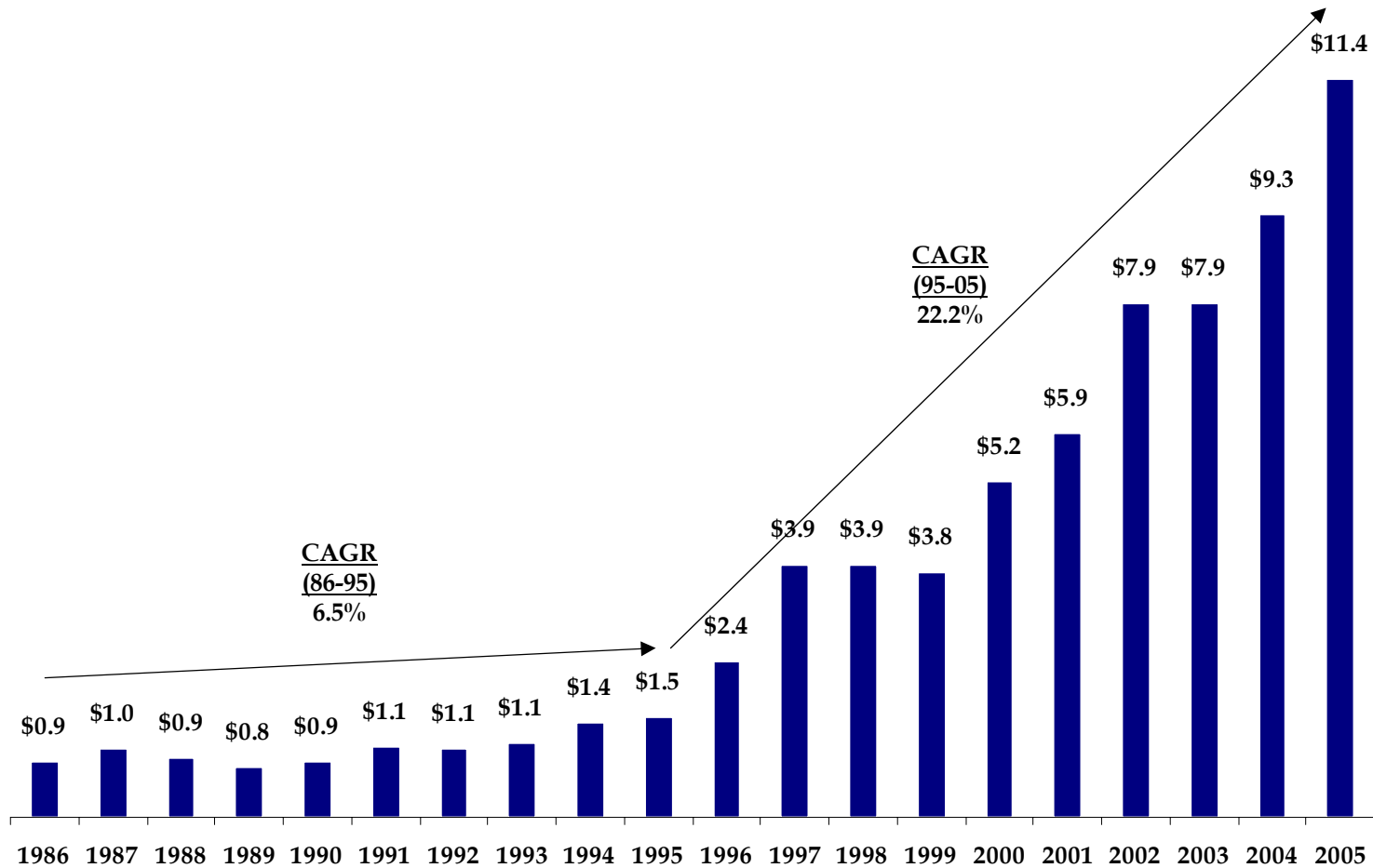
Smithfield company structure  
(dollars, millions, 2005)



## STRONG SALES GROWTH

After a decade of low growth to 1995, Smithfield has put on an impressive growth spurt, growing an a compound annual rate of 22% for ten years

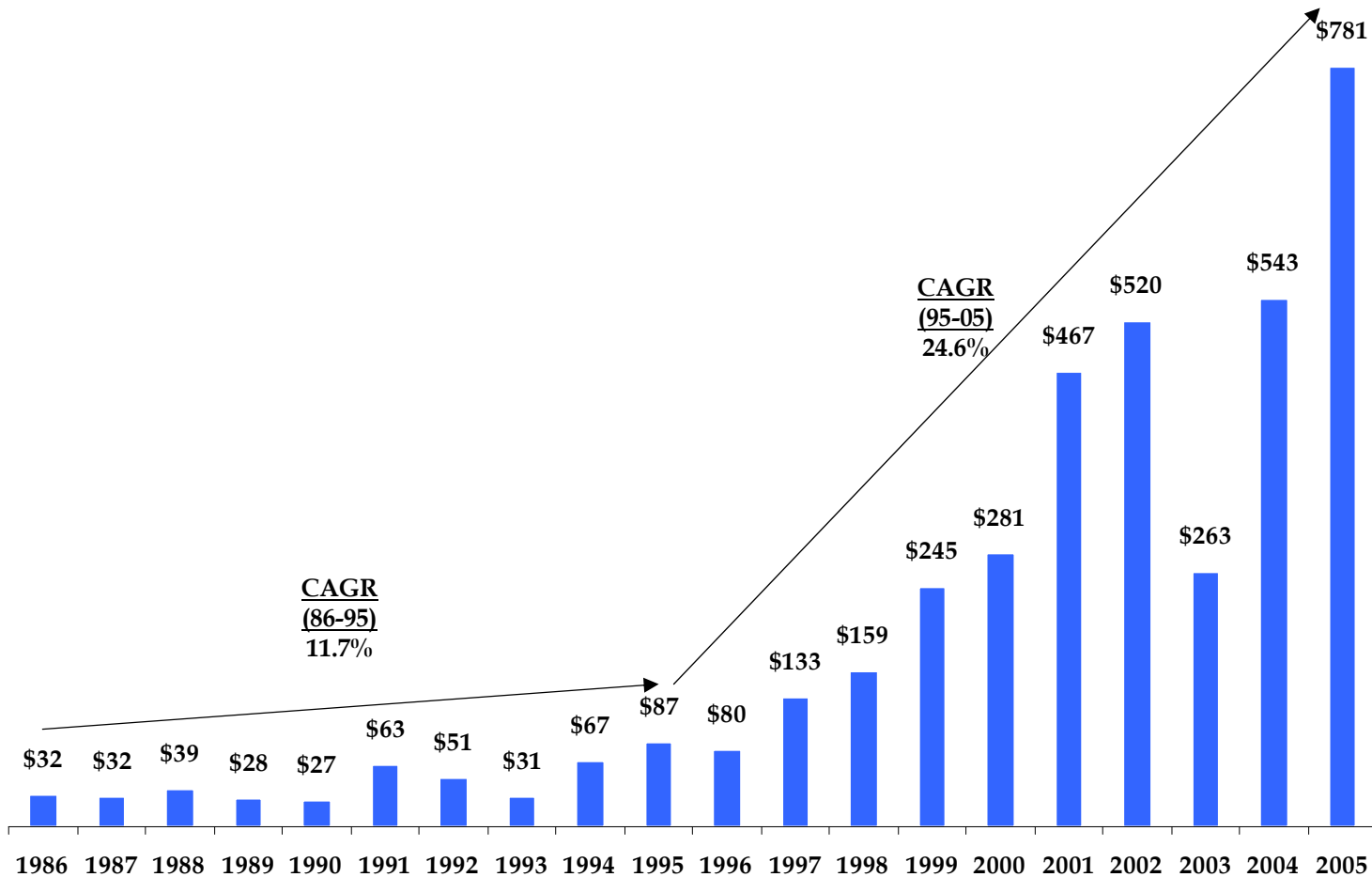
Smithfield sales growth  
(dollars, billions, 1986-2005)



## STRONG PROFIT GROWTH

Even during the low sales growth decade (86-95), Smithfield was able to grow EBITDA twice as fast, giving it the credibility to make acquisitions

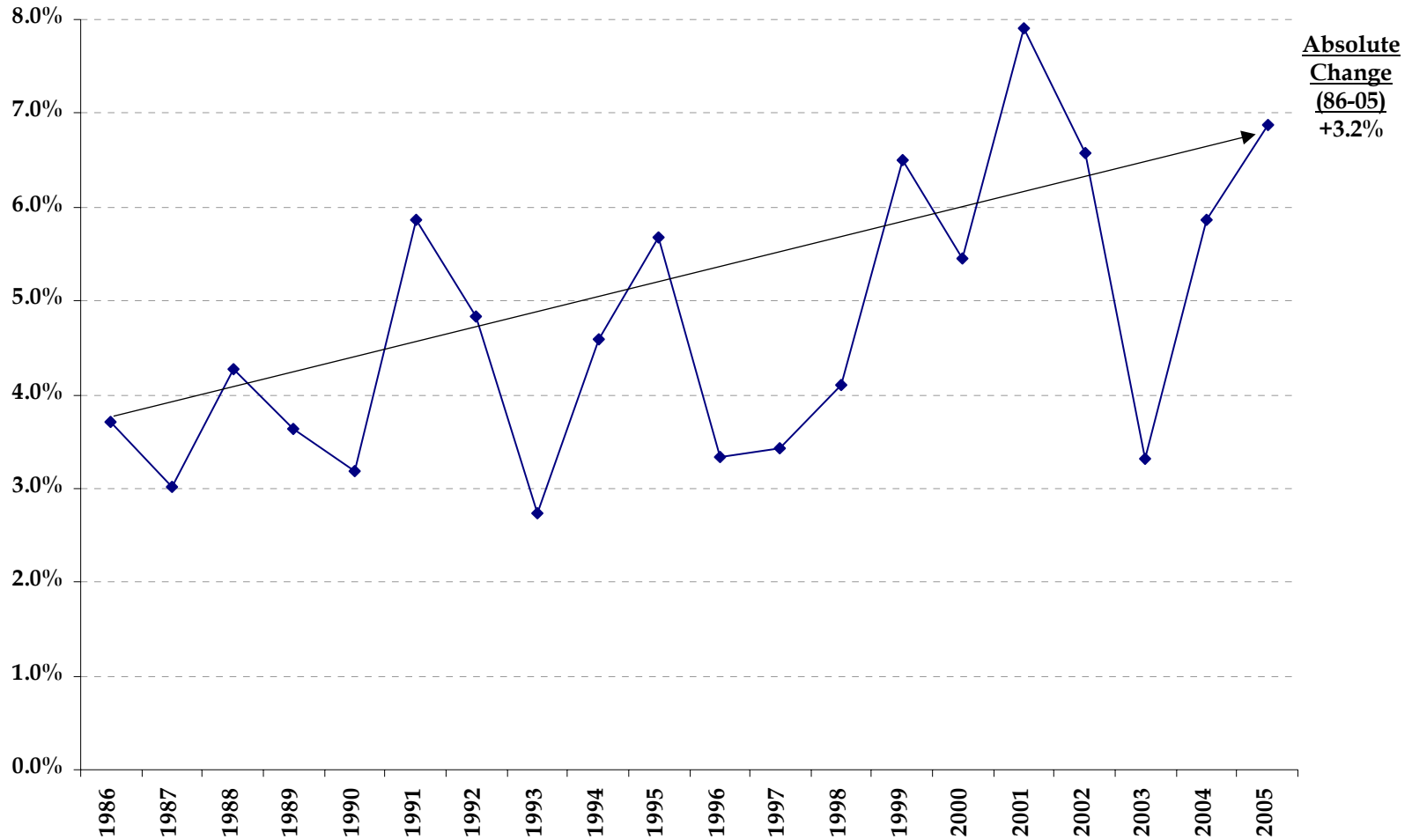
Smithfield EBITDA growth  
(dollars, millions, 1986-2005)



# STRONG MARGIN GROWTH

## Smithfield also appears to be growing margins over time

**Smithfield EBITDA growth**  
(EBITDA % margin, 1986-2005)



# SHARE PRICE GROWTH

## Smithfield has shown excellent share price growth

Smithfield share price  
(NYSE: SFD, 1986-2005)



## COMPANY STRATEGY

In 2001 Smithfield outlined its strategy as having four pillars: (1) vertical integration, (2) advanced genetics, (3) strategic acquisitions and (4) value-added & branded products

### Smithfield strategy (2001)

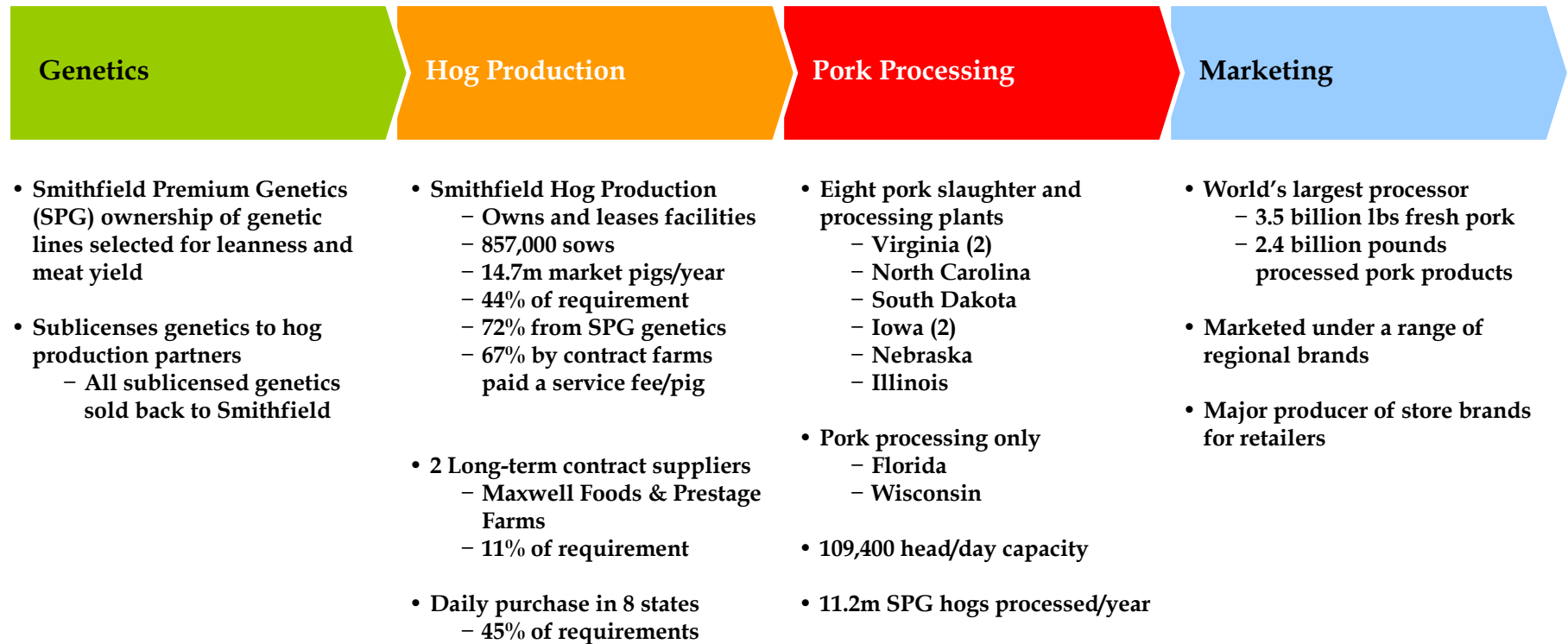
Strategy	Details
1. Vertical Integration	The Company produces hogs through a combination of Company-owned and contract production operations in addition to long-term partnerships and strategic alliances. The Company believes that vertical integration provides a number of competitive advantages, including substantial economies of scale from high volume hog production, increased control over raw material quality and consistency, and operational, logistical and transportation efficiencies due to the close proximity of the Company's hog production operations to its meat processing facilities. The Company intends to position itself to maximize the benefits of vertical integration.
2. Advanced Genetics	Since May 1991, the Company has made extensive use of its exclusive United States franchise rights from the National Pig Development Company, or NPD, for genetic lines of specialized breeding stock. These hogs are among the leanest hogs commercially available, and enable the Company to market highly differentiated pork products. Over the next five years the Company intends to further expand production of NPD sows. The Company believes that the leanness and increased meat yields of these hogs will continue to improve the overall quality and consistency of its fresh pork and processed meats.
3. Strategic Acquisitions	Over the last decade, the company has made several significant acquisitions that have increased production capacity, provided vertical integration, expanded the geographic reach of the Company into new markets both domestically and internationally and created a portfolio of highly recognized regional brands. Recently, the Company acquired Moyer Packing Company, the ninth largest U.S. beef processor, which will provide the Company with the opportunity to expand its geographic reach into the northeastern United States and offer a broader range of complementary products. Going forward, the Company will continue to look to grow through strategic acquisitions in the United States and throughout the world.
4. Value-Added & Branded Products	The Company believes that significant earnings growth will occur through focused efforts to market value-added and branded products. In this regard, the company has embarked on a strategy of increasing brand awareness by marketing branded fresh pork and further processed fresh pork cuts into value added and case-ready products for sale directly to retailers and consumers. In addition, the Company introduced a new line of fresh pork products under the Smithfield Lean Generation Pork brand name approximately six years ago. These products, using only raw materials from the NPD hog, are marketed nationwide to selected retailers and institutional foodservice customers. Since their introduction, sales of Smithfield Lean Generation Pork products have grown to more than 100 million pounds annually. The success of this and other Smithfield branded pork programs, provides the Company with increased name recognition among retailers and consumers, which in turn, enables the Company to sell other processed meat products such as ham, bacon, sausage and hot dogs.

