

Specialty Foods	This segment includes the Diamond Crystal Brands (acquired in December 2002), Century Foods International (acquired in July 2003), Hormel HealthLabs, and Specialty Products operating segments. This segment consists of the packaging and sale of various sugar and sugar substitute products, salt and pepper products, dessert mixes, gelatin products, and private label canned meats to retail and foodservice customers. This segment also includes the processing, marketing, and sale of nutritional food products and supplements to hospitals, nursing homes, and other marketers of nutritional products.
All Other	This segment includes the Dan's Prize, Inc., Vista International Packaging, Inc. (Vista), and Hormel Foods International operating segments. These businesses produce, market, and sell beef products and food packaging (i.e., casings for dry sausage), and manufacture, market, and sell company products internationally. This segment also includes various miscellaneous corporate sales. Effective June 30, 2004, the company completed the sale of Vista.

Fiscal Years 2004 and 2003

Fiscal 2004 was an exceptional year for Hormel Foods, with net sales, tonnage volume, and profits all reaching record levels. The improvements in commodity markets that began late in fiscal 2003 continued throughout the year, generating strong operating profit results in the Refrigerated Foods and Jennie-O Turkey Store segments. The first major price increase since fiscal 2000 was implemented in the Grocery Products segment during the second half of the year, which partially offset the impact of higher raw material prices. Additionally, profits were enhanced by the third quarter sale of Vista International Packaging, Inc., the company's food packaging subsidiary.

Overall, the company has been successful with its strategy to create a faster-growing, more diversified product portfolio. Throughout fiscal 2004, the company benefited from its focus on expanding value-added product lines, growth through acquisitions, and new product development. These initiatives have reduced the impact of fluctuating market conditions and have allowed the company to achieve consistently favorable financial results. The company will continue to advance these strategies during fiscal 2005.

The company's accounting cycle resulted in a 14-week fourth quarter and a 53-week year in fiscal 2004 compared with a 13-week fourth quarter and a 52-week year in fiscal 2003. As the company accounts for its operations on a weekly basis, the additional week is fully loaded with expenses, including salaries and depreciation, and does not provide a disproportionate amount of operating profit on a comparable basis.

Consolidated Results

Net Earnings: Net earnings for the fourth quarter of fiscal 2004 were \$69,843, a decrease of 0.7 percent compared to earnings of \$70,365 for the same period last year. Diluted earnings per share were \$.50 and were consistent with the same period last year. Net earnings for the year increased 24.7 percent to \$231,663 from \$185,779 in fiscal 2003. Diluted earnings per share for the same period increased to \$1.65 from \$1.33 in the prior year.

As previously noted, the company experienced infrequently occurring transactions in both fiscal 2004 and 2003. To supplement year-to-year comparisons, we have identified these items as follows: fiscal 2004 net earnings include an \$11,470 after-tax gain (\$.08 per share) on the sale of Vista International Packaging, Inc.; a \$3,963 after-tax gain (\$.03 per share) on the sale of the company's investment in Campofrio Alimentacion, S.A.; and a \$2,672 (\$.02 per share) after-tax charge for early retirement packages related to the company's sales reorganization. Fiscal 2003 net earnings include a \$3,868 after-tax gain (\$.03 per share) resulting from receipt of a vitamin antitrust settlement at Jennie-O Turkey Store (JOTS) and a \$1,131 (\$.01 per share) after-tax write-down of assets and other expenses relating to the closing of a JOTS facility in Marshall, Minnesota.

Sales: Net sales for the fourth quarter increased to \$1,345,216 from \$1,169,881 in 2003, an increase of 15.0 percent. Net sales for the twelve months in fiscal 2004 increased 13.8 percent to \$4,779,875 compared to \$4,200,328 last year. Tonnage volume for the fourth quarter increased 9.3 percent to 990,180 from 906,183 last year. Tonnage volume for the year increased 6.2 percent to 3,611,953 from 3,400,265 in the prior year. Net sales and tonnage volume comparisons for the twelve months were positively impacted by the Diamond Crystal Brands and Century Foods International acquisitions, while the fourth quarter results are comparable to the prior year.

Significantly improved demand for protein and increased sales of value-added products resulted in sales dollars increasing more rapidly than tonnage gains for both the quarter and fiscal year, most notably in the Refrigerated Foods and Jennie-O Turkey Store segments. The price increase implemented on June 14, 2004, also resulted in increased net sales for the Grocery Products segment during the fourth quarter. Additionally, international sales of commodity pork items improved fiscal 2004 net sales results and offset the impact of divesting Vista International Packaging, Inc. during the third quarter.

Gross Profit: Gross profits were \$318,882 and \$1,121,005 for the quarter and year, respectively, compared to \$295,353 and \$1,013,153 last year, with increases largely due to easing pricing pressures in the Refrigerated Foods and Jennie-O Turkey Store (JOTS) segments. As a percent of net sales, gross profit decreased to 23.7 and 23.5 percent for the current quarter and year, respectively, compared to 25.2 and 24.1 percent for the prior year periods. Higher raw material costs throughout fiscal