UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF MISSOURI

In re:	**)**	**In Proceedings Under Chapter 11**
	)	
FARMLAND INDUSTRIES, INC., ET AL.,	**)**	**Case No. 02-50557-JWV**
	)	**Joint Administration**
Debtors.	**)**	

AFFIDAVIT OF MICHAEL H. COLE IN SUPPORT OF DEBTORS' MOTION FOR ORDER (1) AUTHORIZING THE SALE OF THE DEBTORS' ASSETS FREE AND CLEAR OF LIENS, CLAIMS AND ENCUMBRANCES, SUBJECT TO HIGHER AND BETTER OFFERS AND (2) APPROVING THE ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES IN CONNECTION WITH SUCH SALE

STATE OF MISSOURI	)
	) ss.
COUNTY OF JACKSON	)

Michael H. Cole, being duly sworn, deposes and says:

1. I am Vice President, Secretary and Deputy General Counsel of Smithfield Foods, Inc. ("Smithfield").

2. I submit this Affidavit in support of Debtors' Motion for Order (1) Approving Auction and Bid Procedures; (2) Approving Break-Up Fee; (3) Approving the Form and Manner of Notice; (4) Authorizing the Sale of Assets Free and Clear of Liens, Claims and Encumbrances, Subject to Higher or Better Offers; and (5) Approving Assumption and Assignment of Certain Executory Contracts and Unexpired Leases in Connection with Such Sale relating to the sale of certain assets of Farmland Foods, Inc. and Farmland Industries, Inc. (the "Motion"). Except as otherwise indicated, all facts set forth in this Affidavit are based upon my personal knowledge, my review of relevant documents, or my opinion, based upon my experience and knowledge of Smithfield's operations and financial condition or information reported to me in the course of my duties by Smithfield's officers, agents or employees. If I

were called upon to testify, I could and would testify to the facts set forth herein. I am authorized to submit this Affidavit.

ASSET SALE AND PURCHASE AGREEMENT

9. KC Acquisition, Inc. ("Buyer"), a wholly-owned subsidiary of Smithfield, entered into an asset sale and purchase agreement dated as of July 12, 2003 (the "Purchase Agreement") with Farmland Foods, Inc. and Farmland Industries, Inc. (collectively, "Farmland" or "Seller") for the purchase and sale of the assets associated with the pork operations of Seller (the "Foods Business") for an estimated purchase price of $363,500,000, plus the assumption of certain specific liabilities (the "Purchase Price"). Buyer deposited earnest monies totaling $35,000,000 (the "Buyer Deposit") with the Earnest Money Escrow Agent for the benefit of the Seller.

10. The terms of the Purchase Agreement were heavily negotiated between the parties for several months.

11. Seller sought authority to sell the Foods Business to Buyer, subject to higher and better offers, in accordance with the Auction and Bid Procedures approved by the Court.

12. On behalf of Buyer and Smithfield, I attended an auction (the "Auction") for the Foods Business on October 12, 2003 at the corporate offices of Farmland in Kansas City, Missouri. Also in attendance at the auction were individuals who I know to be affiliated with Cargill Incorporated ("Cargill") who stated that they were bidding on behalf of a Cargill affiliate.

13. At the Auction, the Seller received additional bids from Buyer and Cargill for the Foods Business as a group.

14. At the Auction, Buyer made an offer that the Seller announced it had determined to be the highest or best offer for the Assets (the "Final Accepted Offer"). The Final Accepted Offer includes consideration of $367,400,000 in cash, subject to adjustment based on net working capital calculations at closing and further subject to adjustment to reflect the Buyer's assumption of certain liabilities of the Seller. The Final Accepted Offer also calls for the assumption by the Buyer of the Seller's pension plan. The terms of the Final Accepted Offer was subsequently set forth in the Amended and Restated Asset Sale and Purchase Agreement dated as of October 12, 2003 (the "Amended Purchase Agreement").

15. Changes to the Purchase Agreement incorporated into the Amended Purchase Agreement include, among other things, (i) Buyer's assumption of the entire Farmland Pension Plan, for which Smithfield received a $90 million credit at the Auction, and a complete restatement of Section 2.4 for purposes of the Amended Purchase Agreement, (ii) Buyer's election to include Seller's sole membership interest in Colorado Boar Stud Real Estate LLC with the Transferred Assets, (iii) Buyer's assumption of that certain trademark license agreement with Carando Gourmet Foods Corp., (iv) revisions and updates to certain Exhibits and Disclosure Schedule Sections, and (v) other changes to conform with and match the provisions of the Competing Bid submitted by Cargill.

16. Buyer has full corporate power and authority to execute the Purchase Agreement, the Amended Purchase Agreement and all other documents contemplated thereby, and the sale of the Foods Business (including the assumption and assignment of the Assumed Contracts, defined below) has been duly and validly authorized by all necessary corporate power and authority. No other consents or approvals, other than those expressly provided for in the

Purchase Agreement, are required for Buyer to consummate the sales or the assumption and assignment of the Assumed Contracts.

17. Buyer is wholly-owned subsidiary of Smithfield. Smithfield is a publicly held corporation, traded on the New York Stock Exchange. Because Smithfield is publicly traded, I do not know the identity of all shareholders. Smithfield's records indicate that, as of July 12, 2003, neither the Seller nor any officer or director of the Seller holds five percent (5%) or more of the issued and outstanding Smithfield common stock. Smithfield's records also indicate that neither it, nor the Buyer, hold an ownership interest in the Seller.

18. The Purchase Agreement, the Amended Purchase Agreement and transactions related thereto have been bargained for and are undertaken at arm's length, without collusion, and in good faith.

19. The purchase price set forth in the Purchase Agreement was arrived upon after a lengthy series of negotiations involving Smithfield representatives and advisors, and the representatives and advisors of the Seller, the Official Committee of Unsecured Creditors and the Official Committee of Bondholders (the "Committees"). Those negotiations involved generally extensive analysis and discussion in an effort to determine the normalized EBITDA of the Foods Business and the appropriate market multiples to be applied to that EBITDA to arrive at a market price. The advisors for both the Buyer and the Seller included sophisticated investment bankers familiar with the industry of the Foods Business.

20. Once the purchase price was established in the Purchase Agreement upon information and belief, the Seller and the Committees undertook a marketing process in an effort to solicit additional bids for the Foods Business.

21. On October 12, 2003, approximately three months after the Purchase Agreement was executed, I, along with other representatives of, and advisors to, Smithfield attended the auction conducted by the Seller. That auction involved more than twenty rounds of bidding before the bidding ended and the Seller declared Buyer to be the highest and best bid.

22. At no time did Smithfield representatives take action or undertake discussions with any potential bidder or other party interested in the Foods Business for the purpose of, or which would likely have the effect of, discouraging bidding, controlling the amount others might be willing to bid or interfering with the marketing efforts of the Seller.

ASSUMPTION AND ASSIGNMENT OF CONTRACTS

23. In connection with the sales described above, Seller will assume and assign certain of the Contracts to Buyer, subject to the Closing of the proposed sale.

24. Those contracts and leases to be assumed and assigned (the "Assumed Contracts"), identified in the exhibits and schedules to the Purchase Agreement, have been designated by Buyer to be assumed and assigned to Buyer at Closing.

25. Buyer has the financial ability to perform under the Assumed Contracts. Smithfield has executed a guaranty of all obligations of Buyer to the non-debtor parties to the Assumed Contracts under the Assumed Contracts.

26. As evidence of its financial ability to perform under the Assumed Contracts, Buyer submits the financial statements of Smithfield for the fiscal year ended as of April 27, 2003, as filed by Smithfield with the Securities and Exchange Commission. True and accurate copies of Smithfield's financial statements are attached hereto as Exhibit 1.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 27th day of October, 2003, at Kansas City, MO.

/s/ Michael Cole
Michael H. Cole
Vice President, Secretary and Deputy General Counsel
Smithfield Foods, Inc.

Subscribed and sworn to before me this 27th day of October , 2003.