# 1. VERTICAL INTEGRATION

Smithfield is highly vertically integrated and involved in all aspects of its value chain

## Structure of Smithfield pork production value chain

(various, 2005)



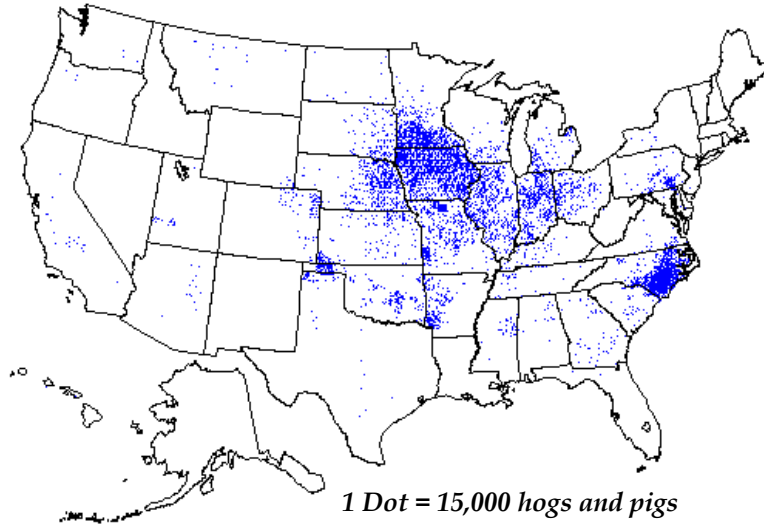


# LOCATION OF PORK PRODUCTION

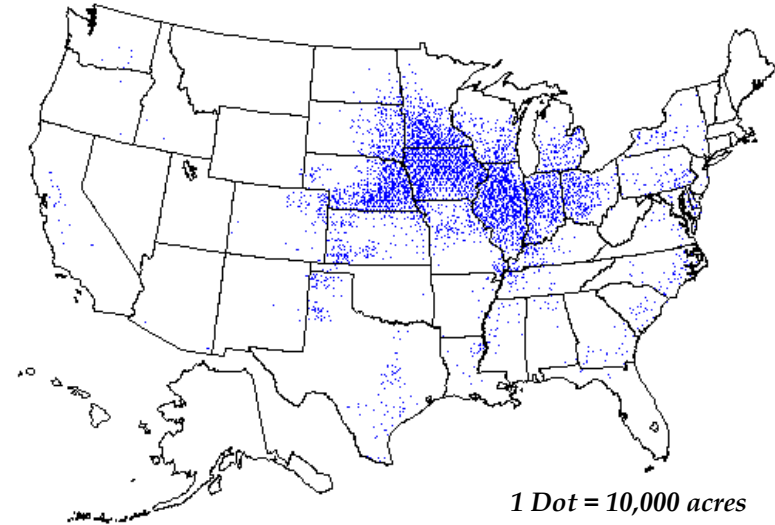
American pork production is located either in areas of corn production or near Smithfield, North Carolina

Location of US hog and pig production relative to grain inputs  
(various, 1997)

Hogs & Pigs Sold



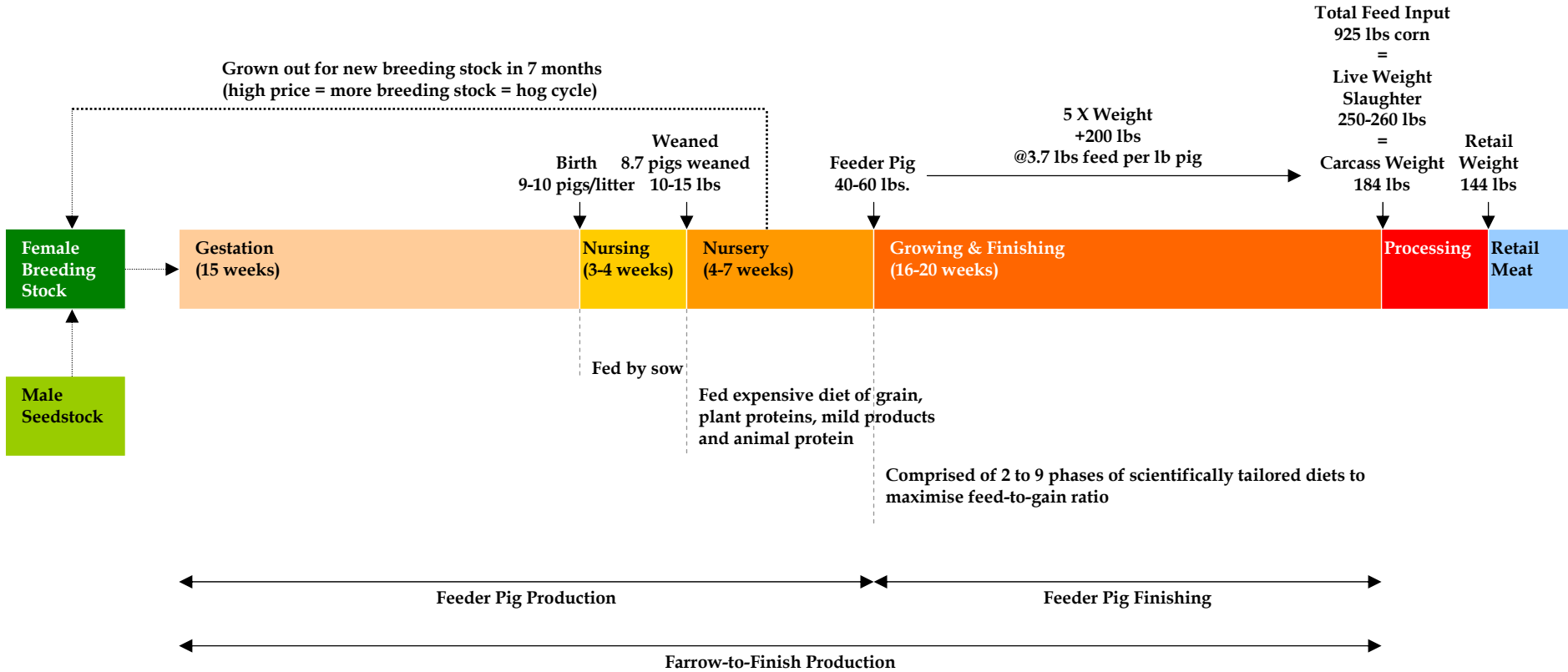
Corn Production



# LIFE OF A HOG

It takes about 22 weeks to grow a pig to slaughter weight

Biological structure and lags in pork production  
(model)



## A SIMPLE BUSINESS

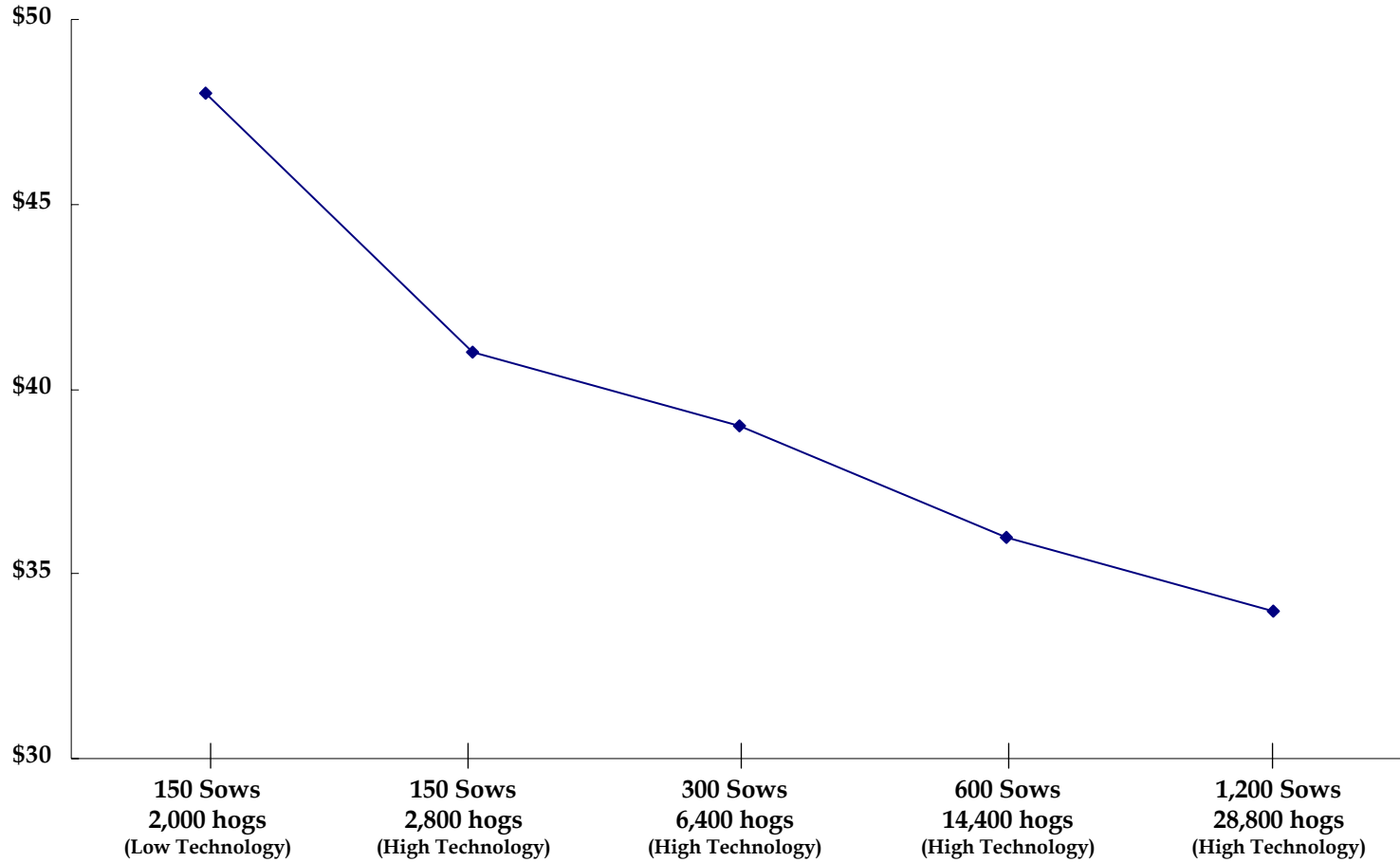
### Hog production is a simple business to understand – it is the conversion of grain into meat

- “Pork production is a very simple business – producers start with between 900 and 950 lbs. of corn and finish with a 250 lb. live hog that yields approximately 144 lbs. of edible pork and a number of other by-products. Feed costs, largely corn, are 60%-70% of the cost of raising each live hog. Hence the absolute level of hog prices is not nearly as important as the level of hog prices relative to corn prices. While Smithfield’s scale, superior genetics and distribution network allow for better conversion ratios than competitors, these factors are relatively small on an annual basis in the face of the core profitability equation of hog production: Pork price/Corn price.” *Jonathan Feeney, analyst, STRH, March 2003*

# ECONOMIES OF SCALE IN HOG PRODUCTION

However, there are strong and growing economies of scale in hog production

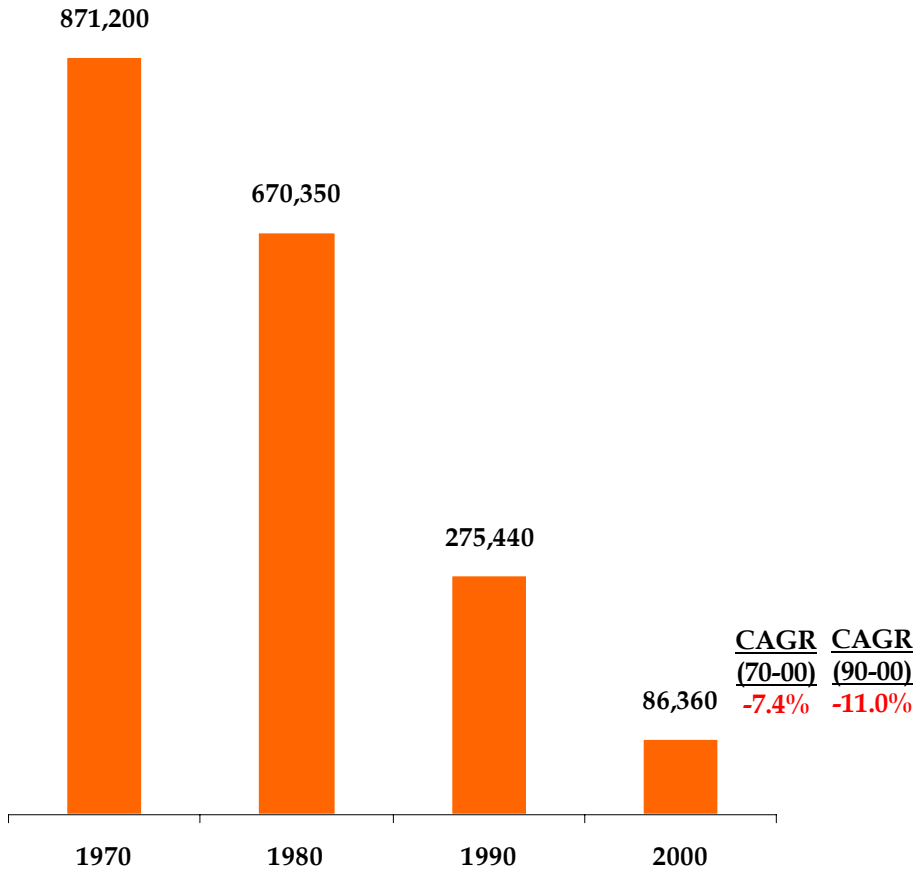
Hog production cost by type of operation  
(dollars per 100lbs; 2000)



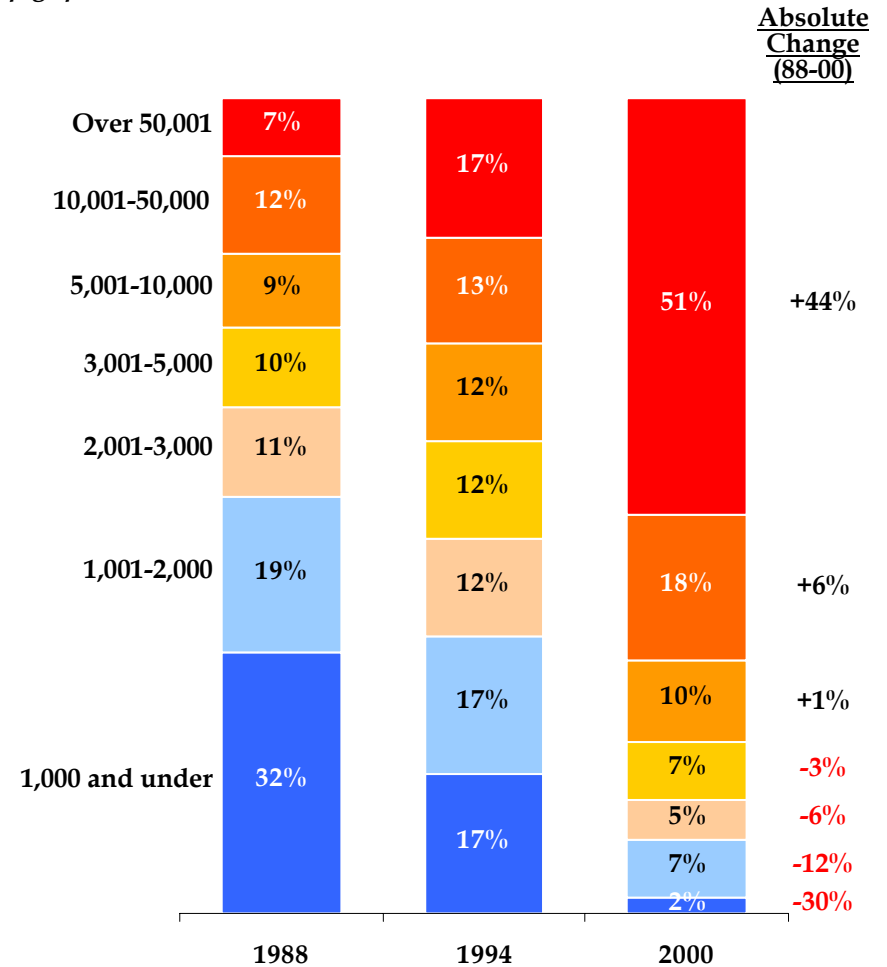
## US PRODUCTION SHARE BY SIZE

As a result, there has been a dramatic shift to large scale pig production over the past decade and a half

