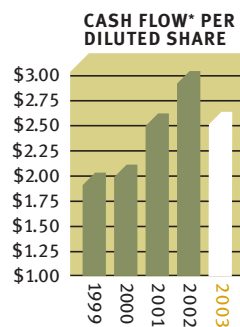
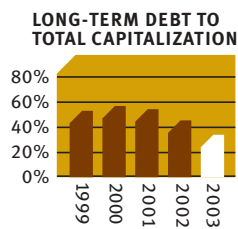
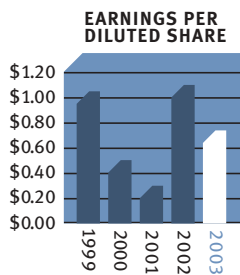
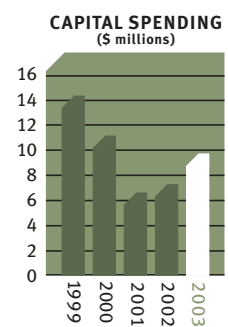


# MANAGEMENT'S DISCUSSION AND ANALYSIS

Ridley's positive financial results generated significant cash flow, which allowed the Company to continue its debt repayment program for the third consecutive year.



\* Cash flow generated from operations before changes in non-cash working capital.



**THE** following discussion and analysis should be read in conjunction with the Company's financial statements that appear on pages 41 to 60 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

## RESULTS OF OPERATIONS

### OVERVIEW

Fiscal 2003 was a year of mixed results for Ridley Inc. Overall results are considered satisfactory considering the economic conditions for meat, milk and egg producers and external factors relating to drought conditions in both the U.S. and Canada and the BSE case in Canada that closed the U.S. border to Canadian beef products. In addition to the financial results, a number of strategic decisions were made or put into action. The Company made a decision to divest itself of the Cotswold Swine Genetics business, which will ultimately reduce our exposure to the volatility of owning animals. Reorganization was announced for the feed operations in North America to leverage the resources of Ridley's business units in Canada and the U.S., which will improve the accessibility to technical expertise for its livestock-producing customers. The objective is to ensure we continue to maximize the benefits of close coordination between the operations regardless of where they are positioned geographically. The Company also continued to adopt world-class quality processes to ensure integrity and traceability of its products. Ridley Feed Operations is the first major feed and nutrition company in North America to achieve ISO 9001 and HACCP registrations.

Earnings in the Canadian Division were down slightly from fiscal 2002 due mainly to volume reductions. The drought conditions in western Canada had a negative impact on volumes, as did the border closing late in the fiscal year due to the BSE case. The weakening U.S. dollar and a charge taken relating to a provision for impaired loans negatively impacted the U.S. results. Earnings in the U.S. Division in U.S. dollars, before the provision for impaired loans, were up slightly over last year due to increased volumes. Feed operations benefited as a result of the government drought assistance program in the western U.S.

The addition of the McCauley equine operations last year also provided positive results for the U.S. Division. The Cotswold Division again experienced significant operating losses as a result of the low hog markets and resulting lack of genetic sales. After several years of significant operating losses, the decision was made to divest the Cotswold business in North America. Divesting the business was a difficult decision, since the pork industry in North America is recovering and there is strong demand for the Cotswold product. It was decided, however, that the degree of additional capital necessary to update the production system, and the research and development expenses necessary to keep the genetics business viable for the long term, is not consistent with our core strategy of feed nutrition, and is not in the best interest of our shareholders. Ridley's positive financial results generated significant cash flow, which allowed the Company to continue its debt repayment program for the third consecutive year.



The following table summarizes the Company's operating results for fiscal 2003 and fiscal 2002.