Donna J. Martin
Notary Public

My Commission Expires:
August 5, 2007

[NOTARY SEAL]

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Years		
	2003	2002	2001
	(in millions, except per share data)		
Sales	$7,904.5	$7,356.1	$5,899.9
Cost of sales	7,203.4	6,393.0	5,069.6
Gross profit	701.1	963.1	830.3
Selling, general and administrative expenses	567.9	558.0	463.0
Interest expense	94.0	94.3	89.0
Gain on sale of IBP, inc. common stock (Note 11)	—	(7.0)	(79.0)
Income before income taxes	39.2	317.8	357.3
Income taxes	12.9	120.9	133.8
Net income	$ 26.3	$ 196.9	$ 223.5
Net income per basic common share	$ .24	$ 1.82	$ 2.06
Net income per diluted common share	$ .24	$ 1.78	$ 2.03

See Notes to Consolidated Financial Statements

SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Fiscal Years Ended	
	April 27, 2003	April 28, 2002
	(in millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66.0	$ 71.1
Accounts receivable less allowances of $11.4 and $9.0	463.3	516.7
Inventories	1,064.7	860.5
Prepaid expenses and other current assets	56.5	72.1
Total current assets	1,650.5	1,520.4
Property, plant and equipment:		
Land	132.5	105.7
Buildings and improvements	963.4	869.1
Machinery and equipment	1,194.4	1,075.6
Breeding stock	103.4	95.9
Construction in progress	57.9	60.7
	2,451.6	2,207.0
Less accumulated depreciation	(820.1)	(658.9)
Net property, plant and equipment	1,631.5	1,548.1
Other assets:		
Goodwill	503.8	448.3
Investments in partnerships	114.6	119.7
Other	310.2	236.2
Total other assets	928.6	804.2
	$ 4,210.6	$ 3,872.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$ 18.9	$ 24.0
Current portion of long-term debt and capital lease obligations	115.0	68.9
Accounts payable	384.7	355.8
Accrued expenses and other current liabilities	298.9	273.2
Total current liabilities	817.5	721.9
Long-term debt and capital lease obligations	1,599.1	1,387.1
Other noncurrent liabilities:		
Deferred income taxes	205.4	271.3
Pension and postretirement benefits	230.6	74.2
Other	46.0	37.3
Total other noncurrent liabilities	482.0	382.8
Minority interests	12.8	18.1
Commitments and contingencies		

Shareholders' equity:		
Preferred stock, $1.00 par value, 1,000,000 authorized shares	—	—
Common stock, $.50 par value, 200,000,000 authorized shares; 109,460,931 and 110,284,112 issued and outstanding	54.7	55.1
Additional paid-in capital	475.5	490.1
Retained earnings	862.0	835.7
Accumulated other comprehensive loss	(93.0)	(18.1)
Total shareholders' equity	1,299.2	1,362.8
	$ 4,210.6	$ 3,872.7

See Notes to Consolidated Financial Statements

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years		
	2003	2002	2001
		(in millions)	
Operating activities:			
Net income	$ 26.3	$ 196.9	$ 223.5
Depreciation and amortization	172.7	148.1	140.1
Deferred income taxes	(16.1)	5.8	(7.2)
Gain on sale of IBP, inc. common stock	—	(7.0)	(79.0)
Gain on sale of property, plant and equipment	(2.0)	(1.3)	(2.7)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	68.5	(24.2)	(4.6)
Inventories	(178.1)	(53.8)	(51.2)
Prepaid expenses and other current assets	(7.3)	43.9	29.8
Other assets	(61.7)	(6.3)	(14.3)
Accounts payable, accrued expenses and other liabilities	80.5	(3.5)	(16.1)
Net cash provided by operating activities	82.8	298.6	218.3
Investing activities:			
Capital expenditures	(180.3)	(171.0)	(144.1)
Business acquisitions, net of cash acquired	(110.4)	(167.0)	(29.7)
Proceeds from sale of IBP, inc. common stock	—	58.6	224.5
Investments in IBP, inc. common stock	—	—	(147.4)
Investments in partnerships and other assets	(9.2)	(13.3)	(2.0)
Proceeds from sale of property, plant and equipment	11.1	15.4	38.9
Net cash used in investing activities	(288.8)	(277.3)	(59.8)
Financing activities:			
Net borrowings (repayments) on notes payable	0.3	(40.4)	(39.7)
Proceeds from issuance of long-term debt	11.0	408.9	31.0
Net borrowings (repayments) on long-term credit facility	301.0	(148.0)	12.0
Principal payments on long-term debt and capital lease obligations	(89.4)	(146.8)	(86.3)
Repurchase and retirement of common stock	(24.6)	(85.7)	(77.8)
Exercise of common stock options	1.2	4.3	8.4
Net cash provided by (used in) financing activities	199.5	(7.7)	(152.4)
Net (decrease) increase in cash and cash equivalents	(6.5)	13.6	6.1
Effect of currency exchange rates on cash	1.4	1.0	0.5
Cash and cash equivalents at beginning of year	71.1	56.5	49.9
Cash and cash equivalents at end of year	$ 66.0	$ 71.1	$ 56.5
Supplemental disclosures of cash flow information:			
Interest paid, net of amount capitalized	$ 98.5	$ 95.3	$ 104.4
Income taxes paid	11.5	123.8	126.2
Noncash investing and financing activities:			
Common stock issued for acquisitions	$ —	$ 202.7	$ —
Common stock repurchases not settled	—	(7.9)	—

See Notes to Consolidated Financial Statements

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Fiscal Years		
	2003	2002	2001
		(in millions)	
Common stock—Shares:			
Balance, beginning of year	110.3	105.0	109.4
Common stock issued	0.1	9.6	—
Exercise of stock options	0.1	0.3	0.9
Repurchase and retirement of common stock	(1.0)	(4.6)	(5.3)
Balance, end of year	109.5	110.3	105.0
Common stock—Par value:			
Balance, beginning of year	$ 55.1	$ 52.5	$ 54.7
Common stock issued	—	4.7	—
Exercise of stock options	0.1	0.2	0.4
Repurchase and retirement of common stock	(0.5)	(2.3)	(2.6)
Balance, end of year	54.7	55.1	52.5
Additional paid-in capital:			
Balance, beginning of year	490.1	379.4	446.6
Common stock issued	0.3	197.9	—
Exercise of stock options	1.1	4.1	8.0
Stock option expense	0.2	—	—
Repurchase and retirement of common stock	(16.2)	(91.3)	(75.2)
Balance, end of year	475.5	490.1	379.4
Retained earnings:			
Balance, beginning of year	835.7	638.8	415.3
Net income (a)	26.3	196.9	223.5
Balance, end of year	862.0	835.7	638.8
Accumulated other comprehensive (loss) income:			
Balance, beginning of year (b)	(18.1)	(17.6)	(13.7)
Unrealized (loss) gain on securities, net of tax of $0.0, $(3.3) and $(28.1)	(0.1)	5.2	45.9
Minimum pension liability, net of tax of $61.5, $0.6 and $0.9	(96.9)	(0.9)	(1.4)
Hedge accounting, net of tax of $(2.3)	3.6	—	—
Transition adjustment for hedge accounting, net of tax of $8.0	—	(12.7)	—
Foreign currency translation	16.7	0.2	(3.2)
Reclassification adjustments:			
Hedge accounting	0.8	11.9	—
Securities	1.0	(4.2)	(45.2)
Balance, end of year (c)	(93.0)	(18.1)	(17.6)
Total shareholders' equity	$1,299.2	$1,362.8	$1,053.1
Total comprehensive (loss) income (a–b+c)	$ (48.6)	$ 196.4	$ 219.6

See Notes to Consolidated Financial Statements

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in Millions, except per share data)

Note 1: Summary of Significant Accounting Policies

Nature of Business

Smithfield Foods, Inc. and subsidiaries (the Company) is comprised of four segments: Pork, Beef, International and the Hog Production Group (HPG). The Pork segment consists primarily of seven wholly or majority owned United States (U.S.) fresh pork and processed meats subsidiaries. The Beef segment is comprised of primarily two U.S. beef processing subsidiaries and the International segment consists primarily of four meat processing subsidiaries. The HPG consists primarily of hog production operations located in the U.S. and Poland. The Pork, International and the HPG segments have certain joint ventures and other investments in addition to their primary operations.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company after elimination of all material intercompany balances and transactions. Investments in partnerships are recorded using the equity method of accounting.

Management uses estimates and assumptions in the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest April 30. Fiscal 2003, 2002 and 2001 were all 52 weeks.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of 90 days or less to be cash equivalents. The carrying value of cash equivalents approximates market value. As of April 27, 2003 and April 28, 2002, cash and cash equivalents include $1.1 and $20.7, respectively, in short-term marketable securities.

Inventories

Inventories are valued at the lower of first-in, first-out cost or market. Cost includes raw materials, labor and manufacturing and production overhead. Inventories consist of the following:

	April 27, 2003	April 28, 2002
Fresh and processed meats	$ 442.1	$ 383.9
Hogs on farms	414.2	349.2
Cattle	85.2	25.2
Manufacturing supplies	55.6	51.9
Other	67.6	50.3
	$ 1,064.7	$ 860.5

Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated over the estimated useful lives of the assets. Buildings and improvements are depreciated over periods from 20 to 40 years. Machinery and equipment is

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

depreciated over periods from five to 20 years. Breeding stock is depreciated over two and one-half years. Assets held under capital leases are classified as property, plant and equipment and amortized over the lease terms. Lease amortization is included in depreciation expense. Depreciation expense is reported in the consolidated statement of income as either cost of sales or selling, general and administrative expenses. Depreciation expense totaled $165.2, $139.9 and $124.8 in fiscal 2003, 2002 and 2001, respectively. Repairs and maintenance charges are expensed as incurred. Repair and maintenance expenses totaled $211.1, $206.1 and $178.9 in fiscal 2003, 2002 and 2001, respectively. Improvements that materially extend the life of the asset are capitalized. Gains and losses from dispositions or retirements of property, plant and equipment are recognized currently.