Change in number of pig operations  
(# of farms, 1970-2000)



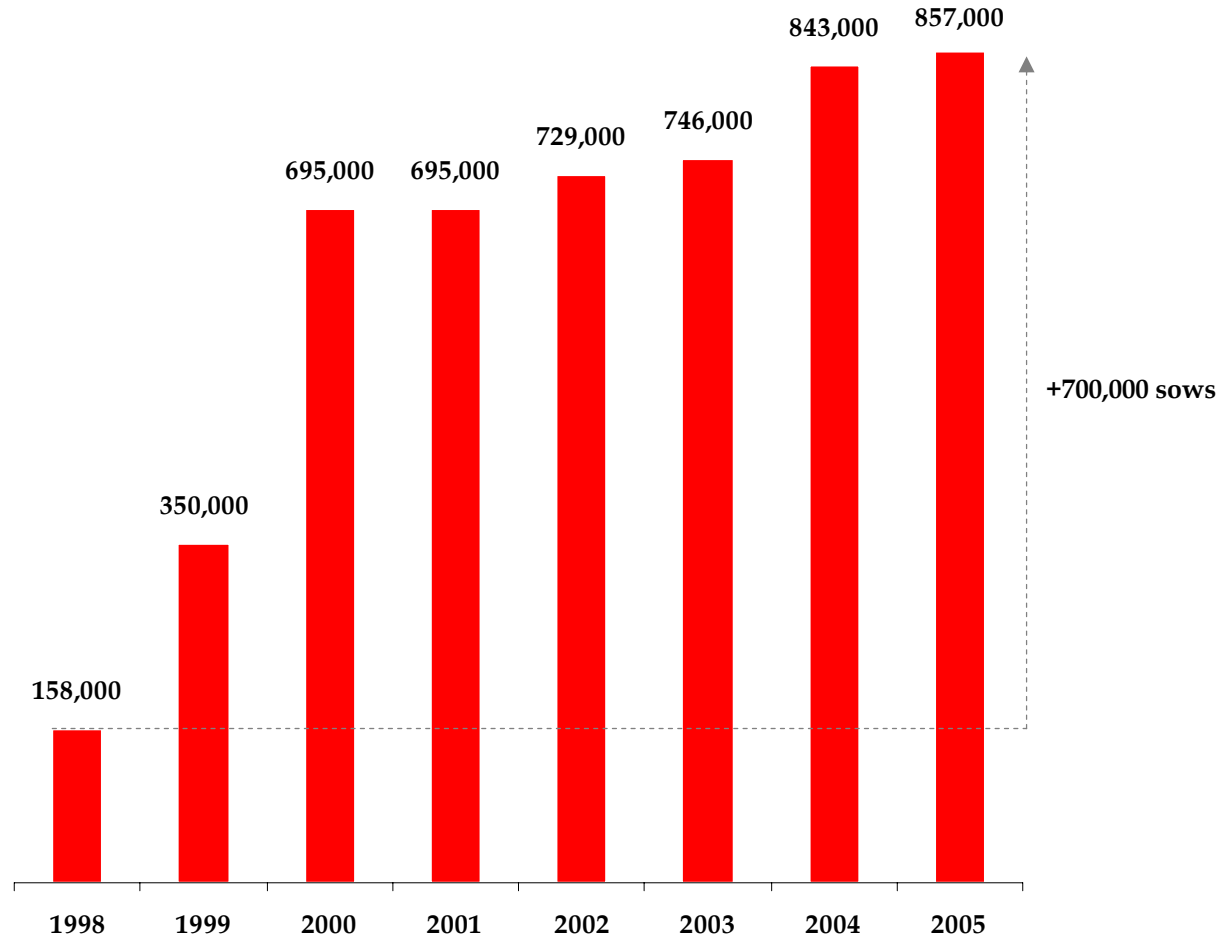
Change in production share by number of pigs marketed per year  
(% of pigs produced, 1988-2000)



## SOWS IN COMPANY OPERATED HOG RAISING OPERATIONS

Smithfield has grown the number of sows in company hog operations by 700,000 in 7 years

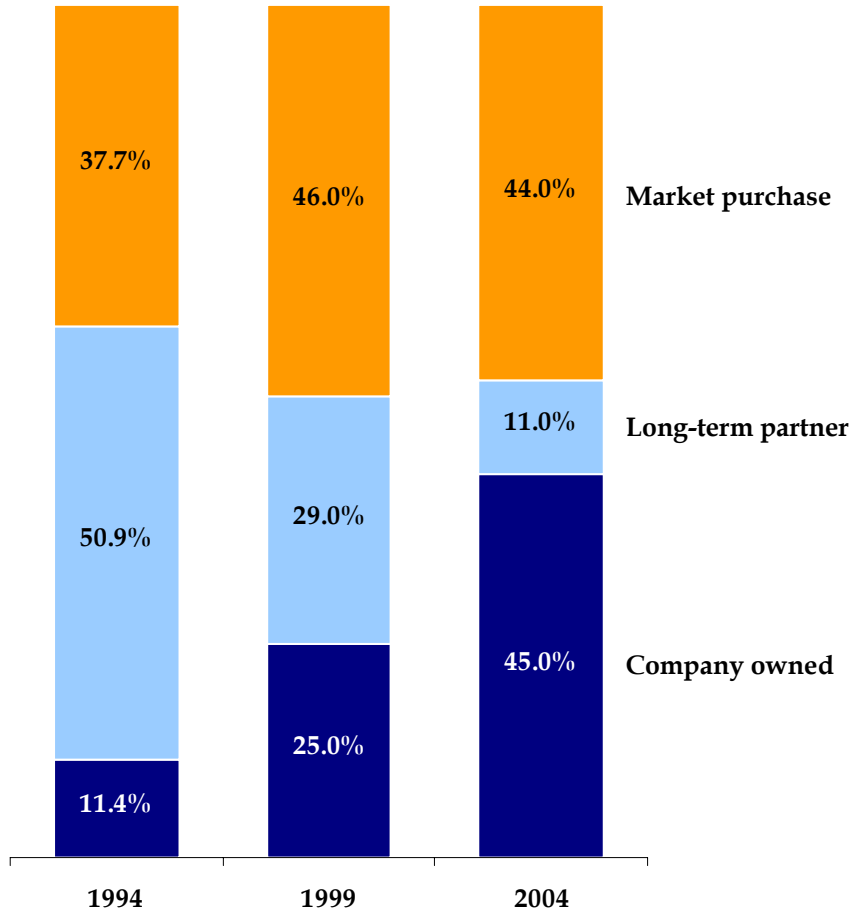
Number of sows on company operated pig operations  
(sows, actual, 1998-2005)



## HOGS BY SOURCE

Company owned pig production has grown replacing long-term partners

Percent of hogs slaughtered by source  
(percent of hogs, 1994-2004)



## ACQUISITIONS - HOG PRODUCTION

Most long-term partners were made an “offer they couldn’t refuse”

### Details of Smithfield hog production acquisitions

(dollars, millions, 1994-2003)

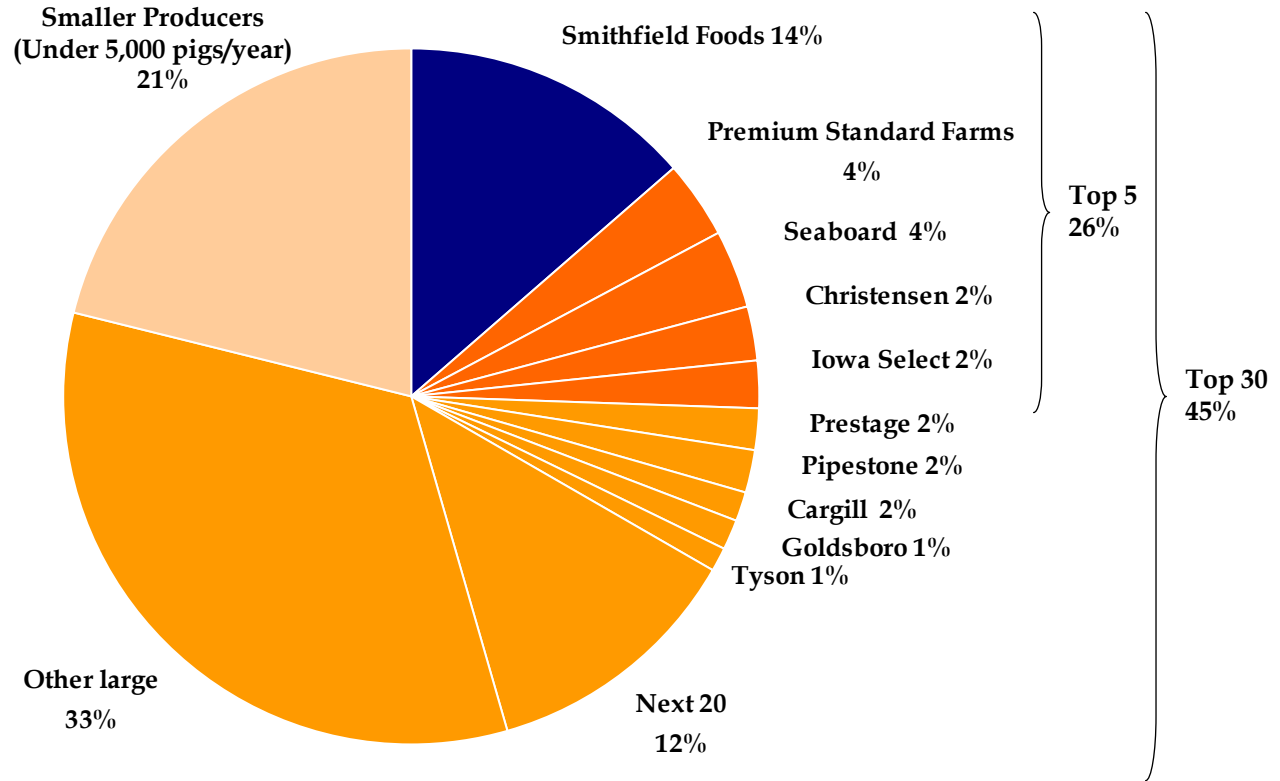
Company	Date	Sales	Purchase Price	# of sows	Business description
Alliance Farms	Sep 2003	n/a	\$23.1	27,950	a farrow to nursery operation producing 500,000 weaned pigs that are finished at other company-owned facilities
Vall Inc.	Nov 2002	n/a	\$60.7	19,000	a farrow to finish operation producing approximately 340,000 market hogs annually
Land O’ Lakes, Inc. Oklahoma hog assets	Aug 2001	n/a	n/a	8,000	acquired the Oklahoma hog production assets
Murphy Farms, Inc.	Jan 2000	\$454	\$315	345,000	a longtime hog production partner of the Company
Carroll’s Foods, Inc.	May 1999	\$348 + \$336 (Carolina)	\$500	180,000	a longtime hog production partner of the Company and 50% owner of Smithfield-Carroll’s hog raising JV; also a 49% share in Carolina Turkeys, 4 <sup>th</sup> largest turkey processor
Colorado Farms	Jan 1999	n/a	n/a	12,000	a 12,000 sow operation in Colorado



# HOG RAISING MARKET SHARE

Smithfield's hog raising operations now account for 14% of total United States hog production

United States hog raising market shares  
(% of market pigs, 2004)



## PROFIT IN PIGS

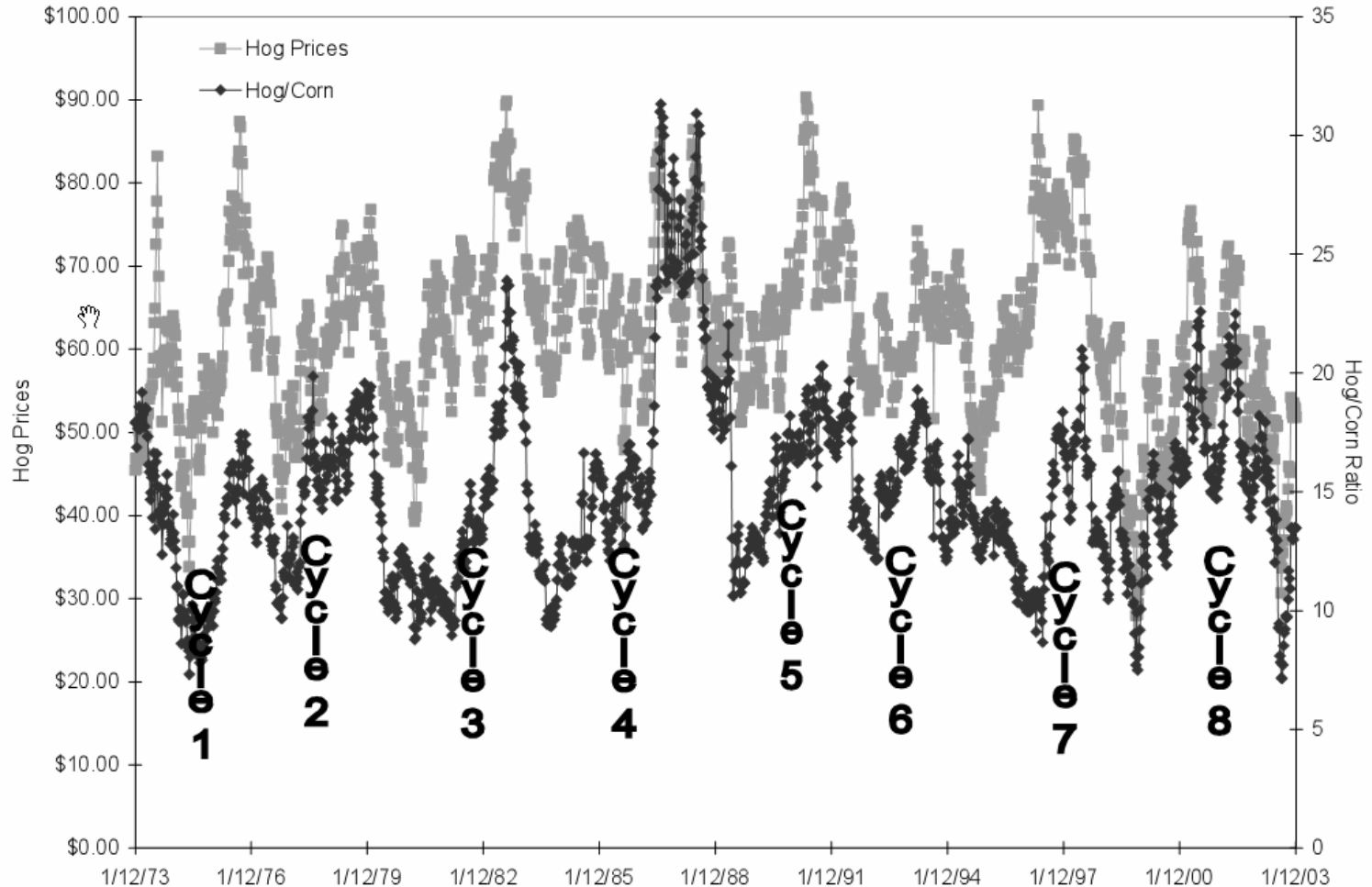
### Smithfield's hog production activities are efficient and profitable