### DIVISION EARNINGS RECAP 2003 WITH 2002 COMPARATIVE (CDN \$000)

	Canadian Division		U.S. Division		Unallocated		Total	
	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)	2003 (\$000)	2002 (\$000)
Revenue	<b>184,991</b>	189,657	<b>479,569</b>	473,886	–	–	<b>664,560</b>	663,543
Cost of sales	<b>153,638</b>	159,311	<b>376,362</b>	374,491	–	–	<b>530,000</b>	533,802
Gross profit	<b>31,353</b>	30,346	<b>103,207</b>	99,395	–	–	<b>134,560</b>	129,741
	<b>16.9%</b>	16.0%	<b>21.5%</b>	21.0%	–	–	<b>20.2%</b>	19.6%
Operating expenses								
Selling, G&A	<b>18,674</b>	17,620	<b>56,477</b>	50,343	<b>4,539</b>	3,548	<b>79,690</b>	71,511
Depreciation and amortization	<b>2,083</b>	1,816	<b>8,743</b>	8,331	<b>373</b>	704	<b>11,199</b>	10,851
Research & development	<b>84</b>	27	<b>975</b>	791	–	–	<b>1,059</b>	818
	<b>20,841</b>	19,463	<b>66,195</b>	59,465	<b>4,912</b>	4,252	<b>91,948</b>	83,180
Operating income	<b>10,512</b>	10,883	<b>37,012</b>	39,930	<b>(4,912)</b>	(4,252)	<b>42,612</b>	46,561
Interest expense							<b>6,662</b>	9,150
Claims settlement (income)							–	(3,000)
Loss on the sale of investment							<b>684</b>	999
Other income, net							<b>(1,873)</b>	(3,587)
Net earnings before the following							<b>37,139</b>	42,999
Provision for income taxes							<b>13,692</b>	14,540
Goodwill amortization							–	1,016
Minority interest share of net earnings							<b>105</b>	68
Net income from continuing operations							<b>23,342</b>	27,375
Attributed to discontinued operations							<b>(12,992)</b>	(12,328)
Net earnings for the year							<b>10,350</b>	15,047
Total assets – continuing operations	<b>86,781</b>	87,884	<b>184,962</b>	216,648	<b>5,542</b>	3,784	<b>277,285</b>	308,316
Capital assets, assets held for sale & goodwill – continuing operations	<b>49,691</b>	46,581	<b>122,098</b>	137,387	–	–	<b>171,789</b>	183,968
Total assets – discontinued operations	–	–	–	–	–	–	<b>7,731</b>	21,358

“Operating income” as described above does not have a standardized meaning prescribed by Canadian GAAP, therefore it is not readily comparable to similar measures presented by other companies.

## INCOME FROM OPERATIONS

On a consolidated basis, revenue from continuing operations for 2003 increased by \$1.0 million, to \$664.6 million compared with \$663.5 million in 2002.

Cost of sales decreased \$3.8 million, to \$530.0 million compared with \$533.8 million the previous year. The gross profit for 2003 of \$134.6 million was \$4.8 million, or 3.7 percent higher than the 2002 total of \$129.7 million. As a percentage of revenue, the gross profit increased from 19.6 percent in 2002 to 20.2 percent in 2003.

Total operating expenses, including selling, general and administrative expenses, depreciation, and research and development, were \$91.9 million for the year, or \$8.8 million higher than the 2002 total of \$83.2 million. Ridley's operating income of \$42.6 million was \$3.9 million lower than the \$46.6 million recorded in 2002.

Net earnings were \$10.4 million, compared with \$15.0 million in 2002. Reported net earnings in 2003 include a \$13.0 million loss on Cotswold discontinued operations. Fiscal 2003 also includes a write-off of \$0.7 million for an impaired limited partnership and a provision of \$3.4 million for impaired loans receivable, both primarily relating to swine production customers. Reported net earnings in 2002 included a \$12.3 million loss on the discontinued Cotswold European Operations and a loss of \$1.0 million for an impaired research and development investment. These losses were partially offset by a claims settlement received in the amount of \$3.0 million.

The following discussion of division results provides a more detailed analysis of these changes.

## CANADIAN DIVISION

Ridley's Canadian Division consists of feed mills operating as Feed-Rite, and in the prior year included the commercial hog production operations operating under the name Quality Swine Systems (QSS). The QSS operation was wound down during the prior fiscal year. The acquisition of Shamrock Feeds, a single mill located in Saskatchewan, was completed during the current fiscal year and integrated with the Feed-Rite business.

Operating income of the Canadian Division decreased by \$0.4 million, to \$10.5 million in 2003 from \$10.9 million in 2002. The decrease was due to a combination of less volume and increased expenses. These costs were partially offset by increased margin per tonne and the earning contributions of the Shamrock acquisition. The BSE case in Canada that closed the border to the U.S. for cattle and beef products had an impact on volume late in the fiscal year. The U.S. government has announced a partial re-opening of the border for certain beef products as of this writing.

Canadian Division revenue decreased by \$4.7 million, or 2.5 percent, from \$189.7 million in 2002 to \$185.0 million in 2003. This is the result of a volume decline from the prior year. Swine and poultry feed volumes were down by 13 percent and 18 percent respectively. Commodity prices were higher than one year ago and offset some of the revenue loss due to the volume declines. Cost of sales decreased by \$5.7 million, to \$153.6 million compared with \$159.3 million in 2002. The volume decline in the Canadian feed operation drove the decrease in cost of sales. Sales on a dollar basis are not an accurate measurement of Ridley feed businesses as they are affected by fluctuating commodity prices.