Interest on capital projects is capitalized during the construction period. Total interest capitalized was $2.5, $1.8 and $2.8 in fiscal 2003, 2002 and 2001, respectively.

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS 141) and SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142).

SFAS 141 requires any business combinations to be accounted for using the purchase method. Additionally, SFAS 141 further clarifies the criteria for recognizing identifiable intangible assets separate from goodwill. The Company has applied SFAS 141 to all business combinations in fiscal 2003 and 2002 (Note 2).

SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. This statement requires that acquired goodwill and other indefinite-life intangible assets are no longer periodically amortized into income, but are subject to an annual impairment measurement. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. In accordance with SFAS 142, amortization of acquired goodwill and other indefinite-life intangible assets was discontinued after fiscal 2001. The Company allocates goodwill to its reporting units and performs an annual assessment for potential impairment. Management believes there is no significant exposure to a loss from impairment of acquired goodwill and other intangible assets as of April 27, 2003. Had SFAS 142 been effective in fiscal 2001, net income and net income per diluted share would have increased $8.8, or $.08 per diluted share, to $232.3, or $2.11 per diluted share.

Deferred debt issuance costs are amortized over the terms of the related loan agreements.

Investments in Partnerships

The Company uses the equity method of accounting for its investments in joint ventures and other entities in which it has more than 20%, but not more than 50%, voting interest. The table below summarizes the Company's various partnership investments as of April 27, 2003 and April 28, 2002.

	April 27, 2003	April 28, 2002
Carolina Turkeys	$ 37.3	$ 28.0
Agroindustrial del Noroeste (Agroindustrial)	20.9	28.0
Granjas Carroll de Mexico (Granjas)	19.1	19.4
Other	37.3	44.3
	$ 114.6	$ 119.7

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivative Financial Instruments and Hedging Activities

On April 30, 2001, the first day of fiscal 2002, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (SFAS 133). In accordance with SFAS 133, all derivatives are reflected at their fair value and are recorded in current assets and current liabilities in the consolidated balance sheets as of April 27, 2003 and April 28, 2002. Derivative instruments consist primarily of exchange-traded futures contracts.

The accounting for changes in the fair value of a derivative depends upon whether it has been designated in a hedging relationship and on the type of hedging relationship. To qualify for designation in a hedging relationship, specific criteria must be met and the appropriate documentation maintained. Hedging relationships are established pursuant to the Company's risk management policies and are initially and regularly evaluated to determine whether they are expected to be, and have been, highly effective hedges. If a derivative ceases to be a highly effective hedge, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized in earnings each period. Changes in the fair value of derivatives not designated in a hedging relationship are recognized in earnings each period.

For derivatives designated as a hedge of a recognized asset or liability or an unrecognized firm commitment (fair value hedges), the changes in the fair value of the derivative as well as changes in the fair value of the hedged item attributable to the hedged risk are recognized each period in earnings. If a firm commitment designated as the hedged item in a fair value hedge is terminated or otherwise no longer qualifies as the hedged item, any asset or liability previously recorded as part of the hedged item is recognized currently in earnings.

For derivatives designated as a hedge of a forecasted transaction or of the variability of cash flows related to a recognized asset or liability (cash flow hedges), the effective portion of the change in fair value of the derivative is reported in other comprehensive income (loss) and reclassified into earnings in the period in which the hedged item affects earnings. Amounts excluded from the effectiveness calculation and any ineffective portion of the change in fair value of the derivative are recognized currently in earnings. Gains or losses deferred in accumulated other comprehensive income (loss) associated with terminated derivatives and derivatives that cease to be highly effective hedges remain in accumulated other comprehensive income (loss) until the hedged item affects earnings. Forecasted transactions designated as the hedged item in a cash flow hedge are regularly evaluated to assess whether they continue to be probable of occurring. If the forecasted transaction is no longer probable of occurring, any gain or loss deferred in accumulated other comprehensive income (loss) is recognized in earnings currently.

On April 30, 2001, upon adoption of SFAS 133, the Company recorded a $12.7 after-tax loss as a cumulative effect of an accounting change resulting in an increase in other comprehensive loss (net of income tax benefits of $8.0) to recognize the fair value of all derivative financial instruments. All of the transition adjustment recorded in other comprehensive loss at April 30, 2001 was reclassified into earnings during fiscal 2002.

With the adoption of SFAS 133, the accounting for certain aspects of derivative instruments and hedging activities was different in periods prior to its adoption. Prior to fiscal 2002, when the Company entered into derivative commodity instruments (primarily futures contracts) unrealized and realized gains and losses on those hedge contracts were deferred and recognized in income in the same manner as the hedged item. No unrealized gains or losses were reported in other comprehensive income (loss). Prior to fiscal 2002, the Company did not have any significant activity with interest rate or foreign currency derivatives.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Self-Insurance Programs

The Company is self-insured for certain levels of general and vehicle liability, property, workers' compensation and health care coverage. The cost of these self-insurance programs is accrued based upon estimated settlements for known and anticipated claims. Any resulting adjustments to previously recorded reserves are reflected in current operating results.

Foreign Currency Translation

For the Company's foreign operations, the local currency is the functional currency. Assets and liabilities are translated into U.S. dollars at the period ending exchange rate. Statement of income amounts are translated to U.S. dollars using average exchange rates during the period. Translation gains and losses are reported as a component of other comprehensive income (loss) in shareholders' equity. Gains and losses from foreign currency transactions are included in current earnings.

Revenue Recognition

The Company recognizes revenues from product sales upon delivery to customers. Revenue is recorded at the invoice price for each product net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and promotional programs with the Company's customers, primarily rebates based on achievement of specified volume or growth in volume levels.

Advertising Costs

Advertising costs are expensed as incurred, except for certain production costs, which are expensed upon the first airing of the advertisement. Advertising costs for fiscal years 2003, 2002 and 2001 were $49.0, $58.0 and $48.4, respectively.

Shipping and Handling Costs

Shipping and handling costs are reported as a component of cost of sales in the Company's consolidated statement of income.

Net Income Per Share

The Company presents dual computations of net income per share (Note 13). The basic computation is based on weighted average common shares outstanding during the period. The diluted computation reflects the potentially dilutive effect of common stock equivalents, such as stock options, during the period. On September 14, 2001, a two-for-one stock split of the Company's common stock was effected in the form of a stock dividend. Accordingly, all historical share and per share amounts have been restated to reflect the stock split.

Recently Issued Accounting Standards

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). SFAS 143 applies to legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or the normal operation of long-lived assets, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and can be reasonably estimated. SFAS 143 will be effective for the Company in the first quarter of fiscal 2004. Based on the initial analysis, the Company does not expect the application of SFAS 143 to have a material impact on the Company's consolidated financial statements.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In January 2003, the FASB issued FASB Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 expands consolidated financial statements to include certain variable interest entities (VIEs). VIEs are to be consolidated by the company which is considered to be the primary beneficiary of that entity, even if the company does not have majority control. FIN 46 is immediately effective for VIEs created after January 31, 2003 and is effective for the Company in the second quarter of fiscal 2004 for VIEs created prior to February 1, 2003. The Company is evaluating unconsolidated entities in which the Company has significant contractual, ownership, or other pecuniary interests to determine if they are VIEs. Based on the Company's preliminary analysis, the Company does not expect the application of FIN 46 to have a material impact on the Company's consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal 2003 presentations, including the items in Note 16.

Note 2: Acquisitions

In January of fiscal 2003, Schneider Corporation (Schneider) increased its investment in Saskatchewan-based Mitchell's Gourmet Foods (Mitchell's) from 54% to 79%. The balance of the purchase price in excess of the fair value of assets acquired and liabilities assumed at the date of acquisition was recorded as goodwill totaling $3.2.

In November of fiscal 2003, the Company acquired Vall, Inc. (Vall) for $60.7 in cash plus assumed liabilities. Vall, a hog production company with operations in Oklahoma and Texas, produces 350,000 market hogs annually. Had the acquisition of Vall occurred at the beginning of fiscal 2002, there would have been no material effect on sales for fiscal 2003. Net income and net income per diluted share would have been $23.1 and $.21 for fiscal 2003 (unaudited). There would have been no material effect on sales, net income and net income per diluted share for fiscal 2002.

In June of fiscal 2003, the Company acquired an 80% interest in Stefano Foods, Inc. (Stefano's) for $35.8 in cash plus assumed debt. 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 $24.4.

In October of fiscal 2002, the Company acquired Packerland Holdings, Inc. (Packerland) and its affiliated companies for 6.3 million shares of the Company's common stock plus assumed debt and other liabilities.

In June of fiscal 2002, the Company acquired Moyer Packing Company (Moyer) for $90.5 in cash plus assumed debt.

Had the acquisitions of Packerland and Moyer occurred at the beginning of fiscal 2001, sales, net income and net income per diluted share would have been $8,220.0, $202.5 and $1.78, respectively, for fiscal 2002 (unaudited) and $7,958.0, $235.3 and $2.02, respectively, for fiscal 2001 (unaudited).