- **"Keep in mind, back in 1986, we did not have 1 sow. Today, we have I think around 840,000 sows." Joe Luter III, CEO, Smithfield Foods, Feb 2005**
- **"We found that the vast majority of the profitability was on the growing side rather than the hog processing side... Quite frankly, the growing side has enjoyed most of the profitability in the last 10-12 years. Then, they have a short period of time when they had tremendous losses, which they did, but it was of their own making - producing too many hogs. They blame the packing industry. It bothers me." Joe Luter III, CEO, Smithfield Foods, May 2000**
- **"The scale economies of large hog producers like Smithfield lead to lower per-pound production costs. Smithfield's superior management techniques, which include bar-coding each hog so that its feeding, medication and development are all closely monitored, have helped lead to further production efficiencies. Thus, with the implementation of advanced genetics and continued innovation in production technologies, we believe Smithfield Foods stands as the industry's lowest-cost producer. We estimate the company's production costs are \$2-\$3 per head lower than the average hog producer." Eric Katzman, analyst, Deutsche Bank, Oct 2001**
- **"Smithfield's hog production group is the world's largest producer. The group uses a three-site production process consisting of sow, nursery and finishing sites. The sow site houses approximately 2,400 sows, which conceive, give birth to and nurse piglets. After 18 days, the piglets are transported to the nursery site, where they stay for approximately seven weeks and are raised to 45 pounds. Once reaching the desired weight, the hogs are transported to the finishing site, where they are maintained and fed for about 20 weeks until reaching market weight of 250 pounds. The group also utilizes independent farmers and their facilities to raise hogs produced from Smithfield's breeding stock, primarily in the nursery and finishing stages. Approximately 69% of the hog production group's market hogs comes from contract farms." Jonathan Feeney, analyst, STRH, March 2003**

# HOG PRICE CYCLE

However, hog prices are cyclical in a four year pattern based on the time required to increase breeding stock in response to price signals

Hog price cycles  
(\$/cwt, 1973-2004)



## 2. ADVANCED GENETICS

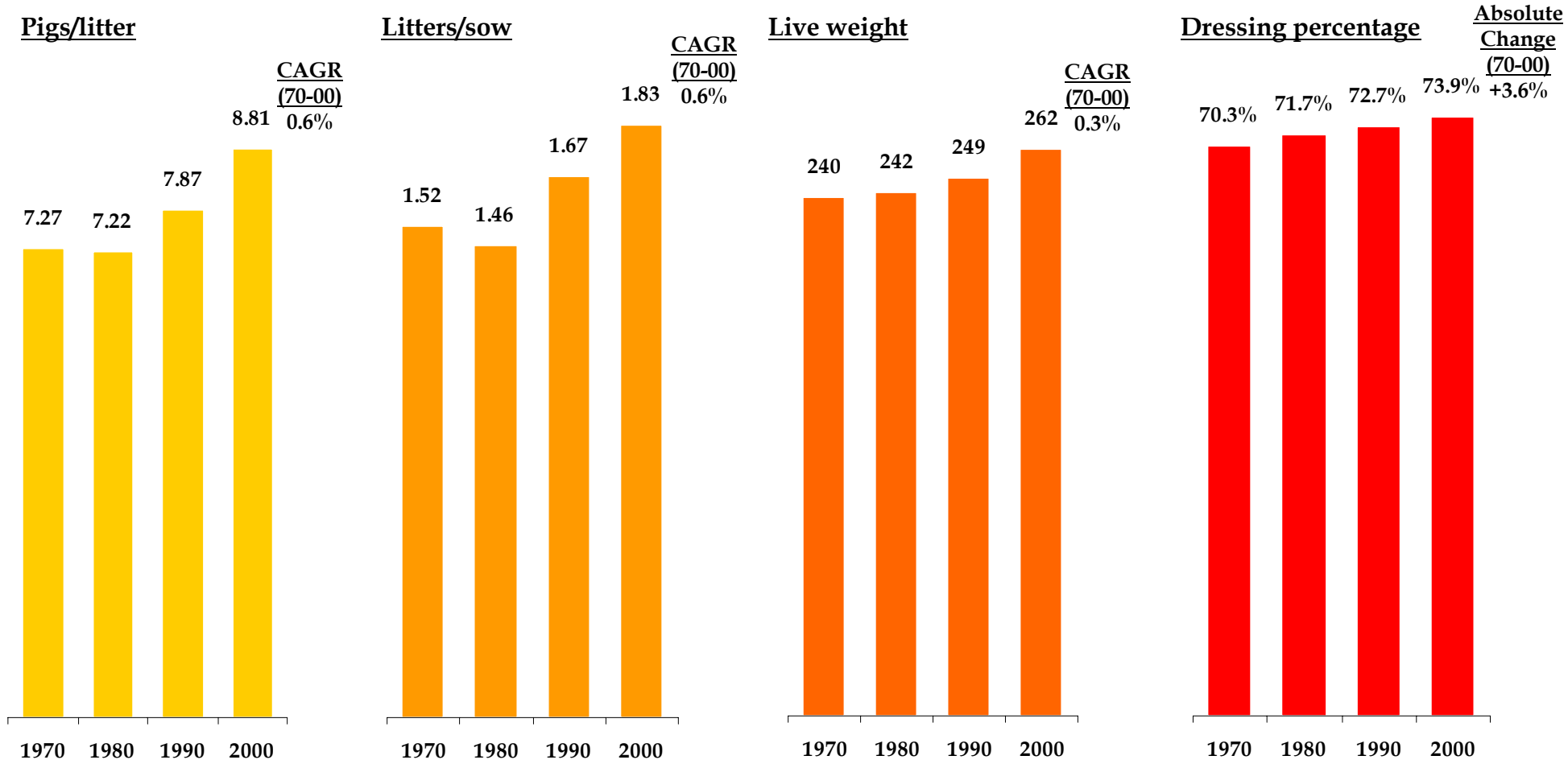
### Smithfield believes superior genetics create competitive advantage

- **“If you look at the tray packs of Perdue or Tyson chicken, one looks just like the next. Now, look at the bacon case. Packages are torn open. There's upheaval because people are looking for a pound of bacon that looks better than another. There's only one way to get consistency - that's to have common genetics, feed the animals the same way and process them the same way. What we have done is not rocket science. Poultry people have had a consistent product for years; pork people have not. The NPD hogs will allow Smithfield to move in that direction.”** *Joe Luter III, CEO, Smithfield Foods, May 2000*
- **“Among the major proteins, swine production has experienced the most benefit from significant genetic advancements in recent years. These genetic advancements in swine production follow similar advancements in poultry production in earlier years. Increased vertical integration typically goes hand in hand with increased use of genetics. Genetically advanced hogs also improve feed conversion rates and increase carcass yields.”** *Eric Katzman, analyst, Deutsche Bank, May 2001*
- **“Being a leader in genetics is essential for being a leader in this business. We are the only company integrated through genetic supply, which gives us an undisputed advantage.”** *Jerry Godwin, President, Hog Production, Smithfield, March 2003*

# CHANGING HOG PRODUCTION PRODUCTIVITY

Across the industry, improved genetics and management is delivering on more productive animals

Changes in key productivity measures  
(various, 1970-2000)



## ACQUISITION OF RIGHTS TO NPD GENETICS

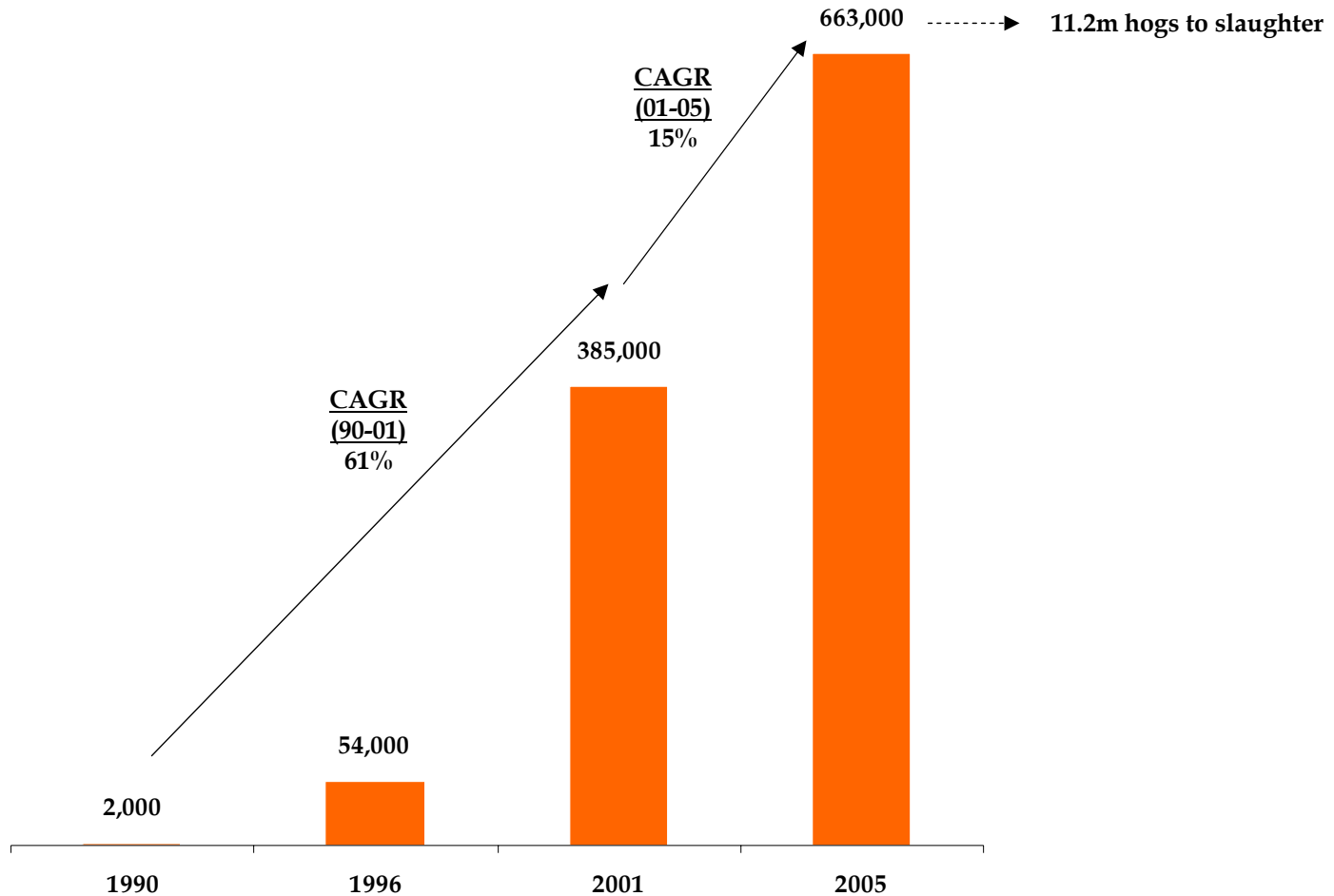
**In 1990 Smithfield acquired a nucleus herd of 2000 NPD sows; in 1991 it acquired exclusive rights to NPD genetics for the Untied States; renamed Smithfield Premium Genetics in 2003**

- **“In 1991, Smithfield acquired exclusive franchise rights in the U.S. from the National Pig Development Company (NPD) to develop a genetic line of specialized breeding stock. Smithfield’s NPD hogs are among the leanest available, with approximately half the fat of traditional pork, and enable the company to offer differentiated pork products, such as Smithfield Lean Generation Pork, which command higher margins. Beginning with a nucleus herd of 2,000 NPD sows in 1990.” *Eric Katzman, analyst, Deutsche Bank, Oct 2001***
- **“In May 1991, Smithfield acquired from National Pig Development Company ("NPD"), a British firm, the exclusive United States franchise rights for genetic lines of specialized breeding stock. The NPD hogs produced by these superior genetic lines are substantially leaner than any other breeding stock available in commercial volume in the United States. Management expects 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 meat products and provide a sustainable competitive advantage over other domestic pork processors. Smithfield-Carroll's has imported a nucleus herd of 2,000 animals which forms the top of a genetic pyramid capable of sustaining more than 300,000 commercial sows and is in the process of replacing its breeding stock with these superior genetic animals over the next several years... The Company is conducting marketing and nutritional studies to determine how best to maximize the benefits from the lean pork from these animals and plans a limited rollout of NPD pork products to foodservice distributors and restaurant chain accounts in fiscal 1995.” *Smithfield 10K 1994***
- **“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).” *Smithfield 10K 2005***

## GROWTH IN NPD/SPG BREEDING SOW NUMBERS

In 15 years, Smithfield has grown the initial herd of 2,000 sows to 663,000 sows producing 11.2m hogs

Number of NPD/SPG breeding sows  
(actual, 1990-2005)



## LEAN GENERATION PORK

Smithfield then launched its Lean Generation Pork range using the NPD/SPG genetics

- **“The NPD genetics are the foundation of our Lean Generation Pork products... It's a product that is as lean and has approximately the same calorie and cholesterol count as chicken breast... You can't build a brand name or brand franchise unless you have a consistent product. McDonald's may or may not be the best hamburger in the world, but it is consistent, consistent, consistent.” Joe Luter III, CEO, Smithfield Foods, May 2000**





# NPD/SPG PORK VS TRADITIONAL PORK

Smithfield believes its Lean Generation pork is clearly superior

Examples of NPD/SPG pork vs traditional pork



Traditional Pork



### 3. STRATEGIC ACQUISITIONS

#### Smithfield has grown through the acquisition of strategic assets at distressed prices

- **“People think I'm crazy, but I like low hog prices. There is pain for a short time, but each time we go through one of these cycles, we emerge stronger than we were before the downturn. The industry is not well capitalized, so high-cost, inefficient producers cut back or go out of business in a loss situation. Just a 5% reduction in hog numbers sometimes means a doubling of hog prices.”** *Joe Luter III, CEO, Smithfield Foods, March 2003*
- **“We have bought underperforming companies in the industry and turned them around. I think you have to be out of your mind to build a pork packing plant today... Quite frankly, we have been able to buy companies and capacity cheaper than building capacity.”** *Joe Luter III, CEO, Smithfield Foods, May 2000*
- **“Smithfield has ascended to its leadership position atop the pork industry following an aggressive acquisition strategy over the last 20 years. During that time the company purchased nearly two dozen pork processors, pork packers, hog producers and, more recently, beef processors... Over the years, Smithfield has done a good job of acquiring valuable, strategic assets at low prices because they were distressed, underperforming, capital constrained or poorly managed. The company has long used its free cash flow to make acquisitions, as well as issuing stock.”** *Eric Katzman, analyst, Deutsche Bank, Oct 2001*

## RECENT ACQUISITIONS – PORK

Smithfield has executed on a roll-up strategy by acquiring and integrating both pork processors (for capacity) and producers of value-added pork products (for volume)

### Details of Smithfield pork-related acquisitions

(dollars, millions, 1998-2005)

Company	Date	Sales	Purchase Price	Goodwill	Business
Farmland Foods	Oct 2003	\$1,800	\$377.4 + \$67.4m	\$35.2m	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.
Cumberland Gap Provision Company	Sep 2003	\$70	\$54.8m + debt	\$30.9m	90% interest in this processor of premium, branded hams, sausages and other specialty products, based in Kentucky
Global Culinary Solutions	July 2003	n/a	n/a	n/a	an integrated food product development, manufacturing, and marketing company headed chef Michael J. Brando
Stefano Foods, Inc.	June 2002	\$23	\$44.8	n/a	80% interest in this producer and marketer of Italian convenience foods, including stuffed pizza rings and calzones, based in Charlotte, North Carolina.
RMH Foods, Inc.	Sept 2001	\$16	n/a	n/a	Producer specializing in pre-cooked pork and beef entrees under the Quick-n-Easy brand, based in Morton, Illinois.
Gorges/Quik-to-Fix Foods, Inc.	July 2001	\$140	\$34	n/a	Producer, marketer and distributor of value-added beef, pork and poultry products for the retail and food service industry, based in Garland, Texas
50% of Pinnacle Foods	June 2001	\$30	\$6	n/a	Acquired 50% of the outstanding common shares of Pinnacle Foods, Inc., a Pennsylvania based producer of pre-priced, pre-packaged case-ready products
Stadler's Country Hams	Q2/F2	n/a	n/a	n/a	a producer of country hams based in Elon College, North Carolina
The Smithfield Companies	July 2001	\$20	n/a	n/a	a Smithfield, Virginia based producer of hams and other specialty food products.
North Side Foods	Oct 1998	\$58	n/a	n/a	a major domestic supplier of pre-cooked sausage to McDonald's