Gross profit increased by \$1.0 million, or 3.3 percent, to \$31.4 million in 2003 from \$30.3 million in 2002. As a percentage of revenue, gross profit increased to 16.9 percent in 2003 from 16.0 percent in 2002. Canadian feed operations show a higher net margin per tonne of feed sold due to a more profitable product mix with more sales of higher margin, low inclusion products such as premixes and supplements. The addition of Shamrock Feeds also contributed to the gross margin increases.

Total operating expenses increased by \$1.4 million, to \$20.8 million in 2003 from \$19.5 million in 2002. Selling and G&A expenses increased by \$1.1 million, to \$18.7 million in 2003 from \$17.6 million in 2002. This was due to an average 3.3 percent increase in wages and benefits, insurance cost increases of 30 percent and increases in advertising, promotions and bad debt expense.

## U.S. DIVISION

The U.S. Division consists of U.S. Feed Operations, Ridley Block Operations and the McCauley Equine Operations. The U.S. Feed Operations had an excellent year despite the challenging environment in which they were operating, due to poor production economics. The drought in the West provided extra volume due to the government drought assistance program that was in place during the late fall and winter months. Ridley Block Operations has a strong position in the low-moisture block market in the U.S. with a more than 50 percent production share. The Block Operations benefited from the drought assistance program as well, increasing earnings over the prior year, and recorded record sales volumes with the continuing good beef economics. The McCauley equine operations continue to add new customers and meet expectations since its acquisition in 2002.

Operating income for the U.S. Division decreased by \$2.9 million, or 7.3 percent, to \$37.0 million from \$39.9 million in 2002. The decrease was due to a weakening of the U.S. dollar against the Canadian dollar from the prior year, impacting results by approximately \$0.8 million, and a \$3.4 million provision for impaired loans receivable. Feed operations' earnings were flat from one year ago, before the impairment charge, while block operations earnings improved. Both feed and block operations gained volume as a result of the government drought assistance program. Overall margins for the U.S. showed slight improvement from 21.0 percent in 2002 to 21.5 percent in 2003. These were offset, however, by an increase in overall expenses.

The U.S. Division revenues increased by \$5.7 million, or 1.2 percent, to \$479.6 million in 2003 from \$473.9 million in 2002. Sales tonnage increased by 6 percent. The revenue increase is accounted for by the increased tons shipped in the U.S. by both feed and block operations. Slightly declining commodity prices, along with product mix changes, reduced revenue dollars. Sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices.

Gross profits for 2003 increased by \$3.8 million, or 3.8 percent, to \$103.2 million from \$99.4 million in 2002. The gross margin dollar increase is the result of increased block sales.

Selling, G&A (S,G&A) costs increased by \$6.2 million, or 12.2 percent, to \$56.5 million in 2003 from \$50.3 million in 2002. S,G&A costs were higher due to advertising, travel and staff additions in the block operations, while medical, insurance and field selling costs increased in the feed operations. In addition, the Company recorded provisions of \$3.4 million for impaired loans receivable due to the deterioration of customers' credit worthiness.

Depreciation increased by \$0.4 million to \$8.7 million compared to \$8.3 million in 2002.

Research and development increased by \$0.2 million, to \$1.0 million from \$0.8 million in 2002, due to expanded research efforts, mainly in the area of swine and dairy research.

## **COTSWOLDDIVISION – DISCONTINUED OPERATIONS**

The Cotswold Division, which at the start of fiscal 2002 consisted of swine genetics production in the U.K., Germany, U.S. and Canada, consisted of only the U.S. and Canadian operations throughout fiscal 2003. Cotswold Europe was sold in the fourth quarter of fiscal 2002. Ridley has announced its intentions to divest the remaining swine genetics business in North America.

Since 1998, Ridley has incurred significant and sustained losses in the genetics business. Those losses stemmed primarily from the swine price crisis of 1998, the prolonged impact of Foot and Mouth Disease and Classical Swine Fever in Europe, and most recently, the longest period of below break-even hog prices in North America's history. The Company took steps to improve Cotswold's operating performance by restructuring and streamlining the North American operations over the past two years, and by divesting the Cotswold European business last year. However, in spite of these efforts, the North American business has been unable to overcome the poor swine production economics.

The Company is in the process of selling significant portions of its Cotswold North American operations. An after-tax loss of \$9.2 million was recorded to reflect impairment of the related assets. The balance of assets and commitments will be divested in an orderly manner, expected to conclude by June 30, 2004. Continuing losses during the divestiture period of \$1.8 million on an after-tax basis are expected to be recognized in fiscal 2004.