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition for Packerland and Moyer. The goodwill resulting from these transactions was assigned to the Beef segment.

	Packerland	Moyer
Current assets	$ 120.9	$ 62.5
Property, plant and equipment	114.6	56.3
Goodwill	105.7	7.2
Other	7.9	7.0
Total assets acquired	349.1	133.0
Current liabilities	(61.2)	(31.4)
Long-term debt	(123.0)	(7.6)
Deferred tax liabilities	(18.8)	(3.5)
Total liabilities assumed	(203.0)	(42.5)
Net assets acquired	$ 146.1	$ 90.5

In September of fiscal 2002, the Company acquired the remaining common shares of Schneider for 2.8 million shares of the Company's common stock. Prior to this transaction, the Company owned approximately 63% of the outstanding shares of Schneider. The 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 $13.7.

In July of fiscal 2002, the Company acquired substantially all of the assets and business of Gorges/Quik-to-Fix Foods, Inc. (Quik-to-Fix) for $31.0 in cash.

In the Company's third quarter of fiscal 2001, Schneider increased its investment in Mitchell's to 54%, requiring the Company to consolidate Mitchell's accounts and to discontinue using the equity method of accounting for Mitchell's. The balance of the purchase price in excess of the fair value of assets acquired and liabilities assumed at the date of acquisition was recorded as goodwill totaling $21.5.

Each of these acquisitions was accounted for using the purchase method of accounting and, accordingly, the accompanying consolidated financial statements include the financial position and results of operations from the dates of acquisition. Had the acquisitions of Stefano's, Quik-to-Fix, Mitchell's and the purchase of the remaining shares of Schneider occurred at the beginning of the fiscal years in which they were acquired, there would not have been a material effect on sales, net income or net income per diluted share or on the Company's financial position for such fiscal years.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 3: Debt

Long-term debt consists of the following:

	April 27, 2003	April 28, 2002
Long-term credit facility, expiring December 2006	$ 560.0	$ 259.0
8.00% senior unsecured notes, due October 2009	300.0	300.0
7.625% senior subordinated notes, due February 2008	182.1	185.1
8.52% senior notes, due August 2006	100.0	100.0
8.39% senior note, payable through October 2009	65.0	75.0
Variable rate note (2.95% at April 27, 2003), payable through October 2009	57.5	62.5
8.44% note, payable through October 2009	50.0	50.0
8.25% note, payable through March 2006	45.0	60.0
7.50% debentures, due October 2016	44.9	41.6
8.34% senior notes, due August 2003	40.0	40.0
Variable rate note (4.31% at April 27, 2003), payable through July 2011	27.0	29.0
8.63% note, payable through July 2011	22.5	24.2
Miscellaneous with interest rates ranging from 1.45% to 10.75%, due May 2003 through October 2017	210.6	208.5
	1,704.6	1,434.9
Less current portion	(112.4)	(64.6)
	$ 1,592.2	$ 1,370.3

Scheduled maturities of long-term debt are as follows:

Fiscal Year	
2004	$ 112.4
2005	81.2
2006	72.0
2007	748.1
2008	219.5
Thereafter	471.4
	$1,704.6

In April 2003, the Company amended its December 2001 U.S. revolving credit facility to increase the line from $750.0 to $900.0. The credit facility expires December 2006. Borrowings under the facility are prepayable and bear interest, at the Company's option, at variable rates based on margins over the Federal Funds rate or LIBOR. The margin is a function of the Company's leverage. Under the April 2003 amendment, the credit facility is subject to a borrowing base limitation based on eligible U.S. inventory and receivables.

In October 2001, the Company issued $300.0 of eight-year, 8.0% senior unsecured notes, due 2009. The net proceeds were used to repay indebtedness under the Company's revolving credit facility.

In the first quarter of fiscal 2002, a new credit facility was put in place at Animex Sp. z o.o. (Animex), the Company's Polish subsidiary. This facility provides for up to $100.0 of financing ($70.0 of which constitutes a term loan), to replace numerous short-term and long-term borrowings from local, Polish lenders. The facility, which expires in fiscal 2007, is secured by substantially all of Animex's assets and is guaranteed by the Company.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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In October 2001, Schneider issued $41.6 (CDN$65.0) of 15-year, 7.5% debentures. The debentures are secured by certain assets of Schneider and are guaranteed by the Company. Also in fiscal 2002, Schneider extended its $28.8 (CDN$45.0) committed credit facility to fiscal 2004.

The Company has aggregate credit facilities totaling $970.5. As of April 27, 2003, the Company had unused capacity under these credit facilities of $282.7. These facilities are generally at prevailing market rates. The Company pays commitment fees on the unused portion of the facilities.

Average borrowings under credit facilities were $478.6 in fiscal 2003, $343.5 in fiscal 2002 and $415.7 in fiscal 2001 at average interest rates of approximately 3.3%, 4.5% and 7.3%, respectively. Maximum borrowings were $650.6 in fiscal 2003, $554.4 in fiscal 2002 and $525.0 in fiscal 2001. Total outstanding borrowings were $592.4 and $281.4 with average interest rates of 3.4% and 3.9% as of April 27, 2003 and April 28, 2002, respectively.

The senior subordinated notes are unsecured. The senior notes are secured by certain of the Company's major processing plants and hog farm facilities.

The Company's various debt agreements contain financial covenants that require the maintenance of certain levels and ratios for working capital, net worth, current ratio, fixed charges, capital expenditures and, among other restrictions, limit additional borrowings, the acquisition, disposition and leasing of assets, and payments of dividends to shareholders. In the last half of fiscal 2003, some of the covenants in these agreements were amended. The covenants in the Company's $900.0 revolving credit facility were amended to indefinitely suspend the leverage ratio, reduce the interest coverage ratio, impose a borrowing base limitation and require certain minimum liquidity levels when the Company is acquiring other businesses. The Company has the right to elect out of the borrowing base requirement, in which case the suspended and reduced covenants will be reinstated. The covenants in the Company's senior secured notes were amended to suspend certain leverage ratios through July 2005, potentially increase interest charges during this suspension period, reduce the fixed charge coverage ratio, increase the minimum working capital requirement, establish maintenance of debt to total capitalization ratios and require certain minimum liquidity levels when the Company is acquiring other businesses. Beginning in August 2005, the Company will be required to maintain certain financial covenants at their original levels (fixed charges coverage, as defined, of greater than or equal to 1.50 to 1; consolidated funded debt to EBITDA, as defined, of less than or equal to 4.00 to 1; and consolidated senior funded debt to EBITDA, as defined, of less than or equal to 3.20 to 1). As of April 27, 2003, the Company was in compliance with all debt covenants.

Note 4: Income Taxes

Income tax expense consists of the following:

	2003	2002	2001
Current tax expense:			
Federal	$ 15.0	$ 95.8	$121.1
State	4.8	11.1	15.4
Foreign	9.2	8.2	4.5
	29.0	115.1	141.0
Deferred tax expense (benefit):			
Federal	(13.5)	2.3	(7.4)
State	(4.2)	1.1	(1.5)
Foreign	1.6	2.4	1.7
	(16.1)	5.8	(7.2)
	$ 12.9	$120.9	$133.8

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of taxes computed at the federal statutory rate to the provision for income taxes is as follows:

	2003	2002	2001
Federal income taxes at statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	1.6	2.3	2.4
Taxes on foreign income which differ from the statutory U.S. federal rate	11.7	2.3	0.7
Foreign sales corporation benefit	(21.0)	(2.9)	(0.7)
Other	5.7	1.3	—
	33.0%	38.0%	37.4%

The tax effects of temporary differences consist of the following:

	April 27, 2003	April 28, 2002
Deferred tax assets:		
Pension liabilities	$ 66.8	$ 5.3
Tax credits, carryforwards and net operating losses	21.3	11.9
Accrued expenses	17.8	16.5
Other	15.5	6.4
	$ 121.4	$ 40.1
Deferred tax liabilities:		
Property, plant and equipment	$ 147.8	$ 138.8
Accounting method change	98.9	114.6
Investments in subsidiaries	64.0	39.5
Other	1.6	3.0
	$ 312.3	$ 295.9

As of April 27, 2003 and April 28, 2002, the Company had $14.5 and $15.5, respectively, of net current deferred tax assets included in prepaid expenses and other current assets. The Company had a valuation allowance of $30.0 and $28.8 related to income tax assets as of April 27, 2003 and April 28, 2002, respectively, primarily the result of losses in foreign jurisdictions for which no tax benefit was recognized.

The tax credits, carryforwards and net operating losses expire from fiscal 2004 to 2023.

As of April 27, 2003, foreign subsidiary net earnings of $71.6 were considered permanently reinvested in those businesses. Accordingly, federal income taxes have not been provided for such earnings. It is not practicable to determine the amount of unrecognized deferred tax liabilities associated with such earnings.