## HISTORIC ACQUISITIONS - PORK

This strategy has been ongoing since the early 1980's

### Details of Smithfield acquisitions

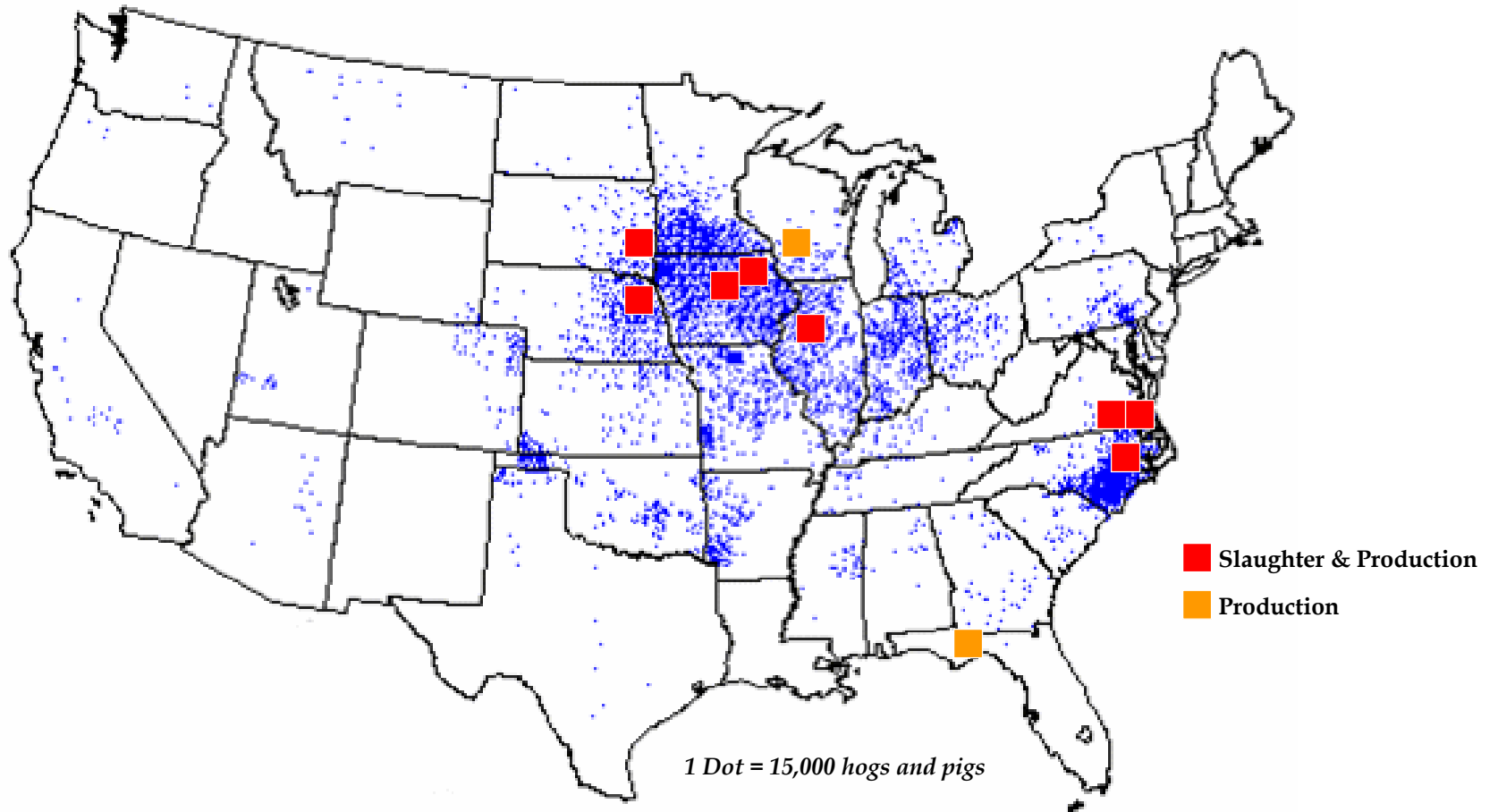
(dollars, millions, 1982-1997)

Company	Date	Business
Lykes Meat Group, Inc.	Nov 1996	produces branded processed meats, including bacon, hot dogs and breakfast and dinner sausages under the Lykes and Sunnyland brands.
John Morrell	Dec 1995	Major Midwestern pork processor with primary markets in the Midwest, Northeast and western United States. This acquisition changed the Company's character from a large multi-regional pork processor to one with national distribution. It also doubled its sales and production capacity, added several popular lines of branded processed meats products along with four efficient processing facilities and more than doubled the Company's international sales. John Morrell's strength in fresh meat, smoked sausage, hot dogs, luncheon meats, bacon and smoked hams complements the strong smoked meats, hot dog and bacon business of its Eastern operations. The acquisition presented substantial opportunities for cost savings in the areas of processing, marketing, purchasing and distribution.
Valleydale	1993	Valleydale and Reelfoot brand names and a processing plant in Salem, Virginia
Mash's	1991	Mash's brand name and a ham processing plant in Landover, Maryland
Esskay, Inc.	1986	broad line of delicatessen products having substantial brand loyalty in the Baltimore-Washington, D.C. metropolitan area
Patrick Cudahy	1985	a prominent line of dry sausage products
Gwaltney of Smithfield	1982	then Smithfield Packing's principal Mid-Atlantic competitor. This acquisition doubled its sales and production capacity and added several popular lines of branded products along with a highly efficient hot dog and luncheon meats production facility.

## PLANT LOCATIONS

Smithfield now has eight pork slaughter and production facilities and two production-only facilities located in the main pig producing regions

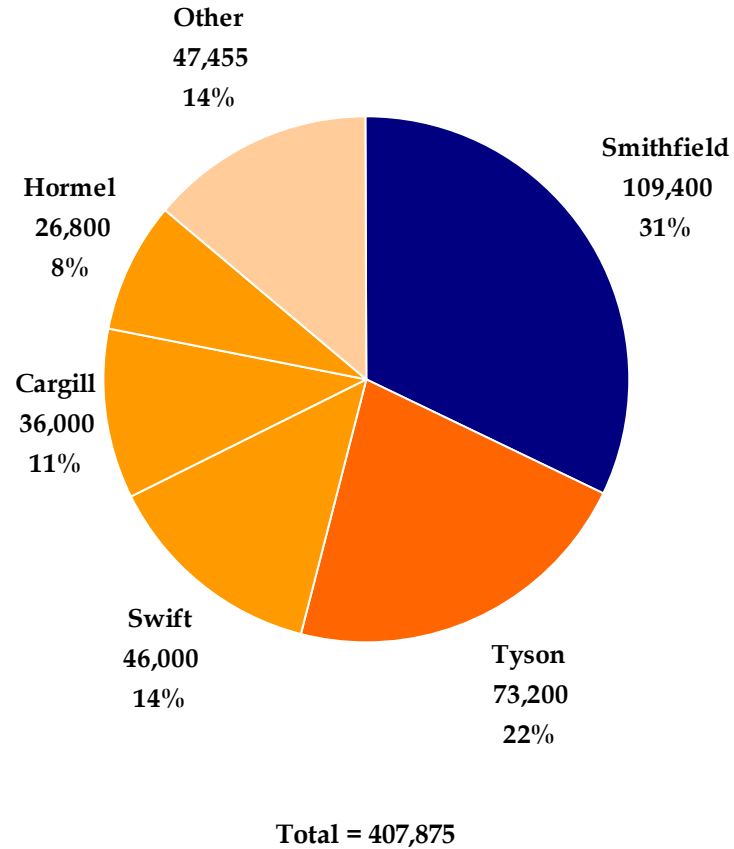
Locations of Smithfield pork processing facilities in the United States  
(location, 2005)



## PORK PROCESSING CAPACITY SHARE

Smithfield is now the largest pork processor in the United States with a 31% share of available capacity

Share of United States daily pork processing capacity  
(head per day, actual, % of head, 2004)



## DECENTRALIZED OPERATION

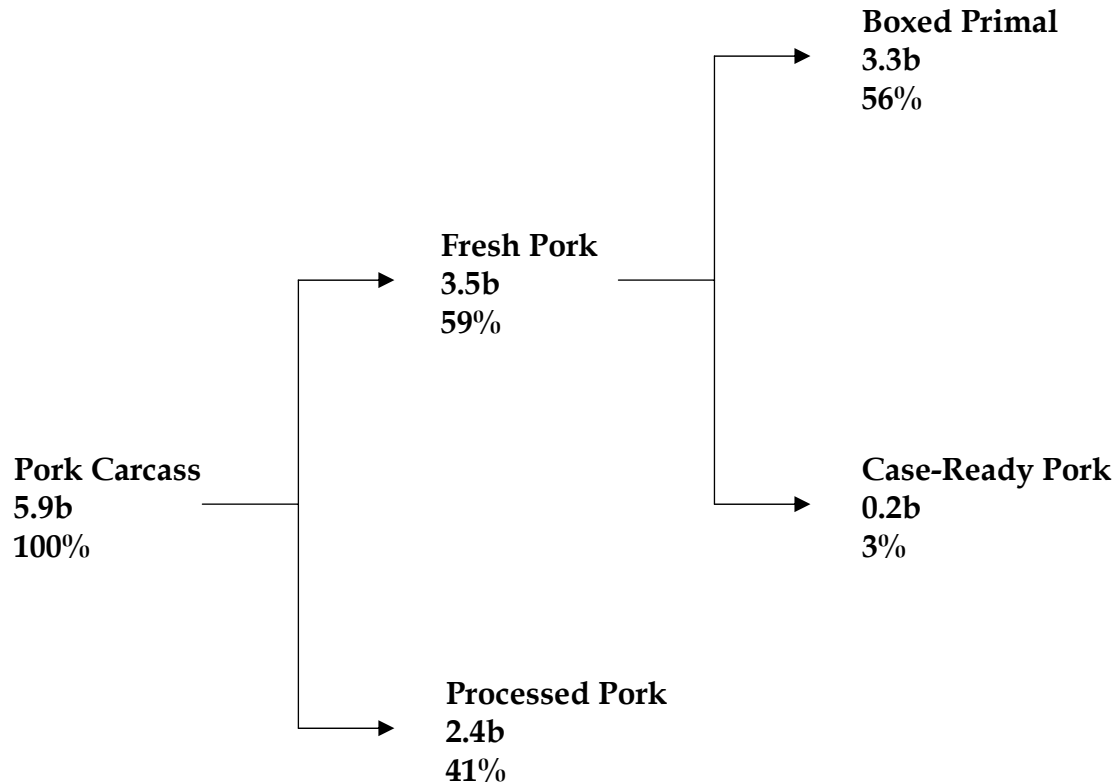
### Smithfield runs acquisitions separately as a decentralized operation

- **“Now we have three benchmarks: Smithfield, Morrell, and Farmland. They will know what other people are doing and do not want to be embarrassed by sub-par performance. One of the big reasons we have not merged into one big sales force is that we find a big advantage in having the internal benchmarks so they compete against themselves and eliminate any excuses as for why things happen. As long as we continue to do better than most of our competitors, we don't plan to change that.”** *Joe Luter, Chairman, Smithfield, Nov 2003*
- **“Independent operating companies represent the cornerstone of Smithfield's corporate structure, which focuses on an entrepreneurial business approach with financial and other resource backing of a complex organization. We have these fiercely independent companies that operate on the premise that the job is selling customers by doing what customers want.”** *Larry Pope, President, Smithfield, June 2005*
- **“And our corporate structure, I think -- I should talk about a second. We operate a lot of independent operating companies that allow a strong entrepreneurial business approach. And at the Smithfield Foods level, we provide the necessary resources, be it financial or technological or legal. But we do have individual managers. We pay them as a percentage of profits on what they're responsible for. They actually themselves go out and find some of the acquisitions that we have put together. John Morrell, for instance, has done this very, very aggressively. And this is a big, fast-moving business. And a highly centralized culture, in my opinion, does not work. We wouldn't have been able to enjoy the success that we had if we were trying to run everything from Smithfield, Virginia.”** *Joe Luter, Chairman, Smithfield, Feb 2005*

#### 4. VALUE-ADDED & BRANDED PRODUCTS

While about 40% of Smithfield's pork volume is sold in a processed form, about 60% is still sold as a fresh product

Disposition of Smithfield pork production  
(pounds, billions, retail weight, 2005)

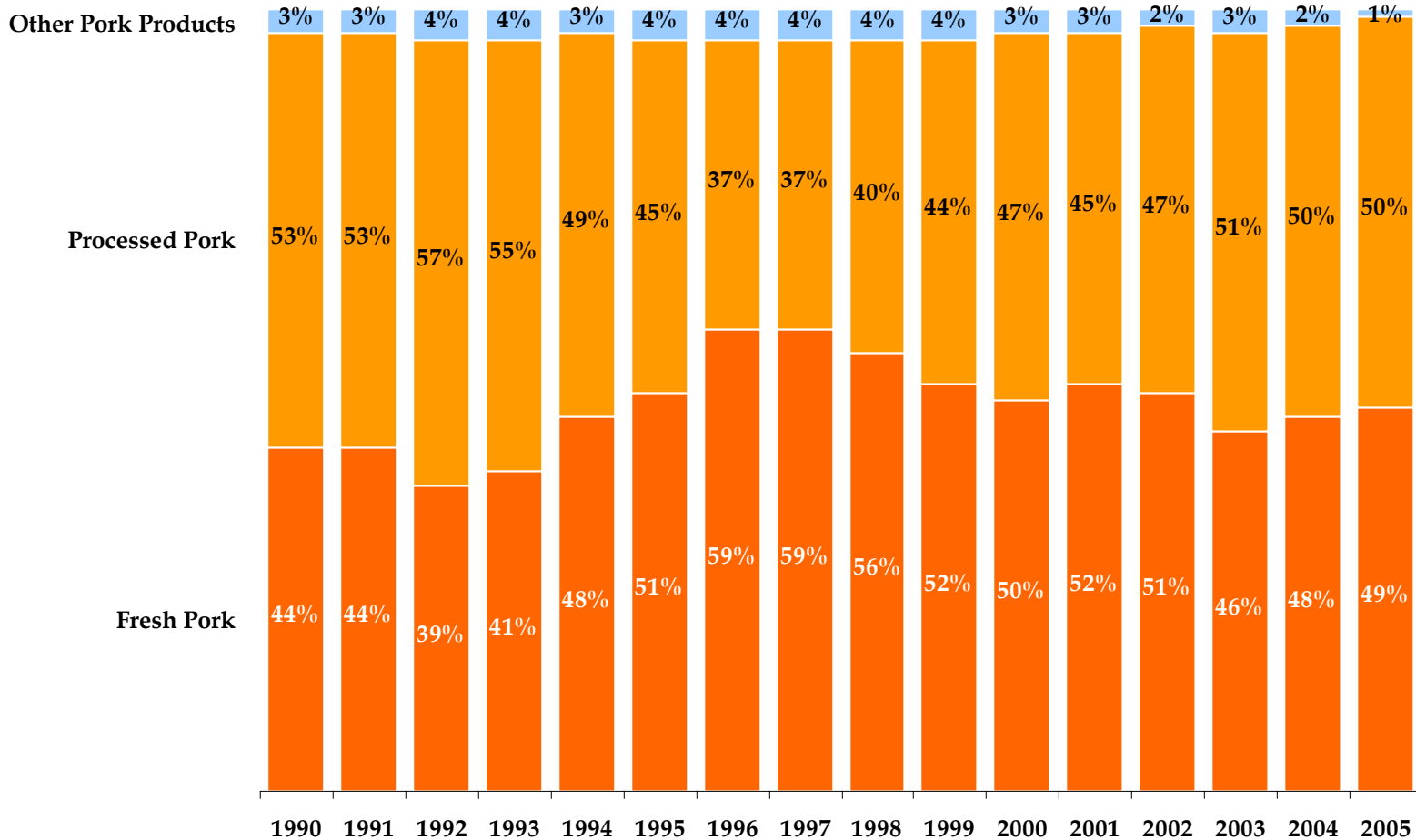




# PORK DIVISION SALES MIX

However, on a sales basis, fresh and processed products each account for about half of pork sales

Share of Smithfield's pork division sales by type  
(% of sales dollars, 2005)



## FRESH PORK

**Fresh pork, primarily in a boxed primal/sub-primal form, still accounts for 56% of Smithfield's pork tonnage**

- **"A substantial portion of the Company's fresh pork is sold to its customers as unprocessed, trimmed cuts such as loins (including roasts and chops), butts, picnics and ribs. The Company is putting greater emphasis on the sale of value-added, higher-margin fresh pork products, such as boneless loins, hams, butts and picnics. In addition to meeting a growing consumer demand for its fresh pork, the Company's commitment to fresh pork also provides its processing operations with raw material of much higher quality than that generally available through market purchases."**  
*Smithfield 10K 1994*
- **"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."** *Smithfield 10K, 2005*