The Company recorded a \$3.4 million tax benefit upon the amalgamation of its wholly-owned Canadian subsidiary on June 30, 2003. The benefit was \$1.7 million relating to the current year earnings and \$1.7 million relating to prior years. This enabled Ridley to utilize cumulative non-capital tax loss carry forwards in which a full valuation reserve had been taken. The Canadian subsidiary is included in discontinued operations.

Operating losses net of tax benefits of \$6.5 million were incurred in Cotswold North America, compared to \$2.1 million in the prior year. Revenues in fiscal 2003 are down \$5.5 million. Depressed hog markets and related decrease in demand for genetic animals severely impacted sales revenue. This was partially offset by a \$2.0 million reduction in operating expenses.

Prior year results include a \$4.3 million operating loss and a \$5.9 million loss on disposal of Ridley's European swine genetics operations (total loss of \$10.2 million). Additional expenses of \$0.7 million were incurred in fiscal 2003 related to residual assets and liabilities remaining in the U.K.

## **UNALLOCATED COSTS**

Unallocated costs increased by \$0.7 million in 2003. Fiscal 2003 includes a full year of amortization of costs associated with the global banking facility. Costs are being amortized over the length of the agreement (4 years). Other increases are due to wage and benefit costs, legal and professional fees.

## **OTHER EXPENSE (INCOME)**

Other income is interest received on loans and accounts receivable from third parties, and gain or loss on disposal of fixed assets. Other expense (income) was \$(1.9) million in fiscal 2003, including a \$0.2 million loss on the sale of fixed assets, compared with \$(3.6) million in 2002, including a \$0.5 million gain on the sale of fixed assets.

## **CLAIM SETTLEMENT**

A claim settlement was received from suppliers in Canada, resulting in a gain of \$3.0 million in fiscal 2002.

## LOSS ON INVESTMENT

Fiscal 2003 operating results include the write-down in the amount of \$0.7 million of an investment in a limited partnership that was involved in commercial swine production. Depressed swine market prices resulted in the operation incurring substantial losses, and under the terms of the reorganization plans for the limited partnership, Ridley's investment position was substantially diluted.

In fiscal 2002, the Company recorded a loss of \$1.0 million for a research and development investment. The project involved research to develop a proprietary commercial technology for the dairy, beef and swine industries. The economic climate made it impossible to raise the required venture capital to enable the project to continue.

## INTEREST

Interest expense decreased by \$2.5 million, or 27.1 percent, to \$6.7 million from \$9.2 million in 2002, primarily as a result of a reduction in debt, combined with lower interest rates. The total debt was reduced from \$98.3 million at the beginning of the fiscal year to \$75.9 million at year-end.

## INCOME TAXES

Income taxes as a percentage of net earnings before income taxes and goodwill amortization increased from 33.8 percent in 2002 to 36.9 percent in 2003.

## NET EARNINGS FOR THE YEAR

Net earnings for the year decreased by \$4.7 million, from \$15.0 million in 2002 to \$10.4 million in 2003. Net income from continuing operations decreased by \$4.0 million, from \$27.4 million in 2002 to \$23.3 million in 2003. Basic earnings per share for fiscal 2003 were \$0.77, a decrease from the \$1.12 basic earnings per share in 2002. The number of shares outstanding was 13,660,100, compared with 13,409,600 in fiscal 2002.

## LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations before changes in non-cash working capital balances, was \$36.5 million, a decrease of \$4.3 million from the \$40.8 million generated in 2002. Non-cash working capital requirements increased by \$11.7 million, resulting in a net cash flow from continuing operations of \$24.8 million.

Capital expenditures for fixed assets during the year were \$9.9 million compared with \$7.3 million in 2002. Cash generated by operations funded capital expenditures.

## RISK MANAGEMENT

The Company's businesses are subject to a number of risk factors including: commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations, and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A new risk management position was added during the prior year to provide more emphasis to this strategically important area for the Company. Significant progress was made during the past year identifying risks, making corrective actions, and getting plants more proactive in making risk management a high priority.

## COMMODITY PRICING

### GRAINS AND PROTEIN MEALS

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term requirements, the Company maintains inventories of grains and protein meals.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part of a feed product or pig. The Company is also subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

### HOGS

A declining portion of the Company's revenues is derived from the production and marketing of hogs. As a traded commodity, hog prices fluctuate on an ongoing basis, with some seasonal trending. The Company is therefore subject to risk of changing prices over time. The Company has continued to address this risk, by exiting QSS, selling the Cotswold European operations in fiscal 2002, and announcing the decision to divest itself of the Cotswold North American operations in fiscal 2003.