Note 5: Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	April 27, 2003	April 28, 2002
Payroll and related benefits	$ 113.8	$ 96.7
Self-insurance reserves	40.8	35.0
Other	144.3	141.5
	$ 298.9	$ 273.2

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 6: Shareholders' Equity

Stock Split

As discussed in Note 1, the Company effected a two-for-one split of its common stock on September 14, 2001. The consolidated statements of shareholders' equity have been restated to reflect the effect of this split. Stock option agreements provide for the issuance of additional shares for the stock split. All stock options outstanding and per share amounts for all periods have been restated to reflect the effect of this split.

Share Repurchase Program

The board of directors has authorized the repurchase of up to 18,000,000 shares of the Company's common stock. The Company repurchased 949,600, 4,636,300 and 5,253,870 shares in fiscal 2003, 2002 and 2001, respectively. As of April 27, 2003, the Company has 1,203,430 additional shares remaining under the authorization.

Exchangeable Shares

Included in common stock as of April 27, 2003 and April 28, 2002 are 542,750 exchangeable shares. The exchangeable shares were issued in connection with the acquisition of Schneider. These shares are exchangeable on a one-for-one basis by the holder into the Company's common stock and, accordingly, are treated as common stock.

Preferred Stock

The Company has 1,000,000 shares of $1.00 par value preferred stock authorized, none of which are issued. The board of directors is authorized to issue preferred stock in series and to fix, by resolution, the designation, dividend rate, redemption provisions, liquidation rights, sinking fund provisions, conversion rights and voting rights of each series of preferred stock.

Stock Options

The Company's 1992 Stock Option Plan and its 1998 Stock Incentive Plan (collectively, the incentive plans) provide for the issuance of nonstatutory stock options to management and other key employees. Options were granted for periods not exceeding 10 years and exercisable five years after the date of grant at an exercise price of not less than 100% of the fair market value of the common stock on the date of grant. There are 11,000,000 shares reserved under the incentive plans. As of April 27, 2003, there were 3,473,000 shares available for grant under the incentive plans.

The following is a summary of stock option transactions for fiscal years 2001 through 2003:

	Number of Shares	Weighted Average Exercise Price
Outstanding at April 30, 2000	3,701,000	$ 8.34
Granted	1,480,000	13.22
Exercised	(849,000)	5.89
Canceled	(130,000)	11.42
Outstanding at April 29, 2001	4,202,000	10.46
Granted	1,845,000	18.99
Exercised	(341,000)	6.66
Canceled	(20,000)	13.22
Outstanding at April 28, 2002	5,686,000	13.45
Granted	140,000	21.00
Exercised	(112,600)	5.85
Canceled	(80,000)	13.22
Outstanding at April 27, 2003	5,633,400	$ 13.79

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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The following table summarizes information about stock options outstanding as of April 27, 2003:

Range of Exercise Price	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	
				Shares	Weighted Average Exercise Price
$ 5.76 to $ 7.65	1,148,400	1.0	$ 6.03	1,148,400	$ 6.03
8.23 to 9.39	210,000	4.5	8.57	140,000	8.23
13.12 to 14.59	2,230,000	6.2	13.46	340,000	13.21
15.81 to 16.34	60,000	4.8	16.03	60,000	16.03
18.20 to 21.84	1,985,000	8.2	19.13	—	—
$ 5.76 to $ 21.84	5,633,400	5.8	$ 13.79	1,688,400	$ 8.01

On April 29, 2002, the Company adopted the fair value method defined in SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), which is in compliance with the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment to SFAS No. 123", issued December 2002, to account for the Company's stock option plans. The Company records compensation expense for stock options granted subsequent to April 28, 2002 based on the fair value as determined using the Black-Scholes option pricing model and weighted average assumptions. The impact of recording compensation expense for stock options granted was $0.2, or less than one cent per diluted share in fiscal 2003. The weighted average fair values of the option shares granted in fiscal 2003 was $7.76 per share. The expected option life, risk-free interest rate and the expected annual volatility and dividend yield used to calculate the value of the option shares granted in fiscal 2003 was 8.0 years, 4.3%, 35.0% and 0.0%, respectively.

Stock options granted prior to April 29, 2002 continue to be accounted for under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, no compensation expense is recorded. Had the Company used the fair value method to determine compensation expense for its stock options granted prior to April 29, 2002, net income and net income per basic and diluted share would have been as follows:

	2003	2002	2001
Net income, as reported	$26.3	$ 196.9	$ 223.5
Pro forma net income	22.6	193.9	221.7
Net income per share, as reported:			
Basic	$ .24	$ 1.82	$ 2.06
Diluted	.24	1.78	2.03
Pro forma net income per share:			
Basic	$ .21	$ 1.79	$ 2.05
Diluted	.21	1.76	2.01
Weighted average fair values of option shares granted		$ 9.00	$ 6.64
Expected option life		7.0 years	7.0 years
Risk-free interest rate		5.1%	6.3%
Expected annual volatility		35.0%	35.0%
Dividend yield		0.0%	0.0%

Preferred Share Purchase Rights

On May 30, 2001, the board of directors of the Company adopted a Shareholder Rights Plan (the Rights Plan) and declared a dividend of one preferred share purchase right (a Right) on each outstanding share of

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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common stock. Under the terms of the Rights Plan, if a person or group acquires 15% (or other applicable percentage, as provided in the Rights Plan) or more of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice such price. In addition, if the Company is acquired in a merger or other business transaction after a person or group has acquired such percentage of the outstanding common stock, each Right will entitle its holder (other than such person or members of such group) to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value of twice such price.

Upon the occurrence of certain events, each Right will entitle its holder to buy one two-thousandth of a Series A junior participating preferred share (Preferred Share), par value $1.00 per share, at an exercise price of $90.00 subject to adjustment. Each Preferred Share will entitle its holder to 2,000 votes and will have an aggregate dividend rate of 2,000 times the amount, if any, paid to holders of common stock. The Rights will expire on May 31, 2011, unless the date is extended or unless the Rights are earlier redeemed or exchanged at the option of the board of directors for $.00005 per Right. Generally, each share of common stock issued after May 31, 2001 will have one Right attached. The adoption of the Rights Plan has no impact on the financial position or results of operations of the Company.

Accumulated Other Comprehensive Loss

The table below summarizes the components of accumulated other comprehensive loss as of April 27, 2003 and April 28, 2002.

	2003	2002
Minimum pension liability	$(106.8)	$ (9.9)
Foreign currency translation	10.2	(6.5)
Hedge accounting	3.6	(0.8)
Unrealized loss on securities	—	(0.9)
Accumulated other comprehensive loss	$ (93.0)	$(18.1)

Note 7: Derivative Financial Instruments

The Company's meat processing and hog production operations use various raw materials, primarily live hogs, live cattle, corn and soybean meal, which are actively traded on commodity exchanges. The Company hedges these commodities when management determines conditions are appropriate to mitigate these price risks. While this may limit the Company's ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material losses. The Company attempts to closely match the commodity contract terms with the hedged item. The Company also enters into interest rate swaps to hedge exposure to changes in interest rates on certain financial instruments and periodically enters into foreign exchange forward contracts to hedge certain of its foreign currency exposure.

Cash Flow Hedges

The Company utilizes derivatives (primarily futures contracts) to manage its exposure to the variability in expected future cash flows attributable to commodity price risk associated with forecasted purchases and sales of live hogs, live cattle, corn and soybean meal. These derivatives have been designated as cash flow hedges.

Derivative gains or losses from these cash flow hedges are deferred in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged forecasted purchases or

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sales affect earnings. To match the underlying transaction being hedged, derivative gains or losses associated with anticipated purchases are recognized in cost of sales and amounts associated with anticipated sales are recognized in sales in the consolidated statement of income. Ineffectiveness related to the Company's cash flow hedges was not material in fiscal 2003 or 2002. There were no derivative gains or losses excluded from the assessment of hedge effectiveness and no hedges were discontinued during fiscal 2003 or 2002 as a result of it becoming probable that the forecasted transaction will not occur.

Fair Value Hedges

The Company's commodity price risk management strategy also includes derivative transactions (primarily futures contracts) that are designated as fair value hedges. These derivatives are designated as hedges of firm commitments to buy or sell live hogs, live cattle, corn and soybean meal. Derivative gains and losses from these fair value hedges are recognized in earnings currently along with the change in fair value of the hedged item attributable to the risk being hedged. Gains and losses related to hedges of firm commitments are recognized in cost of sales in the consolidated statement of income. Ineffectiveness related to the Company's fair value hedges was not material in fiscal 2003 or 2002. There were no derivative gains or losses excluded from the assessment of hedge effectiveness during fiscal 2003 or 2002.

Foreign Currency and Interest Rate Derivatives

In accordance with the Company's risk management policy, certain foreign currency and interest rate derivatives were executed in fiscal 2003 and 2002. These derivative instruments were recorded as cash flow hedges or fair value hedges, as appropriate, and were not material to the results of operations.

The following table provides the fair value of the Company's open derivative financial instruments as of April 27, 2003 and April 28, 2002.