## CASE-READY STARTED MORE THAN 15 YEARS AGO

### Smithfield started developing a case-ready pork product more than fifteen years ago

- **“Smithfield Packing has developed a case-ready pork program designed to supply supermarket chains with pre-packaged, weighed, labeled and priced fresh pork, ready for immediate sale to the consumer. Management believes that this initiative over time should result in greater brand identification and higher margins for the Company's fresh pork products.”** *Smithfield 10K 1994*
- **“In 1989, Smithfield started a master pack fresh pork loin case-ready program to supply Kroger’s Atlanta division. The primary packaging machine was Ossid 500 preformed tray deposit/fill/seal, and M-Tek supplied the vacuum/gas-flush snorkel master pack machines using barrier pouches from Curwood. The rose-colored trays are Linpac’s proprietary Lintray expanded polystyrene with the absorbent pad buried in the core beneath the floor of the tray. Some smaller grocery chains in the northeast reportedly use the package. The packaged product is priced at \$0.70 to \$1.10 per lb greater than the pork loin market price. Volume is reported to be about 100,000 to 150,000 lbs per week. Initially, Smithfield offered 11 days distribution shelf-life within the master pack plus three days in retail display using high-oxygen/carbon dioxide. Early reports at store level said that nine days plus two days, respectively, was often the actual shelf-life. More recent reports indicate that Smithfield is delivering on its promised shelf-life.”** *Aaron Brody, Case-Ready Meat Packaging, Packaging Strategies, 2001*

## JOHN MORRELL ACQUISITION BRINGS NEW TECHNOLOGY

The 1996 acquisition of John Morrell brought a more advanced case-ready program, later improved upon

- **“During the late 1990s Smithfield acquired meat packer John Morrell which uses Ross preformed tray vacuum/gas-flush tray sealers for barrier expanded polystyrene trays to package boneless pork chops in a high- oxygen atmosphere. The shelf-life was dated for 17 days, although double that was claimed to be achieved in laboratory testing. Although technically successful, Morrell achieved only limited sales with very modest commercial sales.”**  
*Aaron Brody, Case-Ready Meat Packaging, Packaging Strategies, 2001*
- **“Smithfield now has five production lines, using three Marlen MAP machines, two Harpak/Mondini tray sealers, all fed by five Marlen preformed tray de-nesters. Rock-Tenn Inc. solid plastic barrier trays are white, using Cryovac barrier film as the heat seal lidding material. Having used overwrap systems since the 1980s, Smithfield converted to MAP packaging in 1999.”** *Aaron Brody, Case-Ready Meat Packaging, Packaging Strategies, 2001*

## WAL-MART STARTS DRIVING CASE-READY

However, case-ready was not making much progress until Wal-Mart began trialing case-ready in February 1999, followed by a rollout to all Wal-Mart supercenters

- **“It is not often, for example, that one food retailer can single-handedly generate the revival and success of an entire packaging market and technology sector. But when that retailer is Wal-Mart, that kind of leverage is not just possible, it's a way of doing business. Consider case-ready packaging of red meats. Until Wal-Mart decided centralized packaging of fresh red meats fitted seamlessly into its distribution philosophy and permitted the elimination of in-store meat cutting, this was a plodding, niche technology. From zero just five years ago, Wal-Mart is now distributing through its Supercenters what is estimated to be one billion packages of case-ready, red meat products, or about half the total US market of nearly two billion units of case-ready red meats.”** *Packaging Magazine, August 2003*
- **“Our branded fresh pork products play a significant role in our move to supply case-ready pork to Wal-Mart and some of the nation's other largest retailers. Case-ready volumes more than doubled this past year, and we are excited about its growing acceptance at the retail level... Case-ready is doing nothing short of changing the way fresh pork is marketed today. I believe that this change will allow Smithfield Foods to build brand recognition among consumers for fresh pork in a way that just hasn't been possible in the past.”** *Joe Luter III, CEO, Smithfield Foods, Annual Report 2000*
- **“The success of Smithfield Foods’ branded fresh pork products – sold under the John Morrell & Co. and Gwaltney of Smithfield names as well – has given the Company a leg up in the race to provide Wal-Mart and other large retailers with “case-ready” pork. Wal-Mart has begun converting its in-store meat-cutting operations to case-ready, opting to buy products that are already packaged and priced for their customers. Smithfield Packing sold 23 million pounds of case-ready fresh pork in fiscal 2000 and will deliver case-ready products to five of Wal-Mart’s 14 distribution centers nationwide. John Morrell & Co. has built case-ready facilities equipped to produce approximately 50 million pounds of case-ready product in fiscal 2001.”** *Smithfield Annual Report 2000*
- **“Smithfield has marketed case-ready pork, including bone-in loins and chops, boneless butts, butt steaks, and ribs, to Wal-Mart SuperCenters.”** *Aaron Brody, Case-Ready Meat Packaging, Packaging Strategies, 2001*

## EXPANSION ON EXPECTED GROWTH

**Smithfield expanded its case-ready operations and made a number of acquisitions in the expectation of continued case-ready growth**

- **“Smithfield Packing and John Morrell anticipate a threefold increase in case-ready sales in fiscal 2001, which should push their combined case-ready volume above 75 million pounds. Smithfield Foods has prepared by opening four new case-ready facilities during the past year – one in the North, two in the South and another in the Midwest. One more will likely be added in the recently acquired Dubuque, Iowa plant. These new facilities and previously existing case-ready operations give Smithfield Foods at least six separate case-ready plants around the country, and the Company will continue to add more as demand warrants.” *Smithfield Annual Report 2000***
  
- **“Our case-ready sales volume climbed more than 300 percent to 75 million pounds, and we believe that significant growth opportunities exist for this category. Case-ready products provide Wal-Mart as well as other super-market chains advantages over the traditional manner of merchandising fresh pork. Freshness, food safety and substantial cost reduction, as well as the advantage of pre-packaging and pre-pricing, are among case-ready’s many benefits. This past year we made investments in several case-ready operations close to the distribution locations of our customers and will continue to do so. We see tremendous opportunities for case-ready growth in the North-eastern United States. This belief drove our recently completed acquisition of Moyer Packing Company, a beef operation, as well as a joint venture with Pinnacle Foods, a company focused on case-ready products. Both are based in Northeastern Pennsylvania and have strong distribution networks that will help accelerate our case-ready efforts in the region. Moyer Packing also gives us the added advantage of beef to complement our pork offerings. The growth of our branded, case-ready and value-added fresh pork sales lessens our exposure to the commodity side of this business. As a result, we have improved margins, stabilized daily production levels and generated better operating efficiencies.” *Smithfield Annual Report 2001***
  
- **“We believe Smithfield’s recent acquisition of Moyer Packing and joint venture with Pinnacle Foods, with their existing case ready capabilities and broad east coast distribution networks, should enable the company to exploit growth in the higher margin, case ready business.” *Eric Katzman, analyst, Deutsche Bank, Oct 2001***

## STRUGGLE TO GET WAL-MART

Smithfield struggled for a long time to get significant Wal-Mart case-ready pork business from Tyson - even after buying Farmland (which had some of the beef business)...

- "Farmland is a major supplier of case-ready pork to Wal-Mart and this acquisition [by Smithfield] puts some momentum back into Smithfield's case-ready initiative." *John McMillin, analyst, Prudential, Oct 2003*
- "What is going to be the prime driver in 3Q and '04? Will we see it pick up in case ready?" "I do not think our case ready business is going to explode. I realize some of our competitors are making opposite statements. However, Farmland does have a very nice case ready business and Wal-Mart is a big customer of theirs, but that is not what is going to drive the numbers." *Larry Pope, President, Smithfield Foods, conference call, Q2 2004*
- "You just mentioned Wal-Mart as a big customer and Tyson. And I was just curious if you could talk about your case-ready initiatives and how that's going?" "Case-ready -- we're not the leader in case-ready. We do not have the Wal-Mart business. We have some other businesses that are case-ready. It's taken off a lot slower than what we thought it would do the last 3 or 4 years. I -- despite -- our experience has been that it's not all that it's cracked up to be in regard to profitability. Do I think it's going to come long-term? Absolutely, because -- there are economic reasons. But you have reason why it doesn't happen such as union resistance at retail stores and so on. But we have case-ready. And some people have adopted it. Harris Teeter, for instance, we have case-ready business. I think eventually, we'll have some of the Wal-Mart business, as Wal-Mart continues to grow. They don't like to have all of their eggs in one basket any more than anyone else. But it's -- an area that I'm not happy about is I did expect our case-ready business to be bigger and more profitable than what it has turned out to be. But that's not to stay -- I still think it's coming. But you've got the wrong -- that's an easy thing -- that's an easy thing to readjust to and correct." *Joe Luter, Chairman, Smithfield Foods, Feb 2005*

## STRUGGLE TO GET WAL-MART

### ...continued

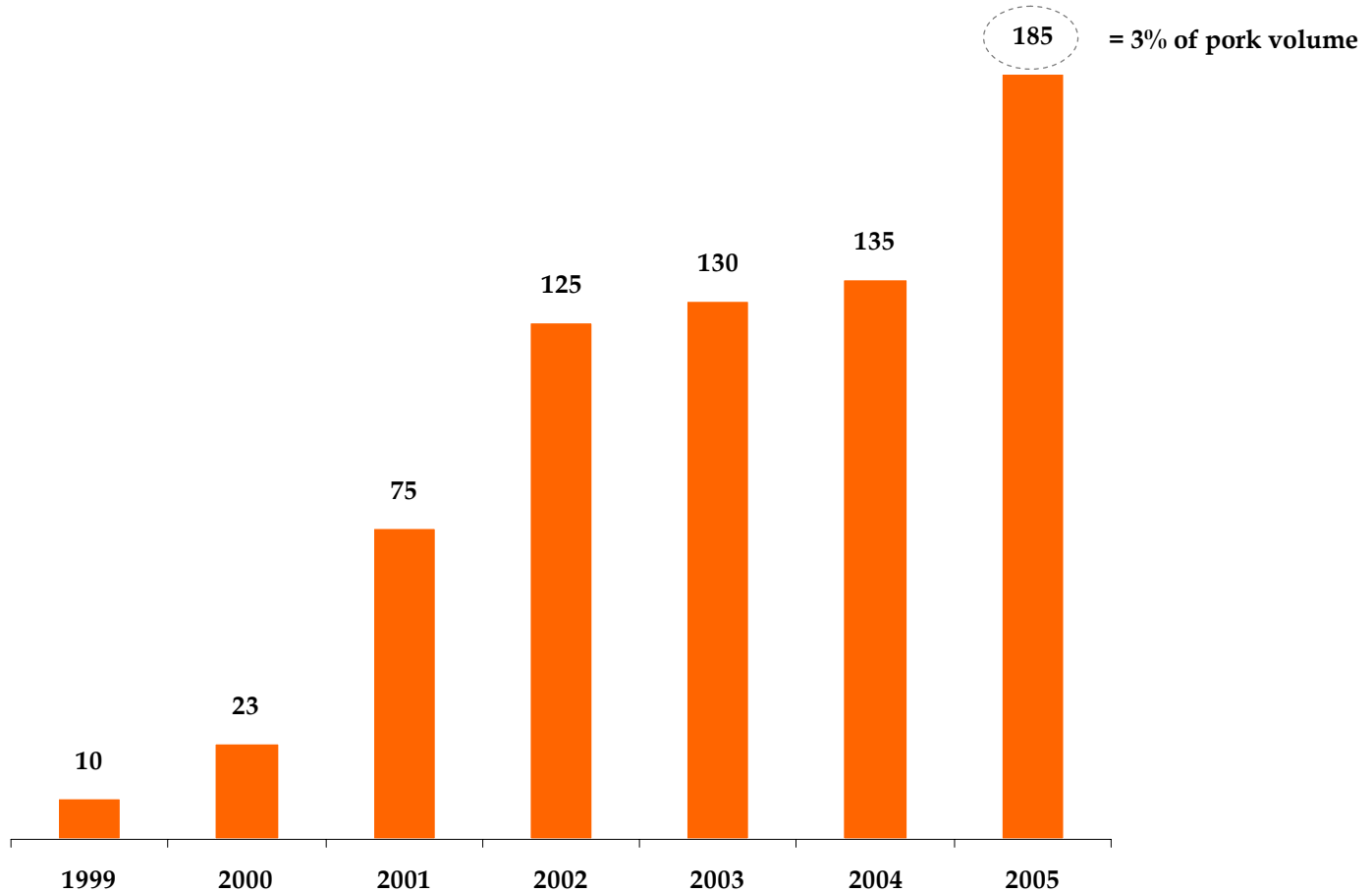
- **“You noted in your release that case-ready pork volume up 32%. I guess that implies maybe you are not doing a lot of beef, I guess could you expand and where that business is coming from and where you think it might go, because you've tried case-ready before and had some bits and starts, is something clicking now?” “I don't like to go - and I won't agree to go - to specific customers and you know that. Most of our competitors know that we have picked up at least one very large customer on case-ready business, and it is pork; it's not the beef, it is pork. And that business, provided it works for them, that looks to be a very significant piece of case-ready improvement. And incidentally, we are not out of the case-ready business in anyway. We've got a sizable, I know that we haven't been reporting big increases in case-ready over, because quite frankly we haven't had a lot of new customers. That was the big pop three or four years ago. And that business stabilized and we secured another very sizable customer, and it is helping our overall sales in the case-ready business. And I think, provided that works for them, that business is going to continue to be there. They own the program, and your question is, do I think it's going to continue and migrate towards other customers. I don't know that this was a sudden trend change. I don't know if that's the case. I think we continue to be out there trying to convince customers that this is the wide alternative for them and that takes time, and we are talking to other customers. But today, it's really one big customer.” *Larry Pope, President, Smithfield Foods, conference call, Q4 2005***
- **“Wal-Mart accounts for 5-6% of sales at Smithfield and is the company's largest customer. SFD supplies about a third of WMT's case-ready pork needs (TSN supplies the balance) and its largest bacon supplier. SFD benefits from being among the lowest cost producers in its relationship with WMT, and does not have to pay slotting fees, ad fees, or failure fees, like it may be the case at other supermarkets. Not being among WMT's 100 largest suppliers, SFD was not part of the first wave of RFID requirements at WMT (chip in pallets), but now will need to invest about \$5-10 million as part of the second wave (chips in both pallets and in boxes).” *Pablo Zuanic, JPMorgan, April 2005***
- **“The majority of our contacts indicated that SFD's Farmland portfolio has continued to gain ground in terms of shelf space and extend its distribution at Wal-Mart locations across most of the country. The Farmland brand, which was acquired in late 2003, is a key component of the company's Pork segment. We therefore believe SFD will continue to target this business as a key area of growth going forward. Lastly, the company is also benefiting from rapid growth within the high-margin case-ready pork sector at Wal-Mart.” *Thomas Morabito, analyst, Longbow Research, Sept 2004***



## SMITHFIELD CASE-READY PORK VOLUME

After an initial period of strong volume growth, Smithfield has struggled to continue case-ready momentum

Volume of pork sold in a case-ready form by Smithfield  
(pounds; millions, 1999-2005)



## NOT UP TO EXPECTATIONS

### Case-ready has not been as successful as originally expected

- **“Case-ready hasn't grown as fast as we expected, and there is overcapacity in this segment. Frankly, I don't think anyone is profitable yet in case-ready meats. But the trend is coming and it will drive costs out of the system.”** *Joe Luter III, CEO, Smithfield Foods, March 2003*
- **“Maybe a quick comment on fresh pork and case-ready?” “Case-ready is basically Wal-Mart today. The other retailers have not rushed in to case ready as we expected one, two years ago. We paid the price in Philadelphia because that business has not generated the volumes that we were expecting. In previous comments I have mentioned many times back in 1962, that was the year I entered the business, and we all thought case-ready was right around the corner, and 40 years later it has come, but it hasn't evolved the way that we expected it. I can't say that case-ready is not something we're overly disappointed, because quite frankly, the margins are not all that great, and quite frankly, we expect it to tighten up as time goes on.”** *Joe Luter, CEO, Smithfield Foods, conference call, Q4 2004*
- **“We are very much in the case-ready game, even though until recently we have not had big business increases we hoped for. We continue trying to convince customers that this is the right alternative for them, but that takes time. We are talking to other customers, but today our business is driven by a few large accounts. There was significant growth of the modified atmosphere packaging four years ago. Since that time we have grown this segment of our business at a steady pace, although slower than we would have liked.”** *Larry Pope, President, Smithfield Foods, June 2005*
- **“Smithfield’s case-ready business remained flat over the last year. Although Smithfield currently sees this portion of its business as stable, the company does not see growth quickly returning to previous levels and is currently holding excess capacity. Most retailers, aside from Wal-Mart, continue to express interest in maintaining their service-oriented meat case.”** *Jonathan Feeney, analyst, STRH, March 2003*