Periodically, the Company will mitigate its exposure to fluctuating hog prices through the use of forward sales contracts negotiated with major hog processors or marketing agencies, together with futures and option hedging strategies.

### SEASONALITY AND WEATHER CONDITIONS

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high-energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). The Company also sells livestock and farm supplies. It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

## **INTEREST RATES**

The Company finances a portion of its business through the use of several long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company has implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy utilizes several hedging instruments including interest rate swaps and forward rate agreements. At June 30, 2003, 80 percent of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to two and one-half years.

## **FOREIGN EXCHANGE**

The Company's Canadian Division makes some purchases and sales denominated in U.S. dollars. The Division is currently a net seller of U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts where warranted for individually material transactions or the net position. The Company at times maintains inter-company loans between the U.S. and Canadian operations. Forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates.

The Company's U.S. Division is considered to be self-sustaining. There are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

The Cotswold Division conducts the majority of its operations in local currencies, but has some transactions in U.S. dollars. Forward exchange contracts are entered into for individually material transactions or where net positions warrant.

## **CREDIT**

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 3 percent of the Company's total gross sales. The Company's customer base is also geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

## **INSURANCE**

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss. A very tight insurance market over the last two years forced the Company to pay higher premium costs.

## **ACQUISITIONS**

During the fourth quarter of fiscal 2002, Ridley Inc. acquired a 51 percent interest in McCauley Bros., Inc., as the first step in a strategic plan to create a new business unit focused on nutrition and specialty products targeted exclusively for equine markets in North America. McCauley Bros., Inc., located in Versailles, Kentucky, near Lexington, has a strong, established reputation in the equine community for quality and service, and has become the feed company of choice to many of the world's leading horse farms and stables. The acquisition performed as expected during fiscal 2003. McCauley represents an important new niche segment of the feed industry that offers new growth opportunities for Ridley Inc.

On August 1, 2002, the Company acquired 100% of Shamrock Feeds Ltd. for an aggregate consideration of \$3.0 million. Shamrock Feeds Ltd., located in Saskatoon, Saskatchewan, manufactures a complete line of animal feeds and has been integrated into the Canadian Feed Operations.

## **SUBSEQUENT EVENT**

Subsequent to June 30, 2003, the Company acquired the assets of Heartland, Inc., located in Bismarck, North Dakota. Hubbard Feeds and Heartland have been involved in a successful joint venture for the past ten years. The acquisition includes Heartland's 50% interest in the joint venture, a feed mill, warehouse and retail farm supplies outlet, as well as grain merchandising and birdseed packaging businesses.

## **OUTLOOK**

Results in the feed and block operations during fiscal 2003 were good considering the economic factors impacting the businesses. The drought conditions in the West ended up being a positive factor for the U.S. operations due to the government drought assistance program. The same drought conditions provided a challenge in Canada as there was no government program available. We expect solid gains in the western Canadian plants as producers recover from the drought. The longer term impact of the BSE case in Canada is still unknown, as the U.S. government has announced only a partial reopening of the border for certain beef products as of this writing. On the other hand, the benefit gained in the U.S. by the one-time drought assistance program will not recur. We will be looking for new volume and margin improvements to offset this loss in the U.S. We expect further efficiencies to be gained as a result of the reorganization within the Ridley Feed Operations. The equine operations, which were developed as a result of the McCauley Bros. acquisition, will provide more positive results for feed operations. It is expected the equine operations will continue to expand in new market areas. It is expected that beef economics will remain strong in fiscal 2004, which should provide a strong base for the block operations. The block operations are also positioning for further growth through new products, export markets, and acquisitions.

A major focus for the new year will be to complete the divestiture of the remaining swine genetics business in North America. It is anticipated a significant portion of assets will be sold to parties interested in utilizing the assets to continue production and marketing of Cotswold breeding stock. The balance of the assets will be divested and should be completed by approximately mid-2004. Although Ridley is exiting the swine genetics business, the Company remains committed to meat, milk and egg producers throughout North America. The decision to exit Cotswold will allow us to focus our resources more intensely on our core businesses. Exiting Cotswold is the final step in eliminating Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production.

The Company will continue to strengthen its balance sheet by effectively managing working capital, investing in capital projects that will not only add efficiency to our plants but provide a safe work environment, focused on adding value to the food chain. The Company will continue to reduce debt with the expected positive operating results in fiscal 2004.

## **FORWARD-LOOKING**

This report contains "forward-looking" information within the meaning of the federal securities laws. The forward-looking information includes statements concerning the Company's outlook for the future, as well as other statements of beliefs, future plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, the availability and prices of live hogs, raw materials and supplies, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards, adverse results from ongoing litigation and actions of domestic and foreign governments.