	2003	2002
Livestock	$(0.1)	$ 5.0
Other commodities	0.1	(0.3)
Interest rates	(0.9)	(1.1)
Foreign currency	(1.8)	(0.3)

As of April 27, 2003, no commodity futures contracts exceed twelve months. As of April 27, 2003, the weighted average maturity of the Company's interest rate and foreign currency financial instruments is eight months, with maximum maturities of thirty-eight and twelve months, respectively. The Company believes the risk of default or nonperformance on contracts with counterparties is not significant.

The Company determines the fair value of public debt using quoted market prices and values all other debt using discounted cash flow techniques at estimated market prices for similar issues. As of April 27, 2003 and April 28, 2002, the fair value of long-term debt, based on the market value of debt with similar maturities and covenants, was approximately $1,764.1 and $1,467.5, respectively.

Note 8: Pension and Other Retirement Plans

The Company provides substantially all U.S. and Canadian employees with pension benefits. Salaried employees are provided benefits based on years of service and average salary levels. Hourly employees are provided benefits of stated amounts for each year of service. The Company's funding policy is to contribute the minimum amount required under government regulations. Pension plan assets are invested primarily in equities, debt securities, insurance contracts and money market funds.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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The Company provides health care and life insurance benefits for certain retired employees. These plans are unfunded and generally pay covered costs reduced by retiree premium contributions, co-payments and deductibles. The Company retains the right to modify or eliminate these benefits.

The changes in the status of the Company's pension and postretirement plans, the related components of pension and postretirement expense and the amounts recognized in the consolidated balance sheets are as follows:

	Pension Benefits		Postretirement Benefits	
	April 27, 2003	April 28, 2002	April 27, 2003	April 28, 2002
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 517.9	$ 480.4	$ 29.7	$ 26.8
Service cost	13.0	11.3	0.8	0.5
Interest cost	37.4	35.5	2.3	1.9
Plan amendments	—	5.3	—	—
Employee contributions	1.3	1.3	—	—
Benefits paid	(34.5)	(32.5)	(2.1)	(1.9)
Foreign currency changes	18.5	(2.3)	1.7	(0.2)
Actuarial loss	92.6	18.9	5.8	2.6
Benefit obligation at end of year	646.2	517.9	38.2	29.7
Change in plan assets:				
Fair value of plan assets at beginning of year	474.1	465.6	—	—
Actual return on plan assets	(54.0)	32.0	—	—
Acquisitions	—	—	—	—
Employer and employee contributions	25.3	11.7	2.1	1.9
Foreign currency changes	15.1	(2.7)	—	—
Benefits paid	(34.5)	(32.5)	(2.1)	(1.9)
Fair value of plan assets at end of year	426.0	474.1	—	—
Reconciliation of accrued cost:				
Funded status	(220.2)	(43.8)	(38.2)	(29.7)
Unrecognized actuarial loss (gain)	218.5	28.8	6.0	(1.9)
Unrecognized prior service cost	12.9	14.2	(0.8)	—
Prepaid (accrued) cost at end of year	$ 11.2	$ (0.8)	$ (33.0)	$ (31.6)
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$ 46.4	$ 39.6	$ —	$ —
Accrued benefit liability	(226.9)	(68.1)	(33.0)	(31.6)
Intangible asset	12.9	11.2	—	—
Minimum pension liability	178.8	16.5	—	—
Net amount recognized at end of year	$ 11.2	$ (0.8)	$ (33.0)	$ (31.6)

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Components of net periodic costs include:

	Pension Benefits		
	2003	2002	2001
Service cost	$ 13.0	$ 11.3	$ 11.2
Interest cost	37.4	35.5	32.5
Expected return on plan assets	(41.0)	(39.6)	(36.3)
Net amortization	3.0	1.1	1.3
Net periodic cost	$ 12.4	$ 8.3	$ 8.7

	Postretirement Benefits		
	2003	2002	2001
Service cost	$ 0.8	$ 0.5	$ 0.5
Interest cost	2.3	1.9	1.9
Net amortization	—	(0.3)	(0.3)
Net periodic cost	$ 3.1	$ 2.1	$ 2.1

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets assets were $646.2, $595.4 and $426.0, respectively, as of April 27, 2003 and $208.5, $202.4 and $139.4, respectively, as of April 28, 2002. As of April 27, 2003, the amount of Company common stock included in plan assets was 2,827,048 shares with a market value of $53.2.

In determining the projected benefit obligation and the accumulated postretirement benefit obligation in fiscal 2003 and 2002, the following weighted average assumptions were made:

	Pension Benefits		Postretirement Benefits	
	April 27, 2003	April 28, 2002	April 27, 2003	April 28, 2002
Discount rate	6.3%	7.2%	6.5%	7.5%
Expected return on assets	8.3%	8.6%	—	—
Compensation increase	3.2%	3.6%	—	—

In determining the accumulated postretirement benefit obligation in fiscal 2003, the assumed annual rate of increase in per capita cost of covered health care benefits for U.S. plans was 12.0% and decreased by 0.5% each year until leveling at 5.5%. For non-U.S. plans, the assumed annual rate of increase was 6.5% for fiscal 2003 and decreased by 0.5% each year until leveling at 5.0%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1% change in the assumed health care cost trends would have the following effect:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	$ 0.2	$ (0.2)
Effect on accumulated benefit obligation	$ 2.1	$ (1.9)

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 9: Lease Obligations and Commitments

The Company leases facilities and equipment under non-cancelable operating leases. Rental expense under operating leases of real estate, machinery, vehicles and other equipment was $42.6, $42.4 and $39.6 in fiscal 2003, 2002 and 2001, respectively. Rental expense in fiscal 2003, 2002 and 2001 included $0.2, $0.3 and $3.2 of contingent maintenance fees, respectively. Future rental commitments under non-cancelable operating leases as of April 27, 2003 are as follows:

Fiscal Year	
2004	$ 38.1
2005	30.0
2006	24.9
2007	23.7
2008	15.2
Thereafter	28.8
	$160.7

Future minimum lease payments under capital leases are as follows:

Fiscal Year	
2004	$ 3.3
2005	3.5
2006	2.0
2007	0.7
2008	0.7
Thereafter	0.9
	11.1
Less amounts representing interest	(1.6)
Present value of net minimum obligations	9.5
Less current portion	(2.6)
Long-term capital lease obligations	$ 6.9

As of April 27, 2003, the Company had definitive commitments of $127.8 for capital expenditures primarily for processed meats expansion and production efficiency projects.

The Company has agreements, expiring from fiscal 2004 through 2013, to use cold storage warehouses owned by partnerships, 50% of which are owned by the Company. The Company has agreed to pay prevailing competitive rates for use of the facilities, subject to aggregate guaranteed minimum annual fees. In fiscal 2003, 2002 and 2001, the Company paid $12.1, $8.8 and $9.1, respectively, in fees for use of the facilities. As of April 27, 2003 and April 28, 2002, the Company had investments of $0.7 and $0.7, respectively, in the partnerships.

In November 2002, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 establishes accounting and disclosure requirements for companies that enter into guarantees. Under FIN 45, the Company is required to recognize a liability, for guarantees entered into subsequent to December 31, 2002, at the fair value of the guarantee at its inception. The fair value of the guarantee is measured as the Company's obligation it has undertaken in issuing the guarantee, including the ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The Company has not entered into any guarantees subsequent to December 31, 2002.

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The Company has an agreement to provide a $30.0 line of credit to Pennexx Foods, Inc. (Pennexx), a case-ready meat provider, 41% owned by the Company. As of April 27, 2003, in connection with the line of credit, Pennexx has outstanding borrowings of $11.5 and the Company is a guarantor on $12.1 of equipment lease obligations of Pennexx (see Note 17). The Company currently guarantees the financial obligations of certain unconsolidated joint ventures and hog farmers. The financial obligations are: up to $6.0 of loans obtained by strategically important farmers under contract to the HPG; up to $3.5 of liabilities with respect to currency swaps executed by one of the Company's Mexican joint ventures, Granjas; and $3.0 of debt borrowed by another of the Company's Mexican joint ventures, Agroindustrial.

The Company has purchase commitments with certain hog and cattle producers which obligate the Company to purchase all the hogs and cattle that these producers deliver. Other arrangements obligate the Company to purchase a fixed amount of hogs and cattle. The Company also uses independent farmers and their facilities to raise hogs produced from the Company's breeding stock in exchange for a performance-based service fee payable upon delivery. The Company estimates the future obligations under these commitments based on commodity livestock futures prices, expected quantities delivered and anticipated performance to be $902.9, $419.8, $406.5, $378.6 and $378.6 for fiscal 2004 to 2008, respectively. As of April 27, 2003, the Company is also committed to purchase $146.0 under forward grain contracts payable in fiscal 2004.

Note 10: Related Party Transactions

A director of the Company holds an ownership interest in Murfam Enterprises, LLC (Murfam) and DM Farms, LLC. These entities own farms that produce hogs under contract to the Company. Murfam also produces and sells feed ingredients to the Company. In fiscal 2003, 2002 and 2001, the Company paid $23.5, $24.3 and $25.2, respectively, to these entities for the production of hogs and feed ingredients. In fiscal 2003, 2002 and 2001, the Company was paid $16.2, $16.5 and $16.3, respectively, by these entities for associated farm and other support costs. The Company believes that the terms of the arrangements are at prevailing market prices.