## CONTINUED FOCUS ON PROCESSED PORK

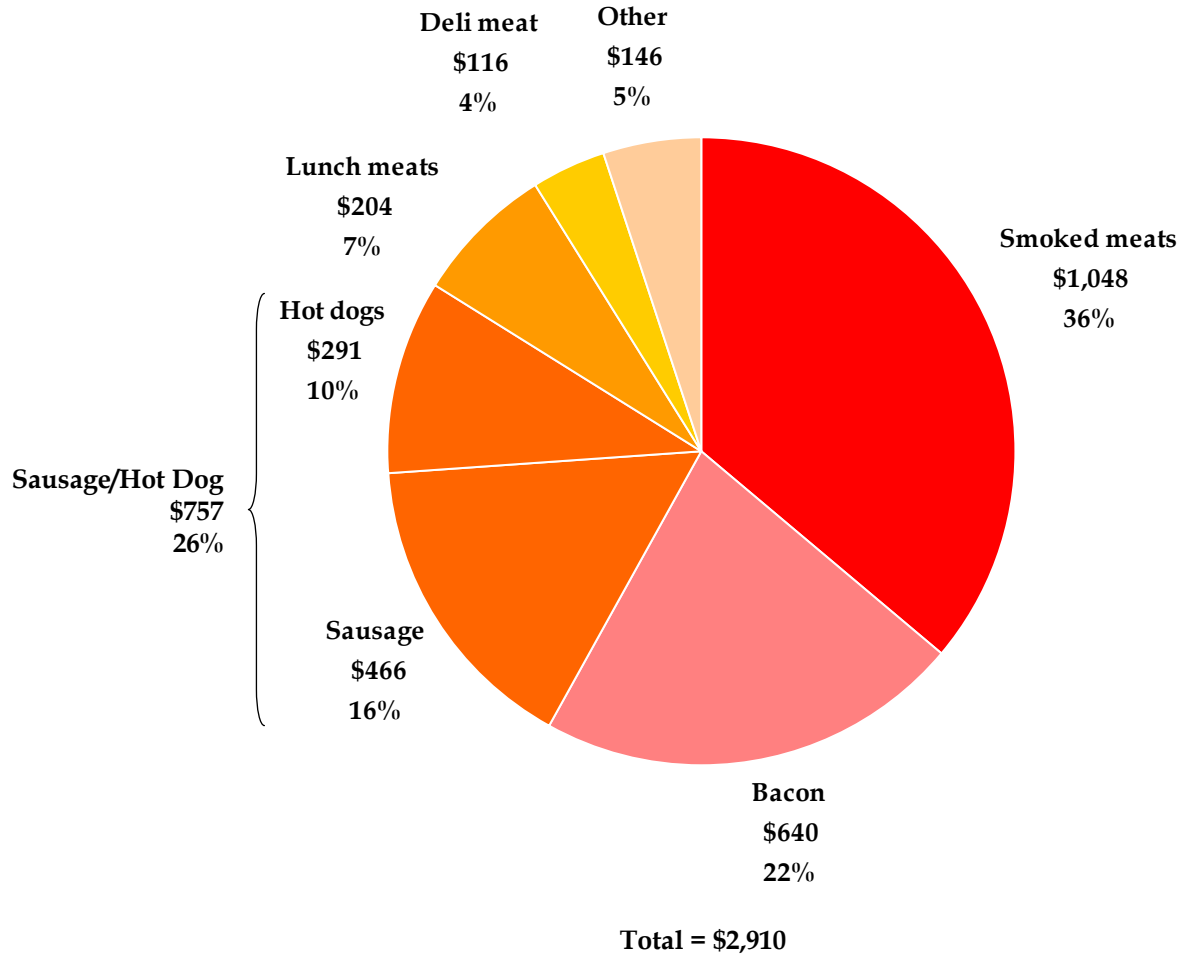
### Smithfield continues to focus on more profitable processed pork products

- **“Our value-added strategies are transforming commodity fresh pork into products that differentiate our brands in the marketplace and command higher margins. On the processed meats side, we are nearing a favorable mix versus fresh meat products and now are concentrating on margin improvement.” Joe Luter III, Chairman, Smithfield, Aug 2001**
- **“While Tyson has provided guidance that value added-products in pork should generate margins between 8-12% compared with 4-6% on the fresh/case ready side, SFD thinks more in terms of profits per hundred weight. The company gave examples of various value added products (assuming normalized hog prices of \$45-50) indicating bacon profits should be \$8-10 per hundred weight, ham bone-in \$6-7, ham boneless \$9-10, and that these margins could go as high as \$22-25 for pre-cooked microwaveable bacon. On the fresh meat side, the company makes about \$5-6 a head, which would be equivalent to \$2-3 per hundred weight (carcass weight for pork is about 180 pounds). So... average value added products can contribute at least three times what fresh meat generates.” Pablo Zuanic, JPMorgan, April 2005**

# PROCESSED PORK SALES BY PRODUCT

Three segments - smoked meats, bacon and sausage/hot dogs account for 84% of Smithfield's processed meat sales

Smithfield processed pork sales by product  
(dollars, millions, 2004)



## PRE-COOKED BACON INVESTMENT

### Smithfield recently invested in increasing precooked bacon capacity

- **“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.”** *Smithfield 10K, 2005*
- **In addition, Smithfield plans to increase capacity within the pre-cooked bacon market, which continues to experience double-digit volume growth. In 4Q04, pre-cooked product sales targeted toward the foodservice sector continued to experience rapid volume growth driven primarily by strong industry demand for pre-sliced bacon products.”** *Thomas Morabito, analyst, Longbow Research, Aug 2004*
- **“The precooked bacon just continues to grow as well. A lot of that from at least Smithfield's standpoint is very much on the food service side of the business. I don't see that trend reversing at all as these trends go, finding it more and more difficult to find employees. They want to have items that are either partially cooked or fully cooked and those opportunities continue to abound in front of us. A lot of it being on the food service side. Again, it's good for us, it's good for our customers, particularly our food service customers, and I think it's good for the consumer.”** *Larry Pope, President, Smithfield, June 2004*

## INNOVATION

### Smithfield is trying to focus on product innovation

- “Successful product innovations are a key driver of earnings growth within the packaged goods sector given its potential positive impact on operating margins and brand recognition. While SFD has historically lagged its key competitors in the development of new products, last year the company acquired Global Culinary Solutions and subsequently formed the Smithfield Innovation Group in an effort to increase its new product development for customers in the retail, club store, and food service channels. We believe the company will have to start devoting additional resources (i.e. increased marketing and promotional spending), in order to obtain a stronger position within the retail channel as it vies with its primary packaged foods competitors for greater shelf space. We have listed various new products introduced by SFD since the formation of Smithfield Innovation Group below:
  - Sweet Potato Pockets and Gourmet Stuffed Potatoes
  - Cuban-Style Pork with Pork Bread Crocks, which includes a unique French-style “earthenware crock and lid” shaped bowl
  - Bacon Croquettes and Baked Potato Skins with Cheddar Cheese and Bacon
  - Pulled Pork Chili with Beans
  - Pork Wellington under Smithfield Lean Generation Pork Tenderloin brand
  - Italiano Panini Sandwich and Fiesta Tortilla Pork Fingers.” *Thomas Morabito, analyst, Longbow Research, Aug 2004*

## PORK BRANDS BY OPERATING COMPANY

However, as a result of numerous acquisitions and decentralized operations, Smithfield is hampered by its huge range of pork brands

Smithfield pork brands by operating company  
(2004)

### The Smithfield Packing Co.

Lean Generation  
Smithfield Premium  
Tender n' Easy  
Sunnyland  
Lykes  
Jamestown  
Hamilton  
Quik to Fix

### John Morrell & Co.

John Morrell  
John Morrell Fresh  
John Morrell Tender N Juic  
Dinner Bell  
Peyton's  
Rath Black Hawk  
Tobin's First Prize  
Tobin's Mother Goose  
Rodeo  
Kretschmar  
Hunter  
E-Z Cut

### Gwaltney

Aberdeen  
Blueridge  
Gwaltney  
Gwaltney Tender Perfection  
Peanut City Country Hams  
Genuine Smithfield Hams  
Mash's  
Esskay  
Reelfoot  
Valleydale  
Big 8's  
Williamsburg  
Red Eye  
Old Alamance  
Virginia's Choice  
Doughtie's  
Smitty  
V.W. Joyner  
Great

### Packerland Holdings, Inc.

Packerland  
Showcase Supreme  
Supreme Valu  
Grand River Ranch  
Sun Land  
Murco

### Moyer Packing Co.

MOPAC  
Steakhouse Classic  
Greaseland

### Patrick Cudahay, Inc.

Patrick Cudahay  
Dunzig  
La Abuelita  
Patrick's Pride  
Portion Perfect  
ReaLean  
Pavone  
Heritage  
LaFortuna  
Monte Rosa  
Venicia  
Golden Crisp  
Hambassador  
Royale  
RoyaLean  
Agar

### North Side Foods Corp.

Ember Farms  
Stefano Foods, Inc.

### Stefano Foods

Rip-N-Dip  
Great Stuff

### Farmland

Farmland  
Carando  
Ohse  
Roegelien

## PORK BRANDS BY CHANNEL

### Smithfield's brands are spread across multiple channels

#### Smithfield pork products and brands by channel (2004)

	Retail	Deli	Foodservice
<b>Products</b>	Hot Dog Smoked sausage, hams Hams; boneless and bone in Bacon Breakfast meats Cold cuts Tenderloins, pork butts Rack of Pork, spare ribs	Cold cuts Smoked sausage Breakfast meats Specialty meats Deli ham Corned beef Hot dogs	Fresh pork Smoked bacon Dry sausage Hams; boneless and bone in Pre-cooked bacon toppings Refinery products Meatballs Salami Sausage patties
<b>Brands</b>	John Morrell Kretschmar E-Z Cut Farmland DinnerBell Rodeo, Hunter, Partridge Patrick Cudahy Gwaltney Great Valley Dale Esskay, Reelfood Farmers Hickory Shenson	John Morrell Kretschmar Dinner Bell Rath Black Hawk Rodeo Hunter Peytons Tobins First Prize	John Morrell Food Service Iowa Quality Meats Ember Farms Northside Foods Gwaltney Food Service



## PLANS TO SIMPLIFY BRANDS

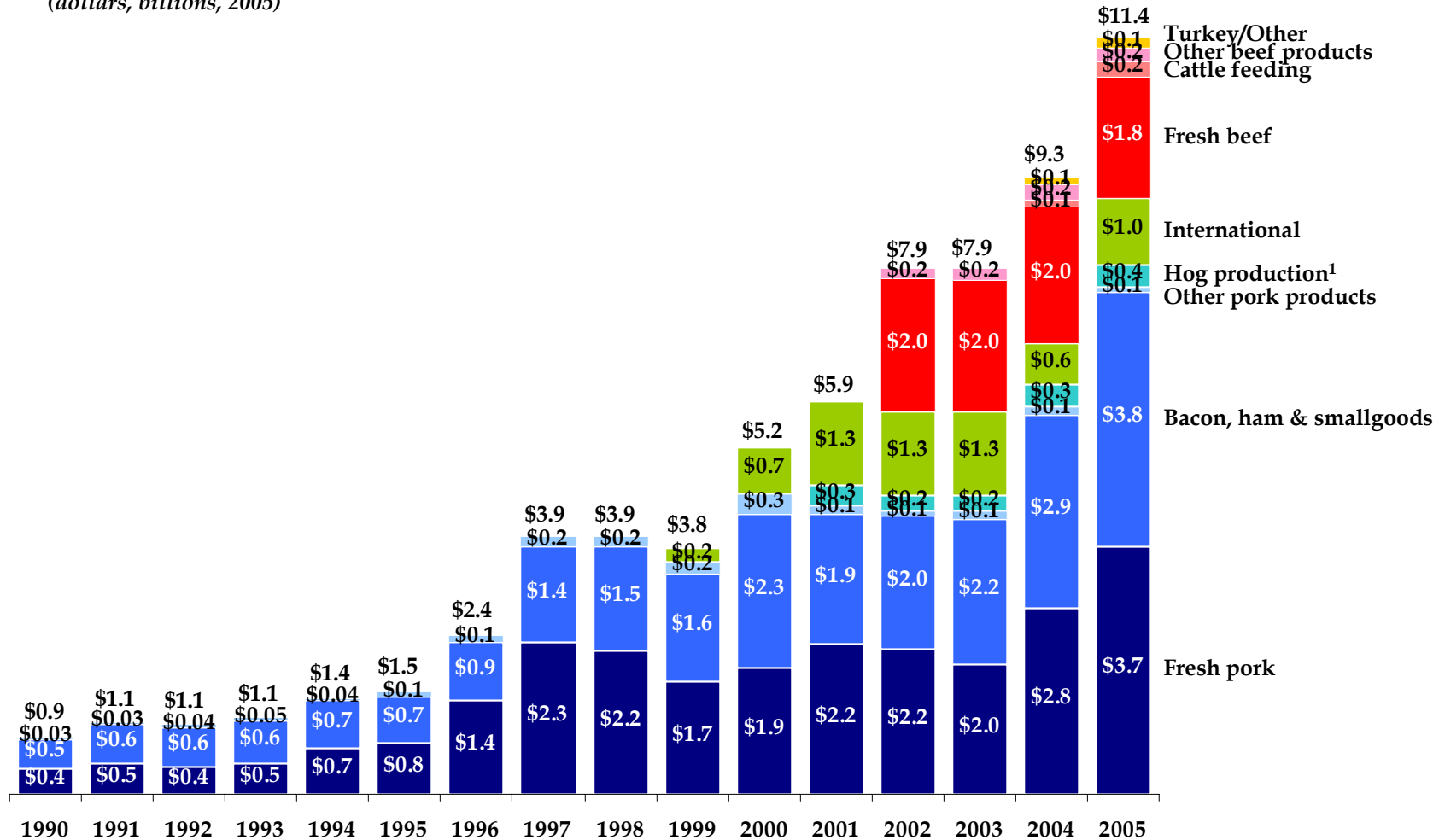
### Smithfield plans to focus more on the Smithfield brand

- **“We have strategically moved down the road of differentiating our brands and have visions for taking the Smithfield brand national in time. We want the Smithfield brand to be top of class. Down the road 10, 15, or 20 years there will be a clear distinction in the minds of consumers. The Smithfield brand is on the high road in terms of quality. It will cost more money, but we are committed to producing a quality product to make our brand the best in class within the meat business and it will be priced as such. For example, we now naturally smoke all Smithfield bacon because we believe that is a better product. We use all pork and beef in our smoked sausage and no poultry because we believe that creates a better product. We are using quality meat blocks for our retail ham products. The strategy for building the Smithfield brand calls for increased consumer marketing, and the company has allocated a budget of several million dollars for this fiscal year. The category focus for products under the Smithfield label include fresh meats, smoked and packaged hams, bacon, and smoked sausage.”** *Joseph Luter IV, President, Smithfield Packing, June 2005*

## 5. DIVERSIFICATION

Starting in 1999, Smithfield began to diversify its portfolio, first by expanding internationally then by getting into beef processing

Smithfield sales growth by segment  
(dollars, billions, 2005)



## DIVERSIFICATION – BEEF

### Smithfield diversified into beef in 2001

- **“I like to getting into businesses when people don't like it. I bought several hog farms 2 years ago when we were losing money raising hogs in Colorado and Arizona. They're extremely profitable today. The same thing is true with the beef business. If you want to enter the beef business, now is the time to enter. We like to buy on down cycles. And those of you here who follow this closely over the years, we've held pretty close to -- I mean, that's exactly what we've done... We're going to get bigger in the big beef business. And we believe in a vertical integration. It has served us very, very well on the pork side. And I think it's going to serve us very, very well on the beef side. And we think -- do we ever want to become 100 percent vertically integrated in beef or pork? No. But if 50 percent is a level that we feel comfortable with, then we can manage that business up and down depending upon consumer demand. If you are 100 percent vertically integrated, you don't have any flexibility. Now, some of the poultry boys have found that out pretty clearly.”** *Joe Luter, Chairman, Smithfield, Feb 2005*
- **“The industry is in turmoil, but Americans love beef and the demand is still there. The issues of the day--whether export markets or BSE--are really noise in my mind. Maybe they won't get resolved quickly, but we are in the game to win and will ride this tide. Remember, we have the financial wherewithal so as beef suffers, pork benefits. We are not totally losing in the game even as we play the game.” “Is vertical integration a goal on the beef side?” “I don't know if vertical integration on the beef side will ever reach the level of the pork side. There are so many breeds and it is extremely fragmented concerning cattle. We are building feedlots through joint ventures. We had an opportunity to buy some beef several years ago at a price that made sense. It has worked out. Admittedly today we are not making much money. However, cattle business has opened up allowing us to make a profit raising cattle to offset the beef processing losses. We have said many times that we are an opportunistic company and we are interested in growing our beef business. It is a natural extension.”** *Larry Pope, COO, Smithfield, June 2005*

## ACQUISITIONS – BEEF

Following a failed bid for IBP, the world's largest beef processor, Smithfield made a number of smaller beef acquisitions

### Details of Smithfield beef acquisitions

(dollars, millions, 2000-2005)

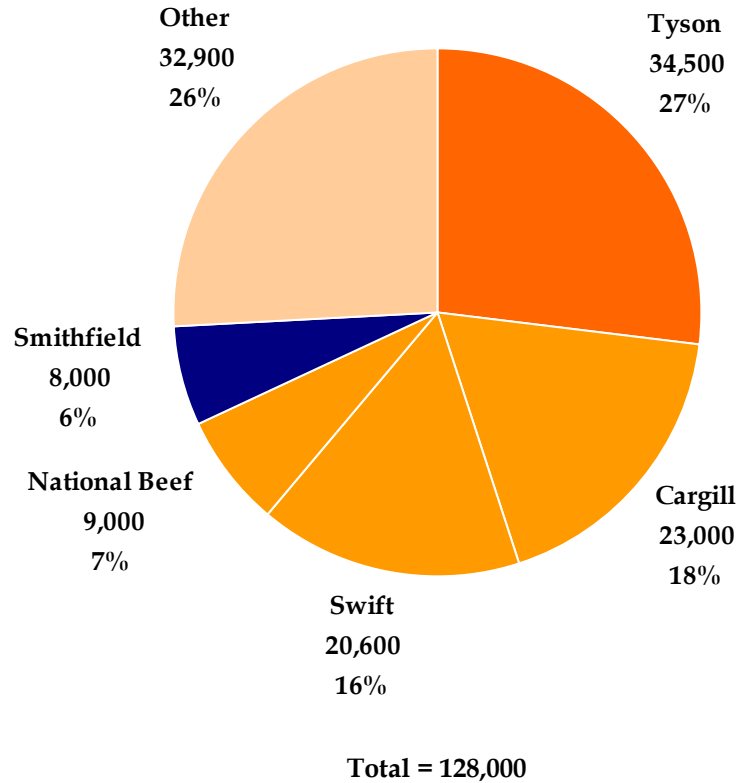
Company	Date	Sales	Purchase Price	Goodwill Booked	Business
Five Rivers Cattle Feeding	2005	JV	-	-	Created JV with ContiGroup to hold all cattle feeding operations of both groups, now largest in United States
MF Cattle Feeding, Inc.	Oct 2004	\$600	\$56.7m	\$7.0m	three cattle feedlots in Colorado and one in Idaho from ConAgra
Packerland Holdings, Inc.	October 2001	\$1,433	\$250		Fifth largest beef processor in the U.S. with a capacity to process 6,150 head per day
Moyer Packing Company	June 2001	\$600			Ninth largest beef processor in the U.S. with a capacity to process 2,375 head per day
IBP	2000		<b>Failed</b>	-	Lost in bidding war with Tyson for IBP, world's largest beef processor

Rumored to be looking at Swift (#3)

# BEEF PROCESSING CAPACITY SHARE

## Smithfield is now the 5<sup>th</sup> largest beef processor in the United States

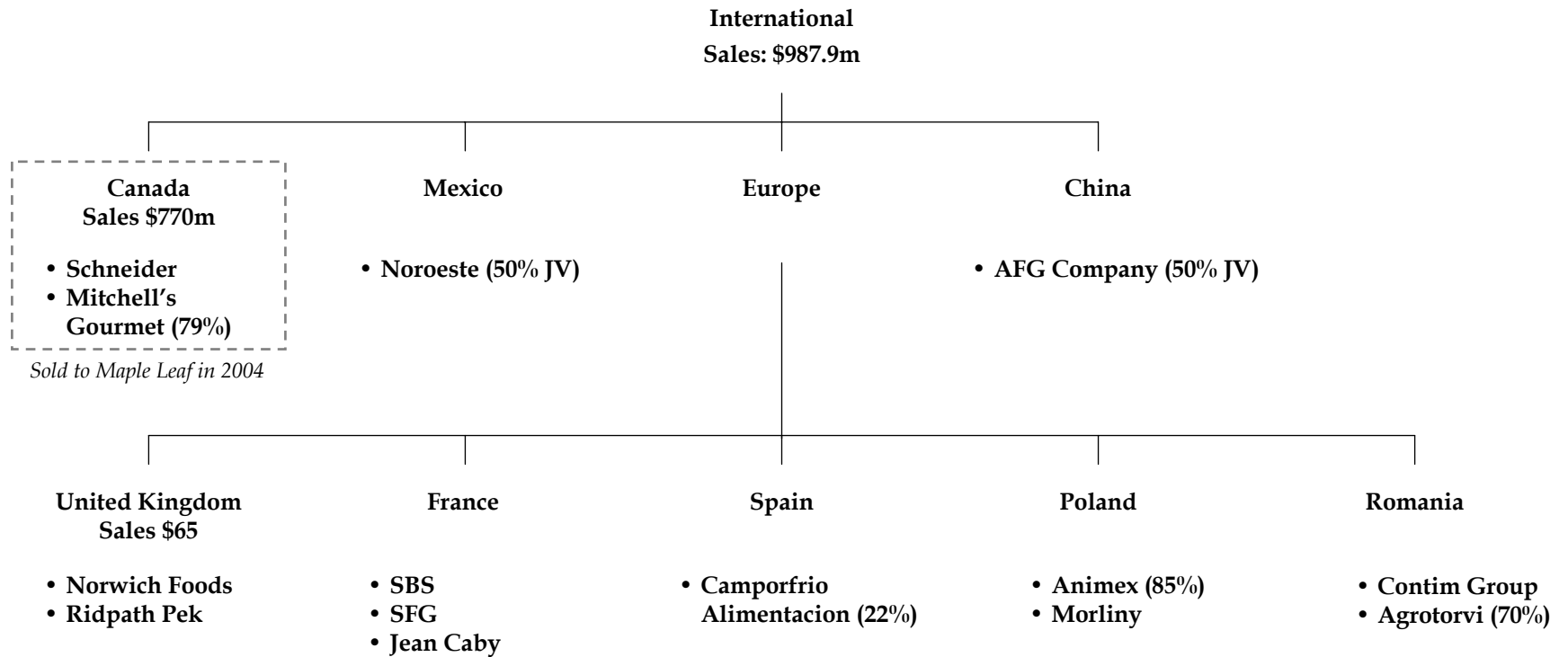
Share of United States daily beef processing capacity  
(head per day, actual, 2004)



# DIVERSIFICATION - INTERNATIONAL

## Smithfield now has operations on three continents

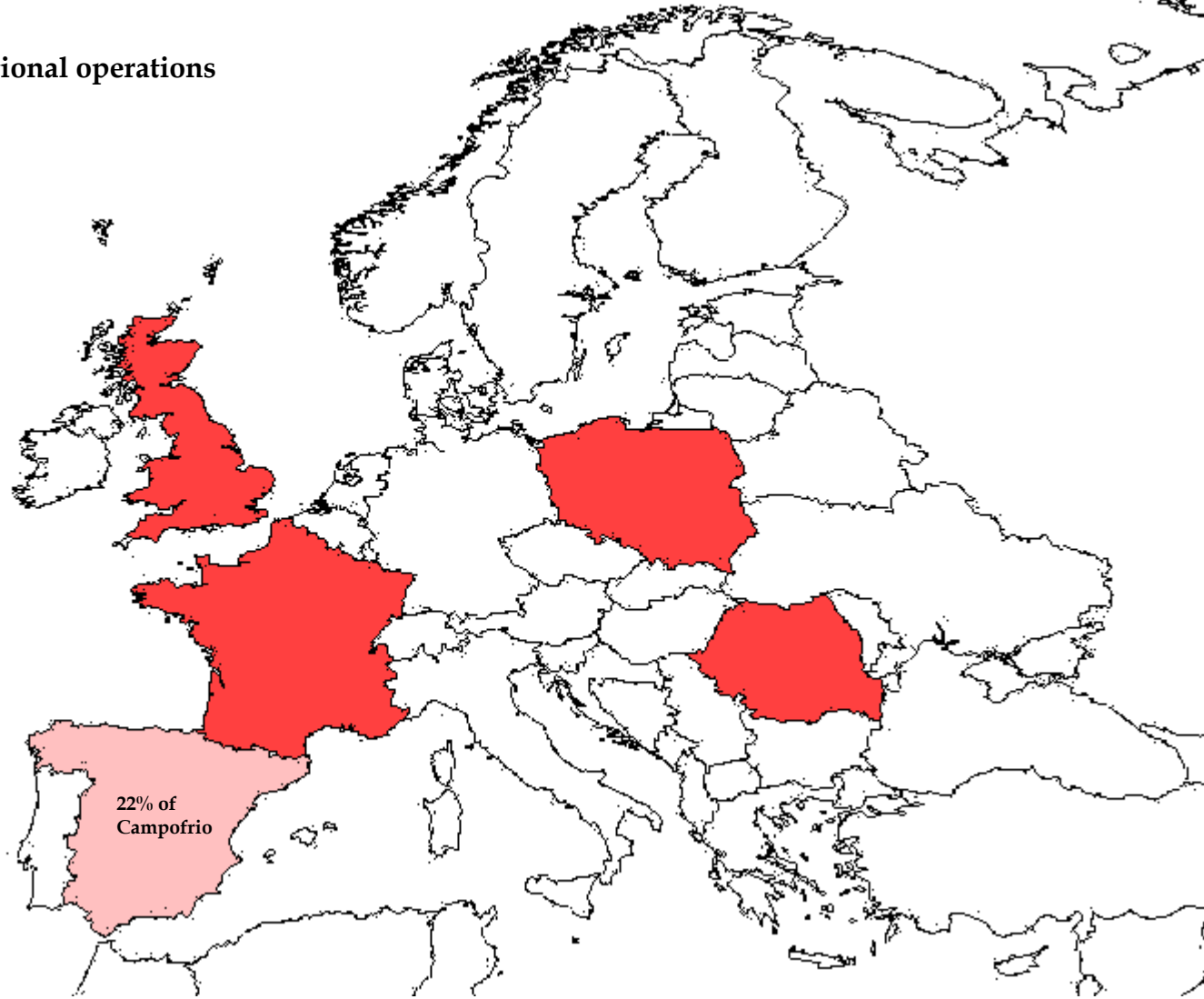
Structure of Smithfield's international operations  
*(dollars, millions, 2005)*



## EUROPE A FOCUS

However, Europe appears to be Smithfield's primary international focus at this point

Smithfield's international operations  
(by country, 2005)



## AS BIG AS US OPERATIONS IN 9 YEARS

### Smithfield management believes European operations will match US operations in 8-9 years

- **“Do you still foresee the European business ultimately generating profit at the same level as the U.S. business? “I do. I continue to be excited about Eastern Europe particularly Romania, which is the Iowa of Europe. Romania is a net importer of meat. We have bought a very large plant there and are putting in farms as quickly as we can get permits.” “Why Eastern Europe?” “We have seen tremendous opportunity there. By comparison it would be like Iowa importing meat from California or from New York to Iowa, which would make no sense. This is the situation we see in Eastern Europe. When the Iron Curtain went down in 1945, the industry ended up in the wrong part of Europe. We are not burdened with plants in what we believe is the wrong part of Europe. We are expanding in the part of Europe where it should have been in the first place, if there had not been an artificial barrier... In the next 8-9 years, our European operations will be as large as our US ones.” Joe Luter, Chairman, Smithfield, June 2005**
- **“In our view, management is more enthusiastic about the opportunity in Romania than in Poland. Unlike in Poland, SFD has encountered little opposition from farmers or politicians. The current hog population is about 4-5 million but domestic consumption is equivalent to 8 million hogs. With sales here of only \$2 million at present, SFD believes the Romanian operation (in terms of exports and supplying the local market) should generate about \$600 million in sales by FY10. Romania will become part of the EU starting in 2007. We estimate that by 2010 SFD could be slaughtering 1.5 million hogs in Romania.” Pablo Zuanic, JPMorgan, April 2005**



## ACQUISITIONS - INTERNATIONAL

Starting in 1998, Smithfield began to make numerous international operations...

### Details of Smithfield international acquisitions

(dollars, millions, 1994-2003)

Company	Date	Sales	Purchase Price	Goodwill	Country	Business
Morliny S.A.	Nov 2004	\$100	\$71.3m	\$21.5m	Poland	A producer and marketer of pork and beef in Poland, which markets its products both domestically and through export channels.
Agrotorvis	2004	n/a			Romania	A 70% interest in a pork processing business in Romania.
Comtim Group SRL	Nov 2004	n/a	In above	In above	Romania	a vertically integrated hog and pork producer and pork marketer based in Romania, which markets its products mainly domestically, with a capacity of 15,000 sows
Campofrío Alimentación S.A.	Feb-Aug 2004	n/a	\$136.9m	n/a	Spain	22% of shares of the largest meat processor in Spain and one of Europe's largest diversified meat processors. Primarily a processor of pork and further processed pork products, Campofrío has operations in Portugal, Russia, Poland, Romania and France, and exports to over 40 countries.
Jean Caby S.A.	July 2004	\$159	\$33.4m	\$10.6m	France	established in France in 1919, produces and markets cured and cooked processed meats including deli cooked hams, dry sausages, cocktail sausages, and hot dogs
Norwich Foods Company	Feb 2004	\$65	n/a	n/a	UK	Primarily fresh pork; combined with Ridpath Pek to form Smithfield Foods UK
Ridpath Pek	Feb 2004	In above	n/a	n/a	UK	Primarily processed pork; Previously owned 50% through a joint-venture
Mitchell's Gourmet Foods Inc.	2001-2003		n/a	n/a	Canada	Schneider increased its investment in one of Canada's leading value-added pork processors base in Saskatchewan-based from 38% to 79%.

## ACQUISITIONS - INTERNATIONAL

### ... continued

#### Details of Smithfield international acquisitions

(dollars, millions, 1994-2003)

Company	Date	Sales	Purchase Price	Goodwill	Country	Business
AFG Company	2002	n/a	n/a	n/a	China	a Chinese meat processing and distributing company in a 50/50 JV with Artal Holland B.V.
Schneider	Sep 2001	n/a	n/a	n/a	Canada	completed the acquisition of the remaining 37% interest in Schneider
Agroindustrial del Noroeste S. de R.L. de C.V.	Sep 1999	n/a	n/a	n/a	Mexico	a 50% stake in a Mexican meat processing and hog production joint venture. The meat processing operations are reported in the International segment
Société Financière de Gestion et de Participation	Aug 1999	\$100	n/a	n/a	France	a private-label processed meats manufacturer in France
Animex	Sep 1998 -Jun 1999	\$350	n/a	n/a	Poland	an 85% stake in one of the largest meat and poultry processing companies in Poland (400m lbs); produces a broad line of fresh and processed meats and poultry
Schneider	Nov 1998	\$550	n/a	n/a	Canada	acquired a 63%; later 100% in Schneider, a food processing company headquartered in Kitchener, Ontario The Schneiders brand is the number one Canadian brand in hot dogs, luncheon meats and premium hams.
Société Bretonne de Salaisons	Sep 1998	\$100	n/a	n/a	France	one of the largest private-label manufacturers of ham, pork shoulder and bacon products in France

## EAST MEETS WEST

### The company plans to match Eastern European raw material with Western European brands

- “[UK acquisitions] Norwich and Ridpath Pek are nearly perfectly complementary to each other, with virtually no overlap in products or customers, which creates attractive opportunities for providing our customers with a full range of high quality meat products. Moreover, Smithfield Foods Ltd. will gain a dedicated supply relationship from Smithfield’s Polish subsidiary, Animex, and its French subsidiary, SBS, assuring Smithfield Food Ltd.’s customers of consistent quality.” *Robert Sharpe, President, Smithfield International, Feb 2004*
- “Although exports to North American and Asian countries are an important component to Smithfield's international strategy, the company is focused on exploiting opportunities in Europe. Eastern Europe was the bread basket of Europe before the rise of communism and division of the continent in 1945. Agriculture developed in the Western European nations of Denmark, Holland, Germany, and France where the cost of land and labor are expensive relative to Eastern Europe. Smithfield is exploiting these opportunities by acquiring premium branded Western European companies, such as Norwich Food Company and Ridpath Pek of the UK, and supplying them with low cost and high quality pork produced at its Eastern European operations, in this case Animex, to generate higher margins. As Smithfield expands capacity at its Agrotorvis operation in Romania and leverages premium brands in Western Europe, the company will continue to exploit the opportunity created by the misplaced location of agriculture in Europe.” *Pablo Zuanic, JPMorgan, Dec 2004*

## DIVESTITURES

**Smithfield only divestiture has been opportunistically selling its Canadian operations to Maple Leaf for \$200m more than it paid**

### Details of Smithfield divestitures

*(dollars, millions, 1994-2003)*

Company	Date	Sale Price	Goodwill	Sales	Country	Business
Schneider Corporation	Sep 2003	\$378	-	\$550+	Canada	to Maple Leaf Foods Inc. (Canada #1 pork)