The chairman, president and chief executive officer of Prestage Farms, Inc. (Prestage) was a director of the Company until October 2002. The Company has a long-term agreement to purchase hogs from Prestage at prices that, in the opinion of management, are equivalent to market. Pursuant to this agreement with Prestage, the Company purchased $148.7, $176.4 and $157.5 of hogs in fiscal 2003, 2002 and 2001, respectively.

This former director also owns Prestage-Stoecker Farms, Inc. (Prestage-Stoecker). Prior to June of fiscal 2003, he had a 51% ownership interest in Prestage-Stoecker. This entity purchases feeder pigs, feed, medications and supplies from the Company. Prestage-Stoecker also reimburses the Company for certain support costs. In fiscal 2003, 2002 and 2001, Prestage-Stoecker paid the Company $187.7, $199.0 and $186.6, respectively, for the purchase of feeder pigs, feed, medications, supplies and the reimbursement of certain support costs. Included in the Company's consolidated balance sheets at April 27, 2003 and April 28, 2002 are $52.9 and $62.6 of trade receivables and a note receivable of $7.3 and $8.1, respectively, with Prestage-Stoecker.

The chief executive officer of the Company's HPG and an executive officer of the Company holds an ownership interest in JCT LLC (JCT). JCT owns certain farms that produce hogs under contract with the HPG. In fiscal 2003 and 2002, the Company paid $5.5 and $4.5, respectively, to JCT for the production of hogs. In fiscal 2003 and 2002, the Company was paid $2.5 and $2.0, respectively, from JCT for reimbursement of associated farm and other support costs. The Company provides working capital advances to JCT under the terms of a $6.0 revolving demand promissory note. In fiscal 2003, the Company provided an additional $7.7 of financing to JCT for the acquisition of hog production facilities. Total capital advances of $11.7 and $5.9 were outstanding as of April 27, 2003 and April 28, 2002, respectively. The promissory note is personally guaranteed by JCT's owners and all advances are secured by JCT's real estate and equipment. The Company believes that the terms of the foregoing arrangements were no less favorable to the Company than if entered into with unaffiliated parties.

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Note 11: Gain on the Sale of IBP, inc. Common Stock

In fiscal 2002 and fiscal 2001, the Company sold 2,913,000 and 8,277,441 shares of IBP, inc. (IBP) common stock resulting in a nonrecurring, pretax gain of $7.0 and $79.0, respectively. Expenses incurred during fiscal 2001 related to the attempted merger with IBP and the expenses of the subsequent sale of these shares totaled $7.5. The after-tax gain on the sales, net of expenses, amounted to $4.2 and $45.2 for fiscal 2002 and 2001, respectively.

Note 12: Regulation and Litigation

Like other participants in the meat processing 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 presently 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.

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 have been challenged by both industry and environmental groups. 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, the state has moved to dismiss, and the Company has intervened. 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 would be likely to have a significant impact 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 would significantly impact the Company.

The EPA is also focusing on the possible need to regulate air emissions from animal feeding operations. During the year 2002, the National Academy of Sciences (Academy) undertook a study at the agency's request to assist the agency 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. There can be no assurance that any new regulations that may be proposed to address air emissions from animal feeding operations would not significantly affect the Company's business.

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, including the matters discussed below. Although certain of the suits below remain pending and relief, if granted, would be costly, the Company believes that their ultimate resolution will not have a material adverse effect on the Company's financial position or annual results of operations.

The Water Keeper Alliance Inc. litigation

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, as described below.

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In June 2000, Neuse River Foundation, Richard J. Dove, d/b/a The Neuse Riverkeeper, D. Boulton Baldridge, d/b/a The Cape Fear Riverkeeper, New River Foundation, Inc., Tom Mattison, d/b/a The New Riverkeeper and the Water Keeper Alliance filed a lawsuit in the General Court of Justice, Superior Court Division of the State of North Carolina against the Company, Carroll's Foods, Inc., Brown's of Carolina, Inc., Murphy Farms, Inc., Wendell H. Murphy, Sr., Wendell H. Murphy, Jr. and Joseph W. Luter, III. The lawsuit alleged, among other things, claims based on negligence, trespass, strict liability and unfair trade practices related to the operation of swine waste lagoons and sprayfields in North Carolina. The lawsuit sought numerous and costly remedies, including injunctive relief to end all use of hog waste lagoons in North Carolina, unspecified but costly remediation efforts and other damages. On March 27, 2001, the Superior Court granted the Company's motion and dismissed the lawsuit. The plaintiffs noted their appeal to the North Carolina Court of Appeals on April 11, 2001. On December 31, 2002, the Court of Appeals affirmed the dismissal of the lawsuit, and the plaintiffs' petition for appeal to the North Carolina Supreme Court was denied on February 27, 2003.

In February 2001, Thomas E. Jones and twelve other individuals filed a lawsuit in the North Carolina General Court of Justice, Superior Court Division, Wake County, against the Company, three of its subsidiaries, Wendell H. Murphy, Sr., Wendell H. Murphy, Jr. and Joseph W. Luter, III, referred to as the "Jones Suit." The Jones Suit alleged, among other things, claims based on negligence, trespass, strict liability and unfair trade practices related to the operation of swine waste lagoons and sprayfields in North Carolina. The lawsuit sought numerous and costly remedies, including injunctive relief to end all use of hog waste lagoons in North Carolina, unspecified but costly remediation efforts and other damages. On March 27, 2001, the Superior Court granted the Company's motion and dismissed the lawsuit. The plaintiffs noted their appeal to the North Carolina Court of Appeals on April 11, 2001. On December 31, 2002, the Court of Appeals affirmed the dismissal of the lawsuit, and the plaintiffs' petition for appeal to the North Carolina Supreme Court was denied on February 27, 2003.

Also 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 subsidiaries' 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.

In March 2001, Eugene C. Anderson and other individuals filed what purports to be a class action in the United States District Court for the Middle District of Florida, Tampa Division, against the Company and Joseph W. Luter, III, referred to as the "Anderson Suit." The Anderson Suit purports to allege violations of various laws, including the Racketeer Influenced and Corrupt Organizations Act, based on the Company's alleged failure to comply with certain environmental laws. The complaint seeks treble damages that are unspecified. On February 13, 2002, the District Court granted the Company's and Mr. Luter's motion to dismiss, giving the plaintiffs 20 days within which to file an amended complaint.

On March 15, 2002, the plaintiffs filed their second amended complaint. On June 24, 2002, the District Court granted the Company's and Mr. Luter's motion to dismiss the plaintiffs' second amended complaint with prejudice and issued an order imposing monetary sanctions against the plaintiffs' attorneys. The plaintiffs noted their appeal to the U.S. Court of Appeals for the Eleventh Circuit on July 24, 2002. On February 25, 2003, the Court of Appeals dismissed the appeal of some, but not all of the plaintiffs. The remaining plaintiffs' appeal has been fully briefed and oral argument is scheduled before the Court of Appeals during the week of August 4, 2003. The Company continues to believe that the Anderson Suit is baseless and without merit and the Company will defend the suit vigorously.

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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, 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 stated that federal and state environmental agencies have declined to bring any of these suits and, indeed, have criticized these agencies.

IBP litigation

In February 2003, the United States Department of Justice, Antitrust Division (DOJ), filed suit against the Company alleging that it violated the Hart-Scott-Rodino Act in connection with its acquisition of IBP, inc. stock during the calendar years 1998, 1999 and 2000. In the suit, DOJ alleges that the Company should have filed a premerger notification and report form with respect to acquisitions of IBP, inc. common stock in these three years and seeks a civil penalty of approximately $5.5 as a result. The suit was filed in federal court in Washington, D.C. The Company moved to dismiss the case on the grounds that the court in Washington, D.C. does not have jurisdiction over it. The Company is awaiting a decision on its motion. The Company believes that it has complied with applicable laws and intends to defend this suit vigorously, although there can be no assurance that the Company will be successful.

State of Iowa legislation

In calendar year 2000 and again in 2002, an Iowa statute was amended to, among other things, prohibit meat processors from directly or indirectly contracting to raise hogs in Iowa and from providing financing to Iowa hog producers. The Company prevailed in an action in federal court seeking to have that legislation declared unconstitutional. The State of Iowa has appealed that decision. In an effort to address the constitutionality of the statute, the Iowa state legislature recently amended it again. There can be no assurance that the decision on the constitutionality of this statute will not be reversed on appeal or that the statute will not be further amended by the Iowa state legislature or that similar statutes will not be enacted by any other state legislatures. If the statute is upheld on appeal, the Company believes that the most recent amendment provides that the Company has until June 30, 2006 to comply with it. Such legislation and the possible application of legislation may have a material adverse impact on the Company's operations, which are substantially integrated.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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Note 13: Net Income Per Share

The computation for basic and diluted net income per share follows:

	Net Income	Weighted Average Shares	Per Share
	(in millions, except per share data)		
Fiscal 2003			
Net income per basic share	$ 26.3	109.6	$ .24
Effect of dilutive stock options	—	0.2	—
Net income per diluted share	$ 26.3	109.8	$ .24
Fiscal 2002			
Net income per basic share	$ 196.9	108.1	$ 1.82
Effect of dilutive stock options	—	2.3	—
Net income per diluted share	$ 196.9	110.4	$ 1.78
Fiscal 2001			
Net income per basic share	$ 223.5	108.4	$ 2.06
Effect of dilutive stock options	—	1.7	—
Net income per diluted share	$ 223.5	110.1	$ 2.03

In fiscal 2003, 1,985,000 stock option shares, at an average option price of $19.13, were not included in the computation of net income per diluted share because the options' exercise prices were greater than the average market price of the Company's common shares. For fiscal 2002 and 2001, all outstanding stock options were included in the computation of net income per diluted share.

Note 14: Reporting Segments

The Company changed its reporting segments in fiscal 2003 to separately report the meat processing operations. Previously, the Company's segments were the Meat Processing Group and HPG. The new reporting segments are Pork, Beef, International and HPG. The Pork segment includes the Company's operations that process, package, market and distribute fresh pork and processed meats to retail, foodservice and export channels. Similarly, the Beef segment operations process, package, market and distribute beef to the same channels. The Company's International reporting segment includes its meat processing operations outside the U.S. and produces a wide variety of fresh and processed meats for retail, foodservice and export channels. The HPG segment supplies raw materials (live hogs) primarily to the Pork segment and, to a lesser degree, the International segment, as well as to other outside operations.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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The following tables present information about the results of operations and the assets of the Company's reportable segments for the fiscal years ended April 27, 2003, April 28, 2002 and April 29, 2001. The information contains certain allocations of expenses that the Company deems reasonable and appropriate for the evaluation of results of operations. The Company does not allocate income taxes to segments. Segment assets exclude intersegment account balances as the Company believes that inclusion would be misleading or not meaningful. Management believes all intersegment sales are at prices which approximate market. The Company has restated the segment information for fiscal 2002 and 2001 to conform to fiscal 2003 presentation.

	Pork	Beef	Inter-national	Hog Production	General Corporate	Total
Fiscal 2003						
Sales	$4,286.0	$2,165.2	$1,304.6	$ 1,059.8	$ —	$8,815.6
Intersegment sales	(27.9)	(12.3)	(29.0)	(841.9)	—	(911.1)
Depreciation and amortization	71.9	18.1	29.9	45.8	7.0	172.7
Operating profit (loss)	184.6	77.4	38.7	(108.4)	(59.1)	133.2
Interest expense	29.1	9.2	16.5	27.1	12.1	94.0
Assets	1,277.4	537.7	764.9	1,423.8	206.8	4,210.6
Capital expenditures	91.8	7.4	27.2	42.6	11.3	180.3
Fiscal 2002						
Sales	$4,540.3	$1,286.1	$1,254.5	$ 1,265.3	$ —	$8,346.2
Intersegment sales	(1.5)	(8.2)	(24.2)	(956.2)	—	(990.1)
Depreciation and amortization	64.1	11.6	26.7	39.3	6.4	148.1
Operating profit (loss)	163.8	10.0	24.2	266.6	(59.5)	405.1
Gain on sale of IBP common stock	—	—	—	—	(7.0)	(7.0)
Interest expense	30.9	4.7	19.8	17.2	21.7	94.3
Assets	1,175.5	476.9	710.7	1,343.7	165.9	3,872.7
Capital expenditures	84.8	9.4	36.1	37.8	2.9	171.0
Fiscal 2001						
Sales	$4,325.1	$ —	$1,286.2	$ 1,225.8	$ —	$6,837.1
Intersegment sales	(1.0)	—	(25.7)	(910.5)	—	(937.2)
Depreciation and amortization	57.1	—	28.6	49.4	5.0	140.1
Operating profit (loss)[1]	116.8	—	18.4	281.3	(49.2)	367.3
Gain on sale of IBP common stock	—	—	—	—	(79.0)	(79.0)
Interest expense	32.1	—	14.6	23.5	18.8	89.0
Assets	1,109.6	—	634.3	1,282.6	224.4	3,250.9
Capital expenditures	86.2	—	38.7	16.0	3.2	144.1

(1) General corporate expenses include $7.5 of expenses related to the attempted merger with IBP and the subsequent sale of IBP common stock (Note 11).

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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The following table presents the Company's sales and long-lived assets attributed to operations in the U.S. and international geographic areas.

	2003	2002	2001
Sales:			
U.S.	$6,625.3	$6,120.7	$4,639.4
Canada	769.9	751.2	772.0
Poland	301.5	275.2	290.1
France	207.8	209.0	198.4
Total	$7,904.5	$7,356.1	$5,899.9
Long-lived assets at end of year:			
U.S.	$2,029.4	$1,881.4	$1,576.5
Canada	282.2	252.8	229.7
Poland	167.1	149.4	114.0
France	81.4	68.7	67.0

Note 15: Quarterly Results of Operations (Unaudited)

	First	Second	Third	Fourth
Fiscal 2003				
Sales	$2,000.7	$1,958.1	$1,996.8	$1,948.9
Gross profit(1)	187.7	172.3	173.4	167.7
Net income	11.8	4.1	5.3	5.1
Net income per common share(2)				
Basic	$ .11	$ .04	$ .05	$ .05
Diluted	$ .11	$ .04	$ .05	$ .05

	First	Second	Third	Fourth
Fiscal 2002				
Sales	$1,636.4	$1,670.3	$2,086.3	$1,963.1
Gross profit(1)	225.4	252.5	271.1	214.1
Net income	56.9	60.6	54.5	24.9
Net income per common share(2)				
Basic	$ .54	$ .58	$ .49	$ .23
Diluted	$ .53	$ .56	$ .48	$ .22

(1) First, second and third quarter amounts have been restated to conform to fiscal 2003 presentation.
(2) Per common share amounts for the quarters and full years have each been calculated separately. Accordingly, quarterly amounts may not add to the annual amounts because of differences in the weighted average common shares outstanding during each period.

Note 16: Other Auditors

The fiscal 2001 consolidated financial statements were audited by other auditors who have ceased operations. In fiscal 2003, the Company made the following revisions in the consolidated financial statements and notes to the consolidated financial statements, which resulted in adjustments to the fiscal 2001 presentation audited by the previous auditor.

- In fiscal 2003, the Company reclassified fiscal 2001 depreciation expense that was previously stated as a separate line item on the consolidated statements of income into either cost of sales or selling, general and administrative expenses.

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SMITHFIELD FOODS, INC. AND SUBSIDIARIES
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- In fiscal 2003, the Company changed its reportable segments, and the amounts in the fiscal 2001 notes to the consolidated financial statements were revised to conform to fiscal 2003 presentations (see Note 14).
- In fiscal 2003, the Company is presenting a two-for-one stock split (see Note 6) retroactively in the fiscal 2001 consolidated statement of shareholders' equity.

Note 17: Subsequent Events (Unaudited)

In May of fiscal 2004, the Company issued $350.0 of ten-year, 7.75% senior unsecured notes. Net proceeds of the sale of these notes were used to repay indebtedness under the revolving credit facility. Thereafter, the Company expects to use availability under the revolving credit facility together with internally generated funds, for capital expenditures and general corporate purposes, including expansion of its processed meats business and strategic acquisitions.

In May of fiscal 2004, the Company notified Pennexx that it was in default under the Company's credit agreement. At that time, the Company terminated its commitment to make further loans under the credit agreement, and demanded repayment of all amounts currently outstanding. In June of fiscal 2004, the Company took possession of Pennexx's assets due to Pennexx's inability to pay amounts owed to the Company under the credit agreement. The Company also assumed the $12.1 of Pennexx equipment lease obligations. As a result of operating losses at Pennexx subsequent to the Company's original investment, the carrying value of the Company's 41% equity investment in Pennexx is zero as of April 27, 2003. The Company is currently evaluating the value of the underlying assets securing the credit agreement and operating the assets under the name Showcase Foods, Inc. as a part of the Beef segment.

In July of fiscal 2004, the Company entered into a definitive asset purchase agreement with Farmland Industries, Inc. (Farmland) under which the Company will acquire substantially all of the assets, and certain liabilities, of Farmland Foods, Farmland's pork production and processing business, for approximately $363.5 in cash. The acquisition is subject to completion of the auction process and regulatory approval. Consistent with the Company's acquisition strategy for larger acquisitions, the Company expects to finance this acquisition with a combination of equity and debt. Farmland Foods has annual sales of $1,800.0.

The Company anticipates entering into a definitive purchase agreement during the second quarter of fiscal 2004, for the acquisition of 90% of the outstanding shares of a privately-held producer of processed meats products located in the eastern U.S. The purchase price is expected to be in the range of $50.0—$60.0. This company has annual sales of approximately $70.0